CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2013
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS
WITH AUDITOR'S OPINION

The attached consolidated financial statements together with notes are a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

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(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	**Note**	**31 December 2013**	**31 December 2012**
Intangible asstes	9	308 726	183 238
Goodwill	10	8 519	8 474
Property, plant and equipment	11	927 281	992 317
Investment property	12	1 474 770	564 404
Companies measured using the equity method	13	48 595	-
Financial assets			
Financial instruments held to maturity	14.1	18 859 902	21 117 559
Financial instruments available for sale	14.2	1 922 173	3 924 501
Financial instruments measured at fair value through profit or loss	14.3	19 790 102	15 628 401
Loans	14.4	14 116 537	9 752 615
Receivables, including receivables from insurance contracts	15	2 664 986	1 835 793
Reinsurers' share in technical provisions	16	526 605	749 334
Estimated recoveries and recourses	18	129 950	121 632
Deferred tax assets	19	16 949	13 963
Current income tax receivables	20	34 895	80 646
Deferred acquisition costs	21	609 819	574 489
Other assets	22	195 449	178 646
Cash and cash equivalents	23	548 266	136 586
Assets used in continuing operations		**62 183 524**	**55 862 598**
Assets held for sale	24	178 897	46 962
Total assets		**62 362 421**	**55 909 560**

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(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

Equity and liabilities	**Note**	**31 December 2013**	**31 December 2012**
Equity			
Issued share capital and other equity attributable to the shareholders of the parent			
Share capital	25.1	86 352	86 352
Other capitals		9 061 508	9 105 450
Supplementary capital		8 855 999	8 780 212
Revaluation reserve	25.2	242 344	363 242
Actuarial gains and losses related to provisions for employee benefits		902	-
Exchange differences from translation	25.3	(37 737)	(38 004)
Undistributed profit / uncovered loss		3 963 586	4 998 329
Previous year profit (loss)		2 396 978	1 743 148
Net profit (loss)		3 293 654	3 255 181
Appropriations of net profit in the financial year		(1 727 046)	-
Non-controlling interest		16 341	79 138
Total equity		**13 127 787**	**14 269 269**
Liabilities			
Technical provisions	26		
Provision for unearned premiums and for unexpired risks		4 540 011	4 537 167
Life insurance provision		16 048 191	15 675 243
Provisions for outstanding claims and benefits		6 586 781	5 878 445
Provision for capitalized value of annuity claims		5 761 332	5 660 281
Provisions for bonuses and rebates for the insured		2 893	4 227
Other technical provisions		477 987	531 617
Unit-linked technical provisions		3 907 221	3 113 798
Investment contracts	27		
- with guaranteed and fixed terms and conditions		1 250 492	1 297 224
- for the client and at the client's risk		870 545	1 001 923
Provisions for employee benefits	28	123 380	107 307
Other provisions	29	192 906	267 456
Deferred tax liability	30	255 399	357 557
Current income tax liabilities	31	53 372	21 658
Derivatives		237 749	129 921
Other liabilities	32	8 926 375	3 056 467
Liabilities related to continuing operations		**49 234 634**	**41 640 291**
Total liabilities		**49 234 634**	**41 640 291**
Total equity and liabilities		**62 362 421**	**55 909 560**

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CONSOLIDATED INCOME STATEMENT

Consolidated income statement	Note	1 January - 31 December 2013	1 January - 31 December 2012
Gross written premium	33	16 480 003	16 243 131
Reinsurer's share in the written premium		(257 037)	(237 276)
Net written premium		**16 222 966**	**16 005 855**
Change in net provision for unearned premium		25 803	(615)
Net earned premium		**16 248 769**	**16 005 240**
Revenue from commissions and fees	34	319 962	237 102
Net investment income	35	1 844 932	2 047 054
Net profit or loss on realization and impairment loss on investments	36	25 045	521 268
Net change in the fair value of assets and liabilities plus equity measured at fair value	37	618 091	1 136 407
Other operating revenue	38	491 109	588 028
Claims, benefits and change in technical provisions	39	(11 195 277)	(12 371 298)
Reinsurers' share in claims, benefits and change in technical provisions		34 053	152 567
Net insurance claims and benefits		**(11 161 224)**	**(12 218 731)**
Benefits and change in measurement of investment contracts	40	(77 715)	(176 780)
Acquisition costs	41	(2 015 938)	(2 000 351)
Administrative expenses	42	(1 406 480)	(1 440 301)
Other operating expenses	44	(705 599)	(618 738)
Operating profit (loss)		**4 180 952**	**4 080 198**
Financial expenses	45	(61 664)	(41 490)
Share in net profit (loss) of entities measured using the equity method		1 404	
Gross profit (loss)		**4 120 692**	**4 038 708**
Income tax	47		
- current portion		(885 776)	(568 541)
- deferred portion		60 197	(216 341)
Net profit (loss) from continuing operations		3 295 113	3 253 826
Net profit (loss), including:		**3 295 113**	**3 253 826**
- profit (loss) attributable to equity holders of the parent		3 293 654	3 255 181
- profit (loss) attributable to non-controlling interest		1 459	(1 355)

Net profit (loss) from continuing operations	3 293 654	3 255 181
Net profit (loss) from discontinued operations	-	-
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300
Basic and diluted profit (loss) on continuing operations per ordinary share (in PLN)	38.14	37.70
Basic and diluted profit (loss) per ordinary share (in PLN)	38.14	37.70

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income	**Note**	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Net profit (loss)		3 295 113	3 253 826
Other comprehensive income	48	(104 510)	88 660
Amounts subject to subsequent transfer to profit or loss		(104 510)	88 660
Measurement of financial instruments available for sale		(120 129)	77 654
Actuarial gains and losses related to provisions for employee benefits		902	-
Exchange differences from translation		292	(5 751)
Other comprehensive income of entities measured using the equity method		(20)	-
Real property reclassified from property, plant and equipment to investment property		14 445	16 757
Not reclassified to profit or loss at a later date		-	-
Net comprehensive income total		**3 190 603**	**3 342 486**
- comprehensive income attributable to holders of the parent's equity		3 189 139	3 343 851
- comprehensive income attributable to non-controlling interests		1 464	(1 365)

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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									Non-controlling interest	Total equity
			Other capitals			Undistributed profit / uncovered loss					
	Share capital	Supplementary capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Appropriations of net profit in the financial year (negative amount)	Total		
Note	25.1		25.2		25.3						
Balance as at 1 January 2013	**86 352**	**8 780 212**	**363 242**	**-**	**(38 004)**	**4 998 329**	**-**	**-**	**14 190 131**	**79 138**	**14 269 269**
Change in measurement of available for sale financial assets	-		(120 129)	-	-	-	-	-	(120 129)	-	(120 129)
Other comprehensive income of entities measured using the equity method	-	-	-	-	(20)	-	-	-	(20)	-	(20)
Exchange differences from translation	-	-	-	-	287	-	-	-	287	5	292
Actuarial gains and losses related to provisions for employee benefits	-	-		902	-	-	-	-	902	-	902
Real property reclassified from property, plant and equipment to investment property	-	-	14 445	-	-	-	-	-	14 445	-	14 445
Total other comprehensive income, net	**-**	**-**	**(105 684)**	**902**	**267**	**-**	**-**	**-**	**(104 515)**	**5**	**(104 510)**
Net profit (loss)	-	-	-	-	-	-	3 293 654	-	3 293 654	1 459	3 295 113
Total comprehensive income	**-**	**-**	**(105 684)**	**902**	**267**	**-**	**3 293 654**	**-**	**3 189 139**	**1 464**	**3 190 603**
Other changes, including:	**-**	**75 787**	**(15 214)**	**-**	**-**	**(2 601 351)**	**-**	**(1 727 046)**	**(4 267 824)**	**(64 261)**	**(4 332 085)**
Financial profit distribution	-	34 231	-	-	-	(2 599 579)	-	(1 727 046)	(4 292 394)	-	(4 292 394)
Capital injection to PZU Lietuva	-	-	-	-	-	-	-	-	-	30	30
Consolidation of PZU Lietuva GD	-	-	-	-	-	-	-	-	-	183	183
Purchase of shares in Armatura Kraków	-	24 568	-	-	-	-	-	-	24 568	(64 474)	(39 906)
Disposal of revalued real property	-	16 988	(15 214)	-	-	(1 772)	-	-	2	-	2
Balance as at 31 December 2013	**86 352**	**8 855 999**	**242 344**	**902**	**(37 737)**	**2 396 978**	**3 293 654**	**(1 727 046)**	**13 111 446**	**16 341**	**13 127 787**

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STATEMENT OF CHANGES IN CONSOLIDATED EQUITY (CONT.)

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital							Non-controlling interest	Total equity
		Other capitals			Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Total		
Note	25.1		25.2	25.3					
Balance as at 1 January 2012	**86 352**	**7 711 818**	**268 831**	**(32 263)**	**4 748 424**	**-**	**12 783 162**	**86 343**	**12 869 505**
Change in measurement of AFS financial assets	-	-	77 654	-	-	-	77 654	-	77 654
Exchange differences from translation	-	-	-	(5 741)	-	-	(5 741)	(10)	(5 751)
Real property reclassified from property, plant and equipment to investment property	-	-	16 757	-	-	-	16 757	-	16 757
Total other comprehensive income, net	**-**	**-**	**94 411**	**(5 741)**	**-**	**-**	**88 670**	**(10)**	**88 660**
Net profit (loss)	-	-	-	-	-	3 255 181	3 255 181	(1 355)	3 253 826
Total comprehensive income	**-**	**-**	**94 411**	**(5 741)**	**-**	**3 255 181**	**3 343 851**	**(1 365)**	**3 342 486**
Other changes, including:	**-**	**1 068 394**	**-**	**-**	**(3 005 276)**	**-**	**(1 936 882)**	**(5 840)**	**(1 942 722)**
Financial profit distribution	-	1 068 113	-	-	(3 004 995)	-	(1 936 882)	(5 860)	(1 942 742)
Other	-	281	-	-	(281)	-	-	20	20
Balance as at 31 December 2012	**86 352**	**8 780 212**	**363 242**	**(38 004)**	**1 743 148**	**3 255 181**	**14 190 131**	**79 138**	**14 269 269**

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(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows	**Note**	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Cash flows from operating activities			
Inflows		19 673 140	19 384 276
- gross inflows from insurance premiums		16 065 448	16 324 691
- inflows from investment contracts		1 097 951	1 859 439
- inflows from reinsurance commissions and share in reinsurers' profits		69 069	13 967
- reinsurers' payments due to share in claims		281 363	133 668
- inflows from claims handling services		229 562	230 235
- inflows from sale of units by investment fund		667 262	-
- other inflows from operating activities		1 262 485	822 276
Outflows		(16 840 369)	(18 155 919)
- insurance premiums paid due to reinsurance		(242 809)	(196 190)
- paid commissions and profit sharing due to outward reinsurance		(1 685)	(2 521)
- gross claims paid		(8 354 637)	(8 901 396)
- claims paid due to investment contracts		(1 334 843)	(3 186 306)
- outflows due to acquisition		(1 673 032)	(1 524 373)
- administrative outflows		(2 075 101)	(2 137 169)
- interest payments		(415)	(65)
- income tax payments		(863 601)	(664 465)
- outflows from claims handling services		(474 690)	(439 757)
- outflows from purchase of units by investment fund		(402 519)	-
- other operating outflows		(1 417 037)	(1 103 677)
Net cash flows generated by operating activities		**2 832 771**	**1 228 357**
Cash flows from investment activities			
Inflows		657 482 806	360 665 055
- disposal of investment property		20 982	-
- inflows from investment property		134 991	8 594
- disposal of intangible assets and property, plant and equipment		12 177	13 917
- disposal of shares		8 201 739	3 379 218
- redemption of debt securities		114 078 782	56 717 604
- sales of debt securities under buy-sell-back transactions		360 885 329	149 885 455
- withdrawal of term deposits at credit institutions		152 486 255	139 511 297
- cash from other investments		18 892 364	9 679 935
- interest received		2 163 196	1 336 736
- dividends received		127 240	131 507
- cash inflows due to change of consolidation scope	3.4.1	479 751	792

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CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

Consolidated statement of cash flows	**Note**	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Outflows		(659 878 598)	(360 243 667)
- acquisition of investment property		(391 751)	-
- payments for maintenance of investment property		(87 860)	(14 605)
- acquisition of intangible assets and property, plant and equipment		(225 114)	(144 881)
- acquisition of shares		(9 577 388)	(9 116 873)
- decrease in cash due to elimination of investment funds from consolidation	2.2	(14 551)	-
- acquisition of debt securities		(114 022 255)	(56 903 331)
- opening buy-sell-back transactions		(362 298 300)	(151 113 561)
- opening term deposits with credit institutions		(155 299 282)	(139 194 248)
- acquisition of other investments		(17 951 679)	(3 747 925)
- other payments for investments		(10 418)	(8 243)
Net cash used in/generated by investment activities		**(2 395 792)**	**421 388**
Cash flows from financing activities			
Inflows		106 079 401	81 451 416
- loans and borrowings and issues of debt securities [1)]		106 079 401	81 451 416
Outflows		(106 098 984)	(83 198 530)
- dividends paid to holders of the parent's equity		(4 166 166)	(1 873 391)
- dividends paid to non-controlling interest		-	(5 860)
- repayment of loans and borrowings and redemption of debt securities [1)]		(101 917 859)	(81 312 622)
- interest on credit facilities, loans and issued debt securities		(14 959)	(6 657)
Net cash used in financing activities		**(19 583)**	**(1 747 114)**
Total net cash flows		**417 396**	**(97 369)**
Cash and cash equivalents at the beginning of the financial year		136 586	237 724
Change in cash due to exchange differences		(5 716)	(3 769)
Cash and cash equivalents at the end of the financial year, including:	23	548 266	136 586
- of limited disposability		110 819	24 794

[1)] These items above almost all include cash flows resulting from short term sell-buy-back transactions.

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ADDITIONAL INFORMATION AND EXPLANATORY NOTES

1. Introduction

Compliance statement

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

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

Reporting period

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2013 to 31 December 2013.

Financial Statements approval

These consolidated financial statements were signed and approved for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent) on 11 March 2014 and shall be subject to approval of the General Shareholders Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in PLN thousand.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that the PZU Group entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing the consolidated financial statements, no facts and circumstances indicate a risk to the Group entities' ability to operate as a going concern during 12 months after the balance sheet date due to the intended or forced discontinuation, with the exception of companies in liquidation that did not conduct operating activities as at the balance sheet date, whose liquidation can be completed.

Discontinued activities

In 2013, entities included in consolidation did not discontinue any activity.

2. Structure of the Capital Group

2.1 PZU

The PZU Group's parent company is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24. PZU was established as a result of transforming Państwowy Zakład Ubezpieczeń into a joint stock company wholly owned by the State Treasury pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Journal of Laws No. 11 of 1996 item 62 with subsequent amendments).

PZU is entered to the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw, XII Business Division, under number KRS 0000009831.

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

(in PLN '000)

2.2 PZU Group companies

No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Non-life insurance.
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie")	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance.
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU")	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Pension fund management.
4	PZU Centrum Operacji SA („PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity related to insurance and pension funds.
5	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Creation, representing and management of investment funds.
6	PZU Asset Management SA („PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of securities portfolios for the account of third parties.
7	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services.
8	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Management of employee pension fund.
9	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Non-life insurance.
10	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance.
11	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99.76%	99.76%	Non-life insurance.
12	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance.

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No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
13	PZU Finanse Sp. z o.o. [1]	Warsaw	08.11.2013	100.00%	n/a	100.00%	n/a	The Company does not conduct activities.
14	Tower Inwestycje Sp. z o.o. („Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services excluding insurance and pension funds.
15	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Acquisition, operation, lease and disposal of real property.
16	Armatura Kraków SA [2]	Cracow	07.10.1999	92.75%	63.83%	92.75%	63.83%	Armatura Group products' distribution, management of the Group.
17	Armatoora SA [2]	Nisko	10.12.2008	92.75%	63.83%	92.75%	63.83%	Production and distribution of radiators and sanitary fixtures.
18	Armaton SA (formerly Armatoora SA i wspólnicy sp. k.) [2]	Cracow	10.02.2009	92.75%	63.83%	92.75%	63.83%	Use of free funds, development investments.
19	Armagor SA [2]	Cracow	06.09.2009	92.75%	63.83%	92.75%	63.83%	Manufacturing of bathroom (water and gas) and central heating fittings.
20	Armadimp SA [2]	Cracow	20.07.2012	92.75%	63.83%	92.75%	63.83%	Manufacturing of ceramic sanitary fixtures.
21	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Business assistance services and medical services.
22	Ipsilon Bis SA	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
23	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
24	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services.
25	PZU SFIO Universum (d. PZU SFIO Dłużny)	Warsaw	15.12.2009	n/a	n/a	n/a	n/a	Investment of funds collected from members.
26	PZU FIZ Akcji	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	As above.
27	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	As above.
28	PZU FIZ Sektora Nierucho-mości [3]	Warsaw	01.07.2008	n/a	n/a	n/a	n/a	As above.
29	PZU FIZ Sektora Nierucho-mości 2 [3]	Warsaw	21.11.2011	n/a	n/a	n/a	n/a	As above.

(in PLN '000)

No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
Entities included in consolidation (cont.)								
30	PZU FIZ Sektora Nieruchomości 3 [3)]	Warsaw	24.02.2012	n/a	n/a	n/a	n/a	As above.
31	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	n/a	n/a	As above.
32	PZU FIZ Aktywów Niepublicznych BIS 2 („PZU FIZ AN BIS 2")	Warsaw	19.11.2012	n/a	n/a	n/a	n/a	As above.
33	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	As above.
34	PZU FIZ Aktywów Niepublicznych RE Income [3)]	Warsaw	08.11.2011	n/a	n/a	n/a	n/a	As above.
35	PZU FIO Gotówkowy [4)]	Warsaw	01.07.2005	n/a	n/a	n/a	n/a	As above.
Joint control entity								
36	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	n/a	50.00%	n/a	Implementation of construction projects.
Affiliates								
37	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services.
38	EMC Instytut Medyczny SA [5)]	Wrocław	18.06.2013	29.87%	9.95%	25.31%	8.43%	Health protection, R&D in medical sciences and pharmacy.

[1)] Additional information concerning establishment of the company has been presented in Section 2.3.5.
[2)] Concerning the change in the shareholding of Armatura Kraków has been presented in Section 2.3.3.
[3)] As at 31 December 3013, the funds PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3, PZU FIZ RE Income carried out investment activities via subsidiaries, i.e. special purpose vehicles operating in the form of commercial companies investing in individual properties. Each investment fund invested in 37, 8, 9, 6 properties, respectively (1 January 2013: 33, 8, 12, 6).
[4)] Consolidated from 1 April 2013.
[5)] Purchase of the entity described in section 2.3.2.

The assumptions made by the PZU Group upon consolidation of investment funds have been presented in Section 4.1. Due to a decrease in the share of the PZU Group in the net assets of consolidated investment funds below 50%, the following funds have been eliminated from consolidation:

- PZU Energia Medycyna Ekologia sub-fund – effective from 1 July 2013;
- PZU FIZ Forte fund – effective from 31 December 2013.

As a result of elimination of the aforesaid funds from consolidation, the presented balance of cash held by the PZU Group decreased by PLN 14,551 thousand ("decrease in cash due to elimination of investment funds from consolidation" in the consolidated statement of cash flows).

As at 31 December 2013, in addition to the entities specified in the table above, the PZU Group held:

- 100% of shares in Syta Development sp. z o.o. in liquidation, whose value in the consolidated statement of financial position of the PZU Group was zero. As the company is being liquidated, it is controlled by the official receiver and as such, not subject to consolidation;
- shares in or investment certificates issued by the following funds, where the share of the PZU Group in the net assets exceeded 20% (exclusive of assets held under unit-linked insurance and investment contracts): PZU Energia Medycyna Ekologia sub-fund, PZU Akcji Rynków Wschodzących sub-fund, PZU Akcji Spółek Dywidendowych sub-fund, PZU FIZ Forte.

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

2.3.1. Changes in consolidation of entities and investment funds

Information concerning changes in the scope of consolidated entities as well as those measured using the equity method since 1 January 2013 and their effect on these consolidated financial statements has been presented in Section 3.4.1.

2.3.2. Acquisition of shares in EMC Instytut Medyczny

After the acquisition of shares at the stock exchange on 18 June 2013, the stake of the PZU Group entities (mainly investment funds managed by TFI PZU) went up to 1,969,817 shares in EMC Instytut Medyczny SA ("EMC"), accounting for 23.66% of interest in the share capital of that company and 20.04% of votes at its General Shareholders' Meeting.

Therefore, EMC was measured using the equity method. The acquisition of EMC was accounted for on the basis of the consolidated financial statements of EMC prepared as at 30 June 2013. Only EMC shares held by consolidated investment funds were measured using the equity method. Upon measurement using the equity method, the aforesaid shares represented 15.57% of the interest in the capital of EMC and 13.19% of votes at the general meeting.

Since the date of EMC's measurement using the equity method, the PZU FIZ AN BIS 2 investment fund has been increasing the number of EMC's shares held, by purchasing additional shares in stock market transactions and from non-consolidated PZU Group investment funds.

As at 31 December 2013, all EMC shares held by PZU Group entities were in the portfolio of the PZU FIZ AN BIS 2 fund, which owns 2,487,268 shares in EMC representing 29.87% of the company's share capital and 25.31% of votes at the general meeting.

On 23 December 2013, PZU FIZ AN BIS 2 entered into a promised contract providing for the acquisition of 948,370 newly issued shares in EMC with the par value of PLN 4.00 per share and the issue price of PLN 19.50 per share. The total acquisition price for the newly issued shares was PLN 18,493 thousand. As the increase in capital had not been registered by 31 December 2013, the aforesaid amount has been presented as receivables in the statement of financial position.

Accounting for the acquisition of EMC shares and measurement using the equity method have been presented in Section 13.1.

2.3.3. Increased interest in the capital of Armatura Kraków SA

In the year ended 31 December 2013, the consolidated PZU FIZ AN BIS 2 investment fund increased its interest in the capital of Armatura Kraków SA through settlement of the following transactions:

- On 28 October 2013 – under the tender offer of 30 August 2013 – by 15,129,960 shares;
- On 31 October 2013 – in stock market transactions – by 1,217,197 shares;
- On 18 December 2013 – under the tender offer of 6 November 2013 – by 7,078,381 shares.

As a result of the aforesaid transactions, as at 31 December 2013, PZU FIZ AN BIS 2 held the total of 75,125,538 shares representing 92.75% of the share capital of Armatura Kraków SA and 92.75% of votes at the General Meeting.

As a result of squeeze-out, on 23 January 2014 PZU FIZ AN BIS 2 acquired 5,517,888 shares in Armatura Kraków SA. As a result of the aforesaid transaction, PZU FIZ AN BIS 2 held the total of 80,643,426 shares representing 99.56% of the share capital of Armatura Kraków SA and 99.56% of votes at the General Meeting.

On 9 January 2014, an application for the authorization to restore the document form of the shares in Armatura Kraków, i.e. cancellation of their dematerialization, was filed with the Polish Financial Supervision Authority ("PFSA"). On 18 February 2014, PFSA granted its authorization for share dematerialization. Pursuant to the aforesaid decision, as of 10 March Armatura Kraków was no longer subject to the obligations arising from the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2013, item 1382).

2.3.4. Sale of shares in KGJK

On 24 September 2013, PZU FIZ AN BIS 2 sold 310,620 shares in its associate, KGJK, representing 37.525% of its share capital, for PLN 24,850 thousand. After the aforementioned transaction has been settled, the PZU Group entities do not hold any shares in KGJK, which no longer has the status of an associated entity in the PZU Group.

The profit on sale of KGJK's shares, in the amount of PLN 8,263 thousand, has been presented under "Net profit/loss on realization and impairment losses on investments".

2.3.5. Establishment of PZU Finanse Sp. z o.o.

On 30 October 2013, a new company, PZU Finanse Sp. z o.o., was established. The share capital of the new company is PLN 50 thousand and it is divided into 100 shares of PLN 500 each. All shares were acquired by PZU. On 8 November 2013, the company was entered into the National Court Register.

3. Key accounting principles (policy)

These consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EC Commission, which means they comply with all Standards and Interpretations adopted by IASB, published and effective as at 31 December 2013 and approved by EC Commission.

The process of preparing of consolidated financial statements requires making estimates and judgments in application of accounting principles. Areas that require comprehensive assessment and those most dependent on assumptions and estimates are presented in section 4.

The financial statements have been drawn up on historical cost basis, except from revaluation of investment property and some financial instruments, which are measured at fair value.

(in PLN '000)

3.1 Introduction of new IFRS

3.1.1. Standards and interpretations as well as amended standards effective from 1 January 2013

The following new standards, interpretations and revised standards have been applied to these consolidated financial statements:

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits	1 January 2013	475/2012	The most important amendments are: (1) eliminating an option to defer the recognition of gains and losses, known as the "corridor method"; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans (including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations); (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. As a result of implementation of the revised IAS 19, the PZU Group has presented a number of new disclosures concerning employee benefits. Actuarial gains and losses have been presented in other comprehensive income and not in the profit of loss, as before.
IFRS 13 - "Fair Value Measurement"	1 January 2013	1255/2012	IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. Application of the new IFRS has resulted in a significant extension of the scope of fair value disclosures.
Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets	1 January 2012 1)	1255/2012	IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The aforesaid change did not exert any effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011 1)	1255/2012	Changes: (1) replacement of references to a fixed date of "1 January 2004" with "the date of transition to IFRSs"; (2) providing guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The change does not affect the PZU Group.

(in PLN '000)

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013	1255/2012	The interpretation states that costs associated with a "stripping activity" should be accounted for as an addition to, or an enhancement of, an existing asset, and that this component should be amortised over the expected useful life of the of the identified component of the ore body that becomes more accessible as a result of the stripping activity (using the units of production method unless another method is more appropriate). The change does not affect the PZU Group.
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities	1 January 2013	1256/2012	The amendments require information about: (1) all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32; (2) disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans	1 January 2013	183/2013	This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. It also adds an exception to the retrospective e application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" in 2008. The change does not affect the PZU Group.
Amendments to 2009 -2011	1 January 2013	301/2013	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: repeated application of IFRS 1, borrowing costs under IFRS 1, clarification of the requirements for comparative information, classification of servicing equipment, tax effect of distribution to holders of equity instruments, interim financial reporting and segment information for total assets and liabilities. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

1) The EC voted in favor of the regulation to be applicable to annual periods beginning on or three days after publication, which took place on 29 December 2012, at the latest (periods beginning on or after 1 January 2013).

(in PLN '000)

3.1.2. Standards, Interpretations and amended Standards issued but not effective as at the financial statements date

Standards, Interpretations and amended Standards issued but not effective as at the financial statements date:

- Approved by European Commission:

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRS 10 "Consolidated Financial Statements"	1 January 2013 [1)]	1254/2012	IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the returns. Following the application of IFRS 10, effective from the beginning of 2014, PZU Energia Medycyna Ekologia sub-fund, PZU Akcji Rynków Wschodzących sub-fund, PZU Akcji Spółek Dywidendowych sub-fund and PZU FIZ Forte will be consolidated. In effect, assets and liabilities of the consolidated funds will be recognized as on-balance sheet assets and liabilities instead of units. This will lead to an increase in the balance sheet total of ca. PLN 4,600 thousand. Due to retrospective application of the new standard, the 2013 figures will be restated.
IFRS 11 "Joint Arrangements"	1 January 2013 [1)]	1254/2012	IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. Application of IFRS 11 will not exert any significant effect on the consolidated financial statements of the PZU Group.

(in PLN '000)

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRS 12 "Disclosures of Interests in Other Entities"	1 January 2013 1)	1254/2012	IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. Application of IFRS 12 will require additional disclosures in the consolidated financial statements (mainly as regards the associates held as well as entities with non-controlling interest).
Transition Guidance (Amendments do IFRS 10, IFRS 11 and IFRS 12)	1 January 2013 1)	313/2013	The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period".
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014	1174/2013	The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The change does not affect the PZU Group.
Revised IAS 27 "Separate Financial Statements"	1 January 2013 1)	1254/2012	The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. The change does not affect the PZU Group.
Revised IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013 1)	1254/2012	IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.
Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1256/2012	Amendments provide clarifications on the application of the offsetting rules and focus on four main areas: the meaning of "currently has a legally enforceable right of set-off"; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

(in PLN '000)

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
Amendments to IAS 36 "Impairment of assets"	1 January 2014	1374/2013	Narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1375/203	The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met The aforesaid change will not have any effect on the consolidated financial statements of the PZU Group (hedge accounting is not applied).

1) The EC voted in favor of the regulation to be applicable to annual periods beginning on 1 January 2014 at the latest (early application is allowed).

(in PLN '000)

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 "Financial Instruments"	12 November 2009 16 December 2011 (update)	On 19 November 2013, the International Accounting Standards Board announced postponement of the obligatory effective date of the standard, as the impairment phase had not been completed. The new effective date will be agreed in the future, nearer the date of completion of the IFRS 9 project.	On 19 November 2013 IASB issued another package of amendments to the accounting requirements for financial instruments. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The amendments from November 2013 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. Considering the remote and not defined effective date and expected further changes in the accounting principles applicable to financial instruments, partly related to the current works on gradual replacement of IAS 39 effective at present with new regulations, the effect of application of IFRS 9 on the comprehensive income and equity of the PZU Group has not been assessed.
Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions	21 November 2013	1 July 2014	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

(in PLN '000)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 14 "Regulatory Deferral Accounts"	30 January 2014	1 January 2016	This Standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS. The change does not affect the PZU Group.
Amendments to IFRS 2010-2012	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of 'vesting condition'; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and payables; proportionate restatement of accumulated depreciation application in revaluation method and clarification on key management personnel. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 2011-2013	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exception for joint ventures; (iii) scope of of paragraph 52 if IFRS 13 (portfolio exception) and clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRIC 21 "Levies"	20 May 2013	1 January 2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Summing up – the aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group, except IFRS 9 and IFRS 10.

3.2 Changes in accounting principles (policy)

In 2013 no changes to the Accounting Policy were introduced.

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

In 2013, the following change was made to the method of preparation of the consolidated financial statements compared to the financial statements of the PZU Group for 2012:

- at the beginning of 2013, the Group changed the presentation method applied to segment reporting note, drawn up in accordance with IFRS 8. The method for aggregation of financial data to segments, described in section 5 includes consolidation of subsidiaries (companies and investment funds) which were not previously consolidated, and application of measurement of associates using the equity method, described in detail in section 3.4.1;
- with a view to presenting provisions for employee benefits as one item of the statement of financial position, liabilities due to unused annual leave, as referred to in Section 3.19.4, have been transferred from accrued expenses to "Provisions for employee benefits".

3.4 Consolidation principles

In 2013 all PZU subsidiaries have been included in consolidation.

These consolidated financial statements include data of the parent company and its subsidiaries, after elimination of intercompany transactions.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, with a proviso that the financial statements of the consolidated investment funds are prepared as at the date of publication of the last official valuation of units in or investment certificates issued by the funds, which serves as the basis for recognition of measurement of the funds in the financial statements of the consolidated PZU Group entities.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries have been presented in Section 3.16.5.

3.4.1. Change in the principles of consolidation

In the previous years till the end of 2012, the PZU Group included all material subsidiaries in the consolidation. Materiality was determined on the basis of the revenue earned, absolute value of the profit/loss and balance sheet total.

Effective from 1 January 2013 the Group discontinued the materiality criterion and as a consequence, as of 1 January 2013, all PZU subsidiaries have been included in consolidation, i.e. the following were included in consolidation:

- Towarzystwo Funduszy Inwestycyjnych PZU SA;
- PZU Asset Management SA;
- PZU Pomoc SA;
- Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA;
- PrJSC IC PZU Ukraine Life Insurance;
- UAB PZU Lietuva Gyvybes Draudimas;
- Ipsilon Sp. z o.o.;
- Ipsilon Bis SA;
- Omicron SA;

- LLC SOS Services Ukraine;
- PZU FIZ Sektora Nieruchomości;
- PZU FIZ Sektora Nieruchomości 2;
- PZU FIZ Sektora Nieruchomości 3;
- PZU FIZ Aktywów Niepublicznych BIS 1;
- PZU FIZ Aktywów Niepublicznych BIS 2;
- PZU Energia Medycyna Ekologia;
- PZU Dłużny Rynków Wschodzących;
- PZU FIZ Forte;
- PZU FIZ Aktywów Niepublicznych RE Income.

Consolidation denotes that the assets and liabilities of the entities are recognized under appropriate items of these consolidated financial statements, instead of presentation of the value of investments in the subsidiary (companies: at cost less impairment losses; investment funds: at fair value) under appropriate items of "Financial assets".

In the previous years, until the end of 2012, the materiality criterion also applied to associates; as of 1 January 2013, when the materiality criterion was discontinued, the following companies were measured using the equity method:

- Kolej Gondolowa Jaworzyna Krynicka SA (information about further disposal of the entity is described in section 2.3.4);
- GSU Pomoc Górniczy Klub Ubezpieczonych SA.

Measurement using the equity method denotes that the value of investments in the associate, measured using the equity method, is presented as a separate item of assets, i.e. "Entities measured using the equity method", instead of their recognition at cost less impairment losses under "Financial assets – Financial instruments available for sale".

The aforesaid changes were recognized in the consolidated financial statements on 1 January 2013 and the effects (of the balance sheet measurement of those assets as at 31 December 2012 and the net assets of those entities as at 1 January 2013) were charged to the profit/loss.

As a result of consolidation of subsidiaries (companies and investment funds), the balance of cash increased by PLN 479,751 thousand ("increase in cash due to changes in the scope of consolidation" in the consolidated statement of cash flows).

(in PLN '000)

3.4.1.1. Subsidiaries subject to consolidation

As at 1 January 2013, the differences between the net assets of the companies included in the consolidation and the carrying amount of investments in a given entity are presented in the consolidated financial statements as follows:

- Gains - under "Other operating income";
- Losses - under "Other operating expenses"

Reconciliation of the effect of consolidation of subsidiaries from 1 January 2013	Assets	Liabilities	Net assets	Carrying amount of shares (at historical cost including impairment)	PZU Group's share in the equity	PZU Group's share in net assets	Impact on the consolidated profit/loss of the PZU Group
Towarzystwo Funduszy Inwestycyjnych PZU SA	71 421	27 636	**43 785**	24 793	100.00%	43 785	**18 992**
PZU Asset Management SA	12 621	1 982	**10 639**	4 642	100.00%	10 639	**5 997**
Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	1 578	226	**1 352**	500	100.00%	1 352	**852**
Total – impact on other operating income							**25 841**
PrJSC IC PZU Ukraine Life Insurance	32 884	26 105	**6 779**	25 921	100.00%	6 779	**(19 142)**
UAB PZU Lietuva Gyvybes Draudimas	79 680	52 639	**27 041**	40 235	99.34%	26 863	**(13 372)**
PZU Pomoc	19 729	3 564	**16 165**	18 565	100.00%	16 165	**(2 400)**
LLC SOS Services Ukraine	694	151	**543**	729	100.00%	543	**(186)**
Ipsilon Bis SA	87	3	**84**	100	100.00%	84	**(16)**
Ipsilon Sp. z o.o.	38	1	**37**	52	100.00%	37	**(15)**
Omicron SA	100	3	**97**	100	100.00%	97	**(3)**
Total – impact on other operating expenses							**(35 134)**
Total – impact on the consolidated profit/loss							**(9 293)**

3.4.1.2. Subsidiaries – investment funds subject to consolidation

As at 1 January 2013, the item "Other liabilities" includes amounts of investments made by investors from outside the PZU Group in the consolidated investment funds.

Until 31 December 2012, investments made in some of the investment funds were classified as assets available for sale, whereas changes in the fair value were recognized under "Revaluation reserve". On 1 January 2013, the balances in this respect recognized under "Revaluation reserve" were reclassified to the consolidated profit and loss account and recognized under "Net change in the fair value of assets and liabilities measured to fair value".

(in PLN '000)

The table below presents the financial data of consolidated investment funds.

Investment fund	Total fund's consolidated assets as at 1 January 2013	The amount reclassified from the „Revaluation reserve" to the consolidated income statement as at 1 January 2013	Liabilities to investors outside the PZU Group included in „Other liabilities" as at 1 January 2013
PZU FIZ Sektora Nieruchomości [1]	423 814	120 815	-
PZU FIZ Sektora Nieruchomości 2 [1]	505 604	782	-
PZU FIZ Sektora Nieruchomości 3 [1]	8 592	(1 408)	-
PZU FIZ Aktywów Niepublicznych BIS 1 [2]	500	-	-
PZU FIZ Aktywów Niepublicznych BIS 2 [2]	107 640	27 640	-
Subfundusz PZU Energia Medycyna Ekologia [3]	187 407	-	80 100
Subfundusz PZU Dłużny Rynków Wschodzących [2]	319 969	28 031	6 182
PZU FIZ Forte [2] [3]	107 020	92	6 928
PZU FIZ Aktywów Niepublicznych RE Income [1]	169 645	3 410	36 233
Subfundusz PZU FIO Gotówkowy [2] [4]	473 008	5 265	151 072
Total	**2 303 199**	**184 627**	**280 515**

[1] The amount was reclassified from "Revaluation reserve" to the consolidated income statement as a consequence of reclassification, as at the date of consolidation of the fund, of the fund's real property to property measured at fair value in accordance with the PZU Group's policy on investment property, in particular paragraph 35 of IAS 40 "Investment Property".

[2] The reclassification of the amount from „Revaluation reserve" to the consolidated income statement concerns those financial assets which were classified as measured at fair value through profit or loss – classified as such upon initial recognition.

[3] Information concerning elimination of the fund from consolidation has been presented in Section 2.2.

[4] Data as at the date of inclusion in the consolidation, i.e. 1 April 2013.

3.4.1.3. Associates – companies measured using the equity method

As at 1 January 2013, the differences between the PZU Group's share in the net assets of the companies included in the measurement using the equity method and the carrying amount of investments in the associates are presented under "Other operating income" in the consolidated profit and loss statement.

Reconciliation of the effect of measurement of associates using the equity method	1 January 2013
Assets	47 875
Liabilities	6 275
Net assets	**41 600**
Carrying value of shares	5 888
PZU Group's share in net consolidated assets of companies	15 439
Total impact on the consolidated gross profit/loss	**9 551**

3.5 Currency exchange rates

The following currency exchange rates have been adopted herein to translate data of foreign controlled entities:

Currency exchange rates adopted to translate financial data of foreign controlled entities	1 January – 31 December 2013	31 December 2013	1 January – 31 December 2012	31 December 2012
LTL	1.2196	1.2011	1.2087	1.1840
UAH	0.3886	0.3706	0.4001	0.3825

(in PLN '000)

The rates are:

- average rates of the National Bank of Poland ruling as at the balance sheet date – for the statement of financial position;
- rates determined as the arithmetic mean of the rates published by the National Bank of Poland, ruling as at the last day of each month of a given period - for the income statement, statement of comprehensive income and statement of cash flows.

3.6 Intangible assets

Intangible assets are recognized when they are likely to cause an inflow of economic benefits in the future that can be attributed to these assets and they include acquired property rights, classified as non-current assets, suitable for economic use, with expected useful life longer than one year, to be used for internal needs.

Intangible assets include in particular: computer software, copyright, licenses and concessions.

Intangible assets are measured at acquisition price at cost less increased by costs directly related to acquisition and preparation of the asset for use, less amortization charges and impairment loss.

Intangible assets are amortized using the straight line method over the expected useful life, in line with the amortization plan. Intangible assets are amortized over two to five years

If appropriate, following a case-by-case analysis, the entity may apply another amortization rate suitable for the estimated useful life of the intangible asset. As the product system is planned to be used by PZU for 10 years, the adopted annual amortization rate is 10%.

3.7 Goodwill

Goodwill is determined at fair value of identifiable assets, liabilities and contingent liabilities as at the date of acquiring of control or significant influence of subsidiaries, proportionally to acquired interest in their equity. Goodwill is not amortized but is tested for impairment as at the end of each reporting period.

3.8 Property, plant and equipment

Property, plant and equipment are recognized at acquisition price or at cost, less depreciation charges and impairment loss.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction. Depreciation follows the straight line method over the estimated useful life of the assets and starts on the first day of the month following the month of commissioning.

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

Asset class	Rate
Ownership right of cooperative residential or commercial space	2.5%
Buildings and structures	1.5% - 10%
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT hardware	20% - 40%
Other non-current assets	7% - 20%

Assets held under finance leases are depreciated over the period of their useful life, unless there is no likelihood of purchasing the assets, in which case they are depreciated over a period not longer than the period of the lease.

3.9 Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, assets are reviewed in order to determine if there are any prerequisites indicating potential impairment.

It is considered that there has been impairment of intangible assets and property, plant and equipment, if as a result of technological changes, plans of liquidation, abandonment or other premises indicating decrease in usefulness of a given asset, the value of expected economic benefits related to intangible assets or property, plant and equipment has fallen.

When such premises have been indicated, an impairment test for a given asset is carried out to determine its recoverable amount and if necessary, a revaluation write-down is created to the recoverable amount. If an asset does not generate cash flows which to a large extent are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to.

3.10 Investment property

Investment property is measured at fair value as at the end of the reporting period. Gains and losses resulting from changes in the fair value of investment property are recognized in profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

Buildings and structures and land and right of perpetual usufruct of land, partially used for internal purposes and partially leased out are classified as follows:

- part of the facility which as at the balance sheet date is not used for internal purposes is classified as investment property and the remaining part of the facility - as property used for internal purposes;
- the value of property classified as investment property or to property used for internal purposes is determined in accordance with the area;
- if in the case of a property partly used for internal purposes and partly leased, the leased space is not more than 10% of the total space, the entire facility is classified as property used for internal purposes.

The above division of property applies when the parts may be separately sold or leased.

If real property is used for internal purposes, it is classified as investment property and disclosed at fair value. Depreciation charges are applied until the reclassification date, whereas the difference between the carrying amount and the fair value determined as at that date is recognized in other comprehensive income.

3.11 Financial instruments

Financial assets and liabilities are recognized in the statement of the financial position when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded in an organized market (exchange) on terms adopted on that market, acquisition or sales of financial assets and liabilities are recognized as at the transaction date.

Financial instruments are classified at the time of acquisition to one of the categories determined in IAS 39 and recognized at fair value adjusted by the transaction costs which may be directly attributed to acquisition or sale of the given financial instrument (except for instruments classified as measured at fair value through profit or loss, whose transaction costs are recognized separately under "Net investment revenue"). At initial recognition, the fair value of the instrument is usually calculated as its transaction price, unless the nature of the instrument indicates otherwise.

In the case of financial instruments generating interest income, the interest is calculated starting from the first day after the date of transaction settlement.

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

Shares whose fair value cannot be reliably estimated are measured at acquisition price including impairment loss.

3.11.1. Financial instruments held to maturity

Financial instruments held to maturity are measured at the amortized cost and the effects of the measurement are recognized under "Net revenue from investments".

3.11.2. Receivables and loans

Receivables and loans include in particular:

- debt securities acquired as part of a contract under which the seller has not lost control over the securities;
- debt securities not quoted on the active market;
- deposits in credit institutions;
- granted loans;
- receivables due to concluded insurance contracts (including reinsurance);
- other receivables.

Loans and receivables, excluding receivables due to concluded insurance contracts and other short-term receivables, are measured as at the end of the reporting period at the amortized cost.

Receivables due to concluded insurance contract and other short-term receivables, due to their nature, are measured at the nominal value including impairment loss on doubtful receivables (the manner of estimating the loss is described in section 4.2.5).

The effects of measurement of receivables and loans up to the value of measurement at the amortized cost are recognized under "Net revenue from investments".

3.11.3. Financial instruments available for sale

Financial instruments available for sale include financial instruments which have not been classified to any other category.

Instruments classified to this category are measured at fair value. The difference between the fair value as at the end of the reporting period and acquisition price is charged directly to the revaluation reserve. In the case of debt securities, interest accrued using the effective interest rate is recognized under "Net revenue from investments". The difference between the fair value and the value at the amortized cost is recognized in the revaluation reserve.

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

Financial instruments measured at fair value through profit or loss include:

- financial instruments held for trading - financial instruments held for trading - assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments classified at the time of acquisition as those measured at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
  - some instruments that pursuant to the Act of 22 May 2003 on insurance activity (Journal of Laws 2013, item 950 with subsequent amendments, henceforth "Act on insurance activity") are aimed at covering technical provisions and investment contracts in life insurance products. Adopted classification of those instruments eliminates or significantly limits mismatch between measurement and recognition of assets and liabilities covered by those assets,
  - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles. The group includes unit-linked investment contracts.

The effects of a change in the measurement of financial instruments measured at fair value and interest revenue recognized are recognized in profit or loss under "Net change in the fair value of assets and liabilities measured to fair value" in the period when they occurred.

3.11.4.1. Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value.

The fair value of derivatives quoted on an active market is the closing price as at the end of the reporting period.

The fair value of derivatives which are not quoted on an active market, including forward contracts and interest rate swaps (IRS) is determined using the discounted future cash flows method. Cash flows are discounted using interest rates from the yield curves assigned to a specific type of financial instruments and foreign currencies, constructed based on available market data.

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

Changes in the fair value of derivatives which are not hedging instruments are recognized in profit or loss of the reporting period of revaluation in the "Net change in the fair value of assets and liabilities measured at fair value".

PZU Group companies do not apply hedge accounting.

3.11.5. Financial liabilities other than ones measured at fair value

Trade liabilities - which are short-term - are recognized at the amount due.

Other financial liabilities are measured at amortized cost.

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

The accounting principles for financial guarantees that meet the definition of an insurance contract and a financial instrument at the same time have been presented in Section 4.5.1.

3.11.6. Impairment of financial assets

As at the end of each reporting period, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is tested.

In the case of any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows, appropriate write-downs are created and charged to the current period expenses. Expected impairment losses as a result of future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor resulting from financial difficulties of the debtor which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
  - negative changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments) or

  - unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant and prolonged decrease in the fair value of an investment in an equity instrument below the acquisition cost (additional information presented in section 4.2.4);
- unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

In the case of premises indicating impairment of financial instruments available for sale, losses on measurement, initially recognized under revaluation reserve are charged to profit or loss.

Impairment losses on financial instruments available for sale charged to profit or loss:

- in the case of equity instruments - not reversed;
- in the case of debt instruments they may be reversed, provided that in the subsequent periods the fair value of a given debt instrument increases, and the increase may be objectively associated with the event following recognition of the impairment loss in profit or loss.

In the case of a sale of financial instruments available for sale, the value of revaluation reserve related to the sold financial instruments is derecognized and recognized in profit or loss under "Net profit or loss on realization and impairment loss on financial assets".

The estimates and judgments used for determination of impairment losses have been presented in Section 4.2.

3.12 Recoveries and recourses in non-life insurance

In the case of some classes (types) of non-life insurance, following payment of claims or benefits, the insurer may assume claims against third parties (recoveries) or property rights to the insured property (recourses).

Recoveries are presented in the statement of the financial position under "other assets" and their value estimated at fair value level as at the actual date of the assumption reduces the costs of claims paid in the given period.

Estimated using actuarial methods value of expected future refunds of the company's expenses due to assumption of claims against third parties and assumption of the right to the insured property is recognized under the balance sheet assets in "Estimated recoveries and recourses".

Estimated values of recoveries and recourses, recognized in the accounting records in the given period, reduce the costs of creating provisions for claims outstanding for that period.

3.13 Costs of acquisition and deferred costs of acquisition

Costs of acquisition include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include among others insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies and research regarding risk accepted by the insurer. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuance of policies.

In order to ensure that costs and revenue are matched, acquisition costs are recognized over time.

Deferred acquisition costs capitalized in the statement of financial position, related both to non-life insurance as well as life insurance are tested for impairment by including adequacy of provisions.

3.13.1. Non-life insurance

Acquisition costs in the case of property and personal insurance products are deferred in line with the principles applicable at the time of determining the provision for unearned premiums and amortized under profit or loss (under "Acquisition expense") during the period of the insurance cover.

3.13.2. Life insurance

In the case of life insurance products, for traditional individual insurance contracts with discretionary participation features acquisition costs are recognized over time based on the Zillmer method (life insurance, endowment and birth insurance).

3.14 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and at bank.

Cash is recognized at face value.

3.15 Assets held for sale

Assets held for sale are measured at the lower of the previous carrying amount or the fair value less costs to sell.

3.16 Equity

3.16.1. Share capital

Share capital is recognized in the amount specified in the parent's by-laws and registered in the National Court Register.

3.16.2. Supplementary capital

Supplementary capital is created and distributed in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (consolidated text: Journal of Laws of 2013, item 1030)) and the by-laws of the PZU Group companies.

3.16.3. Revaluation reserve

Revaluation reserve includes the effects of:

- measurement of financial assets classified as available for sale;
- measurement of the value of property to their fair value as at the date of their reclassification from property used for internal purposes to investment property.

3.16.4. Actuarial gains and losses related to provisions for employee benefits

This item includes actuarial gains and losses resulting from an increase or a decrease in the present value of defined benefit liabilities due to changes in actuarial assumptions and ex post adjustments thereto. The item includes gains and losses resulting from changes in demographic assumptions (such as mortality, employee turnover ratio) as well as financial assumptions (such as the discount rate or the projected pay growth rates).

3.16.5. Exchange differences from translation

This item includes differences arising from translation of assets and liabilities of foreign subsidiaries into the Polish currency at the average exchange rate determined for the currency by the National Bank of Poland ("NBP") as at the end of the reporting period as well as items of the income statement and other comprehensive income at a rate being the arithmetic mean of the average NBP exchange rates as at the end of each month of the financial year.

3.16.6. Undistributed profit/uncovered loss

Undistributed profit/uncovered loss includes:

- z previous year net profit which has not been distributed by the General Meeting / Shareholders' Meeting;
- current year net profit/loss;

- uncovered net loss.

Net profit distribution (or loss coverage) of the parent and companies of PZU Group takes place only with respect to the net profit (loss) disclosed in the company's separate financial statements prepared according to the local GAAP effective in the country of residence of the given company.

3.16.7. Non-controlling interest

Non-controlling interest represents the part of a subsidiary's capital which may not be attributed to the parent, whether directly or indirectly. Non-controlling interest is measured as the proportional share in identifiable net assets of the subsidiary.

3.17 Classification of insurance products

In accordance with the requirements of IFRS 4, contracts are divided into insurance contracts with significant insurance risk and investment contracts with financial risk, but with no significant insurance risk.

The assumptions made for the purpose of classification of the products offered by the PZU Group have been presented in Section 4.5.

3.17.1. Non-life insurance

All direct property and personal insurance products transfer direct insurance risk as defined in IFRS 4. Reinsurance contracts involve transfer or assumption of either insurance or insurance and financial risk.

In the case of direct property and personal insurance, insurance contracts have no deposit components which could be unbundled from the insurance contract.

Reinsurance treaties, which the PZU Group companies are party to, contain clauses providing for distribution of the reinsurer's profit in line with a plan and at dates specified in the treaty. As a result, part of the premium paid to the reinsurers due to concluded reinsurance treaties may be considered a deposit component.

At the end of the reporting period, all rights and obligations related to the deposit component, in particular a reinsurance asset corresponding to the receivable due to the deposit component resulting from the outward reinsurance treaty, including all terms and conditions of the treaty, such as allocation of loss in particular years, are recognized. Pursuant to the provisions of paragraph 10 of IFRS 4 the deposit component is not unbundled from concluded reinsurance contracts.

Outward reinsurance contracts follow the same accounting principles as reinsurance contracts. As at the end of the reporting period, deposits with ceding undertakings are measured in amount due (specified in line with the terms and conditions of the reinsurance treaty) including impairment loss.

3.17.2. Life insurance

3.17.2.1. Insurance contracts and DPF

Both insurance contracts and investment contracts may contain discretionary participation features (DPF) which enable the insured to receive additional benefit or bonus as a supplement to the guaranteed benefit; the benefit is a significant part of the entire contractual benefit, its amount and duration are specified in the contract and depend on the decision of the insurer; the benefit occurs in the event of:

- a specific set or type of contracts;
- profit or no profit from specific assets;
- profit or loss of the insurer, fund or other entity related to the contract.

All contracts with discretionary profit sharing, unilaterally specified by the insurance company, may be measured in accordance with IFRS 4.

3.17.2.2. Unit-linked products

Contracts concluded with an insurance equity fund on the basis of the criterion of significant insurance risk referred to in clause 4.5, are recognised in accordance with IFRS 4 or IAS 39.

3.17.2.3. Investment contracts with no DPF

The principles of recognition and measurement of contracts which, in accordance with IFRS4, do not meet the classification criteria of an insurance contract, i.e. classified as investment contracts, are specified by IAS 39. Therefore, financial liability measurement principles are applied to investment contracts:

- measurement at amortized cost – for investment contracts with guaranteed and fixed terms or
- measurement at fair value through profit or loss – for unit-linked investment contracts.

The effects of measurement of financial liabilities under investment contracts are presented as "Claims and change in measurement of investment contracts".

3.18 Insurance contracts

3.18.1. Written premium and provision for unearned premiums

3.18.1.1. Non-life insurance

PZU, PZU Latvia and PZU Ukraine are party to insurance contracts in property and personal insurance and may be party to inward and outward reinsurance treaties.

Written premiums are recognized by date of underwriting the policy.

Written premiums are recognized under revenue in proportion to the period of insurance cover. Part of the written premium for the period of insurance cover after the balance sheet date is recognized under provision for unearned premiums. The provision for unearned premiums is determined individually as at the end of each reporting period, accurate to one day.

The provision for unexpired risks complements the provision for unearned premiums and covers future claims and costs relating to insurance contracts which do not expire on the last day of the reporting period. The provision for unexpired risks is calculated for insurance classes as at the end of each reporting period.

The overall provision for unexpired risks is determined for insurance classes with the claims ratio for the current year exceeding 100%, as the difference between the product of the provision for unearned premiums and the claims ratio for the current financial year and the provision for unearned premiums – for the same insurance period. The reinsurers' share in the premium, provision for unearned premiums and provision for unexpired risks is determined in accordance with the terms and conditions of relevant reinsurance treaties.

The provision for unexpired risks is created in line with the minimum requirements of the provision adequacy test specified in point 16 of IRFS 4.

3.18.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the reporting period under insurance contracts concluded, whether the amounts have been paid or not, irrespective of the fact whether the amounts refer to the whole of the next reporting period or its part. The premiums are adjusted by the change in the provision for unearned premiums during the reporting period and reduced by the amount of premium due to the reinsurers. The provision for unearned premiums is created as a part of the written premium related to the future reporting periods proportionally to the period of the premium and is recognized under technical provisions.

3.18.2. Costs of claims and benefits paid and technical provisions

3.18.2.1. Non-life insurance

Costs of the reporting period include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and costs of recourses and a change in provisions for claims outstanding. The costs of claims and benefits are reduced by all received recoveries and recourses as well as by the change in expected recoveries and recourses.

The reinsurers' share in claims and benefits is determined for the classes of insurance with reinsurance, in the amount of reinsurers' share in claims, in line with relevant reinsurance treaties.

The provision for claims outstanding includes:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the reporting period;
- provision for losses and accidents which were incurred by the end of the reporting period and were not reported;
- provision for claims handling costs;
- provision for capitalized value of annuity.

The provision for claims reported but not paid (hereinafter referred to as "RBNP" or "Provision I") is determined using the individual method by the loss adjustment units or, if the available information is insufficient to estimate the provision, in the amount of the average claim determined using the actuarial method. Created provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

The provision for claims incurred but not reported (hereinafter referred to as "IBNR" or "Provision II") is created for claims and benefits which have not been reported by the end of the reporting period, when the provision is recognized. IBNR is calculated using the loss triangle: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the years during which losses were incurred. Basis for calculation are annual triangles for claims paid and claims reported.

The provision for direct claim handling costs for claims reported is calculated on a case-by-case basis for each claim by operating units, whereas for claims incurred but not reported is calculated using generalized Chain Ladder, based on loss triangles for the year of the claim.

The provision for indirect loss adjustment expenses is recognized using the actuarial method as the percentage (determined based on the share of indirect loss adjustment expenses in claims paid and direct loss adjustment expenses) of the provision for claims reported but not paid and the provision for claims incurred but not reported and the provision for direct loss adjustment expenses.

Provisions I and II and the provision for claims handling costs are recognized at the nominal value, i.e. they are not discounted.

The provision for capitalized value of annuity claims is calculated individually, as the present value of annuity (for life or periodic), paid in advance.

As at the end of each reporting period, using actuarial methods a provision for capitalized value of annuity claims is created for claims incurred after 31 December 1990 by the balance sheet date and not disclosed as annuity (annuity IBNR).

As at the end of each reporting period, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of a given period did not reach a satisfactory amount. The satisfactory amount of claims is determined as a fixed percentage of the current average pay for the years 1960-1990. For the difference between satisfactory and actual claims, the capitalized annuity amount is calculated in line with the current principles.

The reinsurers' share in provisions for claims outstanding is determined as the amount compliant with the terms and conditions of relevant reinsurance treaties.

3.18.2.2. Life insurance

Costs of the reporting period include all costs of claims paid under the concluded insurance contracts, including direct and indirect claims handling costs and a change in provisions for claims outstanding.

Costs of claims and benefits paid

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

The value of benefits is recognized at the actually paid amount, following deduction of refunds (except for refunds due to outward reinsurance), increased by the change in provision for claims outstanding and reduced by the reinsurers' share in claims and provisions.

Life insurance provision

The amount of provisions for life insurance corresponds to the value of liabilities under concluded insurance contracts and is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method.

This means that provision calculation includes all claims and premiums provided for in the contracts as contractual liabilities and receivables, irrespective of the fact whether the contract will be maintained by the insured until the end of the period or terminated. The assumptions for the frequency of events under insurance cover, i.e. mortality, incidence proportion and accident rate is determined based on publicly available statistics, such as: in Poland for example Polish Life Expectancy Tables (PLET) or based on own statistics developed on the basis of historical data for individual classes of products found in the portfolio.

The assumptions used in calculation of provisions for life insurance are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product (the so-called lock-in assumptions). During preparation of financial statements the adequacy of assumptions is verified. Provisions for life insurance are determined based on actuarial methods in the following way:

- group employee insurance and individually continued insurance: the provision is based on the prospective actuarial method involving determining of a provision separately for each insurance contract, based on specific statistical data; it corresponds to the present value of the claims expected in relation to insurance protection granted, less the present value of future premiums;
- insurance related to an insurance capital fund: the provision is created in order to cover the current claims relating to insurance protection granted over the value of funds accumulated in the fund for individual insurance types, respectively, in line with general terms: its value corresponds to the portion of fees collected in relation to insurance protection granted corresponding to future reporting periods;
- other - based on the prospective actuarial method, individually for each insurance contract and corresponds to the difference between the expected present value of guaranteed claims and the present value of premiums due under insurance contracts.

Provisions for life insurance are not reduced by deferred acquisition costs.

Provision for life insurance where risk is borne by the policyholders

Provisions life insurance products where risk is borne by the policyholders are created at the amount of the total value of shares in the fund on the accounts of the insured, measured at fair value as at the end of the reporting period.

Provision for outstanding claims and benefits

The provision for claims outstanding is created independently for:

- claims reported but not paid - using the individual method or when the amount of claim cannot be assessed, if the claims are large-scale, using the average claim from the quarter immediately preceding the reporting period;
- claims incurred but not reported - using the lump-sum method, as the percentage of claims paid for the period of the last twelve months.

Provision for unpaid claims and benefits includes a claim handling provision.

Provisions for bonuses and rebates for the insured

The provision corresponds to the expected profit sharing for the insurer recognized as at the end of the reporting period, which will be granted following the end of the settlement period.

Other technical provisions

Other technical provisions in life insurance include:

- provision for revaluation of claims under individual life insurance and annuity assumed from Państwowy Zakład Ubezpieczeń ("old portfolio");
- provision for pending court proceedings and claims related to court decisions (based on Article 358.3 of the Civil Code of 23 April 1964 (Journal of Laws No. 16 of 1964, item 93 with subsequent amendments; the Civil Code) concerning the change in the amount and the manner of paying a cash performance;

  the above provisions for litigations correspond to the forecasted value of additional benefits resulting from litigations based on the information about the trends in settlements and finished court proceedings.
- provision in case of low interest rates - related to forecasted decrease in profitability of insurance fund investments in the case of individual life insurance, individual increasing term insurance and increasing premium term insurance, Firma group insurance and annuity insurance created with an actuarial method, individually for each insurance contract at the amount corresponding to the difference between:
  - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates including their projected future decrease and
  - amount of mathematical provisions calculated in line with valid regulations regarding provisions with the original technical rate applied for other product pricing.

3.18.3. Provision adequacy tests

As at the end of each year for the life insurance portfolio forecasts are made for contracts in individual classes of products based on previous trends and extrapolation of identified trends for mortality, accident rate, resignation and forecasted costs of claims management and settlement. The test includes comparison of the present value of projected discounted cash flows with the amount of provision recognized at the end of each year. In the case when the provisions are found to be insufficient as compared to the value of discounted cash flows, the assumptions concerning provision creation and automatic adjustment of the amount of technical provisions are modified

3.19 Employee benefits

3.19.1. Defined contribution plans

Social security contributions

PZU Group companies are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland they include some of the contribution to pension and disability insurance and all contribution to accident insurance, labor fund and guaranteed employment benefit fund PZU Group companies are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

Specific contributions to the pension plans are charged to statement of profit and loss of a relevant period.

3.19.2. Defined benefit plans

3.19.2.1. Provision for retirement benefits

Pursuant to the Labor Code of 26 June 1974 (consolidated text: Journal of Laws No. 21 of 1998 item 94 as amended -"the Labor Code"), employees of PZU Group companies with registered offices located in Poland are entitled to retirement benefits in amount of one month salary upon retirement.

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

Actuarial gains and losses are recognized in full in the period in which they occurred. Effective from 2013, in accordance with the revised IAS 19, actuarial gains and losses are recognized in other comprehensive income.

3.19.2.2. Provisions for survivor benefits

Pursuant to the Labor Code employees of PZU Group companies registered offices located in Poland are entitled to survivor benefits. In case of death of an employee during their employment or at the time of receiving benefit as a result of inability to work due to sickness, the family is entitled to survivor benefits depending on the employee's duration of employment at the PZU Group which is an equivalent of 1 to 6-month salary.

Liabilities due to survivor benefits recognized in the statement of financial position are measured at the current value of discounted cash flows.

3.19.3. Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Journal of Laws 2012, item 592 with subsequent amendments) and internal regulations of the PZU Group companies with their registered offices in Poland which create Company Social Benefit Funds, the benefits and financial services of the fund may be used by pensioners (former employees of the company) and their families. The provision for liabilities arising from future contributions for former employees, as presented in the statement of financial position, is measured at the present value of discounted estimated cash flows.

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

3.19.4. Costs of paid annual leave

The employees of the PZU Group companies are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labor law (in Poland - the Labor Code). In accordance with IAS 19 the cost of employee paid vacation is recognized on an accrual basis, using the liability method. The liability due to employee paid vacation is determined based on the difference between the actual use of the vacation by employees and the balance which would take place if the paid vacation was used in proportion to the lapse of time in the period for which the vacation is due and recognized under "Provisions for employee benefits".

3.20 Revenue recognition

Recognition of revenue due to insurance contracts has been described in section 3.18.1.

Interest

Interest revenue is recognized in accordance with effective interest rate and reported in the income statement in the period it pertains to under "Change in the net fair value of assets and liabilities measured at fair value", "Claims and change in measurement of investment contracts" (for investment contracts) and "Net revenue from investments" (for other assets).

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired; however, in the case of dividend paid from profits generated before acquisition of shares measured at the acquisition cost, the value of due dividend is reduced by the value of share acquisition. Dividend revenue is recognized in "Net revenue from investments".

Revenue from pension fund management services

Revenue from management of PZU Open Pension Fund ("PZU OPF") is recognized in the periods when the services were rendered. The revenue includes in particular:

- fees on premiums transferred by the Social Insurance Institution ("ZUS") to PZU OPF in the amount specified in the by-laws of PZU OPF and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Journal of Laws 2013, item 989 with subsequent amendments; "Pension Funds Act),
- fees specified in the by-laws of PZU OPF for managing PZU OPF, in accordance with the limits specified in the Pension Funds Act,
- other fees determined in the by-laws of PZU OPF.

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

3.21 Taxes

Income tax recognized in the profit or loss includes current and deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in the country where the company has its registered office.

The deferred portion recognized in statement of profit and loss is the difference between the balance of deferred tax liabilities and assets as at the beginning and end of the reporting period; deferred tax liabilities and assets for transactions charged to equity are charged to equity.

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which - according to expectations - will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group companies, issued by the end of the reporting period.

3.22 Recognition of foreign currency transactions and balances

Transactions executed in currency other than Polish zloty (PLN) are recognized at the average NBP exchange rate established on the day preceding the transaction date. As at the end of the reporting period, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Gains and losses on currency translation are charged directly to profit or loss.

4. Key estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires reliance on material estimates and judgments which have an effect on the financial information presented in the consolidated financial statements as regards the value of assets, liabilities, revenue and expenses as well as disclosures.

Although the estimates and judgments used are made to the best of the knowledge of the Management Boards of the PZU Group companies concerning current activities and events, the actual results may differ from those anticipated.

The aforesaid estimates and judgments are reviewed on an ongoing basis, based on past experience and other factors, including expectations as to future events, which, based on the information available as at the date of these consolidated financial statements, appeared to be reasonable.

4.1 Consolidation principles

In order to determine whether the PZU Group controls an investment fund, the criteria laid down in SIC-12 "Consolidation – Special Purpose Entities", issued by the Standing Interpretation Committee are considered, specifically having in fact the right to obtain the majority of benefits from the investment fund, hence exposure to risk related to the business of the aforesaid investment fund.

It is assumed that the PZU Group controls those investment funds where the share of the PZU Group entities in the net assets (exclusive of assets held under unit-linked insurance and investment contracts) exceeds 50%. Such funds are consolidated using the full method – their assets are presented in the statement of financial position as financial assets by type and portfolio classification, while a portion of the net assets of the fund held by third-party investors – as other liabilities under "Liabilities to participants in consolidated investment funds".

4.2 Impairment

4.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Section 10 (for subsidiaries) and Section 13 (for the associate).

4.2.2. Financial instruments measured at cost

Impairment losses on financial assets measured at cost (equity instruments whose fair value may not be estimated reliably) are determined as the difference between the carrying amount of the assets and the present value of estimated future cash flows discounted using the current market rate of return for similar assets. In the event that the information necessary to estimate future cash flows is not available, the impairment loss may be estimated based on the value of the entity's net assets.

4.2.3. Financial instruments measured at amortized cost

Impairment losses on assets held to maturity and loans are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the effective interest rate determined upon initial recognition (original effective interest rate).

4.2.4. Equity instruments quoted on regulated markets as well as units in and investment certificates issued by investment funds

Impairment losses on equity instruments quoted on regulated markets, units in open-end investment funds and certificates issued by closed-end investment funds classified as held for sale are recognized if:

- the negative difference between the present value and the cost or the amount revalued (by a previous impairment loss) represents at least 30% of the cost, or the amount revalued or
- the market value of the asset as at the end of each of the 12 consecutive months is lower than the cost or the amount revalued (by a previous impairment loss).

Impairment losses are not recognized if it is concluded that the aforesaid events may be reversed within 6 months of the end of the reporting period or there are any other indications that the decreases may be temporary in nature.

4.2.5. Receivables from policyholders

Receivables from policyholders are reviewed in order to determine possible occurrence of impairment indicators.

If case-by-case approach was not applied (as a special write-down determined in accordance with the evaluation of the debtor's economic and financial position), impairment is estimated on a collective basis, as a collective assessment of impairment risk for the portfolio of receivables from policyholders based on historical data regarding cash flows on receivables from policyholders.

4.2.5.1. Non-life insurance

In order to determine the amount of a collective write-down on receivables from policyholders, an estimation model is used for collective risk assessment including the total expected financial cash flows:

- with regard to mature receivables, based on historical collectability data and
- with regard to non-mature receivables, based on historical analysis of the share of overdue receivables combined with historical analysis of collectability, as for mature receivables.

4.2.5.2. Life insurance

The following coefficients were assumed to estimate the impairment loss on receivables:

- for receivables from policyholders, ratios resulting from historical analysis of repayment of overdue receivables including specifics of each product based on general insurance terms;
- for disputable receivables, ratios based on historical analysis of payments resulting from court decisions and analysis of cases when the group resigned from collection of overdue receivables.

4.3 Assumptions made in estimation of technical provisions for non-life insurance

The estimated value of claims and benefits paid has been presented in the provision development triangles in section 6.7.1.1. Methodologies used to calculate IBNR provision and for old portfolio provision are described in section 3.18.2.1.

When calculating a provision for capitalized annuity amount, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

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

The technical interest rate applied to all annuities was 3.6% both as at 31 December 2013 and 31 December 2012. At the same time, based on the forecast inflation rate and the pay growth rate, a growth rate of 3.9% was used for annuities both as at 31 December 2013 and 31 December 2012.

As regards life annuities, the period during which annuity claims are paid is determined based on the Polish Life Expectancy Tables for 2012 (31 December 2012: PLET for 2011), published by the Central Statistical Office. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions used for calculation of the provision for capitalized value of annuity claims is presented in section 6.7.1.1.

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

Technical rates in life insurance

The technical interest rate used for calculation of life insurance provisions was 3.0% both as at 31 December 2013 and 31 December 2012.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the technical interest rate used for determining the value of technical provisions for life insurance is presented in section 6.7.1.2.

Incidence of events covered by insurance

Key assumptions made when estimating technical provisions for life insurance products, referring among others to assumed frequency of events under insurance coverage are described in section 3.18.2.2.

Group insurance by employers and individually continued and family products cover both the insured individuals, referred to as „the key insured" and their family members. As the Company had only access to data on the main insured covered by continued insurance and due to a lack of complete information on the age, sex, marital and family status of the insured in group insurance, in 2004 a statistical survey was conducted with regard to the age structure and sex of the individuals covered by group insurance as well as their family members. The aforementioned survey also served as the basis for the assumptions regarding the family structure of the individuals covered by individually continued insurance.

The assumptions made on the basis of the statistical survey for the purpose of determining the group insurance provisions, in line with the theory of probability and statistical methods, allow to take into account the age structure and sex of the insured and their family members, estimate and the value of the provisions for the whole portfolio.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in section 6.7.1.2.

Provision for revaluation of old portfolio claims and for pending litigation in PZU Życie

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

In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, as a result of which investment income was below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie revalued partly the old portfolio policies. Claim revaluation programs were implemented for all claims paid on an ongoing basis. Some insured, whose benefits lost their real value, sued PZU Życie in order to obtain higher benefits.

PZU Życie creates a provision for revaluation of claims under individual insurance policies and annuity contracts taken over from PZU (i.e. the so called "old portfolio"), which may result from future disputes (court cases and settlements).

The value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts. If litigation and non-litigation trends or the old portfolio revaluation program changed substantially in the future, this could have a material impact on the level of provisions required to cover the old portfolio liabilities.

The amount of provisions recognized for the old portfolio has been presented in Section 26.2.

Provision adequacy tests

Provision adequacy testing principles in life insurance products are described in section 3.18.3.

4.5 Classification of insurance contracts in accordance with IFRS 4

PZU Group companies that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when the insurance covered event may necessitate for the insurer to pay additional claims in any scenario except from those lacking economic contents (i.e. which do not visibly impact the economics of transactions), i.e., when the contract involves transfer of a significant insurance risk.

Assessment whether a contract does transfer significant actuarial risk requires analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a judgment, which significantly impacts accounting principles applied.

Based on the assumptions adopted by the PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, contracts concluded are recognized either in accordance with IFRS 4 or IAS 39.

4.5.1. Contract classification in non-life insurance

Analysis carried out proves that all property and personal insurance contract transfer significant insurance risk and therefore are governed by regulations of IFRS 4 as opposed to IAS 39.

Additionally, in light of work on the second stage of IFRS 4 carried out by IASB, the Group continues application of insurance contract accounting to financial guarantees that meet the definition of a financial instrument in accordance with amended IAS 39 and IFRS 4 effective from 1 January 2006.

4.5.2. Classification of life insurance contracts

Based on an analysis, it was concluded that products that do not transfer significant insurance risk (they include certain products with guaranteed return rate and some unit-linked ones) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified as investment contracts measured in accordance with IAS 39 for the purpose of these consolidated financial statements, which means that – depending on the product construction and classification – at depreciated cost or fair value.

Additionally, no life insurance contracts were identified which would provide for the transfer of both insurance and financial risk and require unbundling of insurance and investment activities. In the case of contracts for which unbundling of embedded options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required, the investment component is not unbundled.

4.6 Classification of property used for internal purposes and treated as investment property

Real property used for internal purposes is measured at historical cost according to IAS 16, while investment property is measured at fair value according to IAS 40 with the changes in fair value charged to statement of profit and loss.

In case of real property used both for internal purposes and for investment, separation is carried out according to principles described in 3.10, when both parts of such property can be sold separately or leased.

4.7 Unrecognized deferred tax assets

PZU Group due to prudent principle does not recognize deferred tax assets resulting from tax losses of PZU Group companies, in part which utilization of such assets could not be performed.

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group companies is presented in section 19.

4.8 Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as described in Section 28) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

(in PLN '000)

Actuarial assumptions

The table below presents the key actuarial assumptions made for calculation of provisions.

Key actuarial assumptions made for calculation of provisions for retirement benefits	31 December 2013	31 December 2012
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve [1]	3.7%
- other PZU Group companies	2.0%-4.5%	1.0%-5.0%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group companies	1.5%-3.0%	3.0%
Mortality rate, including:		
- PZU and PZU Życie	PLET [2]	PLET [2]
- other PZU Group companies	PLET [2]	PLET [2]
Employee turnover ratio, including:		
- PZU and PZU Życie	applicable to the company [3]	applicable to the company [3]
- other PZU Group companies	0.0%-10.0%	0.0%-13.0%
Disability rate (entitlement to disability benefits), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group companies	30%-60% PLET [4]	30%-60% PLET [4]

[1] The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU Życie as at 31 December 2013 covers the period from 2014 to 2044, assuming increasing values for the range until 2031 (2.68%-4.87%) and subsequently becoming an inverted yield curve decreasing to the level of 4.61%.

[2] The mortality rate adopted at the level specified in the Polish Life Expectancy Tables (PLET) (for both men and women), published by the Central Statistical Office (GUS).

[3] The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and pay. Some PZU Group companies do not take the aforementioned ratio into account.

[4] The disability rate represents a relevant percentage of the above mortality ratio. Some PZU Group companies do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	Retirement benefits	Death benefits
Discount rates		
- increase by 1 p.p.	(1 505)	(1 953)
- decrease by 1 p.p.	1 863	2 328
Anticipated pay growth rates:		
- increase by 1 p.p.	(614)	(1 061)
- decrease by 1 p.p.	965	1 430
Mortality rate:		
- increase by 10%	(164)	1 707
- decrease by 10%	167	(1 736)
Employee turnover ratio:		
- increase by 10%	(214)	(457)
- decrease by 10%	224	479

4.9 Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, in accordance with IAS 37, taking into account the probability of an outflow of cash to settle the obligation. Outflow of cash is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

4.10 Presentation of transactions with entities related to the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury.

Non-life insurance contracts, life insurance contracts and investment contracts constituted the major part of transactions with subsidiaries, co-subsidiaries and associates of the State Treasury.

The PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to the fact of being under control, joint control or significant influence of the same government, as referred to in Par. 25 of IAS 24. However, as such information is useful, the PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, co-subsidiaries and associates of the State Treasury (Section 53.2).

5. Segment reporting

5.1 Reportable segments

5.1.1. Key division criterion

IFRS 8 sets out requirements for disclosure of information about an entity"s operating segments in their annual and interim financial statements. Operating segments are components of the entity for which separate financial information is available and that are regularly reviewed by the entity"s chief operating decision maker ("CODM", i.e. the Management Board of PZU) in order to allocate resources to the segment and assess its performance.

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

PZU segments:

- Corporate insurance (non-life insurance);
- Retail client insurance (non-life insurance);
- Investment activities – comprising investments using own funds.

PZU Życie segments:

- Group insurance and individually continued insurance (life insurance);
- Individual life insurance (life insurance);
- Investment activities – including investments using own funds;
- Investment contracts – described further in this chapter.

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

- Pension insurance;
- Ukraine (non-life and life insurance; in 2012 only non-life insurance);
- Baltics - Lithuania, Latvia, Estonia - (non-life and life insurance; in 2012 only non-life insurance).

Operating segments may be aggregated into a single reportable segment if the qualitative and quantitative criteria described in IFRS 8.12-19 are met. In these financial statements separate operating segments have not been aggregated into reportable segments with the exception of the "Investments" segment which comprises investment activities using the PZU Group companies" own funds.

5.1.2. Geographical areas

The PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltics;
- Ukraine.

5.2 Settlements among segments

The investment performance (the difference between realised and unrealised revenue and expenses) disclosed under corporate insurance (non-life insurance), retail client insurance (non-life insurance), group insurance and individually continued insurance (life insurance) is determined in accordance with the transfer pricing based on the interest rate of the curves of the treasury securities profitability (risk-free rate), taking into account that for unit-linked insurance products with a guaranteed rate and for structured products, the net profit or loss on investments constituting coverage of the corresponding technical provisions is disclosed.

5.3 Measure of profit of a segment

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

- In insurance companies – a profit or loss on insurance in accordance with the accounting policies of the country of residence of the company, constituting the profit or loss before tax and other operating revenue and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in Polish Accounting Standards, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- In non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

5.4 Segments characteristics

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

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of property insurance products, third party and motor insurance products customised to meet clients' expectations and with individual risk assessment, offered by PZU to big enterprises;
- Retail client insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of property insurance products, accident insurance products, third party and motor insurance products offered by PZU to retail clients and entities in the SMB sector;
- Group and individually continued insurance (life insurance) - reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Individual insurance (life insurance) - reporting in accordance with Polish Accounting Standards – insurance offered by PZU Życie to individual clients whereby an insurance contract covers a given individual who is subject to separate risk assessment; the offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investments - reporting in accordance with Polish Accounting Standards – comprising investment activities in respect of the PZU Group"s own funds constituting a surplus of investments over technical provisions in the

key insurance companies of the PZU Group (PZU and PZU Życie) increased by surplus of investment income over the risk-free rate corresponding to the value of technical provisions of PZU and PZU Życie in non-investment products. Additionally, the "Investments" segment includes income earned on other excess cash in the PZU Group;

- Pension insurance - reporting in accordance with Polish Accounting Standards – comprising the company PZU PTE;
- Ukraine (non-life and life insurance; in 2012: non-life insurance only) – reporting in accordance with Ukrainian standards – including PZU Ukraine and PZU Ukraine Life, in 2012: PZU Ukraine only;
- Baltic States (non-life and life insurance; in 2012: non-life insurance only) – reporting in accordance with Lithuanian standards – including PZU Lietuva, operating in Lithuania, and also in Latvia and Estonia via its branches, and UAB PZU Lietuva Gyvybes Draudimas; in 2012: PZU Lietuva only;
- Investment contracts - reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products). In accordance with IFRS and as required by IAS 39, these products are accounted for using the deposit method and measured depending on the structure of a product – at amortised cost or fair value. Written premium on these products is not recognised in accordance with IFRS. In accordance with Polish Accounting Standards, all of the aforesaid products are disclosed as insurance products and written premium is recognized;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

5.5 Polish Accounting Standards applied

5.5.1. PZU

Polish Accounting Standards and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka 2013, in accordance with PAS, approved by Management Board on 11 March 2014, on which the certified auditor issued an unqualified opinion on the same date ("Separate financial statements of PZU for 2013").

The separate financial statements of PZU for 2013 are available on the PZU website www.pzu.pl, under "Investor Relations" section.

5.5.2. PZU Życie

PZU Życie accounting policy in accordance with PAS is convergent with PZU PAS policy (excluding accounting policies regarding insurance contracts and investment contracts).

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU Życie have been presented in section 3, 4.4 and 4.6, in parts describing life insurance.

The key differences between PAS and IFRS as regards accounting for insurance contracts and investment contracts of PZU Życie comprise:

- classification of insurance contracts in accordance with instructions included in IFRS 4 regarding classification of products as insurance contracts under IFRS 4 or investment contracts valued in accordance with IAS 39. In accordance with IFRS 4, a contract is an insurance contract only when it could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios lacking commercial substance (i.e. having have no discernible effect on the economics of the transaction), therefore when significant insurance risk is transferred under the contract. Determination whether significant financial risk is transferred under a given contract requires an analysis of the cash flows associated with a given product in different scenarios and estimation of the likelihood of its occurrence;
- only with respect to the figures for 2012 - the technical interest rate used for determination of technical provisions. In accordance with IFRS 4, if the insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence in subsequent reporting periods. In accordance with Polish Accounting Standards, technical interest rates are decreased for some types of insurance due to maximum technical interest rates being announced by the Polish Financial Supervision Authority, which results in an increase in technical interest rates under PAS as compared with the same provisions under IFRS.

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

5.6 Structure of the segment reporting note and reconciliations

Since the revenue measures of individual segments are based on local accounting standards applicable in the country of residence of the PZU Group"s registered office, the financial data of the reporting segments is disclosed under a few different accounting standards. In addition, due to the differences in the formats of management reports submitted to the chief operating decision maker compared with the format of the financial statements prepared under IFRS, two separate reporting formats had to be used: the format of the management reports submitted to the chief operating decision maker (left-hand side of the note) and the format of the financial statements prepared under IFRS (right-hand side of the note).

As a consequence, reconciliation of the totals of revenue and profit or loss of the reportable segments with their consolidated counterparts as required by IFRS 8.28 included in the note is complex and comprises the following stages described in the segment note in the same order as the order of the reconciliation columns:

- Transition from the format of the management reports submitted to the chief operating decision maker to the format of the financial statements prepared under IFRS (the "Differences in presentation " column), resulting in a number of changes in the presentation, including reclassification of other operating revenue and expenses to items presented under "operating profit/(loss)" in accordance with IFRS;
- Reconciliation of differences between the accounting standards used for the presentation of financial data of the segments and IFRS, and separate presentation of the key accounting standards;
- Making consolidation adjustments (since it is the last phase of reconciliation – the adjustments have been presented in the format required under IFRS).

5.7 Simplifications in the segment note

Some simplifications in the segment note have been made, as compared with the requirements of IFRS 8. Justification of the simplifications:

- Withdrawal from presentation of information about allocation of all assets and liabilities to individual segments – resulting from failure to prepare and present such information to the entity's chief operating decision maker. The key information submitted to the entity's chief operating decision maker is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirement under PAS, i.e. having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- Presentation of the net profit or loss on an investment with a single amount expressed as a difference between realised and unrealised revenue and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- Revenue and expenses other than realised and unrealised investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- Presentation of other operating revenue and expenses and financial expenses of the companies PZU and PZU Życie for their operating segments combined (and as a result, not allocating any amounts in this respect to the "investment contracts" segment) – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation;
- Presentation of income tax charges expressed as a single sum of consolidated data – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation.

(in PLN '000)

Income statement for the period 1 January 2013 - 31 December 2013	Corporate insurance (non-life insurance)	Retail insurance (non-life insurance)	Group and individually continued insurance (life insurance)	Individual insurance (life insurance)	Investment	Pension insurance	Ukraine	Baltics	Investment contracts	Other activities	Presentation differences	Real property and investments	Investment contracts	Prevention fund, equalization reserve and designation to Social Benefit Fund	Consolidation adjustments	Consolidated value	Income statement for the period 1 January 2013 - 31 December 2013
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premium - external	1 735 259	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	-	16 480 003	Gross written premium - external
Gross written premium - cross-segment	4 898	-	-	-	-	-	-	-	-	-	-	-	-	-	(4 898)	-	Gross written premium - cross-segment
Gross written premium	1 740 157	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	(4 898)	16 480 003	
Reinsurer's share in written premium	(160 273)	(43 756)	(2 848)	(58)	-	-	(31 253)	(20 795)	-	-	-	-	-	-	1 946	(257 037)	Reinsurer's share in gross written premium
Net written premium	1 579 884	6 489 987	6 412 330	1 329 836	-	-	172 387	241 494	1 097 951	-	-	-	(1 097 951)	-	(2 952)	16 222 966	**Net written premium, including:**
Change in provisions for unearned premiums and unexpired risks	(35 703)	64 717	1 739	946	-	-	(9 036)	(17 606)	606	-	19 631	-	(606)	-	1 115	25 803	Change in net provision for unearned premium
Change in net provision for unearned premium	11 571	(2 419)	-	-	-	-	7 221	3 258	-	-	(19 631)	-	-	-	-	-	
Net earned premium	1 555 752	6 552 285	6 414 069	1 330 782	-	-	170 572	227 146	1 098 557	-	-	-	(1 098 557)	-	(1 837)	16 248 769	**Net earned premium**
											340 282	-	34 271	-	(54 591)	319 962	Revenue from commissions and fees
Investment income, including:	140 039	556 759	735 242	304 969	4 858 981	11 580	24 373	6 511	89 115	65 018	(6 792 587)						
Net investment income (external transactions)	140 039	556 759	735 242	304 969	896 559	11 580	24 373	6 511	89 115	65 018	(2 830 165)						
Net investment income (cross-segment transactions)	-	-	-	-	3 962 422	-	-	-	-	-	(3 962 422)						
											1 835 955	-	-	-	8 977	1 844 932	*Net investment income (external transactions)*
											3 962 422	-	-	-	(3 962 422)	-	*Net investment income (cross-segment transactions)*
											99 493	24 782	-	-	(99 230)	25 045	Net profit or loss on realization and impairment loss on investments
											781 576	(105 879)	-	-	(57 606)	618 091	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance	11 522	34 872	1 524	18 765	-	-	-	-	15 463	-	(82 146)						
Revenue from non-insurance entities	-	-	-	-	-	218 300	-	-	-	400 948	(619 248)						
Other operating revenue (without insurance entities)	-	-	-	-	-	3 090	-	-	-	6 002	634 404	(16 189)	(15 462)	-	(120 736)	491 109	Other operating revenue
Gross claims paid	(890 923)	(3 410 960)	(4 290 148)	(609 567)	-	-	(83 190)	(147 070)	(1 334 969)	-	(1 609 046)	-	1 157 463	6 323	16 810	(11 195 277)	Claims, benefits and change in technical provisions
Change in provision for claims outstanding (gross)	(1 959)	(761 742)	(9 526)	(17 034)	-	-	(5 417)	(359)	5 221	-	790 816						
Reinsurers' share in claims paid	112 577	154 450	164	-	-	-	2 516	10 829	-	-	(242 600)	-	-	-	(3 883)	34 053	Reinsurers' share in claims, benefits and change in technical provisions
Reinsurers' share in change in provisions for claims outstanding	(73 805)	(174 716)	-	-	-	-	5 199	(2 487)	-	-	245 809						
Claims net of reinsurance	(854 110)	(4 192 968)	(4 299 510)	(626 601)	-	-	(80 892)	(139 087)	(1 329 748)	-	(815 021)	-	1 157 463	6 323	12 927	(11 161 224)	**Net insurance claims and benefits**
Change in other technical provisions net of reinsurance, provision for unit-linked insurance, equalization provisions	(5 887)	(436)	(270 964)	(712 390)	-	-	-	-	172 272	-	817 405						
											-	-	(77 715)	-	-	(77 715)	Benefits and change in measurement of investment contracts
provisions for bonuses and rebates for the insured, including change in provisions	(298)	-	(523)	-	-	-	-	-	(4)	-	825						
Other technical charges, net of reinsurance	(47 428)	(261 850)	(108 433)	(12 924)	-	-	-	-	(4 683)	-	435 318						
Acquisition expenses	(300 302)	(1 141 493)	(322 765)	(109 519)	-	(16 776)	(62 446)	(67 137)	(18 318)	-	-	-	-	(126)	22 944	(2 015 938)	Acquisition expenses
Administrative expenses	(115 829)	(546 865)	(545 720)	(53 225)	-	(77 923)	(35 904)	(26 490)	(11 377)	-	-	1 131	-	(20 568)	26 290	(1 406 480)	Administrative expenses
Reinsurers' commissions and share in reinsurers' profit	8 022	66 967	501	-	-	-	-	-	-	-	(75 490)						
Non-insurance entities expenses	-	-	-	-	-	-	-	-	-	(369 897)	369 897						
Other operating expenses (without insurance entities)	-	-	-	-	-	(839)	-	-	-	(6 519)	(874 683)	(8 946)	-	84 583	100 805	(705 599)	Other operating expenses
Insurance result / Operating profit (loss)	391 481	1 067 271	1 603 421	139 857	4 858 981	137 432	15 703	943	11 277	95 552	18 402	(105 101)	-	70 212	(4 124 479)	4 180 952	**Operating profit (loss)**
Other operating revenue	65 131		14 763				796	3 613			(84 303)						
Other operating expenses	(58 067)		(50 159)				(874)	(4 075)			113 175						
Financial expense										(57 112)	(47 270)				42 718	(61 664)	Financial expense
																1 404	Share in net profit (loss) of entities measured using the equity method
																4 120 692	**Gross profit (loss)**
																(825 579)	Income tax
																3 295 113	**Net profit (loss)**

(in PLN '000)

Income statement for 1 January – 31 December 2012	Corporate insurance (non-life insurance)	Retail insurance (non-life insurance)	Group and individual continuation insurance (life insurance)	Individual insurance (life insurance)	Investment	Pension insurance	Ukraine (property and personal insurance)	Lithuania (property and personal insurance)	Investment contracts	Other activities	Presentation differences	Real property and investments	Investment contracts	Technical rate in life insurance	Prevention fund, equalization reserve and designation to Social Benefit Fund	Consolidation adjustments	Consolidated value	Income statement for 1 January – 31 December 2012
	PL GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP	UA GAAP	LT GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP - IFRS	PL GAAP - IFRS	PL GAAP - IFRS	PL GAAP - IFRS	IFRS	IFRS	
Gross written premium - external	1 837 619	6 613 586	6 364 007	1 089 970	-	-	142 228	195 721	1 859 439	-	-	-	(1 859 439)	-	-	-	16 243 131	Gross written premium - external
Gross written premium - cross-segment	2 293	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2 293)	-	Gross written premium - cross-segment
Gross written premium	1 839 912	6 613 586	6 364 007	1 089 970	-	-	142 228	195 721	1 859 439	-	-	-	(1 859 439)	-	-	(2 293)	16 243 131	
Reinsurer's share in written premium	(151 837)	(46 759)	(2 664)	(86)	-	-	(25 789)	(12 083)	-	-	-	-	-	-	-	1 942	(237 276)	Reinsurer's share in gross written premium
Net written premium	1 688 075	6 566 827	6 361 343	1 089 884	-	-	116 439	183 638	1 859 439	-	-	-	(1 859 439)	-	-	(351)	16 005 855	**Net written premium, including:**
Change in provisions for unearned premiums and unexpired risks	57 288	(59 721)	842	2 042	-	-	(13 142)	(11 103)	(705)	-	23 678	-	705	-	-	(499)	(615)	Change in net provision for unearned premium
Change in net provision for unearned premium	19 096	5 571	-	-	-	-	(287)	(702)	-	-	(23 678)	-	-	-	-	-	-	
Net earned premium	1 764 459	6 512 677	6 362 185	1 091 926	-	-	103 010	171 833	1 858 734	-	-	-	(1 858 734)	-	-	(850)	16 005 240	**Net earned premium**
											199 165	-	37 937	-	-	-	237 102	Revenue from commissions and fees
Net investment income, including:	127 357	537 003	955 194	346 956	2 760 743	13 273	17 741	9 890	191 383	1 550	(4 961 090)							
Net investment income (external transactions)	127 357	537 003	955 194	346 956	1 525 225	13 273	17 741	9 890	191 383	1 550	(3 725 572)							
Net investment income (cross-segment transactions)	-	-	-	-	1 235 518	-	-	-	-	-	(1 235 518)							
											2 040 830	-	-	-	-	6 224	2 047 054	*Net investment income (external transactions)*
											1 235 518	-	-	-	-	(1 235 518)	-	*Net investment income (cross-segment transactions)*
											385 556	104 163	-	-	-	31 549	521 268	Net profit or loss on realization and impairment loss on investments
											1 095 224	(64 008)	-	-	-	105 191	1 136 407	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance	16 054	78 071	3 434	12 426	-	-	-	-	15 937	-	(125 922)							
Revenue from non-insurance entities	-	-	-	-	-	199 165	-	-	-	386 018	(585 183)							
Other operating revenue (without insurance entities)	-	-	-	-	-	1 053	-	-	-	11 308	720 476	6 456	(15 937)	-	-	(135 328)	588 028	Other operating revenue
Gross claims paid	(952 143)	(3 575 950)	(4 230 510)	(614 035)	-	-	(55 163)	(108 293)	(3 186 844)	-	(1 257 170)	-	2 013 514	(401 872)	(5 040)	2 208	(12 371 298)	Claims, benefits and change in technical provisions
Change in provision for claims outstanding (gross)	(323 033)	(762 847)	86 511	9 255	-	-	(322)	(3 662)	1 813	-	992 285							
Reinsurers' share in claims paid	66 058	57 480	121	-	-	-	2 453	3 540	-	-	23 919	-	-	-	-	(1 004)	152 567	Reinsurers' share in claims, benefits and change in technical provisions
Reinsurers' share in change in provisions for claims outstanding	35 085	(17 661)	-	-	-	-	(842)	(3 238)	-	-	(13 344)							
Claims net of reinsurance	(1 174 033)	(4 298 978)	(4 143 878)	(604 780)	-	-	(53 874)	(111 653)	(3 185 031)	-	(254 310)	-	2 013 514	(401 872)	(5 040)	1 204	(12 218 731)	**Net insurance claims and benefits**
Change in other technical provisions net of reinsurance, provision for unit-linked insurance, equalization provisions	1 826	3 214	(848 700)	(594 055)	-	-	-	-	1 171 526	-	266 189							
											-	-	(176 780)	-	-	-	(176 780)	Benefits and change in measurement of investment contracts
provisions for bonuses and rebates for the insured, including change in provisions	2 550	97	(1 337)	-	-	-	-	-	(9)	-	(1 301)							
Other technical charges, net of reinsurance	(71 062)	(311 064)	(59 089)	(3 752)	-	-	-	-	(4 277)	-	449 244							
Acquisition expenses	(336 218)	(1 136 834)	(317 716)	(90 824)	-	(20 212)	(27 998)	(49 047)	(31 215)	-	-	10	-	-	-	9 703	(2 000 351)	Acquisition expenses
Administrative expenses	(107 687)	(568 609)	(578 417)	(53 383)	-	(92 967)	(28 450)	(18 861)	(15 978)	-	-	5 730	-	-	(20 000)	38 321	(1 440 301)	Administrative expenses
Reinsurers' commissions and share in reinsurers' profit	(5 715)	(15 929)	1 399	-	-	-	-	-	-	-	20 245							
Non-insurance entities expenses	-	-	-	-	-	-	-	-	-	(357 038)	357 038							
Other operating expenses (without insurance entities)	-	-	-	-	-	(1 863)	-	-	-	(7 367)	(701 104)	(3 977)	-	-	11 699	83 874	(618 738)	Other operating expenses
Insurance result / Operating profit (loss)	217 531	799 648	1 373 075	104 514	2 760 743	98 449	10 429	2 162	1 070	34 471	140 575	48 374	-	(401 872)	(13 341)	(1 095 630)	4 080 198	**Operating profit (loss)**
Other operating revenue	215 391		71 904				2 664	2 536			(292 495)							
Other operating expenses	(121 226)		(61 212)				(2 523)	(3 419)			188 380							
Financial expense										(5 030)	(36 460)						(41 490)	Financial expense
																	4 038 708	**Gross profit (loss)**
																	(784 882)	Income tax
																	3 253 826	**Net profit (loss)**

(in PLN '000)

2013	Poland	Baltics	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	16 014 074	262 289	203 640	-	16 480 003
Gross written premium - cross-segment	2 439	-	-	(2 439)	-
Revenue from commissions and fees	319 962	-	-	-	319 962
Net investment income (external transactions)	1 810 078	7 783	24 026	3 045	1 844 932
Net profit or loss on realization and impairment loss on investments (external transactions)	35 196	(1 905)	382	(8 628)	25 045
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	596 377	633	(20)	21 101	618 091
Non-current assets other than financial instruments [1)]	1 216 845	14 125	5 822	(785)	1 236 007
Deferred tax assets	15 351	-	1 598	-	16 949
Assets	62 087 723	415 708	259 963	(400 973)	62 362 421

[1)] Intangible assets and property, plant and equipment

2012	Poland	Baltics	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	15 905 182	195 721	142 228	-	16 243 131
Gross written premiums - cross-segment	827	-	-	(827)	-
Revenue from commissions and fees	237 102	-	-	-	237 102
Net investment income (external transactions)	2 024 286	6 168	14 091	2 509	2 047 054
Net profit or loss on realization and impairment loss on investments (external transactions)	524 150	927	(370)	(3 439)	521 268
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	1 129 777	2 795	-	3 835	1 136 407
Non-current assets other than financial instruments [1)]	1 159 760	10 625	6 717	(1 547)	1 175 555
Deferred tax assets	12 753	-	1 210	-	13 963
Assets	55 025 653	284 912	158 151	440 844	55 909 560

[1)] Intangible assets and property, plant and equipment

6. Risk management

6.1 Introduction

The purpose of risk management is to ensure that in realizing its business objectives, the PZU Group monitors and manages its investment and insurance portfolios and operating risks safely and handles the risk exposure adequately. The risk management strategy is an integral part of the management process in PZU and PZU Życie. The key elements of the risk management strategy:

- the system of limits and restrictions to acceptable risk level, including risk appetite, determined by the Management and Supervisory Board of PZU and PZU Życie and adequate Committees
- identification, measurement, evaluation, monitoring and reporting processes and management measures regarding each type of risk;
- risk management organizational structure, in which Supervisory and Management Boards of PZU and PZU Życie, as well as the Committee for Assets, Equity and Liabilities Management and the Credit Risk Committee (the "Committees") play the key role.

6.2 Description of the risk management system

The risk management system of the PZU Group is based on three components:

- organizational structure – including definition of the roles and responsibilities of individual entities and organizational units in the risk management process;
- operating with the use of risk hedging and transfer techniques with a view to adjusting the risk profile and risk appetite to strategic plans;
- risk identification, measurement, assessment, monitoring and reporting methods.

6.3 Organizational structure and accountability in risk management process

The risk management structure is based on four competence levels. The first three are as follows:

- Supervisory Boards which supervise the risk management process and make assessment of the adequacy and effectiveness of the process in accordance with the decisions in the By-laws of PZU and PZU Życie and the rules of Supervisory Boards;
- Management Boards which organize and ensure operation of the risk management system by endorsing strategies, policies, determining the risk appetite, profile and tolerance for each risk category;
- The Committees which make decisions on reducing individual risks to a level determined by the risk appetite. Committees establish procedures and methods for reduction of individual risks and they approve limits for individual types of risks.

The fourth competence level is in respect of the operating level where risk management tasks are divided into three lines of defence:

- First line of defense denotes day-to-day risk management at the level of individual entities and organizational units as well as decision making as part of the risk management process. Executives assume responsibility for implementation of an efficient risk management system in the area they oversee, specifically, for the design and effectiveness of risk identification and monitoring tasks as integral components of the processes carried out, ensuring appropriate response to emerging risks.
- Second line of defense denotes risk management by specialized units responsible for risk identification, monitoring and reporting as well as controlling limits.
- Third line of defense denotes the internal audit, whose tasks include independent control of the components of the risk management system and control activities embedded in the PZU Group's operations.

6.4 Risk appetite, risk profile and risk tolerance

Reflection of the PZU Group's strategic plans in its risk appetite, profile and tolerance ensures appropriateness and efficiency of the risk management system and prevents risk acceptance at a level which could pose a threat to the financial stability of the PZU Group companies.

The risk management strategy revised in 2013 defines the thresholds for the risk appetite, profile as well as risk tolerance limits, which result in active and conscious changes in the amount of risk assumed.

The risk appetite has been defined as the risk that the PZU Group is prepared to accept in pursuit of its business goals. The risk appetite level has been defined as the minimum level of the capital requirement coverage ratio.

The risk profile denotes quantitative limits which define in detail the risk appetite of the PZU Group companies.

Tolerance limits are additional limits introduced for individual risk types to mitigate the potential risk.

6.5 Risk identification, measurement, assessment, monitoring and reporting methods

The risk management process (risk identification, measurement, assessment, monitoring and reporting as well as the management activities) is covered by the internal control system, which ensures process compliance with internal and external regulations and enables its ongoing improvement and appropriateness for the business profile.

Identification

The risk identification process begins upon submission of a proposal for insurance product development, acquisition of a financial instrument, changes to the operating process and upon occurrence of any other event that could result in risk. It is continued until expiry of the liabilities, receivables or discontinuation of the related activities.

Risk identification consists of recognition of actual and potential sources of risk as well as estimating the materiality of the potential effect of such risk on the financial condition.

Measurement

All risks included in the risk catalogue are analyzed in terms of their materiality. Each risk considered material is subject to measurement, which includes definition of risk measures appropriate for the risk type and materiality as well as availability of data. Risk is measured by specialized units, whereas responsibility for development of tools and measurement of risk with a view to determining the risk appetite, profile and limits rests with the Risk Office ("RO").

Risk assessment

The overall risk assessment is reflected on the risk map prepared by the RO and being a systematized visualization of the risk exposure levels.

Monitoring

Risk monitoring and control consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values as well as recommendations and guidance issued, conducted by dedicated units. Additionally, monitoring includes risk measurement through its calculation and analysis.

Reporting

Reporting is a process which enables effective risk-related communication and supports risk management at different decision-making levels, from an individual employee to the Supervisory Board. Members of the Management Board in charge of individual business lines receive up-to-date (daily/weekly) reports presenting changes in specific areas which affect the risk level as well as the use of limits aimed at mitigating the market risk.

The governing bodies receive the following information on risk:

- Management Board – quarterly and monthly information concerning the level of insurance, market, credit, concentration and operational risk;
- ALCO members – weekly information concerning the level of market risk as well as up-to-date information on market limits exceeded;
- CRC members – weekly and monthly information on the level of market, credit and concentration risk as well as up-to-date information on market, credit and concentration limits exceeded.

The Supervisory Board receives quarterly information concerning the key ratios related to insurance, market, credit, concentration and operational risk.

Management activities

Management activities related to individual risk categories have been defined in internal regulations. Depending on the type and nature of risk, the aforesaid activities may include, in particular: risk avoidance, transfer, mitigation, risk level acceptance as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

6.6 Significant events in risk management in 2013

Organizational changes

The scope of organizational changes in PZU and PZU Życie included establishment of a new, separate Compliance Unit ("CU" – July 2013) in charge of compliance risk, which had previously been managed by the RO.

Revision of the Risk Management Strategy and individual risk management policies

In 2013, PZU and PZU Życie revised the following documents regulating risk management: the Risk Management Strategy, Insurance Risk Management Policy, Market Risk Management Policy, Credit and Concentration Risk Management Policy, Operational Risk Management Policy as well as technical methodologies which supplement the aforementioned documents.

Implementation of the risk map into the risk management process

The risk map is a tool used in the risk management process, in the form of a coordinate system. Each material risk emerging at PZU or PZU Życie is included in the system, based on the value of coordinates defining the frequency of an event on the vertical axis and the size of the risk on the horizontal axis.

Solvency II

IN 2012, PZU launched a strategic project in respect of adaptation of PZU to the requirements of Solvency II; the project has been progressing in accordance with the original schedule. PZU and PZU Życie cooperate with the Office of Financial Supervision Authority on preparation for implementation of the Directive. In particular, they take part in all the quantitative tests.

6.7 Risk profile

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

Risk management in PZU and PZU Życie is focused on identifying and managing of material risks occurring in individual business areas through sufficient limiting (risk appetite defining), monitoring and clear defining of obligations and accountabilities regarding risk management in the given area.

PZU and PZU Życie control individual types of risks both by quantity analysis (eg. model based risk quantification) and by quality. On this basis, PZU and PZU Życie determine their risk profile and exposure to individual risks.

Defining of individual risks

Insurance risk - a risk of a loss or an unfavorable change in the value of insurance liabilities, resulting from incorrect assumptions regarding measurement and recognition of provisions.

Market risk - a risk of a loss or an unfavorable change in the financial position, resulting directly or indirectly from changes in the level or volatility of market prices of assets, liabilities and financial instruments.

Credit risk - a risk of a loss or an unfavorable change in the financial position, resulting from changes in the creditworthiness of issuers of securities, business partners and any debtors.

Concentration risk – a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities, contractor or debtor.

Operating risk – a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

Compliance risk – a risk of legal sanctions, financial loss or loss of reputation or credibility resulting from failure to comply by the Company's employees or entities acting on its behalf with the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards.

6.7.1. Insurance risk (non-life and life insurance)

Insurance risk in PZU and PZU Życie includes:

- For non-life insurance (PZU):
  - ***premium risk*** – a risk of loss or unfavourable changes in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of insured events,
  - ***provision risk*** – a risk of loss or unfavourable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of claims paid and their amounts,
  - ***longevity risk*** - a risk of losses or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of the mortality rate if its decrease results in a rise in the value of insurance liabilities,
  - ***annuity revision risk*** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured,
  - ***risk related to costs incurred*** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management,
  - ***catastrophe risk*** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and creation of provisions for extreme or exceptional events.
- For life insurance (PZU Życie):
  - ***mortality risk –*** a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities,
  - ***longevity risk –*** a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,
  - ***disability risk –*** a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases,

- ***risk related to the incurred cost amount –*** a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred in relation to insurance or reinsurance contracts,
- ***risk related to contract withdrawal –*** a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators including withdrawal from contracts, termination or buyout of policies,
- ***catastrophe risk*** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and provisions for extreme or exceptional events.

PZU and PZU Życie manage their insurance risk using the following tools:

- calculation and monitoring of technical provisions adequacy,
- tariff strategy and monitoring of the current estimates and evaluation of premium adequacy,
- underwriting,
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU and PZU Życie manage their adequacy risk of technical provisions through application of appropriate calculation technology and control of processes related to determining of provisions. The provisioning policy is based on:

- prudent approach to determining technical provisions,
- continuity principle stating that the technical provisioning methodology should not be modified unless important circumstances justify such modification.

For non-life insurance (PZU), the level of technical provisions is evaluated once a month and in specific circumstances (making a payment, obtaining new information from liquidators or lawyers) their amount is updated. PZU uses history of development and payments per balance sheet year to analyze the technical provisions amount. The analysis results in assessment of precision of actuarial methods used by PZU.

For life insurance products (PZU Życie), public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. PZU Życie undertakes regular statistical analyses of claims frequency on the level of product group, insurance portfolio and pre-defined homogenous risk groups. These analyses allow determining relative frequency of claims compared to public statistics. Application of relevant statistical methods allows PZU Życie to determine materiality of data and where required, defining and applying appropriate security charges when creating technical provisions and measuring risk.

Estimating of technical provisions in PZU and PZU Życie is supervised by main actuaries. Additionally, each year an independent external expert calculates the provisions in order to check results provided by PZU or carries out valuation of PZU Życie life insurance portfolios within *Embedded Value* calculation.

Tariff strategy, monitoring of current estimates and premium adequacy assessment

The purpose of the tariff policy applied by PZU SA and PZU Życie SA is to ensure an adequate premium level, sufficient to cover the existing and future liabilities arising on concluded policies and expenses. Along with developing a tariff, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are regularly carried out for each insurance type based on various analyses and listings, including among others evaluation of the technical result on a product for a given reporting period. For selected products, profitability evaluation is carried out based on measurement of insurance portfolios under *embedded value* calculation. Frequency of analyses is adjusted to the size of product and possible result fluctuation. If the course of insurance is unfavorable, activities are undertaken to restore a defined profitability level, involving modification of premium tariffs or the insured risk profile through modifying of relevant provisions of general insurance terms.

(in PLN '000)

Underwriting

As regards corporate customers and SME, a separate underwriting process independent from the sales function is carried out. The process of selling insurance for corporate clients is preceded with analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system depending on competency scopes and limits granted (Regional Branch Sales Team, Regional Branch Underwriting Team, Head Office).

Reinsurance

The objective of the reinsurance program in PZU is to secure its core business by mitigation of catastrophic risk that may negatively impact the financial standing of the PZU. The task is performed in the form of concluding obligatory reinsurance contracts with additional facultative reinsurance.

Concluded reinsurance contracts mitigate the risk of PZU – among others by a non-proportional reinsurance contract that protects the portfolio of PZU from catastrophic claims (such as floods or hurricanes), non-proportional reinsurance contracts protecting property, technical, marine transport and aviation TPL and MTPL insurance portfolios from effects of large individual claims. Additionally, a proportional reinsurance contract protects the financial insurance portfolio of PZU.

The Company has developed its own catastrophic claims model. The results of the model, as well as those produced by third party models, are used to optimize the reinsurance program in terms of protection against catastrophic claims.

Outward reinsurance contracts concluded by PZU Życie protect its portfolio from accumulation of risks (a catastrophic contract), as well as individual policies with higher sums insured and the group portfolio covering effects of serious illness of a child.

6.7.1.1. Exposure to insurance risk in non-life products

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

Ratio	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Expense ratio	25.94%	26.86%
Claims ratio net of reinsurance	61.90%	65.77%
Reinsurer's retention ratio	2.93%	2.67%
Mixed ratio	87.84%	92.63%

The expense ratio is calculated by dividing the total acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits by the net premiums earned.

The claims ratio net of reinsurance is calculated by dividing claims and the net change in technical provisions by the net premiums earned.

The reinsurer's retention ratio is calculated by dividing a reinsurer's share in gross written premiums by the gross written premiums.

Combined ratio is defined as the ratio of the total of acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits, claims and changes in the status of net technical provisions to the net earned premiums.

The following tables present development of technical provisions and payments in subsequent reporting periods (in PLN million).

Claims development in direct property and personal insurance, gross (by reporting year)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Provision at the end of the reporting year	7 247	7 458	7 541	7 898	8 293	8 699	9 381	9 870	10 989	11 783
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)										
- calculated a year later	6 868	6 916	7 300	7 698	8 382	8 561	9 681	10 298	11 286	
- calculated two years later	6 387	6 815	7 287	7 833	8 410	8 856	10 192	10 753		
- calculated three years later	6 355	7 014	7 437	7 852	8 758	9 346	10 719			
- calculated four years later	6 560	7 113	7 443	8 141	9 215	9 874				
- calculated five years later	6 659	7 120	7 661	8 600	9 724					
- calculated six years later	6 700	7 307	8 103	9 077						
- calculated seven years later	6 868	7 703	8 523							
- calculated eight years later	7 228	8 058								
- calculated nine years later	7 536									
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	7 536	8 058	8 523	9 077	9 724	9 874	10 719	10 753	11 286	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	3 579	3 727	3 734	3 769	3 794	3 293	3 395	2 457	1 665	
Provision recognized in the statement of financial position	3 957	4 331	4 789	5 308	5 930	6 581	7 324	8 296	9 621	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(289)	(600)	(982)	(1 179)	(1 431)	(1 175)	(1 338)	(883)	(297)	
The above difference as a percentage of the first year provision	-4%	-8%	-13%	-15%	-17%	-14%	-14%	-9%	-3%	

(in PLN mln)

Claims development in direct property and personal insurance, gross (by reporting year)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Provision at the end of the reporting year	5 980	6 246	6 356	6 916	7 433	7 973	8 639	9 305	10 413	11 453
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)										
- calculated a year later	5 630	5 651	6 146	6 791	7 568	7 844	8 838	9 731	10 722	
- calculated two years later	5 175	5 605	6 202	6 969	7 598	8 092	9 345	10 185		
- calculated three years later	5 200	5 839	6 396	6 991	7 910	8 558	9 873			
- calculated four years later	5 405	5 979	6 405	7 246	8 344	9 106				
- calculated five years later	5 529	5 984	6 589	7 683	8 875					
- calculated six years later	5 568	6 146	7 009	8 189						
- calculated seven years later	5 712	6 515	7 458							
- calculated eight years later	6 050	6 882								
- calculated nine years later	6 380									
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	6 380	6 882	7 458	8 189	8 875	9 106	9 873	10 185	10 722	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	2 607	2 737	2 856	3 069	3 142	2 733	2 788	2 137	1 391	
Provision recognized in the statement of financial position	3 773	4 145	4 602	5 120	5 733	6 373	7 085	8 048	9 331	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(400)	(636)	(1 102)	(1 273)	(1 442)	(1 133)	(1 234)	(880)	(309)	
The above difference as a percentage of the first year provision	-7%	-10%	-17%	-18%	-19%	-14%	-14%	-9%	-3%	

(in PLN '000)

Motor insurance products (MTPL and casco insurance) account for the major part of PZU portfolio. Both types of policies are usually concluded for a year, during which a claim must occur to be covered. The casco insurance policy is based on claim-made principle, so there is no uncertainty, unlike MTPL, which is an occurrence policy (up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

For each branch, a percentage share of flood and hurricane claims paid was calculated in the accumulated amount of claims paid in the years when catastrophes (floor or hurricane) occurred, based on individual data for each property group. Depending upon the share size, branches were classified into three categories. Next, for each branch, relevant sum insured and number of policies was defined and grouped in line with the assumed classification, thus arriving at flood and hurricane risk concentration for non-life products.

Risk concentration in non-life insurance: flood claims exposure

Risk concentration in non-life insurance: flood claims exposure by level as at 31 December 2013		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	2.3%	2.8%	1.3%	0.7%	8.2%	**15.3%**
	Number of policies	11.0%	2.7%	0.6%	0.2%	0.2%	**14.7%**
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	3.1%	3.8%	1.7%	1.1%	9.4%	**19.1%**
	Number of policies	15.5%	3.7%	0.8%	0.2%	0.3%	**20.5%**
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	9.9%	14.5%	5.3%	2.7%	33.2%	**65.6%**
	Number of policies	47.2%	14.1%	2.4%	0.6%	0.5%	**64.8%**
Total	**Sum insured**	**15.3%**	**21.1%**	**8.3%**	**4.5%**	**50.8%**	**100.0%**
	Number of policies	**73.7%**	**20.5%**	**3.8%**	**1.0%**	**1.0%**	**100.0%**

Risk concentration in non-life insurance: flood claims exposure by level as at 31 December 2012		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	3.6%	4.0%	1.8%	1.2%	10.9%	**21.5%**
	Number of policies	18.1%	4.0%	0.8%	0.2%	0.3%	**23.4%**
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	2.8%	3.2%	1.5%	1.0%	9.0%	**17.5%**
	Number of policies	14.7%	3.2%	0.7%	0.2%	0.2%	**19.0%**
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	8.7%	12.2%	4.4%	2.3%	33.4%	**61.0%**
	Number of policies	42.4%	12.1%	2.0%	0.5%	0.6%	**57.6%**
Total	**Sum insured**	**15.1%**	**19.4%**	**7.7%**	**4.5%**	**53.3%**	**100.0%**
	Number of policies	**75.2%**	**19.3%**	**3.5%**	**0.9%**	**1.1%**	**100.0%**

(in PLN '000)

Risk concentration in property and personal insurance: hurricane claims exposure

Risk concentration in non-life insurance: hurricane claims exposure by level as at 31 December 2013		Sum insured					
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	7.9%	11.6%	4.6%	2.3%	26.4%	**52.8%**
	Number of policies	38.1%	11.2%	2.1%	0.5%	0.5%	**52.4%**
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	6.4%	7.9%	3.1%	1.9%	18.8%	**38.1%**
	Number of policies	30.4%	7.8%	1.4%	0.4%	0.4%	**40.4%**
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	1.0%	1.5%	0.6%	0.4%	5.6%	**9.1%**
	Number of policies	5.3%	1.4%	0.3%	0.1%	0.1%	**7.2%**
Total	**Sum insured**	**15.3%**	**21,0%**	**8.3%**	**4.6%**	**50.8%**	**100.0%**
	Number of policies	**73.8%**	**20.4%**	**3.8%**	**1.0%**	**1.0%**	**100.0%**

Risk concentration in non-life insurance: hurricane claims exposure by level as at 31 December 2012		Sum insured					
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	12.3%	16.3%	6.7%	3.8%	47.7%	**86.8%**
	Number of policies	61.9%	16.0%	3.0%	0.8%	0.9%	**82.6%**
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	1.0%	1.2%	0.4%	0.2%	3.0%	**5.8%**
	Number of policies	4.8%	1.2%	0.2%	0.1%	0.1%	**6.4%**
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	1.9%	1.9%	0.6%	0.4%	2.6%	**7.4%**
	Number of policies	8.5%	2.0%	0.3%	0.1%	0.1%	**11.0%**
Total	**Sum insured**	**15.2%**	**19.4%**	**7.7%**	**4.4%**	**53.3%**	**100.0%**
	Number of policies	**75.2%**	**19.2%**	**3.5%**	**1.0%**	**1.1%**	**100.0%**

Risk concentration in non-life insurance: non-motor TPL

Risk concentration in property and casualty non-motor TPL insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premium in non-life insurance – TPL as at 31 December 2013	Sum insured					
	PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
General TPL in personal life and other	16.1%	3.3%	2.4%	2.9%	14.2%	**38.9%**
Medical TPL	0.6%	1.0%	1.2%	6.2%	31.9%	**40.9%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.7%	3.0%	1.3%	1.2%	3.4%	**14.6%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	5.3%	0.0%	**5.3%**
Product TPL	0.1%	0.0%	0.1%	0.0%	0.1%	**0.3%**
Total	**22.5%**	**7.3%**	**5.0%**	**15.6%**	**49.6%**	**100.0%**

Gross written premium in non-life insurance – TPL as at 31 December 2012	Sum insured					
	PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
General TPL in personal life and other	15.2%	3.4%	2.4%	2.7%	17.5%	**41.2%**
Medical TPL	0.8%	1.6%	1.4%	5.9%	21.6%	**31.3%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	13.2%	2.9%	1.2%	1.2%	3.6%	**22.1%**
TPL of farmers and their movable property	0.0%	5.0%	0.0%	0.1%	0.0%	**5.1%**
Product TPL	0.0%	0.0%	0.1%	0.0%	0.2%	**0.3%**
Total	**29.2%**	**12.9%**	**5.1%**	**9.9%**	**42.9%**	**100.0%**

Sensitivity analysis

Capitalized annuity amount

Presented below is an analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions used while calculating the provision for capitalized value of annuity claims. The analysis does not present the effect of changes in the measurement of investments on the net financial profit/loss or equity, which are taken into consideration while determining the value of the provision.

Change in the assumptions for the provision for gross capitalized annuity amount in non-life insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – rise by 0.5 p.p.	422	415	422	415
Technical interest rate – drop by 1.0 p.p.	(1 092)	(1 076)	(1 092)	(1 076)
Mortality – 110% of the currently assumed level	130	125	130	125
Mortality – 90% of the currently assumed level	(145)	(140)	(145)	(140)

Change in the assumptions for the provision for capitalized annuity amount net of reinsurance in non-life insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – rise by 0.5 p.p.	411	397	411	397
Technical interest rate – drop by 1.0 p.p.	(1 064)	(1 028)	(1 064)	(1 028)
Mortality – 110% of the currently assumed level	126	119	126	119
Mortality – 90% of the currently assumed level	(141)	(133)	(141)	(133)

6.7.1.2. Exposure to insurance risk in life products

Risk concentration in this class is related to the concentration of contracts or sums insured. For traditional individual insurance products, where risk of concentration is related to occurrence probability of the covered event or to potential claims amounts arising on a single event, risk assessment is based on case by case approach referring both to medical risk and – in justified cases – financial risk evaluation. Such an approach allows selection of risks (evaluation of an individual concluding an insurance contract) and defining of the maximum acceptable risk level.

In group products, concentration risk occurrence is limited by the contract portfolio size, which allows significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract, under which all the insured have the same sum insured and coverage is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In case of group insurance contracts, allowing adjusting of coverage on the level of each group contract, a simplified risk assessment is applied based on information about the industry of a given employer, having assumed relevant participation limits for the insured compared to the total employment. In such cases, premium and charges are based on statistical analyses carried out by PZU Życie in relation to frequency of claims on the level of defined homogenous risk classes, including relativel frequency of events compared to public statistics.

Please note that for most contracts offered by PZU Życie, the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Sensitivity analysis

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio (PLN million)	**Effect of change in the assumptions on the net financial profit/loss**		**Effect of change in the assumptions on equity**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Technical interest rate – drop by 1.0 p.p.	(36)	(38)	(36)	(38)
Mortality – 90% of the currently assumed level	(13)	(13)	(13)	(13)

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

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products (PLN million)	**Effect of change in the assumptions on the net financial profit/loss**		**Effect of change in the assumptions on equity**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Technical interest rate – drop by 1 p.p.	(2 221)	(2 296)	(2 221)	(2 296)
Mortality – 110% of the currently assumed level	(937)	(954)	(937)	(954)
110% of incidence proportion	(195)	(199)	(195)	(199)

Effects of clients' withdrawing from life insurance products

Calculation of technical provisions for life insurance does not include the risk of the insureds' withdrawal. Below please find the effects of hypothetical withdrawal of 10% of total insureds with life insurance products in PZU Życie.

Financial statements item (PLN million)	**31 December 2013**	**31 December 2012**
Change in technical provisions	2 026	1 926
Claims paid	(726)	(648)
Change in deferred acquisition costs	(6)	(6)
Gross financial profit/loss	1 294	1 272
Net financial profit/loss	1 048	1 031
Equity	1 048	1 031

6.7.2. Market risk

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

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

(in PLN '000)

The organization in charge of the market risk management uses a process which comprises risk identification, its measurement, monitoring, reporting and management actions. *Funds investment principles* approved by the Supervisory Board (PZU and PZU Życie) are the basis for all investment activities. Detailed standards and principles of market risk management are defined in *internal investment regulations, Market risk management policy, Market risk management strategy, Investment objectives and guidelines* and *Additional mitigation of market risk.*

Based on the *Investment objectives and guidelines* and *Additional mitigation of market risk*, approved by ALCO, PZU AM manages the AA portfolios of PZU SA and PZU Życie SA.

Apart from the portfolios managed by TFI PZU, the market risk at PZU and PZU Życie is also managed at the Treasurer's Office and the Structured Investment Office. The former manages the portfolios of debt securities (ALM portfolio) in order to match the maturity and amount of liabilities. The latter manages long-term stake in quoted shares and invests in structured debt.

Risk Office (RO) takes part in risk identification process, performs ongoing control of investment risk assessment. Market risk is measured by the RO using the Value at Risk method (VaR). The value at risk for the market risk is calculated using an internal model. The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. Risk measurement complies with the requirements laid down in the Solvency II Directive. In order to effectively manage market risk, limits in the form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined. The acceptable levels of market risk are defined by the Management Boards of PZU and PZU Życie and ALCO in the form of general exposure limits.

Market risk exposure

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

Carrying amount as at 31 December 2013	**Risk covering assets of the Group**	**Unit-linked assets**	**Total**
Financial assets exposed to interest rate risk	**47 316 890**	**1 630 915**	**48 947 805**
- Fixed interest debt securities	30 085 343	1 450 292	31 535 635
- Floating interest debt securities	4 521 641	99 512	4 621 153
- Term deposits with credit institutions	7 305 896	81 111	7 387 007
- Loans	1 722 208	-	1 722 208
- Cash	548 266	-	548 266
- Buy-sell-back transactions	2 918 343	-	2 918 343
- Derivatives	215 193	-	215 193
Financial assets exposed to other price risk	**3 156 865**	**3 129 095**	**6 285 960**
- Shares listed on a regulated market	2 804 970	576 046	3 381 016
- Participation units and certificates in investment funds	307 081	2 553 049	2 860 130
- Derivatives	44 814	-	44 814
Total	**50 473 755**	**4 760 010**	**55 233 765**

Carrying amount as at 31 December 2012	**Risk covering assets of the Group**	**Unit-linked assets**	**Total**
Financial assets exposed to interest rate risk	**42 419 221**	**1 792 673**	**44 211 894**
- Fixed interest debt securities	29 583 008	1 381 922	30 964 930
- Floating interest debt securities	4 888 157	76 512	4 964 669
- Term deposits with credit institutions	4 405 653	110 521	4 516 174
- Loans	1 021 121	-	1 021 121
- Cash	136 586	-	136 586
- Buy-sell-back transactions	2 242 439	223 718	2 466 157
- Derivatives	142 257	-	142 257
Financial assets exposed to other price risk	**3 689 918**	**2 533 000**	**6 222 918**

(in PLN '000)

- Shares listed on a regulated market	1 862 359	541 282	2 403 641
- Participation units and certificates in investment funds	1 805 746	1 991 718	3 797 464
- Derivatives	21 813	-	21 813
Total	**46 109 139**	**4 325 673**	**50 434 812**

In its investing activities the PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks. In 2013 and 2012, the Company's derivatives comprised interest rate and FX swaps and forwards, stock index futures and bond futures. The table below presents the PZU Group's derivatives as at 31 December 2013 and 31 December 2012.

All the derivatives held by the PZU Group are classified as financial instruments held for trading.

Interest rate derivatives	**Base amount by maturity at 31 December 2013**					**Assets at fair value as at 31 December 2013**	**Liabilities at fair value as at 31 December 2013**
	Up to 3 months	**Over 3 months and up to 1 year**	**Over 1 year and up to 5 years**	**Over 5 years**	**Total**		
OTC including:	-	7 556 300	32 931 873	9 334 465	49 822 638	215 193	237 117
- FRA transactions	-	300 000	2 250 000	-	2 550 000	1 142	1 986
- SWAP transactions	-	7 256 300	30 681 873	9 334 465	47 272 638	214 051	235 131
Interest rate derivatives total	**-**	**7 556 300**	**32 931 873**	**9 334 465**	**49 822 638**	**215 193**	**237 117**

Interest rate derivatives	**Base amount by maturity at 31 December 2012**					**Assets at fair value as at 31 December 2012**	**Liabilities at fair value as at 31 December 2012**
	Up to 3 months	**Over 3 months and up to 1 year**	**Over 1 year and up to 5 years**	**Over 5 years**	**Total**		
OTC including:	3 671 220	2 014 407	16 151 261	1 489 867	23 326 755	142 257	123 389
- FRA transactions	1 250 000	1 000 000	8 176 400	-	10 426 400	22 260	1 128
- SWAP transactions	2 421 220	1 014 407	7 974 861	1 489 867	12 900 355	119 997	122 261
Interest rate derivatives total	**3 671 220**	**2 014 407**	**16 151 261**	**1 489 867**	**23 326 755**	**142 257**	**123 389**

Derivatives linked to currency exchange rates	**Base amount by maturity at 31 December 2013**					**Assets at fair value as at 31 December 2013**	**Liabilities at fair value as at 31 December 2013**
	Up to 3 months	**Over 3 months and up to 1 year**	**Over 1 year and up to 5 years**	**Over 5 years**	**Total**		
OTC including:	1 504 938	344 873	-	-	1 849 811	22 456	632
- FRA transactions	340 136	344 873	-	-	685 009	5 556	-
- SWAP transactions	1 164 802	-	-	-	1 164 802	16 900	632
Total derivatives linked to currency exchange rates	**1 504 938**	**344 873**	**-**	**-**	**1 849 811**	**22 456**	**632**

(in PLN '000)

Derivatives linked to currency exchange rates	Base amount by maturity at 31 December 2012					Assets at fair value as at 31 December 2012	Liabilities at fair value as at 31 December 2012
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC including:	1 473 145	8 636	-	-	1 481 781	9 284	6 532
- FRA transactions	332 281	-	-	-	332 281	310	2 598
- SWAP transactions	1 140 864	8 636	-	-	1 149 500	8 974	3 934
Total derivatives linked to currency exchange rates	**1 473 145**	**8 636**	**-**	**-**	**1 481 781**	**9 284**	**6 532**

Security price derivatives	Base amount by maturity at 31 December 2013					Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on a regulated market including:	530 634	-	-	-	530 634	5 080	-
- futures	530 634	-	-	-	530 634	5 080	-
OTC including:	41 994	73 032	384 894	-	499 920	17 278	-
- call options	26 234	73 032	384 894	-	484 160	17 034	-
- forward transactions	15 760	-	-	-	15 760	244	-
Security price derivatives total	**572 628**	**73 032**	**384 894**	**-**	**1 030 554**	**22 358**	**-**

Security price derivatives	Base amount by maturity at 31 December 2012					Assets at fair value as at 31 December 2012	Liabilities at fair value as at 31 December 2012
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments including:	-	76 727	264 763	-	341 490	12 529	-
- call options	-	76 727	264 763	-	341 490	12 529	-
Security price derivatives total	**-**	**76 727**	**264 763**	**-**	**341 490**	**12 529**	**-**

Risk concentration

Exposure to treasury securities issued by State Treasury of Poland – as at 31 December 2013, exposure of PZU Group to treasury securities issued by Polish State Treasury along with contingent transactions on those securities amounted to PLN 32,667 million (PLN 32,399 million as at 31 December 2012), accounting for 59.7% of the total financial assets (64.3% as at 31 December 2012).

PZU Group's exposure to WSE-listed stock - as at 31 December 2013, the Group's exposure to stock listed at WSE amounted to PLN 3,007 million (PLN 2,401 million as at 31 December 2012), which accounted for 5.5%

of the financial assets value (4.8% as at 31 December 2012) and 99.8% of exposure in listed equity instruments (99.9% as at 31 December 2012).

Exposure to assets of PKO BP SA - exposure to assets of a single bank was the highest for PKO BP SA. As at 31 December 2013 total exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,341 million (PLN 2,134 million as at 31 December 2012).

General exposure to bank deposits, debt securities issued by banks, their shares and derivatives amounted to PLN 10,153 million (PLN 9,199 million as at 31 December 2012), which accounted for 18.6% of financial deposits value (18.2% as at 31 December 2012).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 93.9% of total financial assets as 31 December 2013 (95.7% as at 31 December 2012).

Unit-linked insurance and investment contract portfolio as at 31 December 2013 amounted to 8.7% of the total financial assets of the PZU Group (8,2% as at 31 December 2012).

6.7.2.1. Interest rate risk

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 b.p.	433	464	315	360
Market interest rate increase by 100 b.p.	(403)	(435)	(295)	(337)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance and investment contract liabilities. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 6.7.1.

6.7.2.2. FX risk

Degree of risk exposure

Information regarding exposure to FX risk by class of financial instruments is presented in item 14.

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	19	83	83	140
20% decrease in FX to PLN rates	(19)	(83)	(83)	(140)

Financial assets exposed to FX risk include deposit transactions and debt securities that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE, participation units and investment certificates of investment funds, to derivatives denominated in foreign currencies, as well as financial assets of Lithuanian and Ukrainian companies included in consolidation.

6.7.2.3. Other price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in items 14.2 and 14.3, respectively.

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group. Disclosed figures regard effect of change in prices of equity instruments.

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Increase in measurement of listed equity instruments by 20%	396	456	234	304
Decrease in measurement of listed equity instruments by 20%	(396)	(456)	(234)	(304)

6.7.3. Credit risk

Exposure to credit risk in PZU and PZU Życie arises directly from investment, financial insurance and guarantee, reinsurance and bancassurance related activities. Three types of credit risk exposure occur in PZU and PZU Życie:

- bankruptcy of an issuer of instruments (e.g. corporate bonds) in which PZU and PZU Życie invest, or which they trade, eg. corporate bonds,
- risk of a PZU and PZU Życie contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities,
- risk of a PZU client's failure to meet its obligations to a third party, e.g. insurance of financial receivables, insurance guarantees.

Investment activity

Principles of managing credit risk resulting from investment activity have been defined in *Regulations of investment activity, Credit and concentration risk management policy and Credit risk management strategy* as well as in *Methods of assigning internal ratings to banks, Methods of assigning internal ratings to the issuers of corporate bonds, Methods of assigning internal ratings to the issuers of municipal bonds.*

Credit and concentration risk limits are set by Credit Risk Committee.

Limits for banks and other issuers of debt securities are determined based on the exposure. BRY gives an opinion for every limit application, before the acceptance. When determining the limits, the total exposure of PZU and PZU Życie is taken into account for the Investment Division of PZU and PZU Życie. The limits are exposure limits with respect to a single entity and/or capital group (both credit limits and concentration limits). Subsequently, Member of the Management Board in charge of the Investment Division and Member of the Management Board in charge of the RU allocate the limits to individual units within the structure of the Investment Division. The utilization of limits both with respect to the credit risk limits and the concentration risk limits is controlled by RO. An entity in which the excess occurred or the Management Board of the company is informed about the excess. Following such information, the entity is obliged to prepare and present a plan to lower the stake.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type) derived from quality and quantity analysis. Ratings provide a basis for limit-setting. The ratings are updated for credit quality monitoring purposes.

Degree of risk exposure

The following table presents credit risk exposure of assets charged with credit risk in individual Fitch classes (in absence of these, Standard&Poors or Moody`s standards have been applied). The exposure to credit risk relating to repo transactions has been presented as an exposure towards the issuer.

Reports presenting assets exposed to credit risk does not include receivables, including receivables from investment contracts due to high dispersal of those assets, resulting among others in significant share of receivables from small enterprises and retail clients who do not have ratings.

(in PLN '000)

Assets exposed to credit risk as at 31 December 2013	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt securities	128 757	7 648	31 702 962	1 927 331	703 453	136 832	1 549 805	36 156 788
- held to maturity	-	-	18 604 202	165 926	12 913	76 861	-	18 859 902
- available for sale	126 939	-	1 117 344	22 909	243 965	-	-	1 511 157
- valued at fair value	-	658	11 148 733	535 203	404 791	57 647	1 549 805	13 696 837
- loans	1 818	6 990	832 683	1 203 293	41 784	2 324	-	2 088 892
Bank deposits and repo transactions involving treasury securities	26 854	43 956	4 452 000	4 070 651	1 605 745	25 033	81 111	10 305 350
Other loans	-	-	675 770	305 164	95 142	646 132	-	1 722 208
Derivatives	22 114	21 834	136 028	40 759	-	39 272		260 007
Reinsurers' share in net claims provisions	-	125 409	125 504	16 666	-	48 976	-	316 555
Deposits with ceding undertakings	-	87	-	-	-	-	-	87
Receivables from reinsurance	-	751	3 938	655	-	13 484	-	18 828
Total	**177 725**	**199 685**	**37 096 202**	**6 361 226**	**2 404 340**	**909 729**	**1 630 916**	**48 779 823**

Assets exposed to credit risk as at 31 December 2012	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt securities	60 901	23 965	31 965 124	1 765 248	567 346	88 581	1 458 434	35 929 599
- held to maturity	-	-	20 856 351	253 464	7 744	-	-	21 117 559
- available for sole	59 000	-	1 637 211	56 805	245 000	-	-	1 998 016
- valued at fair value	-	-	8 656 044	636 110	314 602	-	1 458 434	11 065 190
- loans	1 901	23 965	815 518	818 869	-	88 581	-	1 748 834
Bank deposits and repo transactions involving treasury securities	14 862	55 309	4 281 661	1 837 300	314 945	144 015	334 239	6 982 331
Mortgage loans	-	-	-	-	-	26 848	-	26 848
Other loans	23	528	2 147	51	-	991 524	-	994 273
Derivatives	-	5 948	56 605	84 700	4 573	12 244	-	164 070
Reinsurers' share in net claims provisions	-	158 969	317 286	24 620	-	57 589	-	558 464
Deposits with ceding undertakings	-	329	-	-	-	-	-	329
Receivables from reinsurance	-	5 337	4 872	1 093	-	3 797	-	15 099
Total	**75 786**	**250 385**	**36 627 695**	**3 713 012**	**886 864**	**1 324 598**	**1 792 673**	**44 671 013**

(in PLN '000)

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

Standard&Poor's ratings	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating** [1)]
Ratio (%) for 2013	0.76	0.88	1.65	4.59	15.09	27.84
Ratio (%) for 2012	0.78	0.86	1.77	4.88	15.59	28.70

[1)] For exposure to mortgage loans without a rating, 2% ratio has been applied, which represents the ratio for the lowest investment rating BBB+.

The credit risk, to which the PZU Group was exposed as at 31 December 2012 amounted to PLN 1,523,259 thousand (PLN 1,343,503 thousand as at 31 December 2012; had ratios of 31 December 2013 been used, the risk would amount to PLN 1,273,222 thousand).

Financial insurance and guarantees

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees in accordance with the Civil Code) results from the risk that a client defaults under an agreement with a third party.

As regards risks assumed by the Company, the risk appetite is determined by the Credit Risk Committee, which approves the threshold exposure to credit risk by exposure type, portfolio, product lines, local PZU offices as well as individual risks and the capital group.

The risk monitoring function, independent from the sales function, operates at three levels. The first one applies to underwriting. The second is the portfolio level, for which the Financial Insurance Office is responsible. The Financial Insurance Office conducts an analysis of changes in the exposure value and claims related to the portfolio in terms of their value and volumes as well as analyses of concentration and exposure to one entity and capital group. The Risk Office receives information about the risk exposure in the portfolio to ensure adequate monitoring of the overall exposure on the Company level.The Credit Risk Committee is the third level.

The Financial Insurance Office is responsible for monitoring credit risk on an ongoing basis. Risk is managed at the level of the portfolio, product and at the individual level.

Degree of risk exposure

As at 31 December 2013, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,410 million (PLN 2,786 million as at 31 December 2012).

Reinsurance (from the credit risk perspective of the reinsurer)

With the objective to reduce the liabilities arising from the core business of PZU and PZU Życie, the Companies enter into proportional and non-proportional reinsurance contracts. The aforementioned activities are exposed to credit risk arising from reinsurers' default on their obligations.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources e.g. S&P as well as using an internal model. The model divides reinsurers into several classes, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyses are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried.

(in PLN '000)

The tables below present the credit risk of reinsurers being parties to transactions concluded by the PZU Group companies.

Reinsurer	**Reinsurers' share in (net) technical provisions as at 31 December 2013**	**Rating assigned by Standard&Poor's as at 31 December 2013**
Reinsurer 1	59 295	AA-
Reinsurer 2	36 135	AA-
Reinsurer 3	35 419	no rating
Reinsurer 4	27 678	AA-
Reinsurer 5	24 579	AA-
Reinsurer 6	18 445	A+
Reinsurer 7	17 141	BBB+
Reinsurer 8	14 669	A+
Reinsurer 9	13 979	no rating
Reinsurer 10	13 465	no rating
Reinsurer 11	13 099	AA-
Reinsurer 12	10 412	A+
Reinsurer 13	9 483	AA+
Reinsurer 14	8 499	no rating
Reinsurer 15	7 223	no rating
Reinsurer 16	6 830	A
Other [1)]	210 254	
Total	**526 605**	

[1)] "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

Reinsurer	**Reinsurers' share in (net) technical provisions as at 31 December 2012**	**Rating assigned by Standard&Poor's as at 31 December 2012**
Reinsurer 17	184 816	A+
Reinsurer 1	56 600	AA-
Reinsurer 5	57 326	AA-
Reinsurer 2	40 812	AA-
Reinsurer 8	24 332	A+
Reinsurer 4	23 072	AA-
Reinsurer 6	17 726	A+
Reinsurer 7	19 780	BBB+
Reinsurer 9	12 622	no rating
Reinsurer 10	10 644	no rating
Reinsurer 18	10 612	A
Reinsurer 19	10 156	A+
Reinsurer 20	9 406	A+
Reinsurer 13	8 893	AA+
Reinsurer 14	8 327	no rating
Reinsurer 3	8 290	no rating
Other [1)]	245 920	
Total	**749 334**	

[1)] "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

6.7.4. Liquidity risk

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

Financial liquidity risk of PZU and PZU Życie may result from three types of events:

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

In the liquidity risk management process, PZU and PZU Życie control liquidity in the short, medium and long term.

As regards **short-term liquidity** risk management, the balance of funds in the liquidity and currency portfolios of PZU and PZU Życie is not greater than the limit defined. Moreover, both Companies have access to sell-buy-back transactions to manage the liquidity. As regards **medium-term liquidity** management, PZU and PZU Życie hold adequate liquid investment portfolios. As regards **long-term liquidity management** and structural mismatch between the maturity of assets and liabilities, PZU and PZU Życie apply Asset Liability Management (ALM), i.e. matching of the structure of financial investments which cover technical provisions to the nature of such provisions. Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavourable economic conditions.The level of liquidity risk at PZU and PZU Życie is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyses, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

Degree of risk exposure

Future cash flows resulting from assets used as coverage of technical provisions have been presented as the nominal value of the projected future cash flows corresponding to the periods in which such cash flows are expected. As regards debt securities, loans and term deposits, all cash flows which are expected to occur by the date of redemption of such securities, withdrawal of investments or repayment of loans have been taken into consideration. Shares and participation units have been presented in the periods of their expected disposal or redemption.

Non-life insurance

The table below presents the match between cash flows related to technical provisions in non-life insurance and the assets used as their coverage.

Item	Projected cash flows (in PLN million)				
	up to 3 months	**over 3 months and up to 6 months**	**over 6 months and up to 1 year**	**over 1 year and up to 5 years**	**over 5 years**
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	**(1 279)**	**(993)**	**(1 502)**	**(4 492)**	**(10 712)**
I. Outflows	(1 288)	(1 000)	(1 510)	(4 521)	(10 791)
II. Inflows	9	7	8	29	79
B. Inflows from assets covering technical provisions	**2 072**	**1 037**	**1 544**	**4 544**	**12 436**
I. Future inflows whose value is known as at the end of reporting year	2 072	819	273	4 163	5 545
- Treasury bonds	1 299	719	194	3 312	5 422
- Treasury bills	-	-	-	-	-
- Other debt securities	8	9	6	522	87
- Term deposits with credit institutions	259	7	-	-	-
- Loans	2	2	3	197	-
- Receivables	500	38	20	10	-
- Other	4	44	50	122	36
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	-	218	1 271	381	6 815
- Treasury bonds	-	-	21	252	375
- Other debt securities	-	-	5	21	3
- Loans	-	1	2	15	-
- Investment fund units	-	217	1 243	93	4 810
- Investment certificates	-	-	-	-	1 627
III. Inflows from other assets	-	-	-	-	76
C. Balance of projected cash flows (A + B)	**793**	**44**	**42**	**52**	**1 724**
D. Balance of accumulated cash flows	**793**	**837**	**879**	**931**	**2 655**

For the purpose of the analysis, interest in investment funds (units and investment certificates) has not been consolidated, i.e. it has been presented as units and investment certificates and not as assets held by the funds, which reflects better the liquidity management prospects and ensures coverage of technical provisions with assets at the level of individual companies, taking into account statutory limits for type concentration of the aforesaid assets.

The projected net cash flows resulting from non-life insurance contracts concluded by the end of the reporting period have been determined using statistical and actuarial mathematical methods, taking into account historical data. Inflows have been calculated on the basis of the gross premium. Outflows include all projected costs to be incurred by the insurance company in connection with insurance contracts concluded.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance was 4.9 (3.7 in 2012), whereas the duration of technical provisions was 5.1 (5.4 in 2012).

Life insurance

The table below presents the match between cash flows from technical provisions and liabilities under investment contracts as well as the assets used as their coverage for life products. The table does not present cash flows relating to unit-linked insurance products and investment contracts.

Item	Projected cash flows (in PLN million)					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	**(1 421)**	**(290)**	**(1 528)**	**(1 280)**	**(3 435)**	**(5 166)**
I. Outflows	(2 266)	(1 112)	(7 221)	(6 673)	(10 157)	(9 093)
II. Inflows	845	822	5 693	5 393	6 722	3 927
B. Inflows from assets covering technical provisions	**3 196**	**1 013**	**6 863**	**8 428**	**3 838**	**5 369**
I. Future inflows whose value is known as at the end of reporting year	3 195	1 009	6 842	6 712	3 838	1 846
- Treasury bonds	1 930	483	6 232	6 673	3 838	1 846
- Other debt securities	9	1	140	39	-	-
- Term deposits with credit institutions	968	81	330	-	-	-
- Loans	288	444	140	-	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	1	4	21	1 716	-	3 523
- Treasury bonds	-	-	-	-	-	-
- Other debt securities	-	2	11	1	-	-
- Loans	1	2	10	-	-	-
- Investment fund units	-	-	-	-	-	3 523
- Investment certificates	-	-	-	1 715	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	**1 775**	**723**	**5 335**	**7 148**	**403**	**203**
D. Balance of accumulated cash flows	**1 775**	**2 498**	**7 833**	**14 981**	**15 384**	**15 587**

For the purpose of the analysis, interest in investment funds (units and investment certificates) has not been consolidated, i.e. it has been presented as units and investment certificates and not as assets held by the funds, which reflects better the liquidity management prospects and ensures coverage of technical provisions with assets at the level of individual companies, taking into account statutory limits for type concentration of the aforesaid assets.

The forecast of future claims and future net premiums in life insurance has been prepared based on assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance was 5.5 (4.7 in 2012), whereas the duration of technical provisions was 21.1 (20.4 in 2012).

6.7.5. Operational risk

In line with the definition adopted by the PZU Group, operational risk is defined as a possibility to incur a loss arising from incorrect or irrelevant internal processes, human errors, system operations or external events.

The objective of operational risk management is to optimize operational risk and operational effectiveness of the PZU Group and therefore to reduce losses and costs resulting from such risks. The process assumes ensuring adequate effective controls and applying appropriate organizational, procedural and technical solutions. Companies in the PZU Group manage operational risk in line with the guidelines defined by the PZU Group and taking into account the type and scale of a particular company.

Members of the Management and Supervisory Boards are provided with periodical operational risk reports.

6.7.6. Non-compliance risk

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

System management, which is mainly the responsibility consists in particular in formulating solutions ensuring that the rules of non-compliance risk management are followed, monitoring of the non-compliance risk management and promoting and monitoring the compliance of internal standards and approved compliance procedures.

Ongoing compliance risk management consists in identification, assessment and measurement as well as ensuring satisfaction of regulatory requirements.

7. Fair value

7.1 Measurement techniques

7.1.1. Debt securities

The fair value of debt securities for which an active market does not exist, is measured using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds shifted by the credit spread calculated as the difference between the yield on listed debt securities of issuers with a similar rating operating in similar industries and the yield on government bonds (German government bonds for bonds denominated in EUR).

7.1.2. Assets and liabilities related to investment funds

Interest in investment funds (units and investment certificates), liabilities arising from unit-linked investment contracts and liabilities to participants in consolidated investment funds are measured at the fair value of the assets of the investment fund (based on the share in the net assets of the investment fund).

7.1.3. Real property measured at fair value

Real property measured at fair value includes items classified to the following portfolios:

- investment property;
- assets held for sale. In accordance with IFRS 5, non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Additionally, prior to being actively exposed on the market and, consequently, classified as held for sale, the major part of the PZU Group entities' real property (including, in particular, items sold with a view to restructuring the real property portfolio) was classified as investment property. Consequently, its carrying amount corresponded to the fair value and the designation for sale did not have any effect on the measurement method.

Depending on the measurement method used, as appropriate for the characteristics of the real property, real property is classified to:

- Level II of the fair value hierarchy – real property measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by reference to the observable market prices, including adjustment ratios. The adjustment ratios take such factors into account as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighborhood (including location against attractive facilities), investment opportunities, physical conditions, ownership etc.;
- Level III of the fair value hierarchy – real property measured using the income method, which consists in estimating the fair value of real property based on discounted cash flows estimated taking into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city center, availability, exposure etc.) as well as local market parameters (such as the capitalization rate, rental fee, maintenance costs).

Measurement of Level III real property is sensitive to changes in parameters used for measurement purposes and the aforesaid parameters depend on the macroeconomic environment (e.g. economic growth, inflation rate, interest rates), supply and demand on individual local property markets (taking into account both the lease market and the demand for complete items of real property, expressed by financial investors). The parameters used for measurement purposes may be interrelated, whereas the dependence is not fixed and may change depending on the market conditions.

Fair value measurement of real property is performed by licensed appraisers, whereas approval of each such measurement is additionally preceded by an inspection carried out by the employees of the PZU Group entities aimed at eliminating potential errors and inconsistencies. Any doubts are clarified with property appraisers as they arise.

Real property classified to Level III of the fair value hierarchy includes:

- real property held by investment funds being PZU's subsidiaries – measured on a semi-annual basis – as at the last day of each year half and the financial year;
- investment property held by the PZU Group companies – the most valuable items are measured if indications of a possible significant change in value occur (most frequently, on an annual basis). Each investment property, whatever its value, is measured at least every 5 years;
- real property held for sale – measured before being actively exposed on the market.

7.2 Fair value hierarchy

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

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

  - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);
  - other than listed derivatives;
  - investment fund units;
  - investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
  - liabilities to participants in consolidated investment funds;
  - unit-linked investment contracts.
- Level III – financial instruments measured based on input data unobserved on the existing markets (unobservable input data). The level includes:

(in PLN '000)

investment property or property held for sale, measured using the income method.Assets and liabilities measured at fiar value as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments held to maturity	19 668 604	120 882	-	19 789 486
Financial instruments available for sale	1 637 420	281 625	-	1 919 045
Equity instruments	370 228	37 660	-	407 888
Debt securities	1 267 192	243 965	-	1 511 157
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10 610 724	264 117	-	10 874 841
Equity instruments	487 287	264 117	-	751 404
Debt securities	10 123 437	-	-	10 123 437
Financial instruments measured at fair value held for trading	5 976 711	2 938 550	-	8 915 261
Equity instruments	2 528 806	2 553 048	-	5 081 854
Debt securities	3 442 825	130 575	-	3 573 400
Derivatives	5 080	254 927	-	260 007
Investment property	-	162 441	1 312 329	1 474 770
Assets held for sale [1)]	-	38 568	51 435	90 003
Liabilities				
Derivatives	1 169	236 580	-	237 749
Liabilities to participants in consolidated investment funds	-	267 335	-	267 335
Unit-linked investment contracts	-	870 545	-	870 545

[1)] Additional information concerning assets held for sale has been presented in Section 24.

Assets and liabilities measured at fiar value as at 31 December 2012	Level I	Level II	Level III	Total
Aktywa				
Financial instruments held to maturity	22 668 336	120 018	-	22 788 354
Financial instruments available for sale	1 737 277	2 060 876	-	3 798 153
Equity instruments	429 482	1 370 655	-	1 800 137
Debt securities	1 307 795	690 221	-	1 998 016
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	7 907 300	479 649	-	8 386 949
Equity instruments	5 319	166 933	-	172 252
Debt securities	7 901 981	312 716	-	8 214 697
Financial instruments measured at fair value held for trading	4 711 205	2 530 247	-	7 241 452
Equity instruments	1 968 840	2 258 049	-	4 226 889
Debt securities	2 742 365	108 128	-	2 850 493
Derivatives	-	164 070	-	164 070
Investment property	-	112 797	451 607	564 404
Assets held for sale [1)]	-	-	4 461	4 461
Liabilities				
Derivatives	-	129 921	-	129 921
Liabilities to participants in consolidated investment funds	-	-	-	
Unit-linked investment contracts	-	1 001 923	-	1 001 923

[1)] Additional information concerning assets held for sale has been presented in Section 24.

(in PLN '000)

Level III investment property	31 December 2013	31 December 2012
Office property	888 458	395 635
Commercial property	214 440	-
Warehouse property	183 790	-
Other	25 641	55 972
Level III investment property, total	**1 312 329**	**451 607**

7.3 Reclassifications between Levels I and II

If the method of measurement of assets and liabilities changes, necessitating their transfer between Level I and Level II, such an event is identified and the transfer is made.

No significant transfers between Level I and Level II were made in 2013 and 2012.

(in PLN '000)

7.4 Change in the balance of assets repeatedly measured at fair value and classified to Level III

Change in the balance of assets classified to Level III of the fair value hierarchy	1 January 2013 – 31 December 2013		1 January 2012 – 31 December 2012	
	Investment property	Assets held for sale	Investment property	Assets held for sale
Opening balance	451 607	4 461	423 112	-
Acquisition	65 560	-	26	-
Reclassification from own property	24 767	21 943	24 860	-
Reclassification from investment property	-	62 313	-	4 461
Gains or losses recognized in profit or loss as:	(92 546)	(37 282)	4 358	-
- net profit/loss on realization and impairment loss on investments	4 430	-	-	-
- net change in the fair value of assets and liabilities measured at fair value	(96 976)	(37 282)	4 358	-
Gains or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	6 308	-	11 127	-
Reclassification to own property	(24 153)	-	(7 415)	-
Reclassification to assets held for sale	(62 313)	-	(4 461)	-
Disposal	(9 561)	-	-	-
Reclassification to Level II	(118 214)	-	-	-
Change in composition of the group	1 070 945	-	-	-
Exchange differences	(71)	-	-	-
Closing balance	**1 312 329**	**51 435**	**451 607**	**4 461**

Reclassification of investment property from Level III to Level II concerned items the new measurement of which was performed on the basis of the estimated sales price.

7.5 Changes in fair value measurement of financial instruments measured at fair value

In 2013 and 2012, PZU or its subsidiaries did not change the method of measuring fair value of financial instruments measured at fair value.

7.6 The most extensive and best use of a non-financial asset vs. its actual use

As at 31 December 2013, the actual use of one item of investment property (carrying amount of PLN 2,822 thousand) was not the most extensive and best use. However, the carrying amount measurement assumes its most extensive and best use.

As at 31 December 2012, the aforesaid investment property was measured at PLN 3,999 thousand and the measurement did not assume its most extensive and best use.

The aforesaid property is land with a non-permanent structure which requires demolition, with construction of new facilities being the most optimum use.

8. Capital management

The capital and dividend policy of the PZU Group for the years 2013-2015 was approved by the Management and Supervisory Board on 26 August 2013. The related information has been presented in current report 56/2013 of 26 August 2013. Presented below are the objectives of the capital and dividend policy.

8.1 Capital Policy

The PZU Group's Capital Policy in 2013-2015 is intended to increase Total Shareholder Return (TSR) and is based on the following rules:

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

8.2 Dividend Policy

The amount of the dividend proposed by the PZU Management Board for a given financial year will be determined based on the following components:

- the PZU Group's consolidated financial result, where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in the PZU Group's consolidated financial statements;
- surplus capital, where the total amount of dividends paid from surplus capital in 2013 - 2015 cannot exceed PLN 3 billion;

When determining the dividend, the Polish Financial Supervision Authority's recommendations and criteria mentioned in PZU Group's Capital Policy will be taken into account.

8.3 External capital requirements

Equity management involves, among others, monitoring of the insurers' key solvency parameters, such as the level of own funds and the degree to which such funds are sufficient to cover the required solvency margin and the guarantee fund. The International Financial Reporting Standards do not lay down principles applicable to calculation of the required solvency margin or own funds covering the above margin.

Pursuant to the Act on insurance activity, insurance companies having their registered offices within the territory of the Republic of Poland are obliged to have own funds in the amount not lower than the required solvency margin and the guarantee fund.

In order to determine the value of own funds of PZU, the Company's assets are reduced by the value of intangible assets, deferred tax asset, assets allocated to settle all expected liabilities as well as shares held by the Company and other assets used to finance the equity of insurance companies operating within the same insurance capital group. The value determined in the above manner is adjusted in proportion to the shares held by PZU by the total surplus or shortage of own funds of the controlled insurance companies over their solvency margins.

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

Calculation of own funds and solvency marginal includes financial data in accordance with PAS.

(in PLN '000)

Presented below is the calculation of own funds covering the required solvency margin of PZU.

Calculation of own funds to cover the required solvency margin	**31 December 2013**	**31 December 2012**
PZU equity	**12 259 761**	**13 452 581**
Intangible assets	(244 582)	(129 729)
Value of shares in insurance companies operating within the insurance capital group of PZU	(4 565 872)	(6 847 006)
Deferred tax asset	(347 521)	(309 132)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**2 403 826**	**4 789 418**
PZU Życie 100.00%	2 407 872	4 808 768
Own funds	4 184 609	6 551 153
Required solvency margin	1 776 737	1 742 385
Surplus of own funds to cover the required solvency margin	2 407 872	4 808 768
UAB DK PZU Lietuva 99.76%	7 931	2 769
Own funds	48 438	38 550
Required solvency margin	40 488	35 774
Surplus of own funds to cover the required solvency margin	7 950	2 776
UAB PZU Lietuva Gyvybes Draudimas 99.34%	6 608	7 201
Own funds	21 996	22 873
Required solvency margin	15 344	15 624
Surplus of own funds to cover the required solvency margin	6 652	7 249
PrJSC PZU Ukraine 100.00%	(13 094)	(15 721)
Own funds	10 554	5 987
Required solvency margin	23 648	21 708
Surplus/shortage of own funds to cover the required solvency margin	(13 094)	(15 721)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(5 491)	(13 599)
Own funds	9 557	2 025
Required solvency margin	15 048	15 624
Surplus/shortage of own funds to cover the required solvency margin	(5 491)	(13 599)
Own funds of PZU	**9 505 612**	**10 956 132**
Required solvency margin of PZU	1 362 353	1 343 831
Guarantee fund of PZU	454 118	447 944
Surplus of own funds to cover the required solvency margin	**8 143 259**	**9 612 301**
Surplus of own funds to cover the guarantee fund	**9 051 494**	**10 508 188**

9. Intangible assets

As at 31 December 2013 and 31 December 2012 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	**1 January – 31 December 2013**	**1 January – 31 December 2012**
Claims, benefits and change in technical provisions	12 904	17 764
Benefits and change in measurement of investment contracts	2	9
Acquisition costs	12 284	16 843
Administrative expenses	33 819	39 283
Other operating expenses	1 355	110
Costs of investment activities	79	383
Total amortization	**60 443**	**74 392**

(in PLN '000)

Changes in intangible assets (by group) in the year ended 31 December 2013					
	Acquired concessions, patents, licenses and similar items, including:	**Computer software**	**Intangible assets under construction**	**Other intangible assets**	**Total intangible assets**
Gross value of intangible assets – opening balance	559 746	446 263	206 382	1 507	767 635
Increases (due to):	211 755	207 524	172 831	471	385 057
- purchase	18 582	18 226	169 496	-	188 078
- change in the consolidation scope	7 470	5 557	-	471	7 941
- reclassification from intangible assets under construction	185 359	183 495	-	-	185 359
- other	344	246	3 335	-	3 679
Decreases (due to):	(7 269)	(4 031)	(193 509)	(17)	(200 795)
- sale	(260)	-	-	(17)	(277)
- liquidation	(5 147)	(2 705)	(4 420)	-	(9 567)
- reclassification from intangible assets under construction	-	-	(185 359)	-	(185 359)
- other	(1 862)	(1 326)	(3 730)	-	(5 592)
Exchange differences	(53)	(47)	-	-	(53)
Gross value of intangible assets – closing balance	**764 179**	**649 709**	**185 704**	**1 961**	**951 844**
Accumulated amortization – opening balance	(415 442)	(341 967)	-	(311)	(415 753)
Changes (due to):	(60 706)	(56 066)	-	(525)	(61 231)
- amortization for the period	(60 316)	(55 073)	-	(127)	(60 443)
- disposal	57	-	-	9	66
- liquidation	4 648	2 687	-	-	4 648
- change in the consolidation scope	(4 875)	(3 250)	-	(419)	(5 294)
- exchange differences	19	19	-	12	31
- other	(239)	(449)	-	-	(239)
Accumulated amortization – closing balance	**(476 148)**	**(398 033)**	**-**	**(836)**	**(476 984)**
Impairment losses – opening balance	(34 165)	-	(134 479)	-	(168 644)
Changes charged to income statement, including:	-	-	(1 910)	-	(1 910)
- other operating expenses	-	-	(1 910)	-	(1 910)
Liquidation of assets	-	-	4 420	-	4 420
Impairment losses – closing balance	**(34 165)**	**-**	**(131 969)**	**-**	**(166 134)**
Net value of intangible assets – closing balance	**253 866**	**251 676**	**53 735**	**1 125**	**308 726**

"Impairment losses", include among others losses with respect to:

- the total balance of expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand (PLN 116,309 thousand as at 31 December 2012);
- the unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand (PLN 34,165 thousand as at 31 December 2012);
- the "Central Customer Database" project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2012).

(in PLN '000)

Changes in intangible assets (by group) in the year ended 31 December 2012	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	490 959	356 492	224 258	1 003	716 220
Increases (due to):	116 930	115 063	96 938	601	214 469
- purchase	2 286	2 272	88 230	601	91 117
- reclassification from intangible assets under construction	114 634	102 786	-	-	114 634
- other	10	10 005	8 708	-	8 718
Decreases (due to):	(47 145)	(24 304)	(114 814)	(4)	(161 963)
- liquidation	(46 143)	(23 089)	-	-	(46 143)
- reclassification from intangible assets under construction	-	-	(114 634)	-	(114 634)
- other	(1 002)	(1 215)	(180)	(4)	(1 186)
- exchange differences	(998)	(988)	-	(93)	(1 091)
Gross value of intangible assets – closing balance	**559 746**	**446 263**	**206 382**	**1 507**	**767 635**
Accumulated amortization – opening balance	(388 012)	(301 364)	-	(222)	(388 234)
Changes (due to):	(27 430)	(40 603)	-	(89)	(27 519)
- amortization for the period	(74 297)	(60 065)	-	(95)	(74 392)
- liquidation	46 143	23 089	-	-	46 143
- exchange differences	694	694	-	24	718
- other	30	(4 321)	-	(18)	12
Accumulated amortization – closing balance	**(415 442)**	**(341 967)**	**-**	**(311)**	**(415 753)**
Impairment losses – opening balance	(34 165)	-	(127 783)	-	(161 948)
Changes charged to income statement, including:	-	-	(6 696)	-	(6 696)
- other operating expenses	-	-	(6 696)	-	(6 696)
Impairment losses – closing balance	**(34 165)**	**-**	**(134 479)**	**-**	**(168 644)**
Net value of intangible assets – closing balance	**110 139**	**104 296**	**71 903**	**1 196**	**183 238**

10. Goodwill

Goodwill	31 December 2013	31 December 2012
Goodwill – subsidiaries	8 519	8 474
- PZU CO	5 415	5 415
- PZU Życie	60	60
- PZU Lietuva	3 044	2 999
Goodwill total	**8 519**	**8 474**

Changes in goodwill	1 January – 31 December 2013	1 January – 31 December 2012
Gross value of goodwill – opening balance	20 451	22 039
Changes due to exchange differences	(328)	(1 588)
Gross value of goodwill – closing balance	20 123	20 451
Impairment losses opening balance	(11 977)	(13 323)
Changes in impairment losses due to exchange differences	373	1 346
Impairment losses closing balance	(11 604)	(11 977)
Net value of goodwill – closing balance	**8 519**	**8 474**

Potential impairment of goodwill

Goodwill is tested for impairment based on the assessment of the recoverable amount of individual companies. Based on the impairment test it was concluded that the recoverable amounts of goodwill of PZU CO and PZU Lietuva are not lower than their book values, hence impairment was not identified.

The recoverable amount was determined on the basis of the value in use estimated using the most recent financial plans and the following assumptions:

- discount rate:
  - for PZU CO – 4.17% – being the yield rate for 10-year Treasury bonds; as the company's cash flows are generated by other PZU Group entities, the risk premium adjustment has not been made;
  - for PZU Lietuva – 6.12%, of which 3.62% is the interest rate for loans maturing within more than 5 years and provided to non-financial entities, increased by the risk premium of 2.5%;
- period for which financial forecasts were prepared by the Company's management – 1 year for PZU CO and 2 tears (2014-2015) for PZU Lietuva;
- the cash flows after the last period covered by the Company's financial plan were adopted at a level equal to the cash flows in the last period covered by the above plan.

Considering the assumptions, the surplus of the recoverable amount over the carrying amount of the cash generating unit is:

- PLN 82,412 thousand for PZU CO;
- LTL 24,465 thousand for PZU Lietuva.

If the discount rate used is increased by 0.5 p.p., the aforementioned surpluses will decrease by:

- PLN 15,092 thousand for PZU CO;
- LTL 6,440 thousand for PZU Lietuva, respectively.

The maximum discount rates which do not result in a surplus of the carrying amount of investments over their recoverable amount are 10.02% for PZU CO, 8.58% for PZU Lietuva.

(in PLN '000)

11. Property, plant and equipment

Changes in property, plant and equipment (by group) in the year ended 31 December 2013

	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real Property [1)]	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	604 403	104 430	44 258	1 110 039	137 027	2 000 157
Increases (due to):	40 362	31 501	38 404	56 147	19 996	186 410
- purchase	15 469	1 474	38 167	6 379	12 939	74 428
- change in the consolidation scope	3 525	11 581	220	689	2 221	18 236
- reclassification from investment property	-	-	-	46 966	-	46 966
- reclassification from assets under construction	20 947	18 226	-	200	2 666	42 039
- other	421	220	17	1 913	2 170	4 741
Decreases (due to):	(62 037)	(19 429)	(59 708)	(85 201)	(17 397)	(243 772)
- sale	(7 999)	(19 205)	(2)	-	(271)	(27 477)
- liquidation	(50 185)	(224)	(12 257)	(2 904)	(16 876)	(82 446)
- reclassification to held for sale according to IFRS 5	-	-	-	(25 001)	-	(25 001)
- reclassification to investment property	-	-	-	(57 296)	-	(57 296)
- reclassification from assets under construction	-	-	(42 039)	-	-	(42 039)
- other	(3 853)	-	(5 410)	-	(250)	(9 513)
Exchange differences	(124)	(84)	-	50	(77)	(235)
Gross value of property, plant and equipment – closing balance	**582 604**	**116 418**	**22 954**	**1 081 035**	**139 549**	**1 942 560**
Accumulated depreciation – opening balance	(523 810)	(53 521)	-	(308 816)	(84 730)	(970 877)
Changes (due to):	29 511	545	-	(13 714)	(1 320)	15 022
- depreciation for the period	(28 691)	(12 726)	-	(26 649)	(13 481)	(81 547)
- sale	7 362	18 286	-	-	276	25 924
- liquidation	50 002	123	-	2 046	16 234	68 405
- change in the consolidation scope	(2 301)	(4 975)	-	(255)	(1 807)	(9 338)
- reclassification to held for sale according to IFRS 5	-	-	-	5 468	-	5 468
- reclassification to investment property	-	-	-	5 873	-	5 873
- exchange differences	87	50	-	21	73	231
- other	3 052	(213)	-	(218)	(2 615)	6
Accumulated depreciation – closing balance	**(494 299)**	**(52 976)**	**-**	**(322 530)**	**(86 050)**	**(955 855)**
Impairment losses – opening balance	-	-	(12 238)	(24 725)	-	(36 963)
Changes recognized in the financial profit/loss, included in:	-	-	-	(37 441)	-	(37 441)
- other operating expenses	-	-	-	(52 129)	-	(52 129)
- other operating revenue	-	-	-	14 688	-	14 688
Other changes:	-	-	12 238	2 742	-	14 980
- change in the consolidation scop	-	-	-	(124)	-	(124)
- reclassification to held for sale according to IFRS 5	-	-	-	2 873	-	2 873
- exchange differences	-	-	-	(7)	-	(7)
- liquidation of leasehold improvements	-	-	12 238	-	-	12 238
Impairment losses – closing balance	**-**	**-**	**-**	**(59 424)**	**-**	**(59 424)**
Net value of property, plant and equipment – closing balance	**88 305**	**63 442**	**22 954**	**699 081**	**53 499**	**927 281**

[1)] including land perpetual usufruct

(in PLN '000)

Changes in property, plant and equipment in the year ended 31 December 2012

	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real property [1]	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	669 581	101 018	39 448	1 212 417	147 110	2 169 574
Increases (due to):	22 445	24 193	53 114	59 563	15 318	174 633
- purchase	4 803	555	34 906	16 685	3 513	60 462
- reclassification from investment property	-	-	-	33 990	-	33 990
- reclassification from assets under construction	17 253	22 543	-	6 274	9 114	55 184
- other	389	1 095	18 208	2 614	2 691	24 997
Decreases (due to):	(86 767)	(20 578)	(48 304)	(161 157)	(25 025)	(341 831)
- sale	(510)	(20 578)	(3 110)	(447)	(357)	(25 002)
- liquidation	(77 077)	-	(30)	(2 826)	(50 363)	(130 296)
- reclassification to held for sale according to IFRS 5	(3 566)	-	-	(54 347)	-	(57 913)
- reclassification to investment property	-	-	-	(68 517)	-	(68 517)
- reclassification from assets under construction	-	-	(55 184)	-	-	(55 184)
- other	(5 614)	-	10 020	(35 020)	25 695	(4 919)
Exchange differences	(856)	(203)	-	(784)	(376)	(2 219)
Gross value of property, plant and equipment – closing balance	**604 403**	**104 430**	**44 258**	**1 110 039**	**137 027**	**2 000 157**
Accumulated depreciation – opening balance	(573 431)	(58 877)	-	(322 649)	(109 206)	(1 064 163)
Changes (due to):	49 621	5 356	-	13 833	24 476	93 286
- depreciation for the period	(33 885)	(13 406)	-	(30 336)	(13 195)	(90 822)
- sale	379	19 718	-	345	311	20 753
- liquidation	76 827	-	-	1 265	47 804	125 896
- reclassification to held for sale according to IFRS 5	644	-	-	14 775	-	15 419
- reclassification to investment property	-	-	-	18 318	-	18 318
- exchange differences	626	117	-	129	277	1 149
- other	5 030	(1 073)	-	9 337	(10 721)	2 573
Accumulated depreciation – closing balance	**(523 810)**	**(53 521)**	**-**	**(308 816)**	**(84 730)**	**(970 877)**
Impairment losses – opening balance	(750)	-	(11 140)	(38 140)	-	(50 030)
Changes recognized in the financial profit/loss, included in:	750	-	-	2 618	-	3 368
- other operating revenue	750	-	-	2 618	-	3 368
Other changes:	-	-	(1 098)	10 797	-	9 699
- reclassification to held for sale according to IFRS 5	-	-	-	2	-	2
- reclassification to investment property	-	-	-	9 635	-	9 635
- exchange differences	-	-	-	62	-	62
- other	-	-	(1 098)	1 098	-	-
Impairment losses – closing balance	**-**	**-**	**(12 238)**	**(24 725)**	**-**	**(36 963)**
Net value of property, plant and equipment – closing balance	**80 593**	**50 909**	**32 020**	**776 498**	**52 297**	**992 317**

[1] including land perpetual usufruct

"Reclassifications to investment property" include the same values, as explained in Section 12.

(in PLN '000)

12. Investment property

Investment property	31 December 2013	31 December 2012
Own land	176 730	187 963
Land perpetual usufruct	32 210	54 672
Buildings and structures	1 259 223	303 066
Cooperative ownership of premises	6 607	18 703
Total investment property	**1 474 770**	**564 404**

Changes in investment property	1 January – 31 December 2013	1 January – 31 December 2012
Net book value – opening balance	564 404	534 222
Increases (due to)	1 190 779	40 590
- purchase	321 498	26
- change in the consolidation scope	817 858	-
- reclassification from real property used for internal purposes	51 423	40 564
Decreases (due to)	(198 754)	(38 460)
- sale and liquidation	(28 677)	-
- reclassification to real property used for internal purposes	(46 966)	(33 990)
- reclassification to held for sale according to IFRS 5	(123 111)	(4 470)
Net gain (loss) on remeasurement at fair value	(81 586)	28 200
- recognized in the financial profit/loss	(99 206)	7 514
- recognized in other comprehensive income	17 620	20 686
Exchange differences	(73)	(148)
Net book value – closing balance	**1 474 770**	**564 404**

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

"Reclassifications from real property for internal purposes" present the carrying amount of real property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date. The effect of remeasurement of the aforesaid real property to its fair value as at the reclassification date has been presented as "Gain (loss) on remeasurement to fair value – charged to other comprehensive income" above.

The fair value of investment property results from valuations by independent appraisers having the relevant licenses as required by the law, using the comparable or the income method based on the current market ratios, conducted mainly in 2013.

(in PLN '000)

13. Entities measured using the equity method

Entities measured using the equity method	31 December 2013	31 December 2012
EMC	47 954	-
GSU Pomoc	616	-
Armatura Tower	25	-
Entities measured using the equity method, total	**48 595**	**-**

Change in the share in the net assets of associates	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	-	-
Change in the scope of entities measured using the equity method	685	
Purchase of EMC shares	19 176	
Acquisition of shares in Armatura Tower sp. z o.o.	25	-
Share in net profit	(428)	-
Dividends [1]	(104)	
Share in other comprehensive income	(20)	-
Closing balance	**19 334**	**-**

[1] Dividend paid by GSU Pomoc Górniczy Klub Ubezpieczonych SA

Change in goodwill related to associates	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	-	-
Acquisition of an associate	29 261	-
Closing balance	**29 261**	**-**

The total balance of goodwill related to associates concerns EMC.

13.1 Accounting for the acquisition of EMC shares

Significant influence over EMC was assumed through a business combination carried out in stages, as referred to in Par. 41 and 42 of IFRS 3. The PZU Group entities held EMC shares prior to the acquisition date. In accordance with Par. 42, the fair value of EMC shares held by the consolidated PZU Group entities served as the basis for accounting for the acquisition of EMC.

If new information concerning the facts and circumstances at the acquisition date was obtained, which, if known, could have an effect on measurement of the amounts recognized as at the aforementioned date, the amounts related to the accounting for acquisition of EMC shares, as presented below, could change. In accordance with IFRS 3, the measurement period should not exceed one year of the acquisition date.

(in PLN '000)

Accounting for the acquisition of EMC shares	Acquisition I	Acquisition II	Acquisition III	Total
Number of shares measured using the equity method	1 296 636	617 745	572 887	**2 487 268**
Total number of EMC shares	8 327 214	8 327 214	8 327 214	**8 327 214**
Share in the total number of EMC shares	15.5710%	7.4184%	6.8797%	**29.8691%**
Fair value of EMC shares measured using the equity method (stock market valuation)	24 519	12 414	11 504	**48 437**
Net assets of EMC	65 266	65 266	65 646	
- including goodwill recognized in EMC's accounting records	1 151	1 151	1 151	
Adjusted net assets	64 115	64 115	64 495	
Share in adjusted net assets	9 983	4 756	4 437	**19 176**
Goodwill	14 536	7 658	7 067	**29 261**

13.2 Impairment test

The impairment test is based on the assessment of the recoverable amount of EMC. Based on the impairment test it was concluded that the recoverable amount was not lower than the book value, hence no impairment had occurred.

The recoverable amount was determined on the basis of the fair value estimated using the most recent financial plans and the following assumptions:

- discount rate – 9.33% – taking into account the risk-free rate of 4.17% (yield on 10-year Treasury bonds), the risk premium, leverage and cost of debt etc.;
- the period covered by the financial plans – 8 years of the end of the reporting period (until 2021) – adoption of such a long period results from the planned investment expenditure and the time when it is expected to generate a return;
- increased cash flows after the last period covered by the financial plan, also taking into account higher capital expenditure – at the level of 0.6%.

Considering the assumptions, the surplus of the recoverable amount over the carrying amount is PLN 27,916 thousand. If the discount rate used is increased by 0.5 p.p., the aforementioned surplus will decrease by PLN 16,727 thousand.

The maximum discount rate which will not result in a surplus of the carrying amount over the recoverable amount is 10.19%.

14. Financial assets

In 2013 and in 2012, financial instruments were not reclassified from groups carried at fair value to those carried at cost or amortized cost.

(in PLN '000)

14.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2013			31 December 2012		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**18 859 902**	**18 859 902**	**19 789 486**	**21 117 559**	**21 117 559**	**22 788 354**
Debt securities	18 859 902	18 859 902	19 789 486	21 117 559	21 117 559	22 788 354
Government securities	18 633 511	18 633 511	19 559 211	20 906 285	20 906 285	22 572 525
Fixed rate	17 589 984	17 589 984	18 545 453	20 460 298	20 460 298	22 117 355
Floating rate	1 043 527	1 043 527	1 013 758	445 987	445 987	455 170
Other securities	226 391	226 391	230 275	211 274	211 274	215 829
Listed on a regulated market	105 509	105 509	109 393	91 256	91 256	95 811
Fixed rate	105 509	105 509	109 393	91 256	91 256	95 811
Not listed on a regulated market	120 882	120 882	120 882	120 018	120 018	120 018
Floating rate	120 882	120 882	120 882	120 018	120 018	120 018
Total financial instruments held to maturity	**18 859 902**	**18 859 902**	**19 789 486**	**21 117 559**	**21 117 559**	**22 788 354**

(in PLN '000)

Financial instruments held to maturity	31 December 2013	31 December 2012
Short-term	1 551 593	7 063 026
Long-term	17 308 309	14 054 533
Total financial instruments held to maturity	**18 859 902**	**21 117 559**

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**1 551 593**	**3 223 920**	**306 849**	**2 578 452**	**114 528**	**11 084 560**	**18 859 902**
Government securities	1 551 021	3 211 485	271 753	2 554 990	59 603	10 984 659	18 633 511
Fixed rate	1 551 021	3 211 485	110 506	2 287 248	34 460	10 395 264	17 589 984
Floating rate	-	-	161 247	267 742	25 143	589 395	1 043 527
Other	572	12 435	35 096	23 462	54 925	99 901	226 391
Listed on a regulated market	572	12 435	35 096	-	31 466	25 940	105 509
Fixed rate	572	12 435	35 096	-	31 466	25 940	105 509
Not listed	-	-	-	23 462	23 459	73 961	120 882
Floating rate	-	-	-	23 462	23 459	73 961	120 882
Total	**1 551 593**	**3 223 920**	**306 849**	**2 578 452**	**114 528**	**11 084 560**	**18 859 902**

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**7 063 026**	**1 478 809**	**2 642 230**	**270 715**	**2 302 606**	**7 360 173**	**21 117 559**
Government securities	7 063 026	1 478 809	2 634 417	239 782	2 279 485	7 210 766	20 906 285
Fixed rate	7 063 026	1 478 809	2 634 417	79 251	2 279 485	6 925 310	20 460 298
Floating rate	-	-	-	160 531	-	285 456	445 987
Other	-	-	7 813	30 933	23 121	149 407	211 274
Listed on a regulated market	-	-	7 813	30 933	-	52 510	91 256
Fixed rate	-	-	7 813	30 933	-	52 510	91 256
Not listed	-	-	-	-	23 121	96 897	120 018
Floating rate	-	-	-	-	23 121	96 897	120 018
Total	**7 063 026**	**1 478 809**	**2 642 230**	**270 715**	**2 302 606**	**7 360 173**	**21 117 559**

(in PLN '000)

Financial instruments held to maturity	31 December 2013				31 December 2012			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Debt securities	**18 538 279**	**239 611**	**82 012**	**18 859 902**	**20 833 881**	**219 697**	**63 981**	**21 117 559**
Government securities	18 435 340	116 159	82 012	18 633 511	20 730 779	111 525	63 981	20 906 285
Fixed rate	17 391 813	116 159	82 012	17 589 984	20 284 792	111 525	63 981	20 460 298
Floating rate	1 043 527	-	-	1 043 527	445 987	-	-	445 987
Other securities	102 939	123 452	-	226 391	103 102	108 172	-	211 274
Listed on a regulated market	52 506	53 003	-	105 509	52 510	38 746	-	91 256
Fixed rate	52 506	53 003	-	105 509	52 510	38 746	-	91 256
Not listed on a regulated market	50 433	70 449	-	120 882	50 592	69 426	-	120 018
Floating rate	50 433	70 449	-	120 882	50 592	69 426	-	120 018
Total	**18 538 279**	**239 611**	**-**	**18 859 902**	**20 833 881**	**219 697**	**63 981**	**21 117 559**

(in PLN '000)

14.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2013			31 December 2012		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**1 919 045**	**n/a**	**1 919 045**	**3 798 153**	**n/a**	**3 798 153**
Equity instruments	407 888	n/a	407 888	1 800 137	n/a	1 800 137
Listed on regulated market	370 228	n/a	370 228	429 482	n/a	429 482
Not listed on regulated market	37 660	n/a	37 660	1 370 655	n/a	1 370 655
Debt securities	1 511 157	1 486 465	1 511 157	1 998 016	1 977 886	1 998 016
Government securities	1 134 622	1 127 859	1 134 622	1 627 215	1 621 414	1 627 215
Fixed rate	1 032 503	1 026 253	1 032 503	1 488 118	1 485 767	1 488 118
Floating rate	102 119	101 606	102 119	139 097	135 647	139 097
Other securities	376 535	358 606	376 535	370 801	356 472	370 801
Listed on regulated market	132 570	124 937	132 570	81 061	77 361	81 061
Fixed rate	132 570	124 937	132 570	81 061	77 361	81 061
Not listed on regulated market	243 965	233 669	243 965	289 740	279 111	289 740
Floating rate	243 965	233 669	243 965	289 740	279 111	289 740
Instruments for which fair value may not be determined	**3 128**	**n/a**	**n/a**	**126 348**	**n/a**	**n/a**
Equity instruments	3 128	n/a	n/a	126 348	n/a	n/a
Not listed on regulated market	3 128	n/a	n/a	126 348 [1)]	Na	n/a
Financial instruments available for sale, total	**1 922 173**	**n/a**	**n/a**	**3 924 501**	**n.a**	**n/a**

[1)] This item includes shares in controlled entities not included under consolidation, whose carrying amount as at 31 December 2012 was PLN 121.347 thousand.

(in PLN '000)

Financial instruments available for sale	**31 December 20123**	**31 December 2012**
Short-term	221 542	141 232
Long-term	1 700 631	3 783 269
Total financial instruments available for sale	**1 922 173**	**3 924 501**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the reporting period.

Carrying amount of debt financial instruments available for sale as at 31 December 2013	**up to 1 year**	**over 1 year and up to 2 years**	**over 2 years and up to 3 years**	**over 3 years and up to 4 years**	**over 4 years and up to 5 years**	**over 5 years**	**Total**
Debt securities	**158 210**	**300 090**	**206 637**	**169 777**	**59 452**	**616 991**	**1 511 157**
Government securities	158 210	217 568	197 348	156 158	59 452	345 886	1 134 622
Fixed rate	158 210	217 568	197 289	103 636	59 452	296 348	1 032 503
Floating rate	-	-	59	52 522	-	49 538	102 119
Other securities	-	82 522	9 289	13 619	-	271 105	376 535
Listed on regulated market	-	82 522	9 289	13 619	-	27 140	132 570
Fixed rate	-	82 522	9 289	13 619	-	27 140	132 570
Not listed on regulated market	-	-	-	-	-	243 965	243 965
Floating rate	-	-	-	-	-	243 965	243 965
Total	**158 210**	**300 090**	**206 637**	**169 777**	**59 452**	**616 991**	**1 511 157**

Carrying amount of debt financial instruments available for sale as at 31 December 2012	**up to 1 year**	**over 1 year and up to 2 years**	**over 2 years and up to 3 years**	**over 3 years and up to 4 years**	**over 4 years and up to 5 years**	**over 5 years**	**Total**
Debt securities	**139 317**	**489 528**	**324 271**	**295 640**	**195 609**	**553 651**	**1 998 016**
Government securities	95 345	489 528	283 000	286 760	191 204	281 378	1 627 215
Fixed rate	95 345	489 528	283 000	160 026	178 841	281 378	1 488 118
Floating rate	-	-	-	126 734	12 363	-	139 097
Other securities	43 972	-	41 271	8 880	4 405	272 273	370 801
Listed on regulated market	-	-	41 271	8 880	4 405	26 505	81 061
Fixed rate	-	-	41 271	8 880	4 405	26 505	81 061
Not listed on regulated market	43 972	-	-	-	-	245 768	289 740
Floating rate	43 972	-	-	-	-	245 768	289 740
Total	**139 317**	**489 528**	**324 271**	**295 640**	**195 609**	**553 651**	**1 998 016**

(in PLN '000)

Financial instruments available for sale	31 December 2013					31 December 2012					
	PLN	USD	EUR	UAH	Total	PLN	USD	EUR	LTL	UAH	Total
Equity instruments	**410 839**	**76**	**99**	**2**	**411 016**	**1 857 508**	**77**	**100**	**40 235**	**28 565**	**1 926 485**
Listed on a regulated market	370 228	-	-	-	370 228	429 482	-	-	-	-	429 482
Not listed on a regulated market	40 611	76	99	2	40 788	1 428 026	77	100	40 235	28 565	1 497 003
Debt securities	**1 116 963**	**-**	**394 194**	**-**	**1 511 157**	**1 884 011**	**-**	**114 005**	**-**	**-**	**1 998 016**
Government securities	845 858	-	288 764	-	1 134 622	1 567 767	-	59 448	-	-	1 627 215
Fixed rate	743 739	-	288 764	-	1 032 503	1 428 670	-	59 448	-	-	1 488 118
Floating rate	102 119	-	-	-	102 119	139 097	-	-	-	-	139 097
Other securities	271 105	-	105 430	-	376 535	316 244	-	54 557	-	-	370 801
Listed on a regulated market	27 140	-	105 430	-	132 570	26 504	-	54 557	-	-	81 061
Fixed rate	27 140	-	105 430	-	132 570	26 504	-	54 557	-	-	81 061
Not listed on a regulated market	243 965	-	-	-	243 965	289 740	-	-	-	-	289 740
Floating rate	243 965	-	-	-	243 965	289 740	-	-	-	-	289 740
Total	**1 527 802**	**76**	**394 293**	**2**	**1 922 173**	**3 741 519**	**77**	**114 105**	**40 235**	**28 565**	**3 924 501**

(in PLN '000)

14.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2013 and 31 December 2012, the PZU Group companies were not parties to any contracts with embedded derivatives, whose nature and the relating risks would not be closely connected with the host contract.

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2013	31 December 2012
Instruments for which fair value may be determined	**10 874 841**	**8 386 949**
Equity instruments	751 404	172 252
Listed on a regulated market	487 287	5 319
Not lised on a regulated market	264 117	166 933
Debt securities	10 123 437	8 214 697
Government securities	10 090 090	8 144 078
Fixed rate	9 126 878	6 240 183
Floating rate	963 212	1 903 895
Other securities	33 347	70 619
Listed on a regulated market	33 347	26 647
Fixed rate	33 347	26 647
Not listed on a regulated market	-	43 972
Floating rate	-	43 972
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**10 874 841**	**8 386 949**

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2013	31 December 2012
Instruments for which fair value may be determined	**8 915 261**	**7 241 452**
Equity instruments	5 081 854	4 226 889
Listed on a regulated market	2 528 806	1 968 840
Not lised on a regulated market	2 553 048	2 258 049
Debt securities	3 573 400	2 850 493
Government securities	3 499 207	2 799 572
Fixed rate	3 473 888	2 551 501
Floating rate	25 319	248 071
Other securities	74 193	50 921
Not lised on a regulated market	74 193	50 921
Floating rate	74 193	50 921
Derivatives	260 007	164 070
Total financial instruments measured at fair value through profit or loss – held for trading	**8 915 261**	**7 241 452**

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	31 December 2013	31 December 2012
Short-term	4 055 682	292 250
Long-term	6 819 159	8 094 699
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**10 874 841**	**8 386 949**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the reporting period or unless they are part of a portfolio of financial assets held for trading.

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2013	**up to 1 year**	**over 1 year and up to 2 years**	**over 2 years and up to 3 years**	**over 3 years and up to 4 years**	**over 4 years and up to 5 years**	**over 5 years**	**Total**
Debt securities	**527 985**	**192 344**	**2 278 299**	**1 995 778**	**993 229**	**4 135 802**	**10 123 437**
Government securities	527 985	192 344	2 277 469	1 995 627	993 229	4 103 436	10 090 090
Fixed rate	527 985	192 344	2 231 404	1 138 457	993 229	4 043 459	9 126 878
Floating rate	-	-	46 065	857 170	-	59 977	963 212
Other securities	-	-	830	151	-	32 366	33 347
Listed on a regulated market	-	-	830	151	-	32 366	33 347
Fixed rate	-	-	830	151	-	32 366	33 347
Total	**527 985**	**192 344**	**2 278 299**	**1 995 778**	**993 229**	**4 135 802**	**10 123 437**

Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2012	**up to 1 year**	**over 1 year and up to 2 years**	**over 2 years and up to 3 years**	**over 3 years and up to 4 years**	**over 4 years and up to 5 years**	**over 5 years**	**Total**
Debt securities	**292 250**	**759 718**	**232 408**	**2 741 699**	**1 224 974**	**2 963 648**	**8 214 697**
Government securities	248 278	759 718	232 408	2 741 557	1 224 974	2 937 143	8 144 078
Fixed rate	248 278	759 718	222 152	1 973 584	305 516	2 730 935	6 240 183
Floating rate	-	-	10 256	767 973	919 458	206 208	1 903 895
Other securities	43 972	-	-	142	-	26 505	70 619
Listed on a regulated market	-	-	-	142	-	26 505	26 647
Fixed rate	-	-	-	142	-	26 505	26 647
Not listed on a regulated market	43 972	-	-	-	-	-	43 972
Floating rate	43 972	-	-	-	-	-	43 972
Total	**292 250**	**759 718**	**232 408**	**2 741 699**	**1 224 974**	**2 963 648**	**8 214 697**

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**247 102**	**247 871**	**586 852**	**410 874**	**364 920**	**1 715 781**	**3 573 400**
Government securities	247 102	247 871	586 852	359 838	341 763	1 715 781	3 499 207
Fixed rate	247 102	222 552	586 852	359 838	341 763	1 715 781	3 473 888
Floating rate	-	25 319	-	-	-	-	25 319
Other securities	-	-	-	51 036	23 157	-	74 193
Not listed on a regulated market	-	-	-	51 036	23 157	-	74 193
Floating rate	-	-	-	51 036	23 157	-	74 193
Total	**247 102**	**247 871**	**586 852**	**410 874**	**364 920**	**1 715 781**	**3 573 400**

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**357 910**	**494 219**	**440 695**	**616 364**	**434 776**	**506 529**	**2 850 493**
Government securities	357 910	494 219	440 695	616 364	383 855	506 529	2 799 572
Fixed rate	357 910	468 628	440 695	393 884	383 855	506 529	2 551 501
Floating rate	-	25 591	-	222 480	-	-	248 071
Other securities	-	-	-	-	50 921	-	50 921
Not listed on a regulated market	-	-	-	-	50 921	-	50 921
Floating rate	-	-	-	-	50 921	-	50 921
Total	**357 910**	**494 219**	**440 695**	**616 364**	**434 776**	**506 529**	**2 850 493**

(in PLN '000)

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2013						31 December 2012			
	PLN	USD	EUR	LTL	Other	Total	PLN	EUR	LTL	Total
Equity instruments	**716 894**	**10 143**	**18 971**	**4 911**	**485**	**751 404**	**169 401**	**-**	**2 851**	**172 252**
Listed on a regulated market	477 812	-	5 429	3 561	485	487 287	2 839	-	2 480	5 319
Not listed on a regulated market	239 082	10 143	13 542	1 350	-	264 117	166 562	-	371	166 933
Debt securities	**9 619 573**	**192 778**	**157 086**	**3 351**	**150 649**	**10 123 437**	**8 195 120**	**4 597**	**14 980**	**8 214 697**
Government securities	9 587 207	192 700	156 183	3 351	150 649	10 090 090	8 124 643	4 455	14 980	8 144 078
Fixed rate	8 623 995	192 700	156 183	3 351	150 649 [1]	9 126 878	6 220 748	4 455	14 980	6 240 183
Floating rate	963 212	-	-	-	-	963 212	1 903 895	-	-	1 903 895
Other securities	32 366	78	903	-	-	33 347	70 477	142	-	70 619
Lised on a regulated market	32 366	78	903	-	-	33 347	26 505	142	-	26 647
Fixed rate	32 366	78	903	-	-	33 347	26 505	142	-	26 647
Not listed on a regulated market	-	-	-	-	-	-	43 972	-	-	43 972
Floating rate	-	-	-	-	-	-	43 972	-	-	43 972
Total	**10 336 467**	**202 921**	**176 057**	**8 262**	**151 134**	**10 874 841**	**8 364 521**	**4 597**	**17 831**	**8 386 949**

[1] including PLN 108,686 thousand in RON and PLN 41,963 thousand in TRL

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2013				
	PLN	USD	EUR	Other	Total
Equity instruments	**4 377 944**	**296 739**	**351 871**	**55 300**	**5 081 854**
Listed on a regulated market	1 972 270	229 562	271 674	55 300	2 528 806
Not listed on a regulated market	2 405 674	67 177	80 197	-	2 553 048
Debt securities	**2 583 280**	**175 132**	**814 988**	**-**	**3 573 400**
Government securities	2 509 087	175 132	814 988	-	3 499 207
Fixed rate	2 483 768	175 132	814 988	-	3 473 888
Floating rate	25 319	-	-	-	25 319
Other securities	74 193	-	-	-	74 193
Not listed on a regulated market	74 193	-	-	-	74 193
Floating rate	74 193	-	-	-	74 193
Derivatives	**110 263**	**56 956**	**27 666**	**65 122**	**260 007**
Total	**7 071 487**	**528 827**	**1 194 525**	**120 422**	**8 915 261**

(in PLN '000)

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2012					
	PLN	USD	EUR	HUF	Other	Total
Equity instruments	**4 045 273**	**103 608**	**61 027**	**3 933**	**13 048**	**4 226 889**
Listed on a regulated market	1 899 802	51 631	426	3 933	13 048	1 968 840
Not listed on a regulated market	2 145 471	51 977	60 601	-	-	2 258 049
Debt securities	**1 767 189**	**309 228**	**500 774**	**264 689**	**8 613**	**2 850 493**
Government securities	1 716 268	309 228	500 774	264 689	8 613	2 799 572
Fixed rate	1 468 197	309 228	500 774	264 689	8 613	2 551 501
Floating rate	248 071	-	-	-	-	248 071
Other securities	50 921	-	-	-	-	50 921
Not listed on a regulated market	50 921	-	-	-	-	50 921
Floating rate	50 921	-	-	-	-	50 921
Derivatives	**107 938**	**251**	**21 900**	**13 452**	**20 529**	**164 070**
Total	**5 920 400**	**413 087**	**583 701**	**282 074**	**42 190**	**7 241 452**

(in PLN '000)

14.4 Loans

Loans	31 December 2013	31 December 2012
Short-term	10 066 968	6 622 965
Long-term	4 049 569	3 129 650
Loans total	**14 116 537**	**9 752 615**

Loans as at 31 December 2013	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**56 997**	**29 898**	**291 704**	**700 816**	**100 224**	**909 253**	**2 088 892**
Government securities	2 142	28 079	-	-	-	-	30 221
Fixed rate	2 142	28 079	-	-	-	-	30 221
Other	54 855	1 819	291 704	700 816	100 224	909 253	2 058 671
Listed on a regular market	8 916	1 819	-	-	-	-	10 735
Fixed rate	8 916	1 819	-	-	-	-	10 735
Not listed on a regular market	45 939	-	291 704	700 816	100 224	909 253	2 047 936
Floating rate	45 939	-	291 704	700 816	100 224	909 253	2 047 936
Other, including:	**10 009 971**	**220 941**	**328 920**	**583 350**	**356 072**	**528 391**	**12 027 645**
- buy-sell-back transactions	2 918 343	-	-	-	-	-	2 918 343
- term deposits with credit institutions	7 091 470	175 671	119 866	-	-	-	7 387 007 [1)]
- deposits with ceding undertakings	87	-	-	-	-	-	87
- loans	71	45 270	209 054	583 350	356 072	528 391	1 722 208
Total	**10 066 968**	**250 839**	**620 624**	**1 284 166**	**456 296**	**1 437 644**	**14 116 537**

[1)] More than 88% of term deposits with credit institutions mature before the end of June 2014.

Loans as at 31 December 2012	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**11 775**	**101 467**	**9 860**	**47 086**	**701 234**	**877 412**	**1 748 834**
Government securities	3 205	4 231	9 860	-	-	-	17 296
Fixed rate	3 205	4 231	9 860	-	-	-	17 296
Other	8 570	97 236	-	47 086	701 234	877 412	1 731 538
Listed on a regular market	8 570	-	-	-	-	-	8 570
Fixed rate	8 570	-	-	-	-	-	8 570
Not listed on a regular market	-	97 236	-	47 086	701 234	877 412	1 722 968
Floating rate	-	97 236	-	47 086	701 234	877 412	1 722 968
Other, including:	**6 611 190**	**161 934**	**216 686**	**65 065**	**109 830**	**839 076**	**8 003 781**
- buy-sell-back transactions	2 466 157	-	-	-	-	-	2 466 157
- term deposits with credit institutions	4 144 704	161 934	171 319	38 217	-	-	4 516 174
- deposits with ceding undertakings	329	-	-	-	-	-	329
- loans	-	-	45 367	26 848	109 830	839 076	1 021 121
Total	**6 622 965**	**263 401**	**226 546**	**112 151**	**811 064**	**1 716 488**	**9 752 615**

(in PLN '000)

Both as at 31 December 2013 and 31 December 2012 the fair value of loans did not differ substantially from their carrying amount.

Loans as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Total
Debt securities	**2 047 936**	**15 665**	**-**	**-**	**25 291**	**2 088 892**
Government securities	-	15 665	-	-	14 556	30 221
Fixed rate	-	15 665	-	-	14 556	30 221
Other securities	2 047 936	-	-	-	10 735	2 058 671
Listed on a regular market	-	-	-	-	10 735	10 735
Fixed rate	-	-	-	-	10 735	10 735
Not listed on a regular market	2 047 936	-	-	-	-	2 047 936
Floating rate	2 047 936	-	-	-	-	2 047 936
Other securities, including:	**11 836 422**	**49 892**	**17 596**	**13 874**	**109 861**	**12 027 645**
- buy-sell-back transactions	2 918 343	-	-	-	-	2 918 343
- term deposits with credit institutions	7 205 697	49 805	17 596	13 874	100 035	7 387 007
- deposits with ceding undertakings	-	87	-	-	-	87
- loans	1 712 382	-	-	-	9 826	1 722 208
Loans total	**13 884 358**	**65 557**	**17 596**	**13 874**	**135 152**	**14 116 537**

Loans as at 31 December 2012	PLN	USD	EUR	LTL	UAH	Total
Debt securities	**1 722 968**	**3 206**	**-**	**-**	**22 660**	**1 748 834**
Government securities	-	3 206	-	-	14 090	17 296
Fixed rate	-	3 206	-	-	14 090	17 296
Other securities	1 722 968	-	-	-	8 570	1 731 538
Listed on a regular market	-	-	-	-	8 570	8 570
Fixed rate	-	-	-	-	8 570	8 570
Not listed on a regular market	1 722 968	-	-	-	-	1 722 968
Floating rate	1 722 968	-	-	-	-	1 722 968
Other securities, including:	**7 663 550**	**15 694**	**251 027**	**13 069**	**60 441**	**8 003 781**
- buy-sell-back transactions	2 466 157	-	-	-	-	2 466 157
- term deposits with credit institutions	4 179 143	15 596	250 796	13 069	57 570	4 516 174
- deposits with ceding undertakings	-	98	231	-	-	329
- loans	1 018 250	-	-	-	2 871	1 021 121
Loans total	**9 386 518**	**18 900**	**251 027**	**13 069**	**83 101**	**9 752 615**

Other loans

Type of loan	31 December 2013	31 December 2012
Mortgage loans	-	26 848
Loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral	1 712 382	991 402
Not collateralized loans	9 826	2 871
Total	**1 722 208**	**1 021 121**

(in PLN '000)

14.5 Exposure to debt securities issued by treasuries other than Polish treasury, companies and local government authorities

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

14.5.1. Debt securities issued by treasuries other than Polish treasury

As at 31 December 2013	Currency	Classification	Purchase price	Carrying amount	Fair value	Impair-ment loss
Croatia	EUR	At fair value	142	143	143	-
Croatia	USD	At fair value	37 855	36 590	36 590	-
Iceland	USD	At fair value	88 150	84 365	84 365	-
Lithuania	EUR	At fair value	1 888	1 992	1 992	-
Lithuania	LTL	At fair value	3 255	3 351	3 351	-
Lithuania	USD	At fair value	14 354	14 893	14 893	-
Lithuania	EUR	At amortized cost	74 206	75 835	79 247	-
Lithuania	LTL	At amortized cost	81 242	82 012	84 393	-
Latvia	USD	At fair value	35 960	33 737	33 737	-
Germany	EUR	At fair value	129 700	126 939	126 939	-
Romania	EUR	At fair value	367 476	376 748	376 748	-
Romania	RON	At fair value	108 132	108 686	108 686	-
Romania	USD	At fair value	27 985	27 856	27 856	-
Slovenia	EUR	At fair value	370 715	422 048	422 048	-
Slovenia	USD	At fair value	131 869	127 969	127 969	-
Ukraine	USD	At fair value	12 678	10 933	10 933	-
Ukraine	UAH	At amortized cost	25 095	14 556	no data	-
Ukraine	USD	At amortized cost	17 070	15 665	no data	-
Hungary	EUR	At fair value	121 054	131 296	131 296	-
Hungary	EUR	At amortized cost	5 124	5 324	5 420	-
Turkey	TRL	At fair value	45 746	41 963	41 963	-
Other	EUR/USD	At fair value	57 363	59 068	59 068	-
Total			**1 757 059**	**1 801 969**	**n/a**	**-**

(in PLN '000)

As at 31 December 2012	Currency	Classification	Purchase price	Carrying amount	Fair value	Impair-ment loss
Iceland	USD	At fair value	220 577	227 493	227 493	-
Lithuania	LTL	At amortized cost	57 395	63 981	67 105	-
Lithuania	EUR	At amortized cost	39 989	39 909	43 200	-
Lithuania	LTL	At fair value	15 164	14 980	14 980	-
Lithuania	EUR	At fair value	4 455	4 455	4 455	-
Germany	EUR	At fair value	62 787	59 448	59 448	-
Romania	EUR	At fair value	340 284	344 041	344 041	-
Slovenia	EUR	At fair value	109 990	115 576	115 576	-
Slovenia	USD	At fair value	77 104	81 735	81 735	-
Ukraine	UAH	At amortized cost	17 114	14 090	No data	-
Ukraine	USD	At amortized cost	3 344	3 206	3 294	-
Hungary	EUR	At amortized cost	2 278	2 430	2 459	-
Hungary	CHF	At fair value	8 685	8 613	8 613	-
Hungary	EUR	At fair value	37 319	41 157	41 157	-
Hungary	HUF	At fair value	270 683	264 689	264 689	-
Total			**1 267 168**	**1 285 803**	**n/a**	**-**

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

14.5.2. Debt securities issued by companies and local government authorities

As at 31 December 2013	Classification	Purchase price	Carrying amount	Fair value	Impair-ment loss
Companies from WIG – Banki	At fair value	138 661	140 340	140 340	-
	At amortized cost	1 336 121	1 349 381	No data	-
Companies from WIG-Paliwa	At fair value	268 489	283 249	283 249	-
	At amortized cost	700 000	700 816	No data	-
Domestic banks not listed	At amortized cost	65 000	66 227	No data	-
Foreign banks	At fair value	552	634	634	-
	At amortized cost	90 548	92 296	No data	-
Local authorities	At fair value	45 632	54 279	54 279	-
	At amortized cost	50 000	52 507	No data	-
Other	At fair value	5 154	5 573	5 573	-
	At amortized cost	23 657	23 835	22 408	-
Other impaired	At fair value	11 630	-	-	11 630
Foreign banks impaired	At amortized cost	1 142	-	-	1 142
Razem		**2 736 586**	**2 769 137**	**n/a**	**12 772**

(in PLN '000)

As at 31 December 2012	Classification	Purchase price	Carrying amount	Fair value	Impair-ment loss
Companies from WIG – Banki	At fair value	161 653	163 261	163 261	-
	At amortizec cost	954 838	971 931	No data	-
Companies from WIG-Paliwa	At fair value	259 390	275 928	275 928	-
	At amortizec cost	700 000	701 234	No data	-
Domestic banks not listed	At amortizec cost	65 000	66 866	No data	-
Foreign banks	At fair value	102	142	142	-
	At amortizec cost	86 936	87 248	No data	-
Local authorities	At fair value	45 632	53 010	53 010	-
	At amortizec cost	50 000	52 509	54 398	-
Other	At amortizec cost	62 805	63 024	No data	-
Other impaired	At fair value	11 630	-	-	11 630
Total		**2 397 986**	**2 435 153**	**n/a**	**11 630**

15. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	31 December 2013	31 December 2012
Receivables from direct insurance, including:	1 384 325	1 368 993
- receivables from policyholders	1 245 337	1 193 159
- receivables from insurance intermediaries	113 941	139 418
- other receivables	25 047	36 416
Receivables from reinsurance	18 828	15 099
Other receivables	1 261 833	451 701
Net receivables, including under insurance contracts	**2 664 986**	**1 835 793**

Both as at 31 December 2011 and 31 December 2010 the fair value of receivables did not differ substantially from their carrying amount.

Receivables, including under insurance contracts – by contractual maturity	31 December 2013	31 December 2012
Up to 1 year	2 575 923	1 804 187
Over 1 year and up to 5 years	87 813	29 513
Over 5 years	1 250	2 093
Receivables, including under insurance contracts – by contractual maturity	**2 664 986**	**1 835 793**

(in PLN '000)

Receivables, including those under insurance contracts, by currencies as at 31 December 2013	**PLN**	**USD**	**EUR**	**LTL**	**UAH**	**Other**	**Total**
Receivables from direct insurance	1 330 874	1	1 335	32 379	18 872	864	1 384 325
Receivables from policyholders	1 194 600	1	1 028	30 630	18 847	231	1 245 337
Receivables from insurance intermediaries	111 305	-	307	1 671	25	633	113 941
Other receivables	24 969	-	-	78	-	-	25 047
Receivables from reinsurance	16 682	944	1 182	-	20	-	18 828
Other receivables	1 099 043	70 966	76 929	334	878	13 683	1 261 833
Total receivables, including under insurance contracts, by currencies	**2 446 599**	**71 911**	**79 446**	**32 713**	**19 770**	**14 547**	**2 664 986**

Receivables, including those under insurance contracts, by currencies as at 31 December 2012	**PLN**	**USD**	**EUR**	**LTL**	**UAH**	**Total**
Receivables from direct insurance	1 325 223	-	-	25 673	18 097	1 368 993
Receivables from policyholders	1 151 009	-	-	24 308	17 842	1 193 159
Receivables from insurance intermediaries	137 798	-	-	1 365	255	139 418
Other receivables	36 416	-	-	-	-	36 416
Receivables from reinsurance	12 906	905	1 214	-	74	15 099
Other receivables	425 893	5 786	18 164	559	1 299	451 701
Total receivables, including under insurance contracts, by currencies	**1 764 022**	**6 691**	**19 378**	**26 232**	**19 470**	**1 835 793**

(in PLN '000)

15.1 Other receivables

Other receivables	31 December 2013	31 December 2012
Receivables from the State Budget, other than due to income tax	86 177	4 946
Receivables from Metro Projekt sp. z o.o.	83 203	98 373
Receivables relating to prevention activities	53 506	56 837
Advance payments	2 428	1 337
Receivables from PZU OPF	2 113	3 454
Receivables from claims handling services	6 351	5 452
Receivables from disposal of securities and collateral deposits	887 264	178 263
Trade receivables	97 646	79 370
Other	43 145	23 669
Total other receivables	**1 261 833**	**451 701**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in section 52.7.

15.2 Receivables due to operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2013	31 December 2012
Up to 1 year	80 389	13 545
Over 1 year and up to 5 years	225 460	11 478
Over 5 years	94 158	2 341
Total uture minimum receivables from lease payments	**400 007**	**27 364**

16. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – non-life insurance	31 December 2013	31 December 2012
Provision for unearned premium	209 940	190 865
Provision for unexpired risks	16	5
Provisions for claims outstanding, including:	170 375	304 051
- for claims reported	121 826	234 276
- for claims incurred but not reported (IBNR)	29 989	55 337
- for claims handling costs	18 560	14 438
Provision for capitalized value of annuity claims	146 180	254 413
Provision for bonuses and rebates	8	-
Total reinsurers' share in non-life technical provisions	**526 519**	**749 334**

Reinsurers' share in technical provisions – life insurance	31 December 2013	31 December 2012
Provision for unearned premium	86	-
Total reinsurers' share in life technical provisions	**86**	**-**

Reinsurers' share in technical provisions by currencies	31 December 2013	31 December 2012
PLN	477 692	575 103
USD	86	-
EUR	19 912	156 392
UAH	28 915	17 839
Total reinsurers' share in technical provisions by currencies	**526 605**	**749 334**

(in PLN '000)

Reinsurers' share in technical provisions – non-life insurance	**31 December 2013**	**31 December 2012**
Short-term	131 494	170 542
Long-term	395 025	578 792
Total reinsurers' share in non-life technical provisions	**526 519**	**749 334**

The total share of reinsurers in life insurance is classified as a short-term share.

(in PLN '000)

17. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2013	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (sale etc.)	Exchange differences	Change in composition of the group	Impairment losses – closing balance
Financial assets available for sale	164 273	110	-	(9 429)	(55)	-	154 899
- equity instruments	164 273	110	-	(9 429)	(55)	-	154 899
Financial assets held to maturity	-	-	-	-	(19)	1 221	1 202
- debt instruments	-	-	-	-	(19)	1 221	1 202
Loans	24 582	-	-	-	143	-	24 725
Term deposits with credit institutions	9 657	-	-	-	140	-	9 797
Loans	14 925	-	-	-	3	-	14 928
Receivables, including under insurance contracts	606 747	58 572	(11 900)	(3 342)	(229)	1 731	651 579
Receivables from direct insurance	568 127	40 847	(10 111)	(2 687)	(182)	1 614	597 608
Receivables from reinsurance	3 959	1 220	(438)	(122)	-	-	4 619
Other receivables	34 661	16 505	(1 351)	(533)	(47)	117	49 352
Reinsurers' share in technical provisions	8 037	1 348	(4 557)	-	-	-	4 828
Total	**803 639**	**60 030**	**(16 457)**	**(12 771)**	**(160)**	**2 952**	**837 233**

(in PLN '000)

Changes in impairment losses on financial assets in the year ended 31 December 2012	**Impairment losses – opening balance**	**Impairment losses recognized in the income statement**	**Release of impairment losses recognized in the income statement**	**Derecognition of impairment losses from the accounting records (sale etc.)**	**Exchange differences**	**Impairment losses – closing balance**
Financial assets available for sale	253 372	14 915	-	(103 814)	(200)	164 273
- equity instruments	253 372	14 915	-	(103 814)	(200)	164 273
Loans	28 770	-	-	(3 400)	(788)	24 582
Term deposits with credit institutions	10 434	-	-	-	(777)	9 657
Loans	18 336	-	-	(3 400)	(11)	14 925
Receivables, including under insurance contracts	581 209	96 860	(42 614)	(27 581)	(1 127)	606 747
Receivables from direct insurance	512 855	95 693	(37 340)	(2 160)	(921)	568 127
Receivables from reinsurance	4 848	89	(862)	(116)	-	3 959
Other receivables	63 506	1 078	(4 412)	(25 305)	(206)	34 661
Reinsurers' share in technical provisions	18 613	12 064	(22 640)	-	-	8 037
Total	**881 964**	**123 839**	**(65 254)**	**(134 795)**	**(2 115)**	**803 639**

(in PLN '000)

Credit quality of financial assets as at 31 December 2013	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized collective	
Financial assets held to maturity	**-**	**18 859 902**	**-**	**-**	**-**	**18 859 902**	**1 202**	**-**	**18 861 104**
Debt securities	-	18 859 902	-	-	-	18 859 902	1 202	-	18 861 104
Financial assets available for sale	**-**	**1 511 157**	**-**	**-**	**-**	**1 511 157**	**-**	**-**	**1 511 157**
Debt securities	-	1 511 157	-	-	-	1 511 157	-	-	1 511 157
Loans	**-**	**14 116 537**	**-**	**-**	**-**	**14 116 537**	**24 725**	**-**	**14 141 262**
Debt securities	-	2 088 892	-	-	-	2 088 892	-	-	2 088 892
Reverse repo transactions	-	2 918 343	-	-	-	2 918 343	-	-	2 918 343
Term deposits with credit institutions	-	7 387 007	-	-	-	7 387 007	9 797	-	7 396 804
Deposits with ceding undertakings	-	87	-	-	-	87	-	-	87
Loans	-	1 722 208	-	-	-	1 722 208	14 928	-	1 737 136
Receivables, including under insurance contracts	**215 334**	**2 057 560**	**148 616**	**27 267**	**216 209**	**2 664 986**	**90 974**	**560 605**	**3 316 565**
Receivables from direct insurance	207 110	893 232	145 401	25 953	112 629	1 384 325	37 114	560 494	1 981 933
Receivables from reinsurance	1 107	17 692	-	-	29	18 828	4 619	-	23 447
Other receivables	7 117	1 146 636	3 215	1 314	103 551 [1)]	1 261 833	49 241	111	1 311 185
Reinsurers' share in technical provisions	**38 870**	**487 735**	**-**	**-**	**-**	**526 605**	**4 828**	**-**	**531 433**
Total	**254 204**	**37 032 891**	**148 616**	**27 267**	**216 209**	**37 679 187**	**121 729**	**560 605**	**38 361 521**

[1)] including PLN 83,203 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in section 52.7 of the notes.

(in PLN '000)

Credit quality of financial ssets as at 31 December 2012	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity	**-**	**21 117 559**	**-**	**-**	**-**	**21 117 559**	**-**	**-**	**21 117 559**
Debt securities	-	21 117 559	-	-	-	21 117 559	-	-	21 117 559
Financial assets available for sale	**-**	**1 998 016**	**-**	**-**	**-**	**1 998 016**	**-**	**-**	**1 998 016**
Debt securities	-	1 998 016	-	-	-	1 998 016	-	-	1 998 016
Loans	**-**	**9 752 615**	**-**	**-**	**-**	**9 752 615**	**24 582**	**-**	**9 777 197**
Debt securities	-	1 748 834	-	-	-	1 748 834	-	-	1 748 834
Reverse repo transactions	-	2 466 157	-	-	-	2 466 157	-	-	2 466 157
Term deposits with credit institutions	-	4 516 174	-	-	-	4 516 174	9 657	-	4 525 831
Deposits with ceding undertakings	-	329	-	-	-	329	-	-	329
Loans	-	1 021 121	-	-	-	1 021 121	14 925	-	1 036 046
Receivables, including under insurance contracts	**204 639**	**1 220 702**	**81 082**	**63 243**	**266 127**	**1 835 793**	**77 146**	**529 601**	**2 442 540**
Receivables from direct insurance	195 265	887 100	77 293	62 183	147 152	1 368 993	38 526	529 601	1 937 120
Receivables from reinsurance	2 330	12 709	-	-	60	15 099	3 959	-	19 058
Other receivables	7 044	320 893	3 789	1 060	118 915 [1)]	451 701	34 661	-	486 362
Reinsurers' share in technical provisions	**67 298**	**682 036**	**-**	**-**	**-**	**749 334**	**8 037**	**-**	**757 371**
Total	**271 937**	**34 770 928**	**81 082**	**63 243**	**266 127**	**35 453 317**	**109 765**	**529 601**	**36 092 683**

[1)] including PLN 98,373 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in section 52.7 of the notes.

(in PLN '000)

18. Estimated recoveries and recourses

Estimated recoveries and recourses	31 December 2013	31 December 2012
Estimated recourses	128 524	120 373
Estimated recoveries	1 426	1 259
Total	**129 950**	**121 632**

Estimated recoveries and recourses	31 December 2013	31 December 2012
Short-term	55 369	64 101
Long-term	74 581	57 531
Total	**129 950**	**121 632**

Estimated recoveries and recourses are classified as long-term if the related cash flows are expected to occur after more than 12 months from the end of the reporting period.

(in PLN '000)

19. Deferred tax assets

Changes in deferred tax asset in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Change in composition of the group	Exchange differences	Other	Closing balance
Financial Instruments	(3 216)	400	334	(23)	3 033	528
Receivables	459	(186)	65	4	-	342
Properties	-	2 689	-	-	-	2 689
Provisions for jubilee bonuses, retirement severance pay etc.	78	(3)	-	-	-	75
Provision for bonuses and appropriation to the bonus fund	288	108	-	-	-	396
Provision for paid vacation	60	(6)	2	(2)	-	54
Other provisions and liabilities	3 564	(101)	58	(37)	-	3 484
Tax losses to be used in future periods	4 508	(3 845)	15	-	7	685
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 679	(273)	-	-	-	1 406
Tax allowance regarding operations in the special economic zone	6 543	725	-	-	-	7 268
Other	-	19	4	(1)	-	22
Total deferred tax assets	**13 963**	**(473)**	**478**	**(59)**	**3 040**	**16 949**

(in PLN '000)

Changes in deferred tax assets in the year ended 31 December 2012	**Opening balance**	**Changes recognized in the financial profit/loss**	**Changes recognized in other comprehensive income**	**Exchange differences**	**Reclassification to deferred tax liability [1)]**	**Closing balance**
Financial Instruments	(1 069)	(169)	(1 993)	15	-	(3 216)
Receivables	422	36	-	1	-	459
Properties	(7 984)	142	-	-	7 842	-
Provisions for jubilee bonuses, retirement severance pay etc.	459	(42)	-	-	(339)	78
Provision for bonuses and appropriation to the bonus fund	771	830	-	-	(1 313)	288
Provision for paid vacation	58	8	-	(6)	-	60
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	314	7	-	-	(321)	-
Financial Instruments	3 584	711	-	(146)	(585)	3 564
Tax losses to be used in future periods	10 476	(5 968)	-	-	-	4 508
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 569	110	-	-	-	1 679
Tax allowance regarding operations in the special economic zone	-	6 543	-	-	-	6 543
Total deferred tax asset	**8 600**	**2 208**	**(1 993)**	**(136)**	**5 284**	**13 963**

[1)] On 27 September 2011, nine PZU Group companies signed an agreement establishing the Tax Capital Group (the "TCG") in accordance with the Corporate Income Tax Act of 15 February 1992 (uniform text - Journal of Laws No. 74 of 2011, item 397, as amended; the "CIT Act"). The nine companies were PZU, PZU Życie, TFI PZU, PZU AM, PZU CO, PZU Pomoc SA, Ipsilon BIS SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o . The TCG has been established for three years from 1 January 2012 to 31 December 2014. As a consequence the deferred tax assets and provisions of all the consolidated companies in the CTG were netted.

(in PLN '000)

Unrecognized deferred tax asset related to tax losses which, as at 31 December 2013, were as follows:

- PZU Lietuva: PLN 75,476 thousand (as at 31 December 2012: PLN 73,150 thousand);
- PZU Lietuva Gyvybes Draudimas: PLN 12,109 thousand.

These losses can be realized at a time that is not prescribed by the provisions of law.

20. Current income tax receivables

Current income tax receivables	**31 December 2013**	**31 December 2012**
Short-term	34 895	80 646
Long-term	-	-
Total current income tax receivables	**34 895**	**80 646**

21. Deferred acquisition costs

Deferred acquisition costs	**31 December 2013**	**31 December 2012**
Short-term	548 857	512 890
Long-term	60 962	61 599
Total deferred acquisition costs	**609 819**	**574 489**

21.1 Deferred acquisition costs – non-life insurance

Changes in deferred acquisition costs in non-life insurance	**1 January – 31 December 2013**	**1 January – 31 December 2012**
Net value – opening balance	512 890	504 458
Deferred acquisition costs	571 978	538 880
Amortization for the period	(538 131)	(529 086)
Exchange differences	(261)	(1 362)
Net value – closing balance	**546 476**	**512 890**

21.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	**1 January – 31 December 2013**	**1 January – 31 December 2012**
Net value – opening balance	61 599	65 385
Deferred acquisition costs	3 367	-
Amortization for the period	(4 719)	(3 786)
Change in composition of the group	3 156	-
Exchange differences	(60)	-
Net value – closing balance	**63 343**	**61 599**

22. Other assets

Other assets	**31 December 2013**	**31 December 2012**
Prepayments relating to reinsurance	63 272	54 335
IT expenses	18 202	11 274
Inventories:	93 240	80 214
- materials	39 572	36 026
- products and goods	53 422	43 801
- claim recoveries	246	387
Other assets	20 735	32 823
Total other assets	**195 449**	**178 646**

(in PLN '000)

Other assets	**31 December 2013**	**31 December 2012**
Short-term	192 664	175 251
Long-term	2 785	3 395
Total other assets	**195 449**	**178 646**

Inventories

Inventories (other information)	**31 December 2013**	**31 December 2012**
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	246	409
Book value of inventories pledged as security for liabilities	19 800	39 600

In 2013 the companies in the PZU Group recognized a reverseal of impairment loss on the inventories of PLN 150 thousand (in 2012 recognition of impairment loss of PLN 498 thousand).

23. Cash and cash equivalents

Structure of cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	**31 December 2013**	**31 December 2012**
Cash in hand and at bank	545 873	126 440
Other cash	2 393	10 146
Total cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	**548 266**	**136 586**

Additional information to the consolidated cash flow statement

The consolidated cash flow statement includes cash of limited disposability concerning:

- Prevention Funds – pursuant to Polish laws and the internal regulations adopted by the PZU Group companies on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities;
- cash relating to the "Autowypłata" service provided by Bank Pekao SA and consisting in freezing cash in the bank account up to the amount of claim to be paid out, previously registered in the e-banking system.

24. Assets held for sale

Assets held for sale before reclassification	**31 December 2013**	**31 December 2012**
Property, plant and equipment	55 786	42 492
Investment property	123 111	4 470
Total assets held for sale before reclassification	**178 897**	**46 962**

Property, plant and equipment include mainly real property, technical equipment and machinery previously used by Armatura Group for own purposes, in the amount of PLN 37,407 thousand (as at 31 December 2012: PLN 41.821 thousand).

"Investment property" presents property held by PZU and PZU Życie for sale as part of the portfolio optimization project.

25. Issued share capital and other equity attributable to the shareholders of the parent

25.1 Share capital

All shares are fully paid.

(in PLN '000)

As at 31 December 2013

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue (in PLN)	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	none	4 011	4 011	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	none	60 442 309	60 442 309	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	none	25 905 980	25 905 980	contribution in kind	31.03.1999	01.01.1999
Total numer of shares				**86 352 300**				
Total share capital					**86 352 300**			

As at 31 December 2012

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue (in PLN)	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	none	7 602	7 602	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	none	60 438 718	60 438 718	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	none	25 905 980	25 905 980	contribution in kind	31.03.1999	01.01.1999
Total numer of shares				**86 352 300**				
Total share capital					**86 352 300**			

25.1.1. Shareholders of PZU

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

As at 31 December 2013

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	30 385 253	35.1875%
2	Other shareholders	55 967 047	64.8125%
Total		**86 352 300**	**100,00%**

As at 31 December 2012

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	30 385 253	35.1875%
2	Other shareholders	55 967 047	64.8125%
Total		**86 352 300**	**100,0000%**

25.1.2. Transactions involving significant packages of PZU shares

Between 1 January 2013 and the date of signing these consolidated financial statements, as a result of WSE transactions, ING Otwarty Fundusz Emerytalny (the "ING Fund") first increased and then reduced the number of PZU shares held below the level of 5% of votes at the general meeting. Information concerning the aforesaid transactions was presented in the current reports of PZU (dated 7 February 2013 and 6 June 2013, respectively).

25.1.3. Highest-level parent company of PZU

As at 31 December 2013 the State Treasury of the Republic of Poland (the "State Treasury") held 35.1875% of PZU shares giving the right to 35.1875% of votes at the Shareholders' Meeting. Therefore, the there was no higher-level parent company of PZU drawing up its consolidated financial statements.

(in PLN '000)

25.1.4. Distribution of profit of the parent company

As regards the distributable profit for 2013 and the preceding years, only the profit disclosed in the separate financial statements of the parent company, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

25.1.4.1. Distribution of profit for 2012

On 23 May 2013, the General Shareholders' Meeting of PZU decided on distribution of the net profit for 2012 in the amount of PLN 2,580,720 thousand in the following manner:

- PLN 2,564,663 thousand for dividend paid to shareholders, i.e. PLN 29.70 per share;
- PLN 6,057 thousand thousand for supplementary capital;
- PLN 10,000 thousand to the Company's Social Benefits Fund.

The cum dividend date was determined at 23 August 2013, and the dividend payment date at 12 September 2013.

Proceedings against PZU concerning revocation of resolutions on distribution of PZU's profit for the 2006 financial year have been presented in detail in Section 52.1.

25.1.4.2. Interim dividend for 2013

On 26 August 2013, the Management Board of PZU adopted a resolution concerning payment of interim dividend for 2013 in the amount of PLN 1,727,046 thousand, i.e. PLN 20.00 per share, in accordance with Article 349 of the Code of Commercial Companies, from the profit generated for the period of 6 months ended 30 June 2013 in the amount of PLN 4,679,913 thousand, as per the separate financial statements of PZU prepared for the aforesaid period in compliance with PAS.

On the same day, the Supervisory Board granted their consent for payment of the aforementioned interim dividend. The record date was set as 12 November 2013 and the payment date – as 19 November 2013.

25.1.4.3. Distribution of profit for 2013

By the date of signing these consolidated financial statements, the Management Board of PZU has not adopted a resolution on distribution of profit for 2013.

25.2 Revaluation reserve

Revaluation reserve	**31 December 2013**	**31 December 2012**
Revaluation of financial instruments available for sale	118 832	238 961
Reclassification of real property from property, plant and equipment to investment property	123 512	124 281
Revaluation reserve total	**242 344**	**363 242**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Opening balance	238 961	161 307
Changes	(120 129)	77 654
- change in fair value	174 945	502 017
- impairment losses	-	14 546
- sale	(295 074)	(438 909)
Closing balance	**118 832**	**238 961**

(in PLN '000)

25.3 Exchange differences from translation

Exchange differences from translation	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	(38 004)	(32 263)
Changes relating to subsidiaries	267	(5 741)
Closing balance	**(37 737)**	**(38 004)**

26. Technical provisions

26.1 Technical provisions – non-life insurance

Technical provisions – non-life insurance	31 December 2013	31 December 2012
Provision for unearned premiums	4 428 845	4 435 516
Provision for unexpired risks	8 770	8 202
Provisions for claims outstanding	6 041 030	5 362 089
Provision for capitalized value of annuity claims	5 761 332	5 660 281
Provisions for bonuses and rebates for the insured	2 277	2 812
Total technical provisions	**16 242 254**	**15 468 900**

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2013	31 December 2012
Accident and sickness insurance (class 1 and 2)	383 967	376 993
TPL motor insurance (class 10)	10 452 238	9 856 594
Other motor insurance (class 3)	1 664 589	1 675 657
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	70 633	79 854
Insurance against fire and other damage to property (classes 8 and 9)	1 377 179	1 237 683
TPL insurance (classes 11, 12, 13)	1 947 727	1 761 286
Credit insurance and suretyship (classes 14, 15)	135 806	262 911
Assistance (class 18)	121 669	116 033
Legal protection (class 17)	2 627	2 242
Other (class 16)	85 819	99 647
Total technical provisions	**16 242 254**	**15 468 900**

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2013	31 December 2012
Accident and sickness insurance (class 1 and 2)	383 795	383 725
TPL motor insurance (class 10)	10 246 315	9 476 320
Other motor insurance (class 3)	1 635 612	1 650 199
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	59 173	66 252
Insurance against fire and other damage to property (classes 8 and 9)	1 230 550	1 117 034
TPL insurance (classes 11, 12, 13)	1 896 918	1 705 981
Credit insurance and suretyship (classes 14, 15)	86 202	141 968
Assistance (class 18)	121 126	115 482
Legal protection (class 17)	2 627	2 242
Other (class 16)	53 417	60 363
Total technical provisions	**15 715 735**	**14 719 566**

Technical provisions – non-life insurance	31 December 2013	31 December 2012
Short-term	3 245 725	3 252 782
Long-term	12 996 529	12 216 118
Total technical provisions	**16 242 254**	**15 468 900**

(in PLN '000)

Provisions are classified as long-term if the related cash flows are expected to occur after more than 12 months from the end of the reporting period.

26.2 Technical provisions – life insurance

Technical provisions - life insurance	31 December 2013	31 December 2012
Provision for unearned premiums	102 396	93 449
Life insurance provision	16 048 191	15 675 243
Provisions for claims outstanding	545 751	516 356
Provisions for bonuses and rebates for the insured	616	1 415
Other technical provisions	477 987	531 617
Provision for unit-linked insurance	3 907 221	3 113 798
Total technical provisions	**21 082 162**	**19 931 878**

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Section 4.4), which are as follows:

Technical provisions – old portfolio	31 December 2013	31 December 2012
Life insurance provision	485 757	501 766
Other technical provisions	199 699	215 735
IBNR and RBNP provisions	2 873	4 579
Total technical provisions – old portfolio	**688 329**	**722 080**

27. Investment contracts

Investment contracts – carrying amount	31 December 2013	31 December 2012
Investment contracts with guaranteed and fixed terms and conditions	1 250 492	1 297 224
- measured at amortized cost	1 250 492	1 297 224
Unit linked investment contracts	870 545	1 001 923
Total investment contracts – carrying amount	**2 121 037**	**2 299 147**

Upon initial recognition, unit-linked investment contracts were designated as financial liabilities measured at fair value through profit or loss.

The fair value of liabilities under investment contracts with guaranteed and fixed terms and conditions does not differ substantially from the carrying amount.

Financial assets related to investment contracts:

- with guaranteed and fixed terms – bank deposits presented as "Loans – term deposits with credit institutions" (Section 14.4) or treasury bonds classified mainly as held to maturity;
- unit-linked – include mainly units in investment funds, recognized as "Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not quoted on a regulated market", derivatives recognized as "Financial instruments measured at fair value through profit or loss – held for trading – derivatives" (presented in Section 14.3) and bank deposits.

(in PLN '000)

28. Provisions for employee benefits

Due to the adopted accounting principles and the fact that the PZU Group companies did not separate defined benefit assets, the carrying amount of defined benefit provisions is equal to the present value of the corresponding liabilities.

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Section 4.8.

Provisions for employee benefits	31 December 2013	31 December 2012
Provision for unused annual leave	60 094	46 658
Post-employment benefits	31 365	28 605
- defined benefit plans	12 141	12 145
- provisions for retirement severance pay	19 224	16 460
- provisions for death benefits	31 921	32 044
Other long-term employee benefits	-	1 191
- other [1]	31 921	30 853
Total provisions for employee benefits	**123 380**	**107 307**

[1] This item includes mainly a provision for post-employment social benefits, as referred to in Section 3.19.3.

Net revenue and expenses recognized in profit or loss and related to provisions for employee benefits	1 January - 31 December 2013	1 January - 31 December 2012
Net revenue (expenses) recognized in profit or loss	**(4 574)**	**176 705**
Defined benefit plans	(5 700)	67 043
- provisions for retirement benefits	(2 654)	68 770
- provisions for death benefits	(3 046)	(1 727)
Other long-term employee benefits	1 126	109 662
- provisions for jubilee bonuses	1 191	109 516
- other	(65)	146
Net revenue (expenses) recognized in other comprehensive income	**902**	**-**
Defined benefit plans	902	-
- provisions for retirement benefits	862	-
- provisions for death benefits	40	-
Total net revenue and expenses recognized in profit or loss and related to provisions for employee benefits	**(3 672)**	**176 705**

(in PLN '000)

28.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	12 145	93 832
Changes recognized in profit or loss	2 654	(68 770)
- current service cost	1 084	3 113
- past service cost	440	(64 225)
- interest income or expense	1 130	1 974
- actuarial gains and (losses) recognized in the period	nd. [1]	(9 632)
Remeasurement of provision (changes recognized in other comprehensive income)	(862)	n/a
- actuarial gains and losses resulting from changes in demographic assumptions	113	n/a
- actuarial gains and losses resulting from changes in financial assumptions	(975)	n/a
Benefits paid	(1 806)	(12 917)
Change in composition of the group	10	-
Closing balance	**12 141**	**12 145**

[1] Following revision of IAS 19, effective from 2013 actuarial gains and losses are presented in other comprehensive income and not in profit or loss (as it was in 2012).

Total expected cash flows from retirement benefits since the end of the reporting period	
Up to 3 months	64
Over 3 months and up to 1 year	494
Over 1 year and up to 5 years	3 040
Over 5 years	65 092
Total	**68 690**

28.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	16 460	14 829
Changes recognized in profit or loss	3 046	1 727
- current service cost	1 369	1 392
- past service cost	1 334	14
- interest income or expense	343	268
- actuarial gains and losses recognized in the period	n/a [1]	53
Remeasurement of provision (changes recognized in other comprehensive income)	(40)	n/a
- actuarial gains and losses resulting from changes in demographic assumptions	896	n/a
- actuarial gains and losses resulting from changes in financial assumptions	(936)	n/a
Benefits paid	(242)	(96)
Closing balance	**19 224**	**16 460**

[1] Following revision of IAS 19, effective from 2013 actuarial gains and losses are presented in other comprehensive income and not in profit or loss (as it was in 2012).

Total expected cash flows from death benefits since the end of the reporting period	
Up to 3 months	56
Over 3 months and up to 1 year	957
Over 1 year and up to 5 years	5 798
Over 5 years	76 972
Total	**83 783**

(in PLN '000)

29. Other provisions

Changes in other provisions in the year ended 31 December 2013	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring expenses	58 194	-	(39 568)	(18 626)	-
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	2 687	388	-	-	3 075
Provision for the Office of Competition and Consumer Protection penalties	138 310	-	(5 613)	(13 148)	119 549
Provision for exit costs of the GraphTalk project	49 925	1 483	-	(464)	50 944
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8 836	477	(329)	(1 583)	7 401
Other	8 588	6 688	(103)	(4 152)	11 021
Other provisions total	**267 456**	**9 036**	**(45 613)**	**(37 973)**	**192 906**

Changes in other provisions in the year ended 31 December 2012	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring expenses 2012	112 956	-	(75 862)	(27 253)	9 841
Provision for restructuring expenses 2013	-	48 353	-	-	48 353
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	4 019	352	-	(1 684)	2 687
Provision for the Office of Competition and Consumer Protection penalties	137 035	1 275	-	-	138 310
Provision for exit costs of the GraphTalk project	50 349	628	-	(1 052)	49 925
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8 095	1 562	(821)	-	8 836
Other	8 693	6 367	(1 217)	(5 255)	8 588
Other provisions total	**322 063**	**58 537**	**(77 900)**	**(35 244)**	**267 456**

Other provisions	31 December 2013	31 December 2012
Short-term	177 307	252 310
Long-term	15 599	15 146
Other provisions total	**192 906**	**267 456**

Position „Provision for the Office of Competition and Consumer Protection penalties" are described in section 52.2 and 52.3.

Provisions for restructuring expenses are described in section 55.5.

Provision for the GraphTalk project exit costs at PZU Życie

The total "Provision for the GraphTalk project exit costs" includes the provision created for the costs of closing the IT GraphTalk project.

The aforementioned provision is created on the basis of estimated expenditures required to complete the GraphTalk project, indicating the risk of non-achievement of the project goals and the expected economic benefits. Additionally the provisions amount includes estimation of costs of litigation with CSC Computer Sciences Sp. z o.o. – the issue is described section 52.4.

Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution

A detailed method for determining and settlement of undue premiums to be returned is regulated in Article 100a of the Act on organization and operation of pension funds of 28 August 1997 (Journal of Laws of 2013 item 989 as amended) pursuant to which if premiums unduly received are returned, the nominal amount of the service fee collected by the society managing a given fund should be returned to the Social Insurance Institution too.

Since 2008, PTE PZU has been recognizing a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The estimation of the value of the provision is based on the information provided by the Social Insurance Institution regarding premiums for 1999 – 2013 and the service fee on the premium collected by PTE PZU less the fee reducing the premiums transferred by the Social Insurance Institution.

The reimbursement date of the handling fees collected may not be determined as by the date of signing these consolidated financial statements the Social Insurance Institution had not provided all the information required to calculate the value of the accounting units subject to withdrawal from the individual accounts of OFE PZU members.

(in PLN '000)

30. Deferred tax liability

Changes in deferred tax liability in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehe-nsive income	Changes in the consolidation scope	Other changes	Closing balance
Financial instruments	358 165	(68 666)	(42 802)	(544)	759	246 912
Recourse receivables	(3 706)	1 307	-	-	-	(2 399)
Real property	29 609	(18 394)	3 185	(1 129)	-	13 271
Deferred acquisition costs	110 752	(46)	-	-	-	110 706
Accrued revenue and reinsurance costs	(21 208)	1 176	-	-	-	(20 032)
Provisions for jubilee bonuses, retirement severance pay etc.	(13 856)	(444)	-	-	-	(14 300)
Provision for bonuses and appropriation to the bonus fund	(41 488)	1 663	-	(1 374)	-	(41 199)
Provisions for employee vacation	(5 680)	(1 385)	-	(134)	-	(7 199)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(41 074)	(11 307)	-	(8)	-	(52 389)
Other provisions and accruals	(107 977)	(864)	-	733	-	(108 108)
Prevention Fund	15 326	16 071	-	-	-	31 397
Equalization reserve	110 915	1 201	-	-	-	112 116
Other differences	(32 221)	19 018	-	(246)	72	(13 377)
Total deferred tax liability	**357 557**	**(60 670)**	**(39 617)**	**(2 702)**	**831**	**255 399**

(in PLN '000)

Changes in deferred tax liability in the year ended 31 December 2012	**Opening balance**	**Changes recognized in the financial profit/loss**	**Changes recognized in other comprehensive income**	**Reclassification from deferred tax assets**	**Closing balance**
Financial instruments	66 546	271 561	20 058	-	358 165
Recourse receivables	(6 982)	3 276	-	-	(3 706)
Real property	12 560	5 256	3 951	7 842	29 609
Deferred acquisition costs	105 999	4 753	-	-	110 752
Deferred acquisition costs relating to PZU OPF	(917)	1 986	-	-	1 069
Accrued revenue and reinsurance costs	(10 771)	(10 437)	-	-	(21 208)
Provisions for jubilee bonuses, retirement severance pay etc.	(50 169)	36 652	-	(339)	(13 856)
Provision for bonuses and appropriation to the bonus fund	(40 859)	684	-	(1 313)	(41 488)
Provisions for employee vacation	(5 000)	(680)	-	-	(5 680)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(35 802)	(4 950)	-	(322)	(41 074)
Other provisions and accruals	(95 468)	(11 924)	-	(585)	(107 977)
Prevention Fund	13 103	2 223	-	-	15 326
Equalization reserve	111 872	(957)	-	-	110 915
Life insurance technical provisions	76 434	(76 434)	-	-	-
Provision for restructuring expenses	(21 462)	10 405	-	-	(11 057)
Other differences	(9 368)	(12 865)	-	-	(22 233)
Total deferred tax liability	**109 716**	**218 549**	**24 009**	**5 283**	**357 557**

Offsetting of deferred tax assets and liabilities in companies included in TCG is described in section 19.

(in PLN '000)

31. Current income tax liabilities

As at 31 December 2013 and 31 December 2012 all current income tax liabilities were short-term.

32. Other liabilities

Other liabilities	31 December 2013	31 December 2012
Accrued expenses	**638 382**	**625 892**
Accrued costs of agency commissions	209 871	194 341
Accrued payroll costs	121 415	128 296
Accrued costs of reinsurance	194 079	172 246
Accrued employee bonuses	84 064	102 403
Other	28 953	28 606
Deferred income	**17 738**	**10 420**
Other liabilities	**8 270 255**	**2 420 155**
Liabilities due to direct insurance	634 831	649 023
Liabilities due to reinsurance	53 738	54 470
Liabilities from sell-buy-back transactions	5 124 161	839 969
Liabilities from credits and loans	227 353	166 276
Liabilities to participants in the consolidated investment funds	267 335	-
Liabilities to the State Treasury, other than income tax	147 721	19 407
Public law obligations: Social Insurance Institution, PFRON, Company's Social Benefits Fund and other	23 195	21 234
Liabilities to employees	3 481	2 995
Insurance Guarantee Fund	10 231	7 373
Due to acquired securities and margin deposits	1 528 953	438 840
Dividend liabilities to PZU shareholders	3 321	3 453
Trade payables to suppliers	69 273	72 092
Estimated non-insurance liabilities [1)]	125 673	108 694
Other	50 989	36 329
Total other liabilities	**8 926 375**	**3 056 467**

As at 31 December 2013 and 31 December 2012 the fair value of other liabilities did not differ substantially from their carrying amount.

Liabilities by contractual maturity	31 December 2013	31 December 2012
Up to 1 year	8 498 477	3 047 393
Over 1 year and up to 5 years	158 458	6 785
Over 5 years	269 440	2 289
Total liabilities by contractual maturity	**8 926 375**	**3 056 467**

32.1 Liabilities due to direct insurance

Liabilities due to direct insurance	31 December 2013	31 December 2012
Liabilities to policyholders	368 130	352 144
Liabilities to insurance intermediaries	164 948	149 608
Other insurance liabilities	101 753	147 271
Total liabilities due to direct insurance	**634 831**	**649 023**

(in PLN '000)

32.2 Liabilities due to reinsurance

Liabilities due to reinsurance	31 December 2013	31 December 2012
Liabilities due to inward reinsurance	9 277	458
Liabilities due to outward reinsurance	43 184	54 012
Liabilities due to retrocession	1 277	-
Total liabilities due to reinsurance	**53 738**	**54 470**

32.3 Liabilities due to sell-buy-back transactions

The transactions were secured with treasury bonds, described in section 50.1.

The basic characteristic of sell-buy-back transactions as at 31 December 2013 is presented below.

Maturity date	Carrying amount	Currency	Carrying amount of collateral	Collateral	Quantity
up to 1 month	4 615 971	PLN	4 615 396	State Treasury bonds	4 592 800
up to 2 months	401 215	PLN	401 030	State Treasury bonds	426 220
up to 3 months	106 975	PLN	107 564	State Treasury bonds	100 000
Total	**5 124 161**		**5 123 990**		**5 119 020**

32.4 Operating lease liabilities

The majority of operating lease liabilities result from rental of retail and office space. The current policy provides for agreements concluded for a limited period of 3 or 5 years with an option of extension.

Liabilities due to minimum operating lease payments	31 December 2013	31 December 2012
Up to 1 year	27 040	35 885
Over 1 year and up to 5 years	43 152	54 199
Over 5 years	5 792	11 577
Total liabilities due to minimum operating lease payments	**75 984**	**101 661**

Operating lease charges presented in profit or loss for the period	1 January - 31 December 2013	1 January - 31 December 2012
Minimum operating lease payments	61 088	72 700
Sublease payments	(12)	(68)
Total	**61 076**	**72 632**

33. Gross written premium

Gross written premium	1 January - 31 December 2013	1 January - 31 December 2012
Gross written premium – non-life insurance	8 656 694	8 789 154
In direct insurance	8 601 894	8 742 890
In indirect insurance	54 800	46 264
Gross written premium – life insurance	7 823 309	7 453 977
Individual premium	3 303 824	2 962 090
In direct insurance	3 303 824	2 962 090
Group insurance premium	4 519 485	4 491 887
In direct insurance	4 519 485	4 491 887
Gross written premium total	**16 480 003**	**16 243 131**

In 2013, life insurance companies (in 2012 – PZU Życie) did not carry out activities involving inward reinsurance.

(in PLN '000)

Gross written premiums in direct non-life insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2013	1 January - 31 December 2012
Accident and sickness insurance (class 1 and 2)	506 727	549 974
TPL motor insurance (class 10)	2 939 343	3 060 007
Other motor insurance (class 3)	2 125 367	2 231 466
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	50 934	58 749
Insurance against fire and other damage to property (classes 8, 9)	1 930 232	1 829 340
TPL insurance (classes 11, 12, 13)	702 963	677 873
Credit insurance and surety ship (classes 14, 15)	49 194	53 483
Assistance (class 18)	214 657	197 361
Legal protection (class 17)	848	800
Other (class 16)	81 629	83 837
Total	**8 601 894**	**8 742 890**

Gross written premiums in indirect non-life insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2013	1 January - 31 December 2012
Accident and sickness insurance (class 1 and 2)	46	44
TPL motor insurance (class 10)	98	-
Other motor insurance (class 3)	1 828	(39)
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	7 404	2 511
Insurance against fire and other damage to property (classes 8, 9)	39 446	38 122
TPL insurance (classes 11, 12, 13)	2 401	837
Credit insurance and surety ship (classes 14, 15)	61	-
Other (class 16)	3 516	4 789
Total	**54 800**	**46 264**

34. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2013	1 January - 31 December 2012
Pension insurance	**217 189**	**199 165**
Commission on handling fees	48 664	36 906
Commission on asset management for open pension fund	168 525	162 259
Investment contracts	**18 808**	**22 000**
Revenue from unit-linked investment contract fees	18 808	22 000
Other	**83 965**	**15 937**
Revenue and payments received from funds and investment fund management companies	82 854	15 937
Total revenue from commissions and fees	**319 962**	**237 102**

(in PLN '000)

35. Net investment income

Net investment income	1 January - 31 December 2013	1 January - 31 December 2012
Interest income, including:	1 696 066	1 970 194
- financial assets available for sale	58 219	298 028
- financial assets held to maturity	1 156 453	1 206 223
- loans	476 906	463 221
- cash and cash equivalents	4 488	2 722
Dividend income, including:	127 135	155 721
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	5 456	145
- financial assets held for trading	74 899	119 817
- financial assets available for sale	46 780	35 759
Income from property investments	120 328	24 728
Exchange differences, including:	5 695	(35 452)
- financial assets held to maturity	1 512	(11 149)
- financial assets available for sale	(503)	(4 516)
- loans	6 489	(14 843)
- receivables, including under insurance contracts	(1 128)	(4 357)
- cash and cash equivalents	(675)	(587)
Other, including:	(104 292)	(68 137)
- costs of investment activities	(42 869)	(56 102)
- investment property maintenance costs	(61 423)	(24 026)
- other	-	11 991
Total net investment income	**1 844 932**	**2 047 054**

(in PLN '000)

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

Net profit/loss on realization and impairment loss on investments	1 January - 31 December 2013	1 January - 31 December 2012
Net profit/loss on realization of investments	**71 827**	**592 899**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	104 153	184 906
- equity instruments	112 992	12 022
- debt securities	(8 839)	172 884
Financial assets held for trading, including:	16 885	131 588
- equity instruments	75 790	80 789
- debt securities	(41 517)	37 701
- derivatives	(17 388)	13 098
Financial assets available for sale, including:	30 686	425 942
- equity instruments	12 105	174 912
- debt securities	18 581	251 030
Financial assets held to maturity, including:	6 440	2 052
- debt securities held to maturity	6 440	2 052
Loans	(33)	-
Receivables, including under insurance contracts	(98 997)	(151 920)
Investment property	4 430	331
Companies measured using the equity method [1)]	8 263	-
Impairment losses	**(46 782)**	**(71 631)**
Financial assets available for sale, including:	(110)	(14 915)
- equity instruments	(110)	(14 915)
Receivables, including under insurance contracts	(46 672)	(54 246)
Cash and cash equivalents	-	(2 470)
Total net profit/loss on realization and impairment loss on investments	**25 045**	**521 268**

[1)] Result on disposal of KGJK, described in section 2.3.4.

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

Net change in the fair value of assets and liabilities measured at fair value	1 January - 31 December 2013	1 January - 31 December 2012
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	203 353	483 812
- equity instruments	49 203	2 665
- debt securities	154 150	481 147
Financial instruments held for trading, including:	371 781	645 081
- equity instruments	207 387	434 775
- debt securities	142 761	194 157
- derivatives	21 633	16 149
Investment property	(99 206)	7 514
Measurement of liabilities to participants in consolidated investment funds	(30 647)	-
Consolidation of investment funds, including:	172 810	-
- amount reclassified from the "Revaluation reserve" to the consolidated profit or loss upon consolidation	184 627	-
- amount resulting from consolidation of special purpose vehicles being subsidiaries of the consolidated funds	(11 817)	-
Net change in the fair value of assets and liabilities measured to fair value	**618 091**	**1 136 407**

(in PLN '000)

38. Other operating revenue

Other operating revenue	1 January - 31 December 2013	1 January - 31 December 2012
Commission on claims handling services	7 772	7 953
Provisions released	19 347 [1)]	7 991
Released impairment losses on non-financial assets	14 688	3 368
Disposal of property, plant and equipment and property, plant and equipment under construction	3 645	3 290
Reinsurers' commissions and share in reinsurers' profit	76 856	(19 155)
Release of provisions for retirement severance pay in PZU SA and PZU Życie	-	63 865
Release of provisions for jubilee bonuses in PZU SA and PZU Życie	-	113 162
Release of provision for restructuring expenses	18 626	27 253
Non insurance companies' revenues from sales of products, goods and services	262 131	261 202
Change in the scope of consolidation and measurement using the equity method	35 392	-
Income from credit institutions	19 963	26 647
Interest from overdue payments in direct insurance nad outward reinsurance	17 264	15 691
Other	15 425	76 761
Total other operating revenue	**491 109**	**588 028**

1) The item presents, among other things, the effect of derecognition of the UOKiK provision (PLN 13,148 thousand) and the provision for PTE's refund of undue fees to the Social Insurance Institution (PLN 1,583 thousand).

The issue of consolidation of subsidiaries and measurement of associates using the equity method effective from 1 January 2013 has been presented in Section 3.4.1.

39. Insurance claims and change in technical provisions

Insurance claims and change in technical provisions	1 January - 31 December 2013	1 January - 31 December 2012
Claims and change in technical provisions – non-life insurance	5 250 037	5 776 295
Reinsurers' share in claims and change in technical provisions – non-life insurance	(33 889)	(152 446)
Claims and change in technical provisions - life insurance	5 945 240	6 595 003
Reinsurers' share in claims and change in technical provisions - life insurance	(164)	(121)
Total insurance claims and change in technical provisions	**11 161 224**	**12 218 731**

(in PLN '000)

39.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January - 31 December 2013	1 January - 31 December 2012
Gross claims and change in provisions in non-life insurance	**5 250 037**	**5 776 295**
Claims and claims handling expenses for the current period	2 876 867	3 186 582
Claims and claims handling expenses for previous periods	1 601 198	1 502 148
Change in provision for claims outstanding	771 972	1 087 565
Reinsurers' share in claims and change in provisions in non-life insurance	**(33 889)**	**(152 446)**
Claims and claims handling expenses for the current period	(9 973)	(32 034)
Claims and claims handling expenses for previous periods	(266 072)	(95 721)
Change in provision for claims outstanding	242 156	(24 691)
Net claims and change in provisions in non-life insurance	**5 216 148**	**5 623 849**
Claims and claims handling expenses for the current period	2 866 894	3 154 548
Claims and claims handling expenses for previous periods	1 335 126	1 406 427
Change in provision for claims outstanding	1 014 128	1 062 874

Change in technical provisions in non-life insurance

Change in provision for unearned premium in non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	4 435 516	(190 865)	4 244 651	4 411 652	(163 937)	4 247 715
Increase (decrease) in provisions for policies concluded in the current year	4 220 358	(160 456)	4 059 902	4 193 481	(152 296)	4 041 185
Increase (decrease) in provisions for policies concluded in previous years	(4 225 756)	140 844	(4 084 912)	(4 158 221)	124 662	(4 033 559)
Exchange differences during the period	(1 290)	537	(753)	(11 396)	706	(10 690)
Change in the consolidation scope	17	-	17			
Closing balance	**4 428 845**	**(209 940)**	**4 218 905**	**4 435 516**	**(190 865)**	**4 244 651**

Change in provision for unexpired risk in non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	8 202	(5)	8 197	13 411	(167)	13 244
Increase (decrease) in provisions for policies concluded in the current year	5 546	-	5 546	2 330	157	2 487
Increase (decrease) in provisions for policies concluded in previous years	(5 016)	(12)	(5 028)	(6 609)	(5)	(6 614)
Exchange differences during the period	38	1	39	(930)	10	(920)
Closing balance	**8 770**	**(16)**	**8 754**	**8 202**	**(5)**	**8 197**

(in PLN '000)

Change in provisions for claims outstanding in non-life insurance	**1 January - 31 December 2013**			**1 January - 31 December 2012**		
	gross	**reinsurers' share**	**net of reinsurance**	**gross**	**reinsurers' share**	**net of reinsurance**
Opening balance, including:	5 362 089	(304 051)	5 058 038	4 817 359	(283 085)	4 534 274
- for claims reported	1 970 611	(234 276)	1 736 335	1 824 201	(233 774)	1 590 427
- for claims incurred but not reported (IBNR)	2 413 008	(55 337)	2 357 671	2 171 324	(37 503)	2 133 821
- for claims handling expenses	978 470	(14 438)	964 032	821 834	(11 808)	810 026
Paid claims concerning losses incurred in previous years, including	(1 506 275)	265 311	(1 240 964)	(1 479 312)	90 206	(1 389 106)
- claims paid	(1 276 357)	261 990	(1 014 367)	(1 264 643)	87 450	(1 177 193)
- claims handling expenses	(229 918)	3 321	(226 597)	(214 669)	2 756	(211 913)
Increase (decrease) in provisions, including:	2 185 105	(130 145)	2 054 960	2 036 969	(108 895)	1 928 074
- losses incurred in the current year	1 895 793	(35 684)	1 860 109	2 078 170	(111 127)	1 967 043
- losses incurred in the previous years	289 312	(94 461)	194 851	(41 201)	2 232	(38 969)
Other changes	-	(1 834)	(1 834)	-	(5 049)	(5 049)
Exchange differences during the period	111	344	455	(12 927)	2 772	(10 155)
Closing balance	**6 041 030**	**(170 375)**	**5 870 655**	**5 362 089**	**(304 051)**	**5 058 038**
- for claims reported	2 072 193	(121 826)	1 950 367	1 970 611	(234 276)	1 736 335
- for claims incurred but not reported (IBNR)	2 615 113	(29 989)	2 585 124	2 413 008	(55 337)	2 357 671
- for claims handling expenses	1 353 724	(18 560)	1 335 164	978 470	(14 438)	964 032

Change in provision for capitalized value of annuity claims – non-life insurance	**1 January - 31 December 2013**			**1 January - 31 December 2012**		
	gross	**reinsurers' share**	**net of reinsurance**	**gross**	**reinsurers' share**	**net of reinsurance**
Opening balance	5 660 281	(254 413)	5 405 868	5 088 626	(253 524)	4 835 102
Paid claims concerning losses incurred in previous years	(179 944)	3 839	(176 105)	(174 797)	7 896	(166 901)
Increase (decrease) in provisions for losses incurred in the previous years	23 321	104 997	128 318	221 010	11 333	232 343
Adjustments resulting from revision of technical rates	(16 981)	775	(16 206)	244 950	(13 889)	231 061
Increase in provisions for losses incurred in the current year	274 655	-	274 655	265 864	-	265 864
Other changes	-	(1 378)	(1 378)	14 628	(6 229)	8 399
Closing balance	**5 761 332**	**(146 180)**	**5 615 152**	**5 660 281**	**(254 413)**	**5 405 868**

39.2 Life insurance

Insurance claims in life insurance	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Resulting from maturity	368 811	409 493
Resulting from claims paid in case of death	2 754 574	2 606 907
Resulting from morbidity	608 914	614 392
Resulting from resignation from the insurance contract	252 719	240 989
Resulting from disability and entitlement to a disability pension	5 135	5 694
Resulting from annuity claims	41 517	42 746
Resulting from childbirth	306 859	317 853
Resulting from hospital treatment	288 703	274 837
Resulting from a refund of accumulated cash and transfer payments	141 703	191 436
Other	146 889	141 080
Total insurance claims in life insurance	**4 915 824**	**4 845 427**

(in PLN '000)

All claims for 2013 and 2012 related to direct insurance.

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	93 449	-	93 449	96 333	-	96 333
Increases	103 223	(91)	103 132	93 449	1 488	94 937
Decreases	(93 711)	2	(93 709)	(96 333)	(1 488)	(97 821)
Exchange differences	(565)	3	(561)	-	-	-
Closing balance	**102 396**	**(86)**	**102 311**	**93 449**	**-**	**93 449**

Change in life insurance provision – insurance contracts	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	16 208 275	-	16 208 275	15 177 227	-	15 177 227
Increase (decrease) in provisions related to current year policies	564 859	-	564 859	520 825	-	520 825
Increase (decrease) in provisions related to prior year policies	(260 234)	-	(260 234)	(330 058)	-	(330 058)
Changes in assumptions resulting from technical interest rate changes	17 701	-	17 701	840 281	-	840 281
Exchange differences	(3 807)		(3 807)			
Closing balance	**16 526 794**	**-**	**16 526 794**	**16 208 275**	**-**	**16 208 275**

Change in provisions in life insurance - unit-linked contracts	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Net assets of the fund at the beginning of the period	3 113 798	-	3 113 798	2 299 767	-	2 299 767
Increases in the fund due to premiums	1 082 943	-	1 082 943	894 952	-	894 952
Payments deducted from the fund for risk, administration and other	(71 333)	-	(71 333)	(46 716)	-	(46 716)
Revenue from the fund's investments	123 774	-	123 774	348 852	-	348 852
Decreases in the fund due to claims, redemptions, etc.	(354 088)	-	(354 088)	(350 060)	-	(350 060)
Other decreases	(43 826)	-	(43 826)	(63 147)	-	(63 147)
Other increases	55 953	-	55 953	30 150	-	30 150
Net assets of the fund at the end of the period	**3 907 221**	**-**	**3 907 221**	**3 113 798**	**-**	**3 113 798**

(in PLN '000)

Change in provisions for claims, gross	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
RBNP at the beginning of the period	115 394	-	115 394	125 937	-	125 937
IBNR at the beginning of the period	400 962	-	400 962	486 185	-	486 185
Total RBNP and IBNR at the beginning of the period	**516 356**	**-**	**516 356**	**612 122**	**-**	**612 122**
Provisions for claims applied during the year	(516 356)	-	(516 356)	(612 122)	-	(612 122)
Provisions for claims created during the year	545 751	-	545 751	516 356	-	516 356
Total RBNP and IBNR at the end of the period	**545 751**	**-**	**545 751**	**516 356**	**-**	**516 356**
RBNP at the end of the period	138 366	-	138 366	115 394	-	115 394
IBNR at the end of the period	407 385	-	407 385	400 962	-	400 962

39.3 Claims handling costs

Claims handling costs, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	18 766	16 562
External services	185 488	208 681
Taxes and charges	15 330	12 794
Employee expenses	297 618	318 090
Depreciation of property, plant and equipment	13 603	15 157
Amortization of intangible assets	12 904	17 764
Other (by type), including:	86 582	68 906
- Default interest, penalties and damages	77 608	59 945
- other	8 974	8 961
Claims handling costs total	**630 291**	**657 954**

40. Benefits and change in measurement of investment contracts

Benefits and change in measurement of investment contracts	1 January - 31 December 2013	1 January - 31 December 2012
Resulting from investment contracts with guaranteed and fixed terms and conditions	43 536	85 140
- interest expenses included in the effective interest rate	43 536	85 140
Resulting from unit-linked investment contracts	34 179	91 640
Benefits and change in measurement of investment contracts total	**77 715**	**176 780**

(in PLN '000)

41. Acquisition costs

Acquisition costs, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	31 058	26 021
External services	86 743	93 203
Taxes and charges	5 712	6 213
Employee expenses	371 888	417 671
Amortization of property, plant and equipment	13 726	15 473
Amortization of intangible assets	12 284	16 843
Other (by type), including:	1 527 023	1 430 936
- direct business commission	1 464 182	1 374 805
- advertisement	51 854	44 362
- indirect business commission	5 218	4 493
- other	5 769	7 276
Change in deferred acquisition costs	(32 496)	(6 009)
Total acquisition costs	**2 015 938**	**2 000 351**

42. Administrative expenses

Administrative expenses, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	44 763	47 333
External services	202 192	209 587
Taxes and charges	37 137	36 365
Employee expenses	715 242	734 357
Amortization of property, plant and equipment	44 223	49 719
Amortization of intangible assets	33 819	39 283
Remuneration of individuals maintaining group insurance with employers	208 165	217 510
Other (by type), including:	120 939	106 147
- advertisement	77 633	81 608
- other	43 306	24 539
Total administrative expenses	**1 406 480**	**1 440 301**

Administrative expenses include also costs of insurance activity, not classified as acquisition costs, related to collected premium, management of the portfolio of insurance contracts, reinsurance contracts and other related to the operations of the insurance companies of the PZU Group as specified in their by-laws.

"Taxes and charges" includes PTE PZU business expenses.

43. Employee expenses

Employee expenses	1 January - 31 December 2013	1 January - 31 December 2012
Payroll	1 138 055	1 194 070
Defined contributions plans; including	249 252	250 008
- overheads	189 517	189 044
- third pillar pension insurance, including costs of premium to PPE incurred in the period	59 735	60 964
Other	69 741	67 721
Total employee expenses	**1 457 048**	**1 511 799**

As at 31 December 2013, PZU, PZU Życie and PZU CO had pillar-three pension plans for their employees - defined contribution plans - paid by the employer in addition to the salary defined in the employment contract, accounting for 7% of the gross salary. In the case of PZU and PZU CO, the plans are managed by MPTE. PZU Życie manages the plan itself.

(in PLN '000)

44. Other operating expenses

Other operating expenses	1 January - 31 December 2013	1 January - 31 December 2012
Costs of core business of non-insurance companies	270 895	273 737
Impairment of non-financial assets	54 039	6 696
Compulsory payments to the insurance market authorities	51 046	52 995
Expenses due to prevention activities	40 752	18 697
Insurance Guarantee Fund	36 703	29 560
Donations [1)]	35 467	51 067
Change in the scope of consolidation	35 134	-
National Headquarters of the State Fire Service and Volunteer Fire Service Association	30 215	28 617
Recognition of provisions	9 036	8 909
Rechargeable expenses	7 429	7 861
Costs of acquisition for investment fund management companies	1 850	2 679
Net value of property, plant and equipment and property, plant and equipment under construction sold	897	1 850
Default interest, penalties and damages	505	991
Costs relating to loss adjusting services	264	179
Recognition of UOKiK provision	-	1 275
Recognition of provision for restructuring and reorganization expenses	-	48 353
Other	131 367	85 272
Total other operating expenses	**705 599**	**618 738**

[1)] inclduing donations to PZU Foundation in amount of PLN 32,000 thousand (in 2012 PLN 50,000 thousand).

The issue of consolidation of subsidiaries and affiliates valued under the equity method from 1 January 2013 was presented in section 3.4.1.

45. Financial expenses

Financial expenses	1 January - 31 December 2013	1 January - 31 December 2012
Interest, including:	60 663	41 818
- loans	45 218	34 939
- credit facilities	14 453	6 879
- other	992	-
Other, including:	1 001	(328)
- exchange differences	557	(374)
- other	444	46
Total financial expenses	**61 664**	**41 490**

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

(in PLN '000)

46. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January - 31 December 2013	1 January - 31 December 2012
Financial assets	7 498	(30 508)
- financial assets held to maturity	1 512	(11 149)
- financial assets available for sale	(503)	(4 516)
- loans	6 489	(14 843)
Receivables, including under insurance contracts	(1 128)	(4 357)
Cash and cash equivalents	(675)	(587)
Other liabilities	4	(8)
Total exchange differences recognized in the consolidated income statement	**5 699**	**(35 460)**

The statement does not include exchange differences concerning technical provisions as they cannot be determined due to the adopted method of calculation of the above provisions.

47. Income tax

Income tax	1 January - 31 December 2013	1 January - 31 December 2012
Gross profit (loss) (consolidated)	4 120 692	4 038 708
CIT rate (or range of rates) for the country of the registered office of the parent (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country of the registered office of the parent	782 931	767 355
Differences between the income tax calculated above and the income tax recognized in the income statement:	42 648	17 527
- tax losses	(874)	(3 066)
- fines, contractual penalties	1 678	796
- dividends	(4 025)	(19 806)
- measurement of financial assets	(17 362)	7 628
- created/released write-downs on receivables not classified as tax deductible expenses	4 137	30 628
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	51 401	(9 115)
- unrealized gains and losses on outward reinsurance	(4 033)	(1 266)
- tax on insurance activities in Ukraine	4 585	4 673
- amortization	448	602
- other tax increase, cancellation, exemption, deduction and reduction	6 693	6 453
Income tax recognized in the profit or loss	**825 579**	**784 882**

Total current and deferred tax	1 January - 31 December 2013	1 January - 31 December 2012
1. Recognized in profit or loss, including:	**825 579**	**784 882**
- current tax	885 776	568 541
- deferred tax	(60 197)	216 341
2. Recognized in other comprehensive income, including:	**(39 617)**	**26 002**
- current tax	-	-
- deferred tax	(39 617)	26 002

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo frequent changes. Valid regulations contain unclear issues which result in a difference in opinions regarding legal interpretation of these regulations, both among competent authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duty or foreign currency settlements) may be controlled by authorities competent to levy high penalties, and additional liability amounts assessed during control bear high interest. As a result, the tax risk in Poland, Lithuania and Ukraine exceeds the level characteristic of countries with better developed tax systems. In Poland tax returns are subject to control over a period of five years. Consequently, the amounts presented in these consolidated financial statements may change at a later date, after they have been finally assessed by tax authorities.

(in PLN '000)

48. Income tax presented in other comprehensive income

Income tax presented in other comprehensive income	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Other comprehensive income	(144 127)	114 662
Income tax	39 617	(26 002)
Financial assets available for sale	42 802	(22 051)
Real property reclassified from property, plant and equipment to investment property	(3 185)	(3 951)
Other comprehensive income gross	**(104 510)**	**88 660**

49. Revenue from the exchange of goods and services

In 2013 and 2012, the PZU Group did not recognized any revenue from the exchange of goods and services.

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

50.1 Financial assets used as security of liabilities

As at 31 December 2013 the treasury bonds with the carrying amount of PLN 5,123,990 thousand (31 December 2012: PLN 840,495 thousand) held by the companies in the PZU Group were used as a collateral of the sell-buy-back transactions described in section 32.3.

50.2 Financial assets used as collateral for originated loans

As at 31 December 2013 and 31 December 2012, PZU and PZU Życie were party to buy-sell-back transactions and extended loans secured by financial assets.

Information about the values of the transactions has been provided in section 14.4.

50.3 Property, plant and equipment

As at 31 December 2013, assets held for sale were mortgaged up to the total amount of PLN 49,146 thousand in order to collateralize loan agreements.

As at 31 December 2012 the assets held for sale were mortgaged up to PLN 10,000 thousand in order to provide collateral for the contingent agreement.

(in PLN '000)

51. Contingent assets and liabilities

Contingent assets and liabilities	**31 December 2013**	**31 December 2012**
Contingent assets, including:	35 231	17 746
- guarantees and sureties received	21 259	17 746
- other[1)]	13 972	-
Contingent liabilities	144 576	210 459
- guarantees and sureties issued	6 842	6 790
- disputable claims related to insurance	92 535	69 651
- other disputable claims	17 270	53 541
- other, including:	27 929	80 477
- potential liabilities arising from loan agreements entered into by the Armatura Group	27 622	49 702
- potential liabilities arising from disposal of real property by the Armatura Group	-	30 000

1) "Other" includes financial assets pledged as collateral for transactions involving derivatives.

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

In 2013, neither PZU nor its subsidiaries gave credit facility/loan collateral or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

51.2 Potential litigation relating to the continued family insurance portfolio

In 1998, proceedings before the Supreme Court regarding revaluation of the sum insured in continued family insurance were concluded, as a result of which PZU Życie was obliged to pay claims exceeding the amount under the insurance contract. Additionally, in several cases district courts issue similar judgments.

According to PZU Życie, the insured under individually continued family insurance policies have been entitled to increase the sum insured. Therefore, any claims regarding revaluation are groundless if the sum insured has not been increased. If in similar cases courts issue judgments on claims revaluation above the sum insured, it will have adverse consequences for the Polish insurance system as a whole. If in the future claims are filed or lawsuits brought by the insured against PZU Życie regarding continued family insurance, the Company will firmly oppose revaluation of claims above the sum insured specified in the policy.

Therefore, according to the Management Board of PZU Życie, there are no reasonable grounds for disclosing any provisions for potential claims relating to the continued family insurance portfolio in these consolidated financial statements.

52. Dispute

The entities in the PZU Group are parties to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for the PZU Group.

Most disputes the PZU Group companies are parties to pertain to two companies: PZU and PZU Życie. In addition PZU and PZU Życie participate in the proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

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

In 2013 and by the date of submission of these consolidated financial statements, the PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU.

As of 31 December 2013 the total value of all 61.616 cases held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group companies was PLN 2,545,751 thousand. The amount includes PLN 1,967,952 thousand of liabilities and PLN 577,799 thousand of receivables of the PZU Group companies, which constituted 16.05% and 4.71% of PZU equity calculated in accordance with PAS, respectively.

52.1 Resolution of General Shareholders meeting of PZU regarding 2006 profit distribution

A petition of 30 July 2007 initiated an action of Manchester Securities Corporation against PZU regarding cancellation of GSM Resolution no. 8/2007 of 30 June 2007 regarding distribution of PZU profit for 2006 as non-compliant with good practices and acting to the detriment of the claimant, a shareholder of PZU.

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

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

In its decision of 22 January 2010, the District Court in Warsaw cancelled the above resolution. On 17 February 2010, PZU appealed against the decision of the District Court in Warsaw.

In a decision of 6 December 2011, the Appellate Court in Warsaw dismissed the complaint of PZU against the decision of the District Court in Warsaw of 22 January 2010. As of the date of decision by the Appellate Court, the decision issued by the District Court on 22 January 2010 that cancelled the above resolution of the General Shareholders Meeting became legally binding.

On 7 December 2011, PZU motioned for a written rationale for the decision of the Appellate Court in Warsaw of 6 December 2011. On 2 April 2012, the decision with rationale was delivered to PZU. On 29 May 2012, PZU lodged a cassation appeal regarding the entire decision of the Appellate Court of 6 December 2011. During its session on 27 March 2013, the Supreme Court pronounced a judgment whereby the cassation complaint was dismissed and the court fees, including the legal representation costs, were imposed on PZU. According to the Code of Civil Procedure, the judgment of the Supreme Court is final and it may not be appealed against.

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

Regardless of the above, following the decision cancelling the above resolution becoming effective, the agenda of GSM of 30 May 2012 included a point regarding distribution of profit for 2006.

The Management Board recommended distributing the 2006 profit in a manner corresponding to the resolution cancelled with the above decisions, since after its passing, PZU paid dividend for 2009 using funds retained based on that resolution.

On 30 May 2012 GMS decided to distribute the profit for 2006 in a manner corresponding to the cancelled resolution. Manchester Securities Corporation objected against the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of complaint lodged by Manchester Securities Corporation in the District Court in Warsaw, in which the plaintiff requested cancellation of the resolution of 30 May 2012 regarding distribution of 2006 profit with the value of the disputable object determined at PLN 5,054 thousand. PZU responded, requesting dismissal of the entire claim.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in whole and the costs of the proceedings awarded from PZU to Manchester Securities Corporation. On 4 March 2014, PZU appealed against the judgment in whole.

As at the balance sheet date of 31 December 2013, no changes in presentation of PZU capitals were made that may result from cancellation of the resolution, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company's Social Benefit Fund were not adjusted or provisions recognized against any potential additional claims resulting from cancellation of the above resolution.

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

52.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting in:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with the decision and its statement of reasons. On 18 January 2010 PZU appealed to the Court of Competition and Consumer Protection against the decision (this way the decision did not become valid). In a ruling of 14 November 2011 the Court of Competition and Consumer Protection dismissed the appeal of PZU. On 14 December 2011 PZU appealed to the Court of Appeals in Warsaw In a decision of 5 July 2012 the Appellate Court dismissed the decision of Court of Competition and Consumer Protection of 14 November 2011 and returned it for rehearing. On 18 January 2013, Court of Competition and Consumer Protection cancelled the decision of President of Office of Competition and Consumer Protection of 30 December 2009. On 6 March 2013 President of Office of Competition and Consumer Protection appealed to Court of Competition and Consumer Protection.

On 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection on 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final. A final appeal against the judgment may be filed with the Supreme Court within 2 months of the date of receipt of the statement of reasons. The aforesaid statement of reasons had not been provided to PZU by the date of signing these consolidated financial statements.

The fine of PLN 1,644 thousand, paid by the Company, was charged to a provision, which amounted to PLN 14,792 thousand as at 31 December 2012. The remaining amount of the provision (PLN 13,148 thousand) was derecognized.

52.2.2. Fines imposed in 2011

52.2.2.1. Reimbursement of the costs of rental a replacement car

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

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;

- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons.

On 5 December 2011 PZU appealed against the decision (thus the decision did not become valid) citing a number of objections.

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the aforementioned judgment. However, the appeal had not been examined by the Appellate Court in Warsaw by the date of these consolidated financial statements.

Regardless of the appeal measures employed, PZU recognized a provision for the aforesaid fine, which amounted to PLN 11,287 thousand both as at 31 December 2013 and 31 December 2012.

52.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic group accident insurance for children, youth and staff of educational institutions by dividing the market between the entities – the clients of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those clients. The Office demanded that the practices be discontinued.

The Management Board of PZU does not agree with the facts and legal reasons presented in the decision. In the opinion of the Management Board of PZU the decision does not consider all the evidence and the legal classification was not correct.

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

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

On 22 October 2012, PZU received a response of President of Office of Competition and Consumer Protection to its appeal. PZU replied to this response on 5 November 2012. The date of the trial had not been set by the date of signing these consolidated financial statements.

Regardless of the initiated appellation procedures, PZU recognized a provision for the above fine, whose amount both as at 31 December 2013 and 31 December 2012 was PLN 56,605 thousand.

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

On 1 June 2005, at the request of several petitioners the President of the Office of Competition and Consumer Protection ("CCCP") instituted antimonopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might breach the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of the Office of

Competition and Consumer Protection imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant.

PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of CCCP. On 31 May 2010 the Court issued a ruling whereby it dismissed the appeal of PZU Życie on the grounds that the decision of the President of CCCP of 25 October 2007 was not correctly served on PZU Życie and thus the period available to PZU Życie to appeal against the decision did not start. The ruling has been appealed against by both parties. Having considered the appeals placed by the plaintiff and the defendant, in a ruling of 26 October 2010, the court of second instance cancelled the disputed decision. In a ruling of 17 February 2011, the District Court in Warsaw – Consumer and Competition Protection Court – partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

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

On 20 December 2013, a trial was held before the District Court in Warsaw – Court of Competition and Consumer Protection. Pronouncement of the judgment was deferred twice due to the judge's illness. Therefore, on 17 January 2014 the trial was reopened. The following trial is to be held on 14 March 2014.

Regardless of the initiated appellation procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2013 and 31 December 2012 was PLN 50,384 thousand.

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

52.4.1. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw

On 9 April 2010 the Court of Arbitration served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment.

The amount sought by CSC includes the claims related to licence fees, implementation works, maintenance of the computer system, service works, fee for computer systems, liquidated damages and capitalized interest.

On 31 May 2010 in response to the statement of claim, PZU Życie requested that the Court of Arbitration rule that the court temporarily refuses jurisdiction for some claims and dismissed the entire claims. In the opinion of PZU Życie, the claims of CSC are either unfounded or have not been proven.

PZU Życie also filed a counter claim against CSC, demanding payment of PLN 71,890 thousand as a return of remuneration collected by CSC under the concluded contract or as damages for undue performance of obligations under the concluded contract. In response to the counter claim, on 31 August 2010, CSC motioned dismissal of the entire claim of PZU Życie indicating absence of evidence to accept it.

On 31 January 2012 a hearing was held before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, and on 19 June 2012 the Court closed the case. Following submission of another claim modification by CSC, the Arbitration Court re-opened the case.

On 18 December 2012, the Arbitration Court at the Polish Chamber of Commerce issued a decision ("Decision") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and cancelled the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the date of complaint. Further, the Court dismissed the remainder of the action, the mutual action and adjudicated the amount of PLN 199 thousand payable to CSC by PZU Życie as refund of the proceeding expenses.

52.4.2. Proceedings concerning order of enforcement

On 23 January 2013, CSC motioned to the District Court in Warsaw for a statement of enforcement of the Decision and providing it with a writ of execution.

At the request of CSC of 23 January 2013, on 15 March 2013 the District Court in Warsaw decided to issue an order of enforcement with respect to the Judgment.

On 18 March 2013, PZU Życie filed a complaint against the aforesaid decision of 15 March 2013 with the District Court in Warsaw, demanding suspension of its enforcement. In response, on 22 March 2013, the Court decided to suspend enforcement of the aforementioned decision until resolution of the complaint lodged by PZU Życie on 18 March 2013. On 4 April 2013, CSC submitted to the Court its response to the complaint filed by PZU Życie, demanding its dismissal in whole. The Appellate Court decided to adjourn the hearing of the complaint until the date of the District Court's examination of the complaint filed by PZU Życie to reverse the Judgment.

52.4.3. Proceedings concerning the complaint filed by PZU Życie to reverse the Judgment

On 1 February 2013, PZU Życie submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Decision and suspend its execution with regard to the amount of PLN 17,193 thousand payable to CSC, dismissal of mutual action and adjudicating the payment of PLN 199 thousand to CSC as refund of the proceeding expenses. Further, PZU Życie motioned to adjudicate refund of the proceeding expenses from CSC, including the representation fees according to the prescribed norms and requesting the District Court in Warsaw to motion the Arbitration Court at Polish Chamber of Commerce to submit the arbitration proceeding files to allow the Court to decide whether any circumstances of the case support cancellation of the Decision.

Following the exchange of the filings of CSC and PZU Życie, in its decision of 15 April 2013, the District Court in Warsaw rejected the request submitted by PZU Życie with respect to suspension of enforcement of the Judgment, on grounds of its being premature, as the District Court in Warsaw (in the case presented in detail in Section 52.4.2.) did not declare enforcement of the Judgment pronounced by the court of arbitration, and suspension of enforcement of a judgment which is not subject to an enforcement procedure is not possible.

In its judgment of 12 November 2013, the District Court rejected the complaint to reverse the Judgment. The judgment of 12 November 2013 may be appealed against. The appeal should be filed within 14 days of the service of the judgment with the statement of reasons. On 12 November 2013, PZU Życie filed for preparation of a statement of reasons for the judgment. Until the date of signing these consolidated financial statements PZU Życie has not received the above mentioned reasons for judgment.

52.4.4. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw concerning a suit over payment and composition proceedings before the District Court for the capital city of Warsaw concerning a suit over payment

On 29 March 2013, CSC filed a suit against PZU Życie with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, for payment of PLN 6,690 thousand plus interest accrued in the period from the suit date to the payment date, including:

- PLN 6,064 thousand – payment of statutory interest (on amounts awarded under the arbitration decision of 18 December 2012, as presented in detail in Section 52.4.1), accrued from 1 April 2010 (the date following the date of CSC's suit brought in the case described in Section 52.4.1) to 18 December 2012;
- PLN 626 thousand – payment of statutory interest on amounts awarded under the aforesaid arbitration decision, from 19 December 2012 to the suit date.

On 15 May 2013, PZU Życie filed its response to the suit. On 3 September 2013, a preliminary trial was held. During the following trial on 4 march 2014, PZU Życie was obliged to submit a document confirming the correctness of interest calculation within one week, to which CSC may reply within the next week.

The Management Board of PZU Życie believes that the probability that a significant portion of the interest will be awarded to CSC is very high.

52.5 Submission of PZU claims to the bankruptcy estate of PBG Capital Group companies

PZU, PBG SA with the registered office in Wysogotowo near Poznań (at present: PBG SA in arrangement bankruptcy, henceforth: PBG) and Hydrobudowa Polska SA (at present: Hydrobudowa Polska SA in arrangement bankruptcy, henceforth: Hydrobudowa) with the registered office in Wysogotowo near Poznań concluded contracts of mandate regarding periodic insurance guarantees (contractual guarantees). Based on these contracts PZU issued insurance guarantees. Should PZU perform on these guarantees, its clients: PBG and Hydrobudowa, were obliged to refund amounts paid.

In 2012 bankruptcy proceedings (with possibility of arrangement) were initiated before District Court in Poznań against PBG and Hydrobudowa. On 21 September 2012 PZU joined the above proceedings submitting its claims to the bankruptcy estate of both companies.

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

- PBG granted sureties regarding PLN 33,747 thousand arising from guarantees issued for Hydrobudowa;
- Hydrobudowa granted sureties regarding PLN 67,249 thousand arising from guarantees issued for PBG.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG, in the amount of PLN 103,014 thousand, have been entered into the list of receivables.

52.6 Dispute with Comarch SA

On 12 November 2012, PZU received a copy of payment order issued on 26 October 2012 by the District Court in Warsaw under the writ of payment proceedings, along with a copy of complaint and appendices regarding the action of Comarch SA against PZU. Based on the above order, PZU was levied with the amount of PLN 19,758 thousand with interest and PLN 32 thousand as refund of costs of proceedings. The claim made by Comarch SA includes costs calculated by the company in relation to work and tasks performed following a commission of PZU in the project regarding an IT system to maintain financial insurance policies.

On 26 November 2012 PZU submitted an objection against the payment order, challenged it and requested dismissal of the entire case. The case was referred to the mediation. On 10 April 2013, PZU and Comarch SA reached an amicable agreement whereby the parties waive their claims and retain the benefits obtained. On 9 May 2013, the District Court in Warsaw issued a decision approving the aforementioned amicable agreement, which became final on 25 May 2013. The aforementioned agreement has not had any effect on the financial profit/loss.

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

In 1999 PZU Życie granted a mortgage loan to Metro-Projekt Sp. z o. o. (henceforth "Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on real property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

The loan had not been repaid and in November 2002 Metro-Projekt was declared bankrupt.

On 15 September 2004, the receiver of Universal SA in bankruptcy ("Universal") brought an action to the District Court in Warsaw demanding exclusion of the property located in Warsaw at Al. Jerozolimskie 44 from the bankruptcy assets of Metro-Projekt due to an entry in section III of the land and mortgage register of a warning regarding the proceedings pending between Universal and BI Code SA ("BI Code") for cancellation of a transaction involving sales of the property by Universal to BI Code from which Metro-Projekt acquired the property. In view of the above, on 21 September 2004 the District Court in Warsaw issued a decision suspending the liquidation of assets of Metro-Projekt until the lawsuit for exclusion of the aforementioned property from the bankruptcy assets is settled.

The action for cancellation of the agreement transferring the perpetual usufruct right and ownership title to the office building located in Warsaw at Al. Jerozolimskie 44 was settled on 7 March 2006. The Court of Appeals in Warsaw dismissed the lawsuit brought by Universal against BI Code. However, in August 2006 the receiver of Universal made a final appeal to the Supreme Court with respect to the aforementioned decision.

After the judgment of the Court of Appeals of 7 March 2006 became final, Metro-Projekt applied for deletion of the warning entered in section III of the land and mortgage register regarding the pending court proceedings instituted by Universal against BI Code for cancellation of the aforementioned sales agreement. The decision to delete the above entry was issued on 3 November 2006.

On 14 March 2007 the Supreme Court reversed the judgment of the Court of Appeals and ordered that the case to be re-examined by that court. On 21 November 2007 the Court of Appeals reversed the judgment of the District Court and ordered that the case be re-examined by that court.

On 11 September 2009, the District Court issued a judgement in the lawsuit filed by the receiver of Universal against the receiver of BI Code for cancellation of the sales agreement for the land perpetual usufruct right and the ownership title to the building, entered into between Universal and BI Code, pursuant to which the aforementioned sales agreement was cancelled. The receiver of BI Code SA appealed against the judgment which was dismissed in a decision of 29 July 2010. The receiver of BI Code made a final appeal to the District Court but it has not been accepted to consider. Therefore the proceeding was terminated.

In January 2011 the receiver of Metro-Projekt requested that the proceedings before the District Court brought by the receiver of Universal for exclusion of the land perpetual usufruct right and the separate title to the building on that land suspended in 2005 were resumed. On 30 May 2011, the Regional Court dismissed the claim of Universal.

The decision was not final and binding; on 12 September 2011 the Receiver of Universal appealed against it. In a decision of 23 February 2012, the District Court in Warsaw dismissed the appeal of the Receiver of Universal regarding separation of the property located at Aleje Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt. The litigation ended with a binding ruling.

On 9 May 2012, the Receiver of Metro-Projekt motioned the Magistrate in Bankruptcy to allow settlement with the Receiver of Universal with regard to disputable claims between the bankruptcy estates of the companies. Following the settlement, in exchange for resigning from claims for the bankruptcy estate of Universal, that of Metro-Projekt was to be charged with the additional amount of PLN 5,722 thousand to be transferred to the former. Magistrate in Bankruptcy approved the settlement in a decision of 31 May 2012. The decision is final and binding.

Following irrecoverable resignation from claims against Metro-Project submitted in the form of a notarized deed by the Receiver of Universal, the Receiver of Metro-Projekt transferred the above amount to the bankruptcy estate of Universal on 5 July 2012.

On 10 January 2013, 18 March 2013, 19 June 2013 and 30 September 2013, the Receiver of Metro-Projekt announced the sale of the enterprise of the bankrupt company under a single-source contract, with a proviso that it should have the form of a tender/auction. The starting price for the enterprise was PLN 110 million, PLN 99 million, PLN 93 million and PLN 90 million, respectively. As no tenders were submitted, the procedure was not carried out.

Regarding unsuccessful attempts to sell the business constituting the bankruptcy estate of Metro-projekt (consisting mainly of real property) the fair value of the property was verified and consequently the decrease in recovery amount of which PZU Życie expects the additional impairment loss in the amount of PLN 15,170 thousand has been recognized with respect to receivable form Metro-projekt. As at 31 December 2013 the total impairment loss amounted to PLN 26,275 thousand.

(in PLN '000)

In the opinion of the Management Board of PZU, the mortgage established for the benefit of PZU Życie does exist and the Company has the right to pursue the related claims from any owner.

53. Related party transactions

53.1 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group companies included in consolidation including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2013 and 2012 the companies in the PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.Parent company

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below:

Remuneration and other short-term employee benefits paid by PZU	**1 January - 31 December 2013**		**1 January - 31 December 2012**	
		including bonuses and awards:		including bonuses:
Management Board, including:	**9 503**	**3 024**	**7 012**	**1 600**
Andrzej Klesyk	2 780	980	1 691	480
Przemysław Dąbrowski	1 135	336	1 092	252
Dariusz Krzewina	642	-	-	-
Barbara Smalska	593	-	-	-
Tomasz Tarkowski	1 102	336	1 100	259
Ryszard Trepczyński	1 535	736	945	105
Witold Jaworski	-	-	1 176	336
Bogusław Skuza [1)]	1 716	636	1 008	168
High level management (PZU Group Directors) including:	**3 263**	**1 122**	**2 283**	**337**
Rafał Grodzicki	874	250	709	179
Przemysław Henschke	804	180	435	-
Dariusz Krzewina [2)]	291	180	616	86
Sławomir Niemierka	863	200	523	72
Barbara Smalska [2)]	431 [3)]	312 [4)]	-	-
Supervisory Board including:	**1 224**	**-**	**1 126**	**-**
Waldemar Maj	192	-	162	-
Zbigniew Ćwiąkalski	168	-	168	-
Tomasz Zganiacz	144	-	85	-
Dariusz Daniluk	120	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Włodzimierz Kiciński	120	-	71	-
Alojzy Nowak	120	-	71	-
Maciej Piotrowski	120	-	71	-
Marzena Piszczek	-	-	79	-
Krzysztof Dresler	-	-	59	-

(in PLN '000)

Remuneration and other short-term employee benefits paid by other PZU Group entities	**1 January - 31 December 2013**		**1 January - 31 December 2012**	
		including bonuses:		including bonuses:
Management Board, including:	**3 826**	**1 224**	**2 106**	**255**
Andrzej Klesyk	320	-	386	-
Przemysław Dąbrowski	654	255	425	101
Dariusz Krzewina	1 121	561	-	-
Barbara Smalska	327	-	-	-
Tomasz Tarkowski	510	153	257	77
Ryszard Trepczyński	654	255	409	77
Witold Jaworski	-	-	392	-
Bogusław Skuza [1)]	240	-	237	-
High level management (PZU Group Directors) including:	**2 235**	**1 071**	**2 486**	**569**
Rafał Grodzicki	742	357	704	252
Przemysław Henschke	742	357	381	-
Dariusz Krzewina [2)]	-	-	992	278
Sławomir Niemierka	751	357	409	39
Barbara Smalska [2)]	-	-	-	-

Total estimated amount of non-monetary performances granted by PZU and its subsidiaries	**1 January – 31 December 2013**	**1 January – 31 December 2012**
Management Board, including:	**1 343**	**1 150**
Andrzej Klesyk	251	214
Przemysław Dąbrowski	167	148
Dariusz Krzewina	214	-
Barbara Smalska	151	-
Tomasz Tarkowski	181	273
Ryszard Trepczyński	166	244
Witold Jaworski	-	181
Bogusław Skuza [1)]	213	90
High level management (PZU Group Directors) including:	**401**	**617**
Rafał Grodzicki	183	192
Przemysław Henschke	55	72
Dariusz Krzewina [2)]	-	201
Sławomir Niemierka	163	152
Barbara Smalska [2)]	-	-
Supervisory Board including:	**-**	**1**
Alojzy Nowak	-	1

[1)] Bogusław Skuza on 27 December 2013 resigned with effective date on 31 December 2013.

[2)] Dariusz Krzewina and Barbara Smalska were appointed members of the Management Board of PZU on 12 March 2013, effective from 15 March 2013 (additionally, Dariusz Krzewina until 14 March 2013 and Barbara Smalska between 5 February and 14 March 2013 served the role of Directors of the PZU Group).

[3] The aforementioned amount includes a bonus for 2012 as well as remuneration for performance of other functions at PZU and PZU Życie until the date of appointment as the Group's Director.

[4)] The aforementioned amount is a bonus for 2012 for performance of other functions at PZU and PZU Życie.

(in PLN '000)

53.1.1. Other PZU Group companies

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

Item	1 January – 31 December 2013	1 January – 31 December 2012
Members of the Management Board	11 015	7 407
Members of the Supervisory Board	898	989

53.2 Other releated party transactions

PZU, as part of its insurance activities, concludes insurance contracts with related parties and pays claims. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Receivables from and liabilities to related parties due to insurance contracts are short-term.

For the purposes of this item:

- "entities controlled by, co-subsidiaries of and entities associated with the State Treasury" denote only commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.
- "other related parties" denote entities in liquidation (in 2012 – PZU's direct or indirect subsidiaries and associates, which are not consolidated, as well as entities in liquidation).

The table below shows the written premiums and investment contract volumes resulting from transactions with entities controlled by, co-subsidiaries of and entities associated with the State Treasury, concluded and settled on the terms and conditions which could be obtained in transactions with unrelated parties.

Entities controlled by, co-subsidiaries of and entities associated with the State Treasury	1 January – 31 December 2013	1 January – 31 December 2012
Gross written premium at non-life insurance	102 371	110 970
Gross written premium at life insurance	27 514	16 692
PZU Życie investment contract volumes	-	584 564
Total	**129 885**	**712 226**

(in PLN '000)

Balances and turnovers of transactions between the PZU Group and related parties	**1 January – 31 December 2013 and as at 31 December 2013**		**1 January – 31 December 2012 and as at 31 December 2012**	
	Key members of the management of consolidated entities [1]	Other related entities	Key members of the management of consolidated entities [1]	Other related entities
Gross written premiums				
In property and personal insurance	-	-	-	278
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	15	-	58 157
Expenses	-	-	-	33 379
Including write-offs for receivables rezognized in current period	-	-	-	-
Receivables				
gross value	-	8 308	-	11 068
Write-offs	-	8 306	-	(8 306)
net value	-	2	-	2 762
Liabilities	-	-	-	2 528
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1)] High level management, data as per statements.

As at 31 December 2013 and 31 December 2012, the key item in receivables from other related parties were receivables from Syta Development Sp. z o. o. in liquidation ("Syta Development") due to agreements relating to investments of the Claims Handling and Underwriting Centre of PLN 8,306 thousand (31 December 2012: PLN 9,806 thousand), which - because the agreements were not performed as of that dates - were covered with a revaluation write-down up to the full amount.

53.3 Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury

Written premium and investment contracts in bancassurance transactions with banks controlled and associated with the State Treasury.

Written premium and columes of investment contracts	**1 January - 31 December 2013**	**1 January - 31 December 2012**
Bank Powszechna Kasa Oszczędności BP SA	**44 994**	**618 349**
PZU Gross written premium	17 480	17 093
PZU Życie Gross written premium	27 514	16 692
Volumes from investment contracts of PZU Życie	-	584 564
Bank Ochrony Środowiska SA	-	**39**
PZU Gross written premium	-	39
Bank Gospodarstwa Krajowego SA	**309**	**72**
PZU Gross written premium	309	72

(in PLN '000)

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

Gross premium writtem [1)] from 10 largest counterparties of PZU Group, whose shares are held by the State			
Counterparty	**1 January - 31 December 2013**	**Counterparty**	**1 January - 31 December 2012**
Counterparty 1	44 994	Counterparty 1	618 349
Counterparty 2	30 378	Counterparty 8	30 209
Counterparty 3	16 396	Counterparty 2	24 155
Counterparty 4	5 619	Counterparty 6	6 900
Counterparty 5	5 366	Counterparty 4	5 530
Counterparty 6	5 263	Counterparty 7	4 846
Counterparty 7	4 289	Counterparty 10	2 967
Counterparty 8	4 160	Counterparty 11	2 266
Counterparty 9	1 763	Counterparty 5	1 863
Counterparty 10	1 476	Counterparty 10	1 860

[1)] The item includes gross written premium in non-life insurance, life insurance and volumes from investment contracts.

54. Employment

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

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

55. Other information

55.1 Composition of the Parent's Management Board

As of 1 January 2013, composition of the Management Board of PZU was as follows:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Bogusław Skuza - Member of the Board;
- Tomasz Tarkowski - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the position of Members of the Management Board effective from 15 March 2013.

On 27 December 2013, Bogusław Skuza resigned from the position of Member of the Management Board of PZU as of 31 December 2013.

Composition of the Management Board of PZU between 1 January 2014 and the date of signing these financial statements:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Dariusz Krzewina - Member of the Board;
- Barbara Smalska - Member of the Board;
- Tomasz Tarkowski - Member of the Board;

- Ryszard Trepczyński - Member of the Board.

55.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board as at 1 January 2013 was as follows:

- Waldemar Maj - Chairman;
- Zbigniew Ćwiąkalski - Vice-Chairman;
- Tomasz Zganiacz – Secretary of the Board;
- Dariusz Daniluk – Member;
- Zbigniew Derdziuk – Member;
- Dariusz Filar - Member;
- Włodzimierz Kiciński - Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski - Member.

Till the date of these financial statements there were no changes in the composition of the Supervisory Board.

55.3 Directors of the Group

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

Directors at the PZU Group as at 1 January 2013:

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

On 5 February 2013, Barbara Smalska was appointed Director of the PZU Group by the Management Board of PZU and on 19 March 2013 she was dismissed form the aforementioned position as of 14 March 2013. The dismissal was due to her appointment as Member of the Management Board of PZU. For the same reason, Dariusz Krzewina was dismissed from the position of Director of the PZU Group on 19 March 2013, effective from 14 March 2013.

Directors of the PZU Group from 14 March 2013 to the date of 15 January 2014:

- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

On 15 January 2014, the Management Board of PZU appointed Tobiasz Bury as Director of the PZU Group effective from 16 January 2014.

(in PLN '000)

55.4 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts paid or payable to entities authorized to audit financial statements of PZU for a given period, increased by VAT and determined on the accrual basis.

Type of services	1 January - 31 December 2013	1 January - 31 December 2012
Audit of financial statements	633	633
Other assurance services	887	519
Tax advisory services	416	377
Other services	34	34
Total	**1 970**	**1 563**

The agreement on the audit of condensed separate financial statements of PZU and condensed consolidated financial statements of the PZU Group for the period of six months ended 30 June 2012 and 30 June 2013 and the agreement on the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the year ended 31 December 2012 and 31 December 2013 was concluded and 16 July 2012. Annex of 2 August 2013 modified the scope of work specified in the aforementioned agreement for the separate financial statements of PZU for the period of 6 months ended 30 June 2013 so that the review of the condensed interim separate financial statements of PZU was replaced by an audit of the separate financial statements of PZU for the period of 6 months ended 30 June 2013.

55.5 Employment restructuring in PZU and PZU Życie

On 27 December 2012, the Management Boards of PZU and PZU Życie announced the objectives of the restructuring plan for 2013, which was to cover mainly loss adjustment and finance areas, as well as support functions (administration, logistics, IT), but to a much lesser extent. On 13 February 2013, the Management Boards of PZU and PZU Życie announced the planned layoff in accordance with the Act of 13 March 2003 laying down special principles applicable to termination of employment contracts for reasons other than through the fault of employees (Journal of Laws No. 90 of 2003, item 844, as amended) (the "Act laying down special principles applicable to termination of employment contracts").

On 28 February 2013, PZU, PZU Życie and their trade unions entered into an agreement setting out the terms and conditions of the employment restructuring process. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

The employment restructuring process was carried out as scheduled and it finally affected 2,244 employees of PZU and PZU Życie, while 538 individuals were laid off.

Similarly to all previous stages of the employment restructuring process (i.e. from 2010 to 2012), those employees who were laid off or refused to accept the proposed change of employment terms were offered more favorable terms of leaving the company than the ones provided for by the applicable regulations (Act laying down special principles applicable to termination of employment contracts). The amount of additional redundancy pay depended on the length of service with the PZU Group and the salary of each employee.

The total restructuring costs charged to the restructuring provision in 2013 amounted to PLN 39,568 thousand (throughout 2012: PLN 75,862 thousand), and the unused part of provision in amount of PLN 18,626 thousand has been released.

As at 31 December 2013, there were on provisions for restructuring costs (compared to PLN 58,194 thousand, as at 31 December 2012).

55.6 Changes in the operation of open-end pension funds

Pursuant to the Act of 6 December 2013 amending certain other acts due to determination of the terms of payment of pension benefits out of the funds accumulated in open-end pension funds (Journal of Laws of 2013, item 1717), changes were introduced to the operation of pension funds. The new legislation will have an effect on the operation of OFE PZU and PTE PZU in 2014 and in the following years.

Under the aforesaid amendments, OFE PZU has been obliged to transfer assets representing 51.5% of the accounting units recorded in the account of each OFE PZU member to the Social Insurance Institution. On 3 February 2014, the Fund transferred assets in the form of treasury bonds, bonds issued by Bank Gospodarstwa Krajowego and cash corresponding to the redemption value to the Social Insurance Institution. Asset transfer to the Social Insurance Institution will have a significant effect on the revenue earned by PTE PZU on asset management, and consequently on the performance of the "Pension Insurance" segment.

The total effect of the transfer of OFE PZU assets to the Social Insurance Institution as well as other changes to the pension system on the revenue of PTE PZU in 2014 and in the following periods may not be estimated reliably, in particular due to uncertainty as to the final number of members that will continue to transfer premiums to the open-end pension fund, the amount of such premiums and the period during which they will be transferred to OFE PZU, taking into account the method of transferring the pension entitlements of the insured from OFE PZU to the Social Insurance Institution prior to the actual payment of benefits. The Management Board of PZU is of the opinion that the aforementioned changes will not have an effect on the ability of PTE PZU to continue as a going concern in the foreseeable future.

Signatures of members of the Management Board of PZU:

Name	**Position**	
Andrzej Klesyk	Chairman of the Board	.... (signature)
Przemysław Dąbrowski	Member of the Board	.... (signature)
Dariusz Krzewina	Member of the Board	.... (signature)
Barbara Smalska	Member of the Board	.... (signature)
Tomasz Tarkowski	Member of the Board	.... (signature)
Ryszard Trepczyński	Member of the Board	.... (signature)

Person responsible for preparation of the consolidated financial statements:

Jan Terlecki	Director in charge of reporting	.... (signature)

Warsaw, 11 March 2014