The Capital Group

Of Powszechny Zakład Ubezpieczeń

Spółka Akcyjna

Consolidated Financial Statements
For The Financial Year Ended 31 December 2014
With Auditor's Opinion

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of the translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

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(in PLN '000)

Consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 January – 31 December 2014	1 January – 31 December 2013 *(restated)*
Gross written premiums	11	16,884,639	16,480,003
Reinsurer's share in written premiums		(349,912)	(257,037)
Net written premium		**16,534,727**	**16,222,966**
Change in net unearned premiums reserve		(105,357)	25,803
Net earned premiums		**16,429,370**	**16,248,769**
Revenue from commissions and fees	12	350,764	299,169
Net investment income	13	1,793,838	1,866,650
Net result on realization and impairment losses on investments	14	427,147	42,547
Net change in the fair value of assets and liabilities measured at fair value	15	512,533	605,358
Other operating income	16	537,633	485,221
Claims, benefits and change in technical provisions		(11,733,228)	(11,195,277)
Reinsurers' share in claims, benefits and change in technical provisions		191,520	34,053
Net claims and benefits	**17**	**(11,541,708)**	**(11,161,224)**
Change in measurement of investment contracts	18	(14,031)	(77,715)
Acquisition costs	19	(2,147,024)	(2,015,938)
Administrative expenses	20	(1,527,699)	(1,406,480)
Other operating expenses	22	(907,740)	(705,599)
Operating profit		**3,913,083**	**4,180,758**
Borrowing costs	23	(219,865)	(61,664)
Share in net profit of entities measured using the equity method		(1,525)	1,404
Gross profit		**3,691,693**	**4,120,498**
Income tax	26		
- current portion		(673,506)	(885,776)
- deferred portion		(50,560)	60,233
Net profit, including:		**2,967,627**	**3,294,955**
- profit attributable to equity holders of the parent entity		2,967,731	3,293,496
- profit (loss) attributable to non-controlling interest		(104)	1,459
Net profit on continued operations attributable to equity holders of the parent entity		2,967,731	3,293,496
Net profit (loss) from discontinued operations		-	-
Basic and diluted weighted average number of ordinary shares in issue	25	86,351,949	86,351,949
Basic and diluted profit (loss) per one ordinary share (in PLN)	25	34.37	38.14

(in PLN '000)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2014	1 January – 31 December 2013 *(restated)*
Net profit		2,967,627	3,294,955
Other comprehensive income	27	17,193	(104,482)
Amounts subject to subsequent transfer to statement of profit or loss		10,580	(119,829)
Measurement of available-for-sale financial instruments		8,475	(120,101)
Exchange differences from translation		2,287	292
Other comprehensive income of entities measured using the equity method		(182)	(20)
Amounts not subject to subsequent transfer to statement of profit or loss		6,613	15,347
Property reclassified from property, plant and equipment to investment property		13,504	14,445
Actuarial gains and losses from remeasurements of defined benefit liabilities		(6,891)	902
Total net comprehensive income		**2,984,820**	**3,190,473**
- comprehensive income attributable to equity holders of the parent entity		2,984,916	3,189,009
- comprehensive income attributable to non-controlling interest		(96)	1,464

(in PLN '000)

Consolidated statement of financial position

Assets	**Note**	**31 December 2014**	**31 December 2013** *(restated)*	**1 January 2013** *(restated)*
Intangible assets	28	868,692	308,726	183,238
Goodwill	29	785,663	8,519	8,474
Property, plant and equipment	30	1,001,609	927,281	992,317
Investment property	31	2,236,062	1,474,770	564,404
Entities measured using the equity method	32	66,311	48,595	-
Financial assets		56,759,976	55,085,728	50,389,065
Financial instruments held to maturity	33.1, 36	19,983,689	18,859,902	21,117,559
Financial instruments available for sale	33.2, 36	2,985,322	1,920,112	3,824,409
Financial instruments measured at fair value through profit or loss	33.3, 36	19,096,484	19,904,176	15,694,482
Loans and receivables	33.4, 36	14,694,481	14,401,538	9,752,615
Receivables, including insurance receivables	34, 36	3,068,813	2,671,964	1,840,873
Reinsurers' share in technical provisions	35, 36	753,115	526,605	749,334
Estimated subrogations and salvages	37	127,262	129,950	121,632
Deferred tax assets	38	26,957	16,949	13,963
Current income tax receivables	39	368	34,895	80,646
Deferred acquisition costs	40	712,066	609,819	574,489
Other assets	41	235,250	195,449	178,646
Cash and cash equivalents	42	324,007	569,157	262,063
Assets held for sale	43	606,610	178,897	46,962
Total assets		**67,572,761**	**62,787,304**	**56,006,106**

(in PLN ‘000)

Consolidated statement of financial position (cont.)

Equity and Liabilities	Note	31 December 2014	31 December 2013 *(restated)*	1 January 2013 *(restated)*
Equity				
Issued share capital and other equity attributable to the equity holders of the parent entity				
Share capital	44.1	86,352	86,352	86,352
Other reserves		9,885,791	9,061,351	9,105,375
Treasury shares		(110)	(110)	-
Supplementary capital	44.2	9,678,921	8,855,999	8,780,212
Revaluation reserve	44.3	248,543	242,297	363,167
Other reserve capital		66	-	-
Actuarial gains and losses from remeasurements of defined benefit liabilities		(6,179)	902	-
Exchange differences from translation	44.4	(35,450)	(37,737)	(38,004)
Unappropriated result		3,194,193	3,963,587	4,998,404
Retained earnings		226,462	2,397,137	4,998,404
Net profit		2,967,731	3,293,496	-
Appropriations of net profit during the financial year		-	(1,727,046)	-
Non-controlling interest		1,292	16,341	79,138
Total equity		**13,167,628**	**13,127,631**	**14,269,269**
Liabilities				
Technical provisions	45	40,166,885	37,324,416	35,400,778
Unearned premiums and unexpired risk reserves		5,250,103	4,540,011	4,537,167
Provision for life insurance		16,281,625	16,048,191	15,675,243
Provisions for unpaid claims and benefits		7,770,351	6,586,781	5,878,445
Provision for capitalized annuity benefits		5,997,595	5,761,332	5,660,281
Provisions for bonuses and discounts for the insured		2,291	2,893	4,227
Other technical provisions		439,364	477,987	531,617
Unit-linked technical provisions		4,425,556	3,907,221	3,113,798
Investment contracts	46	1,108,107	2,121,037	2,299,147
- with guaranteed and fixed terms and conditions		520,840	1,250,492	1,297,224
- unit-linked		587,267	870,545	1,001,923
Provisions for employee benefits	47	120,070	123,380	107,307
Other provisions	48	191,206	192,906	267,456
Deferred tax liabilities	49	398,433	255,399	357,557
Current income tax liabilities	50	53,770	53,372	21,658
Derivatives	8.6.2	625,844	237,749	130,147
Liabilities arising from issue of debt instruments	51	2,127,527	-	-
Other liabilities	52	9,361,277	9,351,414	3,152,787
Liabilities directly associated with assets held for sale	43	252,014	-	-
Total liabilities		**54,405,133**	**49,659,673**	**41,736,837**
Total equity and liabilities		**67,572,761**	**62,787,304**	**56,006,106**

(in PLN '000)

Statement of changes in consolidated equity

Statement of changes in consolidated equity	**Share capital**	**Capitals and reserves attributable to equity holders of the parent entity**									**Non-controlling interest**	**Total equity**
		Other reserves					**Unappropriated result**		Total			
		Treasure shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial profits and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note	44.1		44.2	44.3			44.4					
Balance as at 1 January 2014	**86,352**	**(110)**	**8,855,999**	**242,297**	**-**	**902**	**(37,737)**	**3,963,587**	**-**	**13,111,290**	**16,341**	**13,127,631**
Measurement of available-for-sale financial instruments	-	-	-	8,475	-	-	-	-	-	8,475	-	8,475
Other comprehensive income of entities measured using the equity method	-	-	-	-	-	(190)	8	-	-	(182)	-	(182)
Exchange differences from translation	-	-	-	-	-	-	2,279	-	-	2,279	8	2,287
Actuarial gains and losses from remeasurements of defined benefit liabilities	-	-	-	-	-	(6,891)	-	-	-	(6,891)	-	(6,891)
Property reclassified from property, plant and equipment to investment property	-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Total other net comprehensive income	**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**-**	**17,185**	**8**	**17,193**
Net profit/(loss)	-	-	-	-	-	-	-	-	2,967,731	2,967,731	(104)	2,967,627
Total comprehensive income	**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**2,967,731**	**2,984,916**	**(96)**	**2,984,820**
Other changes, including:	**-**	**-**	**822,922**	**(15,733)**	**66**	**-**	**-**	**(3,737,125)**	**-**	**(2,929,870)**	**(14,953)**	**(2,944,823)**
Profit appropriation	-	-	800,257	-	66	-	-	(3,736,288)	-	(2,935,965)	-	(2,935,965)
Increase in capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	138	138
Buyback of shares in Armatura Kraków SA	-	-	6,095	-	-	-	-	-	-	6,095	(15,983)	(9,888)
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	892	892
Sale of revalued property	-	-	16,570	(15,733)	-	-	-	(837)	-		-	
Balance as at 31 December 2014	**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**226,462**	**2,967,731**	**13,166,336**	**1 292**	**13,167,628**

(in PLN '000)

Statement of changes in consolidated equity (cont.)

Statement of changes in consolidated equity *(restated)*	Share capital	Capitals and reserves attributable to equity holders of the parent entity									Non-controlling interest	Total equity
		Other reserves					Unappropriated result			Total		
		Treasure shares	Supplementary capital	Revaluation reserve	Actuarial profits and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit	Appropriation of net profit during the financial year (negative value)			
Note	44.1		44.2	44.3		44.4						
Balance as at 1 January 2013	**86,352**	**-**	**8,780,212**	**363,242**	**-**	**(38,004)**	**4,998,329**	**-**	**-**	**14,190,131**	**79,138**	**14,269,269**
Changes in accounting standards	-	-	-	(75)	-	-	75	-	-	-	-	-
Balance as at 1 January 2013, after restatements	**86,352**	**-**	**8,780,212**	**363,167**	**-**	**(38,004)**	**4,998,404**	**-**	**-**	**14,190,131**	**79,138**	**14,269,269**
Measurement of available-for-sale financial instruments	-	-	-	(120,101)	-	-	-	-	-	(120,101)	-	(120,101)
Other comprehensive income of companies measured using the equity method	-	-	-	-	-	(20)	-	-	-	(20)	-	(20)
Exchange differences from translation	-	-	-	-	-	287	-	-	-	287	5	292
Actuarial gains and losses from remeasurements of defined benefit liabilities	-	-	-	-	902	-	-	-	-	902	-	902
Property reclassified from property, plant and equipment to investment property	-	-	-	14,445	-	-	-	-	-	14,445	-	14,445
Total other net comprehensive income	**-**	**-**	**-**	**(105,656)**	**902**	**267**	**-**	**-**	**-**	**(104,487)**	**5**	**(104,482)**
Net profit	-	-	-	-	-	-	-	3,293,496	-	3,293,496	1,459	3,294,955
Total comprehensive income	**-**	**-**	**-**	**(105,656)**	**902**	**267**	**-**	**3,293,496**	**-**	**3,189,009**	**1,464**	**3,190,473**
Other changes, including:	**-**	**(110)**	**75,787**	**(15,214)**	**-**	**-**	**(2,601,267)**	**-**	**(1,727,046)**	**(4,267,850)**	**(64,261)**	**(4,332,111)**
Profit appropriation	-	-	34,231	-	-	-	(2,599,579)	-	(1,727,046)	(4,292,394)	-	(4,292,394)
Increase in capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	30	30
Buyback of shares in Armatura Kraków SA	-	-	24,568	-	-	-	-	-	-	24,568	(64,474)	(39,906)
Sale of revalued property	-	-	16,988	(15,214)	-	-	(1,772)	-	-	2	-	2
Change in the scope of consolidation	-	(110)	-	-	-	-	84	-	-	(26)	183	157
Balance as at 31 December 2013	**86,352**	**(110)**	**8,855,999**	**242,297**	**902**	**(37,737)**	**2,397,137**	**3,293,496**	**(1,727,046)**	**13,111,290**	**16,341**	**13,127,631**

(in PLN '000)

Consolidated statement of cash flows

Consolidated statement of cash flows	**Note**	**1 January – 31 December 2014**	**1 January – 31 December 2013** *(restated)*
Cash flows from operating activities			
Inflows		20,817,079	20,215,965
- inflows from insurance premiums		16,813,033	16,381,109
- inflows from investment contracts		374,467	1,097,951
- inflows from reinsurance commissions and share in reinsurers' profits		5,801	69,069
- inflows from reinsurers' share in claims		57,799	281,363
- inflows from claims representative services		185,909	229,562
- inflows from sale of units by investment fund		1,309,017	908,616
- other inflows from operating activities	53	2,071,053	1,248,295
Outflows		(19,041,866)	(17,269,971)
- reinsurance premiums		(281,562)	(242,809)
- commissions paid and profit sharing due to reinsurance inwards		(6,665)	(1,685)
- claims and benefits paid		(8,913,766)	(8,354,637)
- benefits paid from investment contracts		(1,389,107)	(1,334,843)
- acquisition outflows		(1,792,914)	(1,673,032)
- administrative outflows		(2,043,079)	(2,075,101)
- interest payments		(367)	(415)
- income tax payments		(643,411)	(863,601)
- outflows from claims representative services		(463,856)	(474,690)
- outflows from purchase of units by investment fund		(574,396)	(515,878)
- other operating outflows	53	(2,932,743)	(1,733,280)
Net cash flows from operating activities		**1,775,213**	**2,945,994**
Cash flows from investment activities			
Inflows		656,131,136	662,801,378
- disposal of investment property		46,372	20,982
- inflows from investment property		161,875	134,991
- disposal of intangible assets and property, plant and equipment		11,456	12,177
- disposal of shares		5,684,627	8,205,820
- redemption of debt instruments		59,499,048	114,078,782
- inflows from buy sell-back transactions		322,415,856	366,309,659
- withdrawal of term deposits at credit institutions		230,591,875	152,486,255
- inflows from other investments		33,292,748	18,883,940
- interest received		4,273,948	2,167,415
- dividends received		85,347	127,489
- cash acquired on business combination transactions		45,341	-
- cash inflows due to changes in the consolidation scope		-	355,464
- other inflows from investments		22,643	18,404

(in PLN '000)

Consolidated statement of cash flows (cont.)

Consolidated statement of cash flows	Note	1 January – 31 December 2014	1 January – 31 December 2013 *(restated)*
Outflows		(657,879,173)	(665,414,979)
- acquisition of investment property		(674,638)	(391,751)
- outflows for maintenance of investment property		(152,702)	(87,860)
- acquisition of intangible assets and property, plant and equipment		(257,336)	(225,114)
- acquisition of shares		(6,309,465)	(9,634,941)
- acquisition of shares in subsidiaries	2.4.5	(1,573,516)	-
- decrease in cash balance due to changes in the consolidation scope	2.4.1	(16,108)	-
- acquisition of debt instruments		(60,179,445)	(114,022,255)
- outflows from buy sell-back transactions		(322,391,282)	(367,791,576)
- acquisition of term deposits at credit institutions		(229,791,689)	(155,299,282)
- acquisition of other investments		(36,528,980)	(17,951,679)
- other investments outflows		(4,012)	(10,521)
Net cash flow from investment activities		**(1,748,037)**	**(2,613,601)**
Cash flows from financing activities			
Inflows		368,232,652	106,079,401
- inflows from loans		10,823	89,889
- inflows due to issuance of debt instruments		2,015,447	-
- inflows from *sell buy-back* transactions		366,206,382	105,989,512
Outflows		(368,542,449)	(106,098,984)
- dividends paid to equity holders of the parent entity	44.1.1.1	(1,468,133)	(4,166,166)
- repayment of loans		(39,815)	(209,125)
- outflows from *sell buy-back* transactions		(367,019,479)	(101,708,734)
- interest from loans		(14,718)	(14,959)
- other financial outflows		(304)	-
Net cash flow from financing activities		**(309,797)**	**(19,583)**
Total net cash flows		**(282,621)**	**312,810**
Cash and cash equivalents at the beginning of the financial year		569,157	262,063
Change in cash due to exchange differences		37,471	(5,716)
Cash and cash equivalents at the end of the financial year, including:	42	324,007	569,157
- not available for use		31,081	110,819

Additional information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (henceforth: the consolidated financial statements and PZU Group, respectively) have been prepared in accordance with International Financial Reporting Standards ("IFRS") published and effective as at 31 December 2014 and endorsed by the European Commission.

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

Financial year

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2014 to 31 December 2014.

Financial Statements approval

These consolidated financial statements were signed and authorised for issue by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent entity) on 16 March 2015 and shall be subject to approval of the Annual General Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in PLN '000.

Going concern assumption

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

Discontinued operations

In 2014, the entities in PZU Group did not discontinue any significant type of operations.

2. Structure of the Capital Group

2.1 PZU

The PZU Group's parent entity is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24.

PZU is entered to the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

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

(in PLN '000)

2.2 PZU Group entities

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n.a.	n.a.	n.a.	n.a.	n.a.	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie")	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA ("Link4") 1)	Warsaw	15.09.2014	100.00%	n.a.	100.00%	n.a.	Non-life insurance. http://www.link4.pl/
4	Lietuvos Draudimas AB 2)	Vilnius (Lithuania)	31.10.2014	99.98%	n.a.	99.98%	n.a.	Non-life insurance. http://www.ld.lt/
5	Apdrošināšanas Akciju Sabiedrība Balta ("AAS Balta") 3)	Riga (Latvia)	30.06.2014	99.99%	n.a.	99.99%	n.a.	Non-life insurance. http://www.balta.lv/
6	PrJSC IC PZU Ukraine ("PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
7	PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
8	UAB DK PZU Lietuva ("PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.88%	99.76%	99.88%	99.76%	Non-life insurance. https://www.pzu.lt/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance. https://www.pzu.lt/
10	Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU")	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
11	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activities related to insurance and pension funds.

(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								
12	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishment, represention and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
13	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
14	PZU Finance AB (publ)	Stockholm (Sweden)	02.06.2014	100.00%	n.a.	100.00%	n.a.	Financial services.
15	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
16	Tower Inwestycje Sp. z o.o. ("Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services excluding insurance and pension funds.
17	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Acquiring, operating, renting and selling of real property. http://www.ogrodowainwestycje.pl/
18	Armatura Kraków SA [4)]	Cracow	07.10.1999	100.00%	92.75%	100.00%	92.75%	Distribution of products of Armatura Group, administration and management of the Armatura Group. http://www.grupa-armatura.pl/
19	Armatoora SA [4)]	Nisko	10.12.2008	100.00%	92.75%	100.00%	92.75%	Production and distribution of radiators and sanitary fixtures and fittings
20	Armaton SA [4)]	Cracow	10.02.2009	100.00%	92.75%	100.00%	92.75%	Use of free funds, development investments.
21	Arm Property sp. z o.o. [5)]	Cracow	26.11.2014	100.00%	n.a.	100.00%	n.a.	Purchase and sales of property.
22	Armadimp SA [4) 6)]	Cracow	20.07.2012	n.a.	92.75%	n.a.	92.75%	Manufacturing of ceramic sanitary fixtures.
23	Armagor SA [4) 7)]	Cracow	06.09.2009	n.a.	92.75%	n.a.	92.75%	Manufacturing of bathroom (water and gas) and central heating fittings.

(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								
24	PZU Zdrowie SA (previously Ipsilon Bis SA)	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	Health care services. http://www.pzu.pl/pzu-zdrowie
25	Centrum Medyczne Medica sp. z o.o. ("CM Medica")	Płock	09.05.2014	100.00%	n.a.	100.00%	n.a.	Health care services. http://cmmedica.pl/
26	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o. ("Prof-Med")	Włocławek	12.05.2014	96.45%	n.a.	96.45%	n.a.	Health care services. http://cmprofmed.pl/
27	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o. ("SU Krystynka")	Ciechocinek	09.05.2014	98.58%	n.a.	98.58%	n.a.	Hospital, rehabilitation and spa therapy services. http://www.sanatoriumkrystynka.pl/
28	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. ("Elvita")	Jaworzno	01.12.2014	98.82%	n.a.	98.82%	n.a.	Health care services. http://www.elvita.pl/
29	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. ("Proelmed")	Łaziska Górne	01.12.2014	57.00%	n.a.	57.00%	n.a.	Health care services. http://www.proelmed.pl/
30	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Business assistance services and health care services.
31	PZU Asset Management SA ("PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of instruments portfolios for the account of third parties. http://www.pzu.pl/grupa-pzu/tfi-pzu/pzu-asset-managment
32	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA in liquidation ("MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
33	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
34	Omicron Bis SA	Warsaw	28.08.2014	100.00%	n.a.	100.00%	n.a.	The Company does not conduct business operations.
35	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services.

(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								
36	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	n.a.	100.00%	n.a.	The Company does not conduct business operations.
37	PZU SFIO Universum	Warsaw	15.12.2009	n.a.	n.a.	n.a.	n.a.	Investment of funds collected from the participants of the fund.
38	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n.a.	n.a.	n.a.	n.a.	As above.
39	PZU FIZ Sektora Nieruchomości [9)]	Warsaw	01.07.2008	n.a.	n.a.	n.a.	n.a.	As above.
40	PZU FIZ Sektora Nieruchomości 2 [9)]	Warsaw	21.11.2011	n.a.	n.a.	n.a.	n.a.	As above.
41	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n.a.	n.a.	n.a.	n.a.	As above.
42	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.
43	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	As above.
44	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	As above.
45	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	As above.
46	PZU FIZ Forte	Warsaw	27.12.2012	n.a.	n.a.	n.a.	n.a.	As above.
47	PZU FIZ Sektora Nieruchomości 3 in liquidation [9) 10)]	Warsaw	24.02.2012	n.a.	n.a.	n.a.	n.a.	As above.
48	PZU FIZ Aktywów Niepublicznych RE Income in liquidation [9) 11)]	Warsaw	08.11.2011	n.a.	n.a.	n.a.	n.a.	As above.
49	PZU FIO Gotówkowy	Warsaw	01.07.2005	n.a.	n.a.	n.a.	n.a.	As above.
Joint ventures								
50	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	50.00%	50.00%	50.00%	Execution of construction projects.

(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Associates								
51	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services.
52	EMC Instytut Medyczny SA [12)]	Wrocław	18.06.2013	28.58%	29.87%	25.41%	25.31%	Health protection, R&D in medical sciences and pharmacy.

[1)] Information about the acquisition of Link4 is presented in Note 2.4.5.2.
[2)] Information about the acquisition of Lietuvos Draudimas AB is presented in Note 2.4.5.3.
[3)] Information about the acquisition of AAS Balta is presented in Note 2.4.5.1.
[4)] Information about changing the involvement in Armatura Kraków SA is presented in Note 2.4.3.
[5)] Information about the establishment of Arm Property Sp. z o.o. is presented in Note 2.4.6.
[6)] On 31 December 2014, business combination of Armatoora SA (the acquiring entity) and Armadimp SA (the acquired entity) was registered. Additional information about is presented in Note 2.4.4.
[7)] On 31 December 2014, business combination of Armatura Kraków SA (the acquiring entity) and Armagor SA (the acquired entity) was registered. Additional information about is presented in Note 2.4.4.
[8)] On 16 October 2014, the Extraordinary General Meeting of Shareholders of MPTE PZU SA adopted a decision about the commencement of liquidation process of the company in connection with the unification of employee pension pogrammes in PZU Group and prior to the take-over of pension the programmes by investment funds managed by TFI PZU.
[9)] As at 31 December 2014 the funds PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchorności 2, PZU FIZ Sektora Nieruchorności 3 in liquidation, PZU FIZ Aktywów Niepublicznych RE Income in liquidation conducted investment operations through special purpose vehicles which invested in particular properties, the number of which for particular funds amounted to: 39, 13, 7, 6 (31 December 2013: 37, 8, 9, 6).
[10)] The net assets of PZU FIZ Sektora Nieruchomości 3 in liquidation amounted to PLN 589 thousand as at 31 December 2014.
[11)] The net assets of PZU FIZ Aktywów Niepublicznych RE Income in liquidation amounted to PLN 2,262 thousand as at 31 December 2014.
[12)] Information about changing the involvement in EMC Instytut Medyczny SA is presented in Note 2.4.2.

(in PLN '000)

But for the companies listed in the table, as at 31 December 2014, PZU Group owned 100% of shares in Syta Development sp. z o.o. in liquidation that is controlled by the official receiver independent from PZU Group and, therefore, the company was not subject to consolidation. The carrying amount of these shares in the consolidated statement of financial position of PZU Group amounted to 0.

2.3 Non-controlling interest

In PZU Group there are no subsidiaries for which non-controlling interest would be material to PZU Group. The table below presents the subsidiaries with non-controlling interest:

Name of the entity	31 December 2014	31 December 2013
Proelmed	43.00%	n.a.
Prof-Med	3.55%	n.a.
SU Krystynka	1.42%	n.a.
Elvita	1.18%	n.a.
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
PZU Lietuva	0.12%	0.24%
Lietuvos Draudimas AB	0.02%	n.a.
AAS Balta	0.01%	n.a.
Armatura Kraków SA	0.00%	7.25%
Armatoora SA	0.00%	7.25%
Armaton SA	0.00%	7.25%
Armagor SA	0.00%	7.25%
Armadimp SA	0.00%	7.25%

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

2.4.1. Changes in the scope of consolidation of investment funds

Information about the application of IFRS 10 from 1 January 2014 are presented in Note 5.1.2.1.

The assumptions made by PZU Group upon consolidation of investment funds have been presented in Note 6.1.1.

Due to the fact that PZU Group lost control over a sub-fund PZU Energia Medycyna Ekologia, the consolidation was ceased from 1 April 2014. It resulted in a reduction of cash balance of PZU Group by PLN 16,108 thousand (in "decrease in cash inflows due to changes in the scope of consolidation" line in the consolidated cash flow statement. After ceasing the consolidation of the investment fund, the participation units are recognised in consolidated financial statements instead of the assets and liabilities of the investment fund.

2.4.2. Acquisition of shares in EMC Instytut Medyczny SA

On 23 December 2013, PZU FIZ AN BIS 2 entered into a contract providing for the acquisition of 948,370 newly issued shares in EMC Instytut Medyczny SA ("EMC") with the nominal value of PLN 4.00 per share and the issue price of PLN 19.50 per share. The total purchase price for the new shares amounted to PLN 18,493 thousand.

On 14 March 2014 the capital increase of EMC was registered, as a result of the issuance of 3,692,310 shares with a nominal value of PLN 4.00 per share and the issue price of PLN 19.50 per share. In accordance with the above mentioned final contract, PZU FIZ AN BIS 2 acquired 948,370 shares (constituting 25.685% of new issue). As a result of the capital increase, PZU FIZ AN BIS 2 has a total of 3,435,638 shares representing 28.58% of the share capital, which entitles it to 25.41% of votes at the General Meeting of Shareholders of EMC.

2.4.3. Increase of the capital share in Armatura Kraków SA

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

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

Through transactions settled on 3 March 2014 and 14 March 2014, PZU FIZ AN BIS 2 purchased 298,399 and 58,175 shares, respectively. As a result of these transactions, PZU FIZ AN BIS 2 had a total of 81,000,000 shares representing 100% of the share capital of Armatura Kraków SA, which entitled it to 100% of votes at the General Meeting of Shareholders.

On 9 January 2014, a request concerning the granting of authorization to restore shares of Armatura Kraków SA to a document form, i.e. the abolition of their dematerialization, was submitted to the Polish Financial Supervision Authority ("PFSA"). The PFSA agreed to dematerialize the shares on 18 February 2014. Pursuant to this decision, as at 10 March Armatura Kraków SA ceased to be subject to the obligations arising from the Act of 29 July 2005 on Public offering, conditions governing the introduction of financial instruments to organized trading, and public companies (Journal of Laws of 2013, 1382).

2.4.4. Combinations of entities under common control

On 21 November 2014, the General Meeting of Shareholders of Armatoora SA adopted a decision on the legal merger of Armatoora SA (the acquirer) and Armadimp SA (the acquiree). The sole shareholder of both companies was Armatura Kraków SA. The acquisition took place by transferring all assets of the acquiree to the acquirer in exchange for shares in the acquirer issued to the shareholder of the acquiree (Armatura Kraków SA).

On 28 November 2014 the General Meeting of Shareholders of Armatura Kraków SA adopted a decision on the legal merger of Armatura Kraków SA (the acquirer) with Armagor SA (the acquiree), whose sole shareholder was Armatura Kraków SA. The acquisition took place by transferring all the assets of the acquiree to the acquirer.

Both mergers were registered in the National Court Register on 31 December 2014.

Given the nature of the transactions (combinations of entities under common control) they had no impact on the consolidated financial statements.

2.4.5. Business combinations

Business combination transactions are accounted for using the acquisition method in accordance with IFRS 3 "Business Combinations". Among others, this requires identifying the acquirer, determining the acquisition date, recognizing and measuring acquired the identifiable assets acquired, liabilities assumed measured at fair value as at the acquisition date and any non-controlling interest in the acquiree, as well as recognising and measuring goodwill.

Detailed accounting policies concerning the settlement of the acquisition transactions are presented in Note 5.4.

Acquisition of insurance companies (AAS Balta, Link4, Lietuvos Draudimas AB as well as the Estonian branch of Codan Forsikring A/S) is part of the development strategy pursued by PZU Group, with international expansion and strengthening the position of PZU in Poland at its core. The goodwill recognised in the consolidated financial statements is an outcome of the planned achievement of value added resulting from synergy in the area of operations, IT solutions, and offer for Clients. A strong position that the acquired companies hold on the local markets is another argument that makes up the goodwill recognised. Moreover, in the case of Link4, as a result of using two brands in Poland, it is planned to attract new Clients and upsale the exisiting ones.

Acquisition of entities rendering health care services (CM Medica, Prof-Med, SU Krystynka, Elvita, Proelmed) is connected to the development of the PZU Group's activity in the field of health insurance.

2.4.5.1. Acquisition of shares of AAS Balta

On the basis of the share purchase agreement signed on 17 April 2014, PZU acquired from Royal & Sun Insurance plc, limited liability company incorporated in England and Wales with registered office in West Sussex, United Kingdom ("RSA"), 4,651,825 ordinary shares in the company AAS Balta that represent 99.995% of share capital of AAS Balta and 99.995% of votes at the General Meeting of Shareholders of AAS Balta ("AAS Balta Shares") with a nominal value of 1.00 LVL each.

The acquisition of the shares of AAS Balta was conditional upon the fulfilment of the following conditions precedent:

- obtaining the decision of the Financial and Capital Markets Commission of the Republic of Latvia regarding the acquisition of AAS Balta's shares in accordance with the relevant provisions of the Latvian law (including the no objection statement);
- obtaining the approval of European Commission's anti-thrust commission or a Latvian anti-thrust authority (depending on which one of the bodies would be appropriate in this case);
- obtaining the approval of the Ukrainian anti-trust authority.

Closing of the acquisition of AAS Balta and obtaining control took place on 30 June 2014 and since that day AAS Balta has been consolidated. The payment for the shares of AAS Balta made on the date of closing the transaction amounted to PLN 49,172 thousand (in accordance with the NBP's (National Bank of Poland) exchange rate from the day preceding the date of the transaction – PLN 204,202 thousand).

On 19 November 2014, the final settlement of the transaction was prepared. As a result, the purchase price of shares in AAS Balta was reduced by EUR 812 thousand. The final purchase price amounted to EUR 48,360 thousand (PLN 200,776 thousand).

Purchase price allocation for AAS Balta

During the calculation of goodwill, the carrying amounts of assets and liabilities of AAS Balta have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the company.

Fair value of the acquired assets as at the acquisition date	Provisional settlement (in thousands EUR)	Adjustment	Final settlement (in thousands EUR)
Intangible assets	2,914	-	2,914
Property, plant and equipment	2,923	-	2,923
Financial assets	35,309	-	35,309
Receivables	10,429	-	10,429
Reinsurers' share in technical provisions	6,973	-	6,973
Deferred tax assets	982	-	982
Other assets	4,520	-	4,520
New intangible assets identified during the acquisition, including:	30,094	-	30,094
- trademark	8,600	-	8,600
- customer relations	14,193	-	14,193
- broker relations	1,107	-	1,107
- present value of future profits	6,194	-	6,194
Total assets	**94,144**	**-**	**94,144**
Technical provisions	46,270	-	46,270
Liabilities	8,488	-	8,488
Non-controlling interest	2	-	2
Share in fair value of the acquired net assets	**39,384**	**-**	**39,384**
Fair value of consideration transferred – in cash	49,172	(812)	48,360
Calculated goodwill	**9,788**	**(812)**	**8,976**

The goodwill will not be subject to tax deduction.

2.4.5.2. Acquisition of shares of Link4

On the basis of the share purchase agreement signed on 17 April 2014, PZU acquired from RSA 111,354,305 registered shares in the company Link4 that represent 100% of share capital of Link4 and 100% of votes at the General Meeting of Shareholders of Link4 ("Link4 Shares") with a nominal value of PLN 1.00 each.

The acquisition of the shares of Link4 was conditional upon the fulfilment of the following conditions precedent:

- approval of PFSA;
- obtaining the approval of European Commission's anti-trust commission or the Polish Office for Competition and Consumer Protection (depending on which one of the bodies would be appropriate in this case), including the no objection statement;
- approval of the PFSA for the repayment of the subordinate loan agreement between InTouch Insurance Group B.V. and Link4 as at 4 March 2009 with further amendments;
- obtaining the approval of the Ukrainian anti-trust authority.

Closing of the acquisition of Link4 and obtaining control took place on 15 September 2014 and since that day Link4 has been consolidated. The payment for the shares of Link4 made on the date of closing the transaction amounted to EUR 93,886 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction – PLN 393,917 thousand). The ultimate purchase price will be determined following the final settlement prepared by PZU and approved by RSA.

As at 31 December 2014, no final settlement of the transaction has been prepared (no final acquisition price has been set). Therefore, the below purchase price allocation for Link4 is of a provisional nature.

Provisional purchase price allocation for Link4

The settlement of the acquisition of shares of Link4 was accounted for on the basis of accounting data of the company prepared as at 31 August 2014. There were no significant differences in the accounting data between 31 August 2014 and 15 September 2014 (the acquisition date).

During the calculation of goodwill, the carrying amounts of assets and liabilities of AAS Balta have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the company.

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

The goodwill will not be subject to tax deduction.

2.4.5.3. Acquisition of shares of Lietuvos Draudimas AB

Pursuant to the share purchase agreement signed on 17 April 2014, Lietuvos Draudimas AB PZU acquired from RSA 805,432 ordinary registered shares in the company Lietuvos Draudimas AB that represent 99.977% of share capital of

Lietuvos Draudimas AB ("Lietuvos Draudimas AB Shares") and 99.977% of votes at the General Meeting of Shareholders of Lietuvos Draudimas AB with a nominal value of LTL 50.00 each.

The acquisition of the shares of Lietuvos Draudimas AB was conditional upon the fulfilment of the following conditions precedent:

- obtaining the decision of the Bank of Lithuania in accordance with the relevant provisions of the Lithuanian law (including the no objection statement);
- obtaining the approval of European Commission's anti-thrust commission or a Lithuanian anti-thrust authority (depending on which authority would be appropriate in this case); the anti-thrust approval should be unconditional or contain terms acceptable to PZU; on 9 October 2014, PZU received information about granting the approval in question. The approval was issued on the condition that PZU sells its business related to motor own damage insurance and residential insurance to a third party entity within a specified period. The business intended for sale includes the rights and obligations arising from PZU Lietuva's insurance: motor own damage and household insurance as at the date of the decision, as well as tangible assets and contracts concluded by PZU Lietuva in connection with the aforementioned types of insurance;
- obtaining the approval of the Ukrainian anti-trust authority.

Closing of the acquisition of Lietuvos Draudimas AB and obtaining control took place on 31 October 2014 and since that day Lietuvos Draudimas AB has been consolidated. The payment for the shares of Lietuvos Draudimas AB made on the date of closing the transaction amounted to EUR 191,012 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction – PLN 807,598 thousand).

As at 31 December 2014, no final settlement of the transaction has been prepared. Therefore, the below purchase price allocation for Lietuvos Draudimas AB is of a provisional nature.

Provisional purchase price allocation for Lietuvos Draudimas AB

During the calculation of goodwill, the carrying amounts of assets and liabilities of Lietuvos Draudimas AB have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the company.

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

The goodwill will not be subject to tax deduction.

2.4.5.4. Acquisition of shares of the Estonian branch of Codan Forsikring A/S and the agreement on the transfer of insurance portfolio

Pursuant to the agreement signed on 17 April 2014 by and between Codan Forsikring A/S, a company registered in Denmark with its registered office in Frederikberg ("Codan Denmark") acting as a seller, and PZU Lietuva acting through its UAB DB PZI Lietuva Eesti Filiaal branch registered in the Republic of Estonia acting as a buyer, and PZU acting as a guarantor for the buyer ("Codan Sales Agreement") PZU Lietuva purchased from Codan Denmark an insurance business run by Codan Denmark through its branch registered in Estonia ("Branch of Codan").

Closing of the acquisition transaction of the Branch of Codan and obtaining control took place on 31 October 2014. The payment for the Branch of Codan made at the date of transaction closing amounted to EUR 21,409 thousand. The ultimate purchase price will be determined following the final settlement prepared by PZU Lietuva and approved by Codan Denmark.

In addition to the Codan Sales Agreement, PZU Lietuva and Codan Denmark also signed the Portfolio Transfer Agreement – Transfer of the Estonian Insurance Portfolio by Codan Denmark. Pursuant to the said agreement, PZU Lietuva acquired from Codan Denmark the portfolio of all the insurance contracts concluded or accepted by the Branch of Codan as at 31 October 2014.

As at 31 December 2014, no final settlement of the transaction has been drafted (no final acquisition price has been set). Therefore, the below purchase price allocation for the Branch of Codan is of a provisional nature.

Provisional purchase price allocation for the Branch of Codan

During the calculation of goodwill, the carrying amounts of assets and liabilities of the Branch of Codan have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the company.

Fair value of the acquired assets at the time of the acquisition of control	Provisional settlement (in thousands EUR)
Intangible assets	1,843
Property, plant and equipment	114
Receivables	10,526
Other assets	1,926
New intangible assets identified during the acquisition, including:	7,400
- present value of future profits	3,500
- broker relations	2,900
- customer relations	1,000
Total assets	**21,809**
Technical provisions	22,796
Liabilities	3,957
Share in fair value of the acquired net assets	**(4,944)**
Fair value of consideration transferred – in cash	21,409
Calculated goodwill	**26,353**

2.4.5.5. Acquisition of shares in health care companies

CM Medica

On 8 April 2014 an agreement was signed on the sale of shares of Orlen Medica sp. z o.o. (operating under the name of Centrum Medyczne Medica sp. z o.o. since 4 June 2014), between Polski Koncern Naftowy Orlen SA ("PKN Orlen"), as the seller, and PZU FIZ AN BIS 2, as the acquirer ("The Agreement of Sale of CM Medica Shares").

Pursuant to the Share Purchase Agreement for CM Medica's Shares, PZU FIZ AN BIS 2 acquired from PKN Orlen 17,983 shares in CM Medica with the nominal value of PLN 500.00 each, representing 100% of the share capital, which entitles to 100% of votes at the General Meeting of Shareholders. The transfer of shares took place on 9 May 2014.

Under the Agreement of Sale of CM Medica Shares, PZU became the indirect owner of 4,525 shares of the company operating under the name Sanatorium Uzdrowiskowe “Krystynka” sp. z o.o. (“SU Krystynka”) with the nominal value of PLN 500.00 each, representing 98.58% of the share capital and 98.58% of votes at the General Meeting of Shareholders, which is owned by CM Medica.

Since the acquisition date, which is 9 May 2014 CM Medica and SU Krystynka have been consolidated.

Prof-med

On 8 April 2014, an agreement was signed on the sale of shares in Specjalistyczna Przychodnia Przemysłowa “Prof-med” Sp. z o.o. between Anwil SA (“Anwil”), as the seller, and PZU FIZ AN BIS 2, as the acquirer (“Agreement of sale of Prof-med’s Shares”).

Pursuant to the Agreement of Sale of Prof-med’s Shares, PZU FIZ AN BIS 2 acquired from Anwil 136 shares in Prof-med with the nominal value of PLN 500.00 each, representing 96.45% of the share capital, which entitles to 96.45% of votes at the General Meeting of Shareholders. The transfer of shares took place on 12 May 2014. Since the acquisition date, which is 12 May 2014 Prof-med has been consolidated.

Elvita

On 12 August 2014 an agreement of sale of Elvita’s shares was signed between Tauron Dystrybucja SA, Tauron Wytwarzanie SA, Tauron Wydobycie SA (jointly referred to as “Tauron Group”), as the sellers, and PZU FIZ AN BIS 2, as the acquirer ("Agreement of sale of Elvita’s shares”.) The transfer of shares took place on 1 December 2014.

Pursuant to the Agreement of sale of Elvita’s shares, PZU FIZ AN BIS 2 has acquired from Tauron Group 14,984 Elvita’s shares with the nominal value of PLN 500.00 each, representing 98.82% of the share capital, which entitles to 98.82% of votes at the General Meeting of Shareholders.

In addition, PZU became the indirect holder of 57 shares in the company operating under the name of Przedsiębiorstwo Usług Medycznych “Proelmed” sp. z o.o. with the nominal value of PLN 500.00 each, constituting 57.00% of shares in its share capital and granting the right to 57.00% of votes at the General Meeting of Shareholders, owned by Elvita.

Since the acquisition date, which is 1 December 2014 Elvita and Proelmed have been consolidated.

Purchase price allocation for health care companies

Purchase price allocation for these subsidiaries has been prepared on the basis of the data prepared as at 30 April 2014 (CM Medica, SU Krystynka, Prof-Med) and as at 30 November 2014 (Elvita, Proelmed). There were no significant differences in the accounting data between the data based on which the purchase price allocation was finalised and the data as at the respective acquisition dates.

During the calculation of goodwill, the carrying amounts of property, plant and equipment, have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the companies.

Fair value of the acquired assets at the time of the acquisition of control	Final settlement (in thousands PLN)
Intangible assets	381
Property, plant and equipment	32,868
Financial assets	7,420
Receivables	7,949
Deferred tax assets	1,398
Other assets	1,938
New intangible assets identified during the acquisition – customer relations	16,145
Total assets	**68,099**
Liabilities	15,437
Non-controlling interest	779
Share in fair value of the acquired net assets	**51,883**
Fair value of consideration transferred – in cash	81,463
Calculated goodwill	**29,580**

The company's goodwill will not be subject to tax deduction.

2.4.5.6. Acquisition of shares of PZU Finance AB (publ.)

On 2 June 2014, PZU acquired the shares of PZU Finance AB (publ.) (until 16 June 2014 operating under the name Goldcup 9812 AB) for the amount of SEK 500,000 (PLN 236 thousand), which has been consolidated since that date.

On 3 July 2014 the company issued bonds as described in Note 51.

(in PLN '000)

2.4.5.7. Financial data of the acquired entities

The following table presents financial data of the entities acquired in 2014 and included in the consolidated statement of profit or loss. The data have been prepared in accordance with IFRS and they are for the period in which the companies were controlled by PZU Group.

Consolidated statement of profit or loss	AAS Balta	Link4	Lietuvos Draudimas AB	Branch of Codan	CM Medica	SU Krystynka	Prof-Med	Elvita	Proelmed
Gross written premiums	120,925	138,875	82,724	22,359	-	-	-	-	-
Reinsurer's share in written premiums	(3,020)	(7,748)	(758)	(821)	-	-	-	-	-
Net written premium	**117,905**	**131,127**	**81,966**	**21,538**	**-**	**-**	**-**	**-**	**-**
Change in net unearned premiums reserve	(8,366)	(8,502)	(1,810)	289	-	-	-	-	-
Net earned premiums	**109,539**	**122,625**	**80,156**	**21,827**	**-**	**-**	**-**	**-**	**-**
Revenue from commissions and fees	-	-	-	-	-	-	-	-	-
Net investment income	(117)	5,602	1,768	-	39	2	15	7	2
Net result on realization and impairment losses on investments	(21)	(1,377)	825	-	-	-	(9)	(20)	-
Net change in the fair value of assets and liabilities measured at fair value	1,638	-	-	-	-	-	-	-	-
Other operating income	1,093	1,037	323	66	18,704	3,057	4,093	2,788	524
Claims, benefits and change in technical provisions	(83,658)	(99,285)	(46,274)	(20,544)	-	-	-	-	-
Reinsurers' share in claims, benefits and change in technical provisions	14,763	2,770	1,399	394	-	-	-	-	-
Net claims and benefits	**(68,895)**	**(96,515)**	**(44,875)**	**(20,150)**	**-**	**-**	**-**	**-**	**-**

(in PLN '000)

Consolidated statement of profit or loss	AAS Balta	Link4	Lietuvos Draudimas AB	Branch of Codan	CM Medica	SU Krystynka	Prof-Med	Elvita	Proelmed
Change in measurement of investment contracts	-	-	-	-	-	-	-	-	-
Acquisition costs	(4,449) [1]	(2,931) [1]	(9,459) [1]	(1,604) [1]	-	-	-	-	-
Administrative expenses	(19,811)	(13,461)	(17,398)	(3,816)	-	-	-	-	-
Other operating costs	(38,721) [2]	(18,187) [3]	(42,416) [4]	(3,986) [5]	(18,272)	(2,695)	(4,031)	(3,118)	(660)
Operating profit (loss)	**(19,744)**	**(3,207)**	**(31,076)**	**(7,663)**	**471**	**364**	**68**	**(343)**	**(134)**
Borrowing costs	-	(379)	(67)	-	(33)	-	-	(1)	-
Share in net profit (loss) of entities measured using the equity method	-	-	-	-	-	-	-	-	-
Gross profit/(loss)	**(19,744)**	**(3,586)**	**(31,143)**	**(7,663)**	**438**	**364**	**68**	**(344)**	**(134)**
Income tax									
- current portion	-	-	(71)	-	(366)	(76)	(39)	104	-
- deferred portion	2,279	5,743	7,168	-	309	(47)	22	(37)	13
Net profit/(loss)	**(17,465)**	**2,157**	**(24,046)**	**(7,663)**	**381**	**241**	**51**	**(277)**	(121)
- profit/(loss) attributable to equity holders of the parent company	(17,464)	2,157	(24,040)	(7,661)	381	238	49	(274)	(68)
- profit/(loss) attributable to non-controlling interest	(1)	-	(6)	(2)	-	3	2	(3)	**(53)**

[1] Acquisition costs do not include the change in deferred acquisition costs for which fair value as at the acquisition date equals 0;
[2] Including PLN 31,201 thousand of amortisation of intangible assets acquired on business combination;
[3] Including PLN 14,888 thousand of amortisation of intangible assets acquired on business combination;
[4] Including PLN 36,224 thousand of amortisation of intangible assets acquired on business combination;
[5] Including PLN 3,741 thousand of amortisation of intangible assets acquired on business combination;

(in PLN '000)

2.4.5.8. Consolidated statement of profit and loss, including acquired entities

The following table presents incomes and profits of PZU Group, including the financial data of the acquired subsidiaries calculated as if the acquisition date for all combinations performed throughout the year was the beginning of the financial year.

Consolidated statement of profit and loss, including acquired subsidiaries	1 January – 31 December 2014
Gross written premiums	17,831,969
Reinsurer's share in written premiums	(395,767)
Net written premium	**17,436,202**
Change in net unearned premiums reserve	(128,091)
Net earned premiums	**17,308,111**
Revenue from commissions and fees	350,764
Net investment income	1,815,974
Net result on realization and impairment losses on investments	421,207
Net change in the fair value of assets and liabilities measured at fair value	514,866
Other operating income	585,083
Claims, benefits and change in technical provisions	(12,258,830)
Reinsurers' share in claims, benefits and change in technical provisions	207,310
Net claims and benefits	**(12,051,520)**
Change in measurement of investment contracts	(14,031)
Acquisition costs	(2,299,388)
Administrative expenses	(1,643,711)
Other operating costs	(1,090,634)
Operating profit	**3,896,721**
Borrowing costs	(220,267)
Share in net losses of entities measured using the equity method	(1,525)
Gross profit	**3,674,929**
Income tax	
- current portion	(682,303)
- deferred portion	(28,244)
Net profit	**2,964,382**

2.4.6. Establishment of Arm Property sp. z o.o.

Arm Property sp. z o.o. was registered on 26 November 2014. The Company's equity is PLN 50 thousand and is divided into 1,000 shares, at PLN 50 per share. All shares have been acquired by Armaton SA.

(in PLN '000)

3. The shareholding structure

Table below presents PZU's shareholders structure, including shareholders holding more than 5% of all votes at the General Meeting of Shareholders:

At 31 December 2014

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	30,385,253	35.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,317,691	5.0001%
3	Other shareholders	51,649,356	59.8124%
Total		**86,352,300**	**100,00%**

At 31 December 2013

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	30,385,253	35.1875%
2	Other shareholders	55,967,047	64.8125%
Total		**86,352,300**	**100.00%**

Information on the number of shares included in the calculation of profits per share are presented in Note 25 .

3.1.1. Trasactions involving significant packages of PZU shares

In the period from 1 January 2014 to the date of signing the consolidated financial statements, there was one significant change in the ownership structure of significant PZU's shares packages.

On 29 May 2014, Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA presented PZU with a notice concerning a change in the ownership of PZU shares by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"), informing that as the result of the transaction of purchase of PZU's shares on 22 May 2014, as at 27 May 2014, Aviva OFE increased its volume of shares held in PZU to 5.0001% of PZU share capital, which constitutes 5.0001% of the total votes at the General Meeting of Shareholders of PZU.

3.1.2. Highest-level parent entity of PZU

As at 31 December 2014 the State Treasury of the Republic of Poland (the "State Treasury") held 35.1875% of PZU shares giving the right to 35.1875% of votes at the Shareholders' Meeting. Therefore, the there was no higher-level parent entity of PZU preparing its consolidated financial statements.

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

4.1 Composition of the parent entity's Management Board

In the period from 1 January 2014 until 31 December 2014, the composition of PZU Management Board was as follows:

- Andrzej Klesyk – President of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Board;
- Dariusz Krzewina – Member of the Board;
- Barbara Smalska – Member of the Board;
- Tomasz Tarkowski – Member of the Board;
- Ryszard Trepczyński – Member of the Board.

On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014.

Composition of the Management Board of PZU between 1 January 2015 and the date of signing the consolidated financial statements:

- Andrzej Klesyk – President of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Board;
- Dariusz Krzewina – Member of the Board;
- Tomasz Tarkowski – Member of the Board;
- Ryszard Trepczyński – Member of the Board.

4.2 Composition of the parent entity's Supervisory Board

In the period from 1 January 2014 until 18 June 2014, the composition of the Supervisory Board of PZU was as follows:

- Waldemar Maj – President of the Board;
- Zbigniew Ćwiąkalski – Vice-President of the Board;
- Tomasz Zganiacz – Secretary of the Board;
- Dariusz Daniluk – Member;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Wfodzimierz Kiciński - Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

On 17 June 2014, the Greeting Meeting of Shareholders of PZU adopted a resolution dismissing Dariusz Daniluk, Włodzimierz Kiciński and Waldemar Maj from the Supervisory Board of PZU and resolutions appointing Aleksandra Magaczewska, Dariusz Kacprzyk and Jakub Karnowski as members of the Supervisory Board of PZU. The resolutions came into force on 18 June 2014.

On 15 July 2014, the Supervisory Board of PZU entrusted Aleksandra Magaczewska with the function of the Chairman of the Supervisory Board of PZU.

Composition of the Supervisory Board of PZU between 18 June 2014 and the date of signing the consolidated financial statements:

- Aleksandra Magaczewska – President of the Board (since 15 July 2014, during the period of 18 June 2014 – 15 July 2014 – the Member of the Board);
- Zbigniew Ćwiąkalski – Vice-President;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

4.3 Directors in the Group

Along with Management Board members, key managing personnel in PZU Group includes Group Directors, who are also members of the Management Board in PZU Życie.

Directors at PZU Group as at 1 January 2014:

- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

On 15 January 2014, the Management Board of PZU appointed Tobiasz Bury as Director of PZU Group effective from 16 January 2014.

Directors of PZU Group from 16 January 2014 to the date of signing of the consolidated financial statements:

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

5. Summary of significant accounting policies

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

5.1 Changes in accounting policies, accounting estimates and errors

The accounting policies are changed only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows – voluntary application.

Changes in accounting policies upon initial application of an IFRS are applied in accordance with transitional provisions included in that IFRS. When changes in accounting policies are made upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or the changes are made voluntarily, it shall apply the change retrospectively. Retrospective application of a change in accounting policy requires to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The items of financial statements determined based on accounting estimates shall be subject to verification if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The results of a change in estimates shall be accounted for prospectively. This means that the amounts concerning transactions, other events and conditions are adjusted from the moment when the change occurred (the change impacts only the current statement of comprehensive income or the results in a given period and future periods).

It is assumed that errors are adjusted in the period when they were made (and not detected). Thus, essential errors from previous periods shall be adjusted retrospectively, and the differences are charged to equity.

(in PLN '000)

5.1.1. Changes in the applied IFRS

5.1.1.1. Standards and interpretations as well as changes in standards effective from 1 January 2014

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

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRS 10 - Consolidated Financial Statements	1 January 2013 1)	1254/2012	IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the returns. As a result of the application of IFRS 10 as at the beginning of 2014, the subfunds PZU Energia Medycyna Ekologia, PZU Akcji Rynków Wschodzących, PZU Akcji Spółek Dywidendowych and PZU FIZ Forte have been consolidated. In the consolidated assets and liabilities, the assets and liabilities of consolidated funds were disclosed rather than shares. The effect of applying the new standard to the consolidated statement of financial position, the consolidated statement of profit and loss and the consolidated statement of comprehensive revenues is presented in Note 3.3.1. Due to the retrospective application of the new standard, the figures for concerning the year 2013 were subject to transformation.
IFRS 11 – Joint Arrangements	1 January 2013 1)	1254/2012	IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly related parties is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. The application of IFRS 11 does not have a material impact on the consolidated financial statements of PZU Group.

(in PLN '000)

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013 [1)]	1254/2012	IFRS 12 requires the provision of improved information on both consolidated and unconsolidated entities. The objective of IFRS 12 is to provide information in a way that enables the users of financial statements to evaluate the basis for the control, restrictions imposed on consolidated assets and liabilities, exposure to risks arising from the involvement in the non-consolidated structural units and the involvement of the non-controlling interest holders in the operations of consolidated entities. As a result of the application of IFRS 12, PZU Group presented additional disclosure statements relating to associated entities and joint ventures. Since in PZU Group there are no subsidiaries with non-controlling interest relevant to PZU Group, the disclosures required by IFRS 12 for such entities are not presented.
Transition Guidance (Amendments do IFRS 10, IFRS 11 and IFRS 12)	1 January 2013 [1)]	313/2013	The amendments are intended to provide further explanation regarding the transitional provisions of IFRS 10, IFRS 11 and IFRS 12 in such a manner to limit the requirements on restating comparative information only to the preceding comparative period.
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014	1174/2013	The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The change does not affect PZU Group.
Revised IAS 27 "Separate Financial Statements"	1 January 2013 [1)]	1254/2012	The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. The change does not affect PZU Group.
Revised IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013 [1)]	1254/2012	IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.
Amendments to IAS 32 - offsetting financial assets and financial liabilities	1 January 2014	1256/2012	Amendments provide clarifications on the application of the offsetting rules and focus on four main areas: the meaning of "currently has a legally enforceable right of set-off"; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

(in PLN '000)

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendments to IAS 36 – disclosure of information on recoverable amounts for noon-financial assets	1 January 2014	1374/2013	Narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IAS 39 - Regarding novation of derivatives and continuation of hedge accounting	1 January 2014	1375/2013	The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met The amendment did not affect the consolidated financial statements of PZU Group (no hedge accounting).

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

5.1.1.2. Standards, Interpretations and changes in standards issued but not effective as at the balance sheet date

The following standards, Interpretations and changes in standards have been issued but are not effective as at the balance sheet date:

- Endorsed by European Commission resolution:

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRIC 21 "Levies"	17 June 2014 and later	634/2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the event resulting in the creation of an obligation to pay a public fee in a Business operations subject to a public fee, as specified in the relevant laws. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

(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	24 July 2014	1 January 2018	The standard replaces IAS 39 and establishes the requirements regarding the recognition and measurement of impairment, derecognition and hedge accounting. The standard introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model associated with the given assets. The standard unifies the impairment model for all financial instruments. The new expected loss impairment requires faster recognition of expected credit losses. The standard introduces a reformed model of hedge accounting, with enhanced disclosure requirements for risk management activities. Due to the long lead time of entry into force, no estimates of the impact of IFRS 9 on the total income and equity PZU Group were made.
Amendments to IAS 19 - Employee benefits - defined benefit programmes - employee contributions	21 November 2013	1 July 2014	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016	Allowing entities applying IFRS for the first time, and which now the regulatory deferral accounts in accordance with their previous generally accepted accounting principles, the continuation of the recognition of these balances in the transition to IFRS. The change does not affect PZU Group.

(in PLN '000)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 15 – Revenue from Contracts with Customers	28 May 2014	1 January 2017	IFRS 15 defines how and when to recognise revenues and requires the provision of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard concerns the recognition of revenues in such a way as to reflect the transfer of goods or services to customers and in such amount that reflects the amount of remuneration (i.e. payments), to which the company expects to obtain the rights in exchange for goods or services. The standard also provides guidance concerning the accounting for transactions that were not specifically regulated by previous standards (eg. revenues from services or modification of contracts), as well as more extensive explanations about the recognition of multi-element contracts. Due to the long lead time of entry into force and the lack of application in relation to insurance companies of PZU Group, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated.
Amendments to IFRS 2010-2012	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of 'vesting condition'; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and liabilities; proportionate restatement of accumulated depreciation application in revaluation method and clarification on management personnel. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

(in PLN '000)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendments to IFRS 2011-2013	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting treatment in situations in which the freedom of interpretation was previously acceptable. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exception for joint ventures; scope of paragraph 52 if IFRS 13 (net exposure exception) and clarifying the interrelationship of IFRS 3 and IAS 40 (additional services). The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2012-2014	25 September 2014	1 January 2016	Amendments to IFRS 5 – adding guidance on how to reclassify assets held for sales to assets held for distribution to owners and conversely, and instances of discontinued classification of assets held for distribution to owners. Amendments to IFRS 7 – adding guidance on how to conduct disclosures of contracts on handling assets and explanations of amendments applied to IFRS 7 concerning offsetting in condensed interim financial statements. Amendment to IFRS 19 – explanation that high quality corporate bonds used for the estimation of the discount rate applied to calculate post-employment benefits shall be denominated in the same currency in which the benefits will be paid (hence, the market activity concerning the bonds should be evaluated at the currency level). Amendments to IAS 34 – clarification of terms. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associated entity or a joint venture	11 September 2014	1 January 2016	The major effect of the amendment is recognition of the full profit or loss whenever a transaction concerns organized business (irrespective of whether it is located within a subsidiary or not); partial profits or losses are recognized when a transaction concerns particular assets that do not form organized business, even when they are located in a subsidiary. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments to IFRS 11 – settlement of acquisition of shares in a joint venture	6 May 2014	1 January 2016	The amendment clarifies that the purchaser of the shares in joint operations must comply with all the rules regarding acquisition accounting under IFRS 3 and other IFRSs that are not in conflict with IFRS 11 and disclose the information required by these standards. The amendment should not affect the consolidated financial statements of PZU Group.
Amendments to IAS 16 and IAS 38 - an explanation of acceptable methods of depreciation	12 May 2014	1 January 2016	The amendment clarifies that the adoption of depreciation methods based on revenues generated by the assets is not appropriate. The amendment should not affect the consolidated financial statement of PZU Group.
Amendment to IAS 16 and IAS 41 – Bearer plants	30 June 2014	1 January 2016	The amendment introduces a definition of bearer assets and removes them from the scope of the application of IAS 41 by moving them to IAS 16, which will result in change in the method of valuation. The amendment will not affect the consolidated financial statement of PZU Group.

(in PLN '000)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendment to IAS 27- Equity method in separate financial statements	12 August 2014	1 January 2016	The amendment allows entities to use the equity method in the valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments to IAS 1 – disclosure initiative	18 December 2014	1 January 2016	Adding requirements with respect to an orderly layout of financial statements, introduction of the requirement of reconciling indirect totals in the statement of profit or loss, comprehensive statement of profit or loss, statement of financial position, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment may result in minor modifications of the layout of basic tables in consolidated financial statements of PZU Group.
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Exemptions from consolidation applied	18 December 2014	1 January 2016	IFRS 10 – adding supplementary guidance instructing investment entities to perform obligatory consolidation of non-investment subsidiaries rendering services related to investment; adding guidance on the lack of duty to perform consolidated statements in the case of lower-level parent entities being subsidiaries of investment entities. IAS 28 – adding guidance on the application of measurement using the equity method by an investor not being an investment entity with respect to an associated investment entity or a joint-venture. The amendment will not affect the consolidated financial statement of PZU Group.

Summing up, PZU Group is of the opinion that the introduction of the aforementioned standards and interpretation will not considerably impact the accounting policies applied by PZU Group, save for IFRS 9 and 15, impact of which on the accounting policies applied by PZU Group has not been assessed yet.

5.1.2. Explanation of differences between the statements published previously and the current consolidated financial statements

5.1.2.1. The application of IFRS 10

PZU Group has applied IFRS 10 as at 1 January 2014, which is the date of initial application, as defined in point C2B of IFRS 10.

As a result of the application of IFRS 10, the following entities have been consolidated: Subfund PZU Energia Medycyna Ekologia, Subfund PZU Akcji Rynków Wschodzących, Subfund PZU Akcji Spółek Dywidendowych and PZU FIZ Forte. The assets and liabilities of the consolidated funds are included in the assets and liabilities of the consolidated statement of financial position instead of the previous presentation of the value of investments in a given fund at fair value in the appropriate section of "Financial assets" of the consolidated statement of financial position.

Information on judgments adopted by PZU Group in connection with the application of IFRS 10 is presented in Note 6.1.1.

5.1.2.2. Change of the presentation of revenue and cash flows from kick-backs

In the consolidated financial statements for 2014, the presentation of revenue from kick-backs due to holding a considerable amount of assets in funds managed by fund societies has been amended and presented in the section "Net investment income" instead of "Revenue from commission and fees" and "Other operating income".

As a result, the benefits have been included in the section "Other inflows from investments" instead of "Other inflows from operating activities" and "Inflows from other investments" of the statement of cash flows.

5.1.2.3. Amendment to the presentation of cash flows from premium refunds

In the consolidated financial statements for 2014, a change of the presentation of cash flows from premiums refunds has been introduced – they have been included in the section "Other operating outflows" instead of reducing the item "Inflows from insurance premiums".

5.1.2.4. Effect of the amendments on the consolidated financial statements

The effect of applying the aforementioned changed on the consolidated statement of financial position, the consolidated statement of profit and loss and the consolidated statement of other comprehensive income is presented in the tables below.

(in PLN '000)

Assets	31 December 2013 *(approved)*	Adjustment	Note	31 December 2013 *(restated)*	1 January 2013 *(approved)*	Adjustment	Note	1 January 2013 *(restated)*
Intangible assets	308,726	-		308,726	183,238	-		183,238
Goodwill	8,519	-		8,519	8,474	-		8,474
Property, plant and equipment	927,281	-		927,281	992,317	-		992,317
Investment property	1,474,770	-		1,474,770	564,404	-		564,404
Entities measured using the equity method	48,595	-		48,595	-	-		-
Financial assets	54,688,714	397,014		55,085,728	50,423,076	(34,011)		50,389,065
Financial instruments held to maturity	18,859,902	-		18,859,902	21,117,559	-		21,117,559
Financial instruments available for sale	1,922,173	(2,061)	5.1.2.1	1,920,112	3,924,501	(100,092)	5.1.2.1	3,824,409
Financial instruments measured at fair value through profit or loss	19,790,102	114,074	5.1.2.1	19,904,176	15,628,401	66,081	5.1.2.1	15,694,482
Loans and receivables	14,116,537	285,001	5.1.2.1	14,401,538	9,752,615	-		9,752,615
Receivables, including insurance receivables	2,664,986	6,978	5.1.2.1	2,671,964	1,835,793	5,080	5.1.2.1	1,840,873
Reinsurers' share in technical provisions	526,605	-		526,605	749,334	-		749,334
Estimated salvages and subrogations	129,950	-		129,950	121,632	-		121,632
Deferred tax assets	16,949	-		16,949	13,963	-		13,963
Current income tax receivables	34,895	-		34,895	80,646	-		80,646
Deferred acquisition costs	609,819	-		609,819	574,489	-		574,489
Other assets	195,449	-		195,449	178,646	-		178,646
Cash and cash equivalents	548,266	20,891	5.1.2.1	569,157	136,586	125,477	5.1.2.1	262,063
Assets held for sale	178,897	-		178,897	46,962	-		46,962
Total assets	**62,362,421**	**424,883**		**62,787,304**	**55,909,560**	**96,546**		**56,006,106**

(in PLN '000)

Equity and liabilities	31 December 2013 *(approved)*	Adjustment	Note	31 December 2013 *(restated)*	1 January 2013 *(approved)*	Adjustment	Note	1 January 2013 *(restated)*
Equity								
Issued share capital and other equity attributable to the equity holders of the parent entity								
Share capital	86,352	-		86,352	86,352	-		86,352
Other reserves	9,061,508	(157)		9,061,351	9,105,450	(75)		9,105,375
Treasure shares	-	(110)	5.1.2.1	(110)	-	-		-
Supplementary capital	8,855,999	-		8,855,999	8,780,212	-		8,780,212
Revaluation reserve	242,344	(47)	5.1.2.1	242,297	363,242	(75)	5.1.2.1	363,167
Actuarial gains and losses from remeasurements of defined benefit liabilities	902	-		902	-	-		-
Exchange differences from translation	(37,737)	-		(37,737)	(38,004)	-		(38,004)
Unappropriated result	3,963,586	1		3,963,587	4,998,329	75		4,998,404
Retained earnings	2,396,978	159	5.1.2.1	2,397,137	4,998,329	75	5.1.2.1	4,998,404
Net profit	3,293,654	(158)	5.1.2.1	3,293,496	-	-		-
Appropriations of net profit during the financial year	(1,727,046)	-		(1,727,046)	-	-		-
Non-controlling interest	16,341	-		16,341	79,138	-		79,138
Total equity	**13,127,787**	**(156)**		**13,127,631**	**14,269,269**	**-**		**14,269,269**

(in PLN '000)

Equity and liabilities	31 December 2013 *(approved)*	Adjustment	Note	31 December 2013 *(restated)*	1 January 2013 *(approved)*	Adjustment	Note	1 January 2013 *(restated)*
Liabilities								
Technical provisions	37,324,416	-		37,324,416	35,400,778	-		35,400,778
Unearned premiums and unexpired risk reserve	4,540,011	-		4,540,011	4,537,167	-		4,537,167
Life insurance provision	16,048,191	-		16,048,191	15,675,243	-		15,675,243
Outstanding claims provisions	6,586,781	-		6,586,781	5,878,445	-		5,878,445
Provision for capitalized value of annuities	5,761,332	-		5,761,332	5,660,281	-		5,660,281
Provisions for bonuses and rebates for the insured	2,893	-		2,893	4,227	-		4,227
Other technical provisions	477,987	-		477,987	531,617	-		531,617
Unit-linked technical provision	3,907,221	-		3,907,221	3,113,798	-		3,113,798
Investment contracts	2,121,037	-		2,121,037	2,299,147	-		2,299,147
- with guaranteed and fixed terms and conditions	1,250,492	-		1,250,492	1,297,224	-		1,297,224
- unit-linked	870,545	-		870,545	1,001,923	-		1,001,923
Provisions for employee benefits	123,380	-		123,380	107,307	-		107,307
Other provisions	192,906	-		192,906	267,456	-		267,456
Provision for deferred income tax	255,399	-		255,399	357,557	-		357,557
Current income tax liabilities	53,372	-		53,372	21,658	-		21,658
Derivatives instruments	237,749	-		237,749	129,921	226	5.1.2.1	130,147
Other liabilities	8,926,375	425,039	5.1.2.1	9,351,414	3,056,467	96,320	5.1.2.1	3,152,787
Liabilities related to continued operations	**49,234,634**	**425,039**		**49,659,673**	**41,640,291**	**96,546**		**41,736,837**
Total liabilities	**49,234,634**	**425,039**		**49,659,673**	**41,640,291**	**96,546**		**41,736,837**
Total equity and liabilities	**62,362,421**	**424,883**		**62,787,304**	**55,909,560**	**96,546**		**56,006,106**

(in PLN '000)

Consolidated statement of profit or loss	1 January – 31 December 2013 *(approved)*	Adjustment	Note	1 January – 31 December 2013 *(restated)*
Gross written premiums	16,480,003	-		16,480,003
Reinsurer's share in written premiums	(257,037)	-		(257,037)
Net written premium	**16,222,966**	**-**		**16,222,966**
Change in net unearned premiums reserve	25,803	-		25,803
Net earned premiums	**16,248,769**	**-**		**16,248,769**
Revenue from commissions and fees	319,962	(14,076) (6,717)	5.1.2.2 5.1.2.1	299,169
Net investment income	1,844,932	19,964 1,754	5.1.2.2 5.1.2.1	1,866,650
Net result on realization and impairment losses on investments	25,045	17,502	5.1.2.1	42,547
Net change in the fair value of assets and liabilities measured at fair value	618,091	(12,733)	5.1.2.1	605,358
Other operating income	491,109	(5,888)	5.1.2.2	485,221
Claims, benefits and change in technical provisions	(11,195,277)	-		(11,195,277)
Reinsurers' share in claims, benefits and change in technical provisions	34,053	-		34,053
Net claims and benefits	**(11,161,224)**	**-**		**(11,161,224)**
Change in measurement of investment contracts	(77,715)	-		(77,715)
Acquisition costs	(2,015,938)	-		(2,015,938)
Administrative expenses	(1,406,480)	-		(1,406,480)
Other operating expenses	(705,599)	-		(705,599)
Operating profit	**4,180,952**	**(194)**		**4,180,758**
Borrowing costs	(61,664)	-		(61,664)
Share in net profit (loss) of companies measured using the equity method	1,404	-		1,404
Profit before tax	**4,120,692**	**(194)**		**4,120,498**
Income tax				
- current portion	(885,776)	-		(885,776)
- deferred portion	60,197	36	5.1.2.1	60,233
Net profit, including:	**3,295,113**	**(158)**		**3,294,955**
- profit attributable to equity holders of the parent entity	3,293,654	(158)		3,293,496
- profit attributable to non-controlling interest	1,459	-		1,459

(in PLN '000)

Consolidated statement of comprehensive income	**1 January – 31 December 2013** *(approved)*	**Adjustment**	**Note**	**1 January – 31 December 2013** *(restated)*
Net profit	3,295,113	(158)		3,294,955
Other comprehensive income	(104,510)	28		(104,482)
Amounts subject to subsequent transfer to statement of profit or loss	(119,857)	28		(119,829)
Measurement of available-for-sale financial instruments	(120,129)	28	5.1.2.1	(120,101)
Exchange differences from translation	292	-		292
Other comprehensive income of entities measured using the equity method	(20)	-		(20)
Amounts not subject to subsequent transfer to statement of profit or loss	15,347	-		15,347
Property reclassified from property, plant and equipment to investment property	14,445	-		14,445
Actuarial gains and losses from remeasurements of defined benefit liabilities	902	-		902
Total net comprehensive income	**3,190,603**	**(130)**		**3,190,473**
- comprehensive income attributable to equity holders of the parent entity	3,189,139	(130)		3,189,009
- comprehensive income attributable to non-controlling interest	1,464	-		1,464

Selected items from consolidated statement of cash flows	**1 January – 31 December 2013** *(approved)*	**Adjustment**	**Note**	**1 January – 31 December 2013** *(restated)*
Cash flows from operating activities				
Inflows	19,673,140	542,825		20,215,965
- inflows from insurance premiums	16,065,448	315,661	5.1.2.3	16,381,109
- inflows from sale of units by investment fund	667,262	241,354	5.1.2.1	908,616
- other inflows from operating activities	1,262,485	(4,358) (9,832)	5.1.2.1 5.1.2.2	1,248,295
Outflows	(16,840,369)	(429,602)		(17,269,971)
- outflows from purchase of units by investment fund	(402,519)	(113,359)	5.1.2.1	(515,878)
- other operating outflows	(1,417,037)	(315,661) (582)	5.1.2.3 5.1.2.1	(1,733,280)
Net cash flows from operating activities	**2,832,771**	**113,223**		**2,945,994**
Cash flows from investment activities				
Inflows	657,482,806	5,318,572		662,801,378
- disposal of shares	8,201,739	4,081	5.1.2.1	8,205,820
- inflows from buy sell-back transactions	360,885,329	5,424,330	5.1.2.1	366,309,659
- inflows from other investments	18,892,364	(8,572) 148	5.1.2.2 5.1.2.1	18,883,940
- interest received	2,163,196	4,219	5.1.2.1	2,167,415
- dividends received	127,240	249	5.1.2.1	127,489
- cash inflows due to changes in the consolidation scope	479,751	(124,287)	5.1.2.1	355,464
- other inflows from investments	-	18,404	5.1.2.2	18,404

(in PLN '000)

Selected items from consolidated statement of cash flows	1 January – 31 December 2013 *(approved)*	Adjustment	Note	1 January – 31 December 2013 *(restated)*
Outflows	(659,878,598)	(5,536,381)		(665,414,979)
- acquisition of shares	(9,577,388)	(57,553)	5.1.2.1	(9,634,941)
- decrease in cash balance due to changes in the consolidation scope	(14,551)	14,551	5.1.2.1	-
- outflows from buy sell-back transactions	(362,298,300)	(5,493,276)	5.1.2.1	(367,791,576)
- other investments outflows	(10,418)	(103)	5.1.2.1	(10,521)
Net cash flow from investment activities	**(2,395,792)**	**(217,809)**		**(2,613,601)**
Net cash flow from financing activities	**(19,583)**	**-**		**(19,583)**
Total net cash flows	**417,396**	**(104,586)**		**312,810**
Cash and cash equivalents at the beginning of the financial year	136,586	125,477	5.1.2.1	262,063
Change in cash due to exchange differences	(5,716)	-		(5,716)
Cash and cash equivalents at the end of the financial year	548,266	20,891	5.1.2.1	569,157

5.2 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2014 include data of the parent entity and all its subsidiaries after elimination of intercompany transactions.

A subsidiary is an entity that is controlled by another entity. That means that the latter simultaneously has: power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

In case of loosing control over an investment fund, its consolidation is being ceased and the assets and liabilities of this fund are being excluded from consolidated statement of financial position, as well as potential liabilities to its participants. In exchange, the participation units or investment certificates that correspond with the fair value of shares of PZU Group in net assets of such a fund are presented in the statement.

Consolidation involves combining similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent entity and its subsidiaries. Then, the carrying amount of the parent entity's investment in each subsidiary is eliminated along with the part of equity of each subsidiary that corresponds to the share of the parent entity. Moreover, the assets and liabilities, revenue, costs and cash flows related to the intragroup transactions within PZU Group are eliminated in full.

The financial statements of the parent entity and its subsidiaries used in preparation of the consolidated financial statements are prepared for the same reporting period.

Subsidiaries are subject to consolidation from the commencement of control until the cessation of control.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies have been presented in Note 5.3.

5.3 Recognition of foreign currency transactions and balances and applied exchange rates

Transactions executed in currency other than Polish zloty (PLN) are recognized at the NBP exchange rate valid for the transaction date. As at the end of the financial year, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Exchange differences from translation are charged directly to the statement of profit or loss.

(in PLN '000)

Financial data of foreign subsidiaries are translated into PLN:

- Assets and liabilities – at the average National Bank of Poland exchange rate established as at the end of the financial year;
- Items in the statement of profit or loss and other comprehensive income – at rates determined as the arithmetic mean of the rates published by the National Bank of Poland, valid as at the last day of each month of the financial year.

Exchange differences are recognized under "Exchange differences from translation" in equity.

The following exchange rates have been applied in the consolidated financial statements:

Currency exchange rates adopted to translate financial data of foreign operations	1 January - 31 December 2014	31 December 2014	1 January - 31 December 2013	31 December 2013	1 January 2013
EUR	4.1892	4.2623	4.2110	4.1472	4.0882
LTL	1.2133	1.2344	1.2196	1.2011	1.1840
UAH	0.2637	0.2246	0.3886	0.3706	0.3825

5.4 Acquisition method

The acquisition of subsidiaries by PZU Group is accounted for using the acquisition method in accordance with IFRS 3 "Business Combinations".

In the case of acquisition of an entity, an acquier is determined as well as the acquisition date being the day on which it obtains control of the acquiree. On the acquisition date, identifiable assets acquired, liabilities assumed and non-controlling interest in the acquiree are recognised separately from goodwill.

All identifiable assets acquired and liabilities assumed are measured at acquisition-date fair value.

In the case of every acquisition, all non-controlling interest in an acquiree are measured at value of a proportional share of non-controlling interest in identifiable net assets of the acquiree.

Goodwill

Goodwill is measured and recognized as at the acquisition date as the difference between:

- the consideration transferred measured at their acquisition-date fair value;
- non-controlling interest in the acquiree, measured as described above;

over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

In the measurement period, PZU Group may retrospectively adjust provisional amounts recognized as at the acquisition date, so as to reflect new information obtained concerning the facts and circumstances at the acquisition date, which, if known, could have an effect on measurement of the amounts recognized as at the aforementioned date. Pursuant to IFRS 3 point 45, the measurement period shall not exceed one year after the acquisition date.

Intangible assets

Intangible assets acquired on business combination transactions are recognized at fair value as at the acquisition date. Fair value of intangible assets reflects expectations as to the probability that the entity achieves economic benefits from a given asset. Fair value of intangible assets is determined in the following manner:

- trademark – using the relief-from-royalty method, based on potential savings on the licence fees the entity will not be charged with being the owner of the trademark (i.e. the present value of future licence fees), determining the market rate of licence fees involves an analysis of licence rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical licence payments are established, defined as the product of the adopted licence fee and the value of estimated revenue from sales. In order to calculate the net income from licence, licence payments should be reduced by the hypothetical amount of income tax. To the calculated net cash flows the potential tax savings on tax depreciation of a trademark should be added, the so-called TAB (tax amortisation benefit). Finally, the indicated cash flows are discounted using the discount rate reflecting, among others, the typical risk of a given trademark;

- Broker and customer relations – using the MEEM method (multiperiod excess earnings method) based on the present value of future profits generated by the respective relations. Fair value is determined based on discounted future cash flows arising from the additional revenue generated by the company owning a given intangible asset as compared to the revenue generated by the company if it did not hold such an asset. The relations are identified along with the projected period of their duration (using an appropriate churn rate and applying the so-called Weibull's curve); revenue and costs related to individual relations are projected. The identified and calculated CAC (contributory asset charge), including retaining capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. Should there be any tax structures in place allowing an average market participant for tax depreciation of the relations, the TAB should be included in its measurement;
- present value of future profits (value in force) – as a potential excess of book value of technical provisions over their fair value, including deferred acquisition costs. Fair value of technical provisions is determined as the expected value of nominal cash flows projected using actuarial methods appropriate for particular provision types, including the specific nature of a given portfolio and market trends. The expected value of future cash flows is determined by discounting projected nominal cash flows using discount rates established on the basis of the risk-free rates' curve. When forecasting nominal cash flows, the following factors are considered: the likelihood of occurrence and the value of future claims, claim handling costs (both direct and indirect) and – in the case of unearned premiums reserve – also administrative expenses related to insurance portfolio management. The estimates takes into account reinsurer's share resulting from binding reinsurance treaties. The relevant probability of an event's occurrence is estimated using statistical and actuarial methods, whereas the cash flow value results from relevant provisions of insurance contracts and actuarial analysis.

The discount rate applied to measure the intangible assets reflects the time value of money and risks related to expected cash flows in the future. It is calculated based on the expected return from the best alternative investment as compared with the measured investment. The rate indicates the lowest acceptable return from an asset by the investor in such a manner that the return rate achieved by the investor is at least equal to the best available investment alternative. The return from alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the acquisition date in accordance with the CAPM (Capital Asset Pricing Model) model: $CE = RF + ERP \times \beta + SP + SR$, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks related to a given type of activity, SP – low capitalization premium, SR – specific premiums.

Property, plant and equipment

Property was measured using the income method, on the assumption that the acquirer pays the price the rate of which is dependent on the discounted value of achievable cash flows.

Other plant, property and equipment was measured using comparative or replacement value method.

Technical provisions

The value of technical provisions was measured in accordance with the acquiree carrying amount. In accordance with IFRS 4, the diffrences between fair value and the carrying amount were disclosed as intangible assets (present value of future profits).

5.5 Intangible assets

Intangible assets are recognized when they are identifiable, controlled and it is possible that the future economic benefits that are attributable to the assets will flow to the entity and it is possible to reliably measure the cost of the asset, with expected useful life longer than one year.

Intangible assets are measured at costs less accumulated amortisation and impairment losses.

(in PLN '000)

The method applied to determine the fair value of intangible assets acquired in a business combination has been presented in Note 5.4.

Intangible assets include in particular: software, copyright, licences, concessions, as well as assets acquired as a result of business combination transactions: trademarks, customer relations, broker relations, future profits from concluded insurance contracts etc.

Intangible assets are subject to amortisation over their estimated useful life:

- intangible assets other than intangible assets acquired in a business combination - using the straight line method over the period of two to five years. If appropriate, following a case-by-case analysis, the entity may apply another amortisation rate suitable for the estimated useful life of the intangible asset. As the main product system is planned to be used by PZU for 10 years, the adopted annual amortisation rate amounts to 10%;
- intangible assets acquired in a business combination (except for acquired trademarks) – over the period from one to thirteen years., on the basis of the profits generated in particular years;
- trademarks acquired in a business combination are intangible assets with an indefinite useful life and are not subject to amortisation; instead, they are subject to the impairment test at the end of each financial year and each and every time when impairment indications occur.

Amortisation is charged under "Other operating costs" in the consolidated statement of profit or loss.

5.6 Goodwill

Goodwill, with the initial value determined using a manner described in Note 5.4, is not subject to amortisation; instead, it is subject to the impairment test at the end of each financial year and each and every time when impairment indications occur. Goodwill is tested for impairment based on the assessment of the recoverable amount of each cash-generating units (CGU) and comparing it with their carrying amount (including the allocated goodwill). The tested CGU cannot be larger than operating segment. Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

Goodwill related to subsidiaries is recognized under "Goodwill", whereas goodwill related to associates – under "Entities measured using the equity method" in the consolidated statement of financial position.

5.7 Property, plant and equipment

Property, plant and equipment are recognized at at cost less any accumulated depreciation and impairment losses.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction. An asset is subject to depreciation as long as it is available for use, i.e. from the moment it is adapted to a given location and conditions required so that it can be used in the manner intended.

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

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

Assets held under finance leases are depreciated over the period of their useful life when reasonable assurance is provided as to their purchase or ownership transfer. Otherwise they are depreciated over the period not longer than the period of the lease.

5.8 Impairment of property, plant and equipment and intangible assets

At the end of each financial year, assets are reviewed in order to determine if there are any impairment indicators.

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

When such indicators have been identified, an impairment test for a given asset is carried out to determine its recoverable amount. If necessary, an impairment loss is recognised to the recoverable amount. If an asset does not generate cash flows which to a large extent are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to. Impairment losses are recognised in the consolidated statement of profit or loss account under "Other operating expenses".

If there are premises indicating that the impairment losses recognised in previous periods are no longer required and the loss should be decreased, the recoverable value of such an asset is calculated. An impairment loss recognized in the previous periods is reversed to the recoverable value not exceeding the carrying amount that would have been determined (having deducted the depreciation), had the impairment loss not been recognized previously. A reversal of impairment loss is disclosed as as income in the consolidated statement of profit or loss under "Other operating expenses".

5.9 Investment property

Investment property is maintained with the purpose of profits from rent or from an increase of the property's value, or with the purpose of benefiting from both simultaneously. Investment properties are not used for operations.

Investment properties are initially disclosed at cost increased by transaction costs. Subsequently, they are measured at fair value, in accordance with rules described in Note 10.1.4. Profits and losses resulting from changes in the fair value of investment property are recognized in the statement of profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

If property used for internal purposes becomes investment property measured at fair value, depreciation is calculated until the reclassification date, and possible impairment losses are recognized and next:

- if the carrying amount calculated as at the given date exceeds fair value, the difference is disclosed in the consolidated statement of profit or loss under "Other operating expenses";
- if the carrying amount to date is lower than fair value, the difference is firstly recognised in the consolidated statement of profit or loss under "Other operating expenses" as a reversal of an impairment loss (to the level of the impairment loss recognised previously, but the amount recognised in the consolidated statement of profit or loss must not exceed the amount that would bring the value of property to the value that would remain after depreciation if no impairment loss was recognised), and the remaining part of the difference – in other comprehensive income under "Property reclassified from property, plant and equipment to investment property".

On subsequent disposal of the investment property the revaluation reserve is moved to supplementary capital.

5.10 Associates and joint ventures

Associates are entities over which the parent entity has significant influence i.e. in which it holds enough power to be entitled to participate in the financial and operating policy decisions of the investee, but is not in control or joint control of these policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Associates and joint ventures are measured using the equity method, i.e. initially the investment is recognized at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the associate or joint venture. The share of PZU Group in the financial profit of associates and joint ventures is recognized in the consolidated statement of profit or loss under "Share in net profit (loss) of entities measured using the equity method" and the share in changes of comprehensive income items – in the statement of other comprehensive income.

At the end of each financial year and every time any impairment indicators are identified, associates and joint venture are tested for impairment. The test is based on the assessment of the recoverable amount of the whole entity and by comparing it with the carrying amounts (including goodwill). If the recoverable amount is smaller, the impairment loss first reduces the carrying amount of goodwill.

5.11 Financial instruments

Financial assets and liabilities are recognized in the statement of the financial position when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded on an organized market, the purchase or sale of financial assets and liabilities is recognized as at the trade date.

Financial instruments are classified at the moment of acquisition according to the categories determined by IAS 39 and they are recognized at fair value adjusted by transaction costs directly attributable to the purchase or sale of a given financial instrument. Instruments measured at fair value through profit or loss for which transaction costs are recognized separately under "Net investment income" are an exception. The fair value of a financial instrument upon initial recognition is usually its transaction price, unless the nature of the financial instrument provides otherwise.

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

Shares whose fair value cannot be reliably estimated are measured at cost less any impairment losses.

Financial assets are derecognised from the consolidated statement of financial position if they expire or if the contractual entitlement to cash flows from the given asset is transferred to another entity. The transfer takes place also when contractual entitlement to cash flows from an asset is blocked, but the contractual obligation to transfer these cash flows to a third party is accepted.

When financial assets are transferred, it is estimated to what extent the risk and benefits related to the ownership of an asset remain:

- if the whole risk and benefits related to the ownership of a financial asset is transferred, the financial asset is derecognised from the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset is kept, the financial asset continues to be recognized in the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset are neither transferred nor kept, the financial asset continues to be recognized in the consolidated statement of financial position.

If the control is kept, the financial asset is recognized in the consolidated statement of financial position to the amount resulting from the continuous involvement, accordingly, if there is no control, the asset is derecognised from the consolidated statement of financial position.

A financial liability (or its part) is derecognised from the consolidated statement of financial position, if the obligation laid down in the contract was fulfilled, remitted or expired.

Financial assets and liabilities are classified and measured according to the principles described below.

5.11.1. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that PZU Group has the positive intention and ability to hold to maturity.

Financial instruments held to maturity are measured at amortised cost and gains or losses on the measurement are recognized under "Net investment income".

5.11.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates at the fair value through profit or loss;
- those that the entity upon initial recognition designated as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables include in particular:

- debt securities acquired as part of a contract under which the seller has kept practically all risks and benefits related thereto (buy sell-back transactions);
- debt securities not quoted in an active market;
- deposits in credit institutions;
- granted loans;
- insurance receivables (including reinsurance);
- other receivables.

Loans and receivables, excluding insurance receivables and other short-term receivables, are measured as at the balance sheet date at amortised cost.

Due to their nature, insurance receivables and other short-term receivables are measured at the nominal value less any impairment losses (the manner of estimating the impairment losses for insurance receivables is described in Note 6.2.2.5).

The effects of measurement of loans and receivables are recognized under "Net investment income".

5.11.3. Financial instruments available for sale

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

Instruments classified to this category are measured at fair value in accordance with rules described in Note 10.1. The difference between fair value as at the balance sheet date and cost is charged directly to the revaluation reserve. In the case of debt instruments, interest accrued using the effective interest rate is recognized under "Net investment income". The difference between the fair value and the amortised cost is recognized in the revaluation reserve.

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

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

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

- financial instruments held for trading – assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments designated upon initial recognition as at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
  - some instruments to cover technical provisions and investment contracts liabilities in life insurance. Adopted classification of those instruments eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities covered by those assets;
  - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles;

- liabilities arising from unit-linked investment contracts;
- liabilities to participants of consolidated investment funds.

Fair value measurement principles are described in point 10.1. The effects of a change in the measurement of financial instruments measured at fair value, including interest, are recognized under "Net change in the fair value of assets and liabilities measured at fair value" in the period to which they relate. Changes of value of liabilities arising from unit-linked investment contracts are recognized under "Change in measurement of investment contracts".

Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value, according to the rules described in Note 10.1.3.

Changes in the fair value of derivatives which are not hedging instruments are recognized under "Net change in the fair value of assets and liabilities measured at fair value".

PZU Group entities do not apply hedge accounting.

5.11.5. Financial liabilities other than ones measured at fair value

Financial liabilities measured at amortized cost include:

- Debt instruments issued by PZU Group are recognized under "Liabilities arising from issue of debt instruments. Their remeasurement results are presented under "Borrowing costs";
- Investment contracts with guaranteed and fixed terms and conditions. Their remeasurement results are presented under "Change in measurement of investment contracts";
- Security sales transactions with an obligation to buy them back on a predefined day at a predefined price (sell buy-back transactions). Their remeasurement results are presented under "Borrowing costs".

Trade liabilities are are short-term and, thus, are measured at the amount due.

Other financial liabilities are measured at amortised cost.

5.11.6. Impairment of financial assets

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

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

Objective evidence for impairment includes information concerning the following events:

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

 - unfavourable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;

- significant or prolonged decrease in the fair value of an investment in an equity instrument below the cost (additional information presented in Note 6.2.2.4);
- unfavourable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

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

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

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

The estimates and judgments used for determination of impairment losses have been presented in Note 6.2.2.

5.12 Salvages and subrogations in non-life insurance

In the case of some classes (types) of non-life insurance, having paid claims or benefits, the insurer may assume claims against third parties (salvages) or property rights to the insured property (subrogations).

Salvages are presented in the statement of the financial position under "Other assets" and their fair value estimated as at the obtaining date reduces the claims and benefits paid in the given period.

Estimated salvages and subrogation are measured using the actuarial methods (expected future value of refunds due to assumption of claims against third parties and assumption of the right to the insured property) and are recognized in the statement of financial position under "Estimated salvages and subrogations".

Estimation of future subrogations and salvages is based on annual triangles of received subrogations and salvages. The value of future subrogations and salvages is calculated with the generalized Chain Ladder method, broken down by the years during which losses were incurred.

Estimated values of salvages and subrogations, recognized in the accounting records in the given period, reduce the costs of the increase of claims technical provsions for that period.

5.13 Costs of acquisition and deferred acquisition costs

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

Under the accrual basis of accounting, acquisition costs are deferred over time, in accordance with the rules laid down in Notes 5.13.1 and 5.13.2.

Deferred acquisition costs capitalized in the statement of financial position, related both to non-life insurance as well as life insurance, are tested for impairment by the means of Liability Adequacy Tests.

5.13.1. Non-life insurance

Acquisition costs in the case of non-life insurance products are deferred in line with the principles applicable to the the unearned premiums reserve and depreciated in the statement of profit or loss (under "Acquisition costs") over the period of the insurance coverage.

5.13.2. Life insurance

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

5.14 Cash and cash equivalents

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

Cash is recognized at face value.

5.15 Assets and liabilities held for sale and disposal groups

Assets and liabilities or disposal groups are classified as intended for sale, if there is a plan for selling them and a buyer is being actively sought.

Assets and liabilities held for sale and disposal groups are measured at the lower of the two figures: previous carrying amount and fair value less costs to sell.

5.16 Equity

5.16.1. Share capital

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

5.16.2. Treasury shares

Acquired treasury shares and held by the consolidated entities within PZU Group are recognized at cost.

5.16.3. Supplementary capital

Under "Supplementary capitalthe following are recognised:

- effect of profit distribution, in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (consolidated text: Journal of Laws of 2013, item 1030 as amended)) and the By-laws of PZU Group entities.
- capital resulting from sale of investment property which was earlier reclassified from property, plant and equipment in accordance with rules described in Note 5.9;
- difference between decrease of the value of non-controlling interest and fair value of consideration transferred.

5.16.4. Revaluation reserve

"Revaluation reserve" includes the effects of:

- measurement of financial assets classified as available for sale;
- measurement of the value of property to their fair value as at the date of their reclassification from property, plant and equipment to investment property;

including the corresponding change in the deferred tax assets and liabilities.

5.16.5. Actuarial gains and losses from remeasurements of defined benefit liabilities

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

5.16.6. Exchange differences from translation

The item includes exchange differences from translation of foreign operations' financial data using the exchange rates and in accordance with principles described in Note 5.3.

5.16.7. Unappropriated result

"Unappropriated result" includes:

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

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

5.16.8. Non-controlling interest

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

The difference between the decrease of value of non-controlling interest and fair value of payment made is recognised in supplementary capital.

5.17 Insurance contracts

5.17.1. Written premiums and unearned premiums reserve

5.17.1.1. Non-life insurance

Written premiums from insurance contracts and reinsurance treaties are recognized at the date of the insurance contract conclusion.

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

The unexpired risks reserve complements the unearned premiums reserve and covers future claims, benefits and costs relating to insurance contracts which do not expire on the last day of the financial year. The unexpired risks reserve is determined for individual insurance groups as at the end of each financial year.

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

5.17.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the financial year, irrespective of the fact whether the amounts have been paid or not as well as whether the amounts refer to the whole reporting period or its part. The premiums are adjusted by the change in the unearned premiums reserve during the financial year and reduced by the amount of premium due to the reinsurers. Unearned premiums reserve is created as a portion of written premiums that refers to future financial years.

5.17.2. Claims and benefits paid and technical provisions

5.17.2.1. Non-life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and costs of subrogations and a change in outstanding claims provisions. The costs of claims and benefits are reduced by all received salvages and subrogations as well as by the change in expected salvages and subrogations.

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

The outstanding claims provision

The outstanding claims provisions include:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the financial year;
- provision for losses and accidents which were incurred by the end of the financial year and were not reported;
- provision for claims handling costs;

The provision for claims reported not paid (RBNP or Provision I) is determined based on an individual approach by claim handling units or, if obtained information disallows determining the provision amount, as the amount of average claim determined with an actuarial method. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

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

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

The provision for indirect claims handling expenses is recognized using the actuarial method as the product of the share of indirect claims handling expenses in claims paid to direct claims handling expenses ratio, and the provision for claims reported but not paid, the provision for claims incurred but not reported and the provision for direct claims handling expenses.

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

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

Provision for capitalized annuity benefits

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

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

As at the end of each financial year, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of the financial year does is lower than the predetermined percentage of the current value of average salary between 1960 and 1990.

5.17.2.2. Life insurance

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

Costs of paid claims and benefits

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

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

Life insurance provision

Life insurance provision is determined based on actuarial methods in the following way:

- group employee insurance and individually continued insurance – the provision is based on the prospective actuarial method which consists in determining a provision for each insurance contract separately, based on statistical data; it corresponds to the present value of the claims expected in relation to insurance protection granted, less the present value of future premiums;
- unit-linked technical provision - the provision is created to cover present benefits related to the insurance coverage over the cash accumulated in the fund, according to individual types of insurance, in line with their general terms and conditions; the amount corresponds to the portion of payments imposed due to the insurance coverage attributable to future financial years;
- other insurance – based on the prospective actuarial method, individually for each insurance contract, corresponding to the difference between the present value of guaranteed benefits and the present value of premiums due under the insurance contracts.

Unit-linked technical provision

Unit-linked technical provision is measured at the amount equal to the fair value of shares in the insurance fund as at the end of the financial year.

Outstanding claims provisions

Outstanding claims provisions are created independently for:

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

Outstanding claims provisions include a claims handling provision.

Provisions for bonuses and rebates for the insured

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

Other technical provisions

Other technical provisions in life insurance include:

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

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

  In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, which resulted in the investment income being below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie partly revalued the old portfolio policies. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective of obtaining higher claims. PZU Życie creates a provision for revaluation of claims under individual insurance policies and annuity contracts taken over from PZU (i.e. the "old portfolio"), which may result from future disputes (court cases and settlements).

  The value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts.
- provision for low interest rates – this provision is related to the projected decline in profitability of insurance fund investments for individual life insurance, individual policies with an increasing sum insured and premium, group Firma insurances and annuity insurances. The provision is created according to the actuarial method, on the case-by-case basis, in the amount corresponding to the difference between:
  - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates, including their projected future decrease and
  - the amount of mathematical provisions calculated in line with the valid regulations for creating provisions with the original technical rate applied for other product pricing.

5.17.3. Liability Adequacy Tests

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

The mechanism of creation of unexpired risks reserve in non-life insurance described in Note 5.17.1.1 is in line with the minimum requirements of Liability Adequacy Test described in point 16 of IRFS 4.

5.18 Provisions for employee benefits

5.18.1. Defined contribution plans

Social security contributions

PZU Group entities are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland, they include some of the contribution to pension and disability insurance and all contribution to accident insurance, Fundusz Pracy [Labour Fund] and Fundusz Gwarantowanych Świadczeń Pracowniczych [Guaranteed Employment Benefit Fund] as well as contributions to Zakładowy Fundusz Świadczeń Socjalnych [Social Benefits Fund]. PZU Group entities are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

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

5.18.2. Defined benefit plans

5.18.2.1. Provisions for retirement benefits

Pursuant to the Labour Code of 26 June 1974 (consolidated text: Journal of Laws of 2014, item 1502, as amended), the employees of the PZU Group entities with registered offices in Poland are entitled to a retirement or disability benefit in the amount of a monthly salary at the time when they retire.

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

Actuarial profits and losses are recognized in total in the period in which they were disclosed under "Actuarial gains and losses from remeasurements of defined benefit liabilities" under other comprehensive income. Additional information has been presented in Note 5.16.5.

5.18.2.2. Provisions for death benefits

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

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

5.18.3. Costs of paid annual leave

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

5.19 Other provisions

Provisions are liabilities of uncertain timing or amount. A provision is created based on a present obligation that has arisen from past events, which – when fulfilled – will cause an outflow of economic benefits. The amount of the provision is measured based on the best estimate of this outflow as at the balance sheet date.

A provision for restructuring costs is created only when the general criteria of recognizing provisions have been met, together with additional specific criteria related to provisions for restructuring costs, such as a formal, detailed plan of restructuring and arousing justified expectations of parties affected by the plan that the restructuring action should take place (for instance by starting to implement the plan or announcing its key elements).

5.20 Revenue recognition

Recognition of revenue due to insurance contracts has been described in Note 5.17.1.

Interest

Income from interest is recognized on the accrual basis, based on the effective interest rates and it is recognized in the statement of profit or loss under "Net investment income".

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired and they are recognized under "Net investment income".

Income from pension fund management services

Income from the management of OFE PZU is recognized on the accrual basis. The income includes in particular:

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

5.21 Taxes

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

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

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

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which – as expected – will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group entities, issued by the end of the financial year.

5.22 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary equity holders of PZU (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during this period and multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

6. Key estimates and judgments

Preparation of the consolidated financial statement in accordance with IFRS requires from the Management Board of PZU to make professional judgments, estimates and assumptions which have an effect on the adopted accounting principles and the presented value of assets, liabilities, revenue and expenses.

Estimates and assumptions related to them are based on historical data and other factors considered to be rational in given circumstances, whereas their results provide a basis for a professional judgment of the carrying amount of assets and liabilities which does not result directly from other sources.

With respect to important issues, the Management Board of PZU can base on the opinion of independent experts when making judgments, estimates or assumptions.

The actual value may differ from the estimated value. Judgments, estimates and assumptions related to them undergo constant verification. Any changes thereto should be presented as described in 5.1.

6.1 Judgements made

6.1.1. Principles of consolidation of investment funds

Due to the adoption of IFRS 10 on 1 January 2014, PZU Group has assumed that it controls the investment fund if both conditions mentioned below are met:

- PZU Group entities together have the ability to use their power over the fund in order to influence the value of the return on investment and the rationales for this ability are, among others, the control over the investment fund management company, a significant share in the total number of votes at the general meeting of investors or the board of investors;
- the total exposure of PZU Group entities to variable returns from involvement in the investment fund is significant, which means that the total share of PZU Group entities in the net assets of the fund is equal to or exceeds 20%, whereas the determination of the so understood total share does not take into consideration the fund assets that are attributable to unit-linked products. If the involvement does not exceed 20% in the net assets of the fund, the exposure to volatility of the fund's financial results considered together with decision-making powers imply that such a fund is not under control.

PZU Group accepts that the consolidation of the fund will be maintained (or dropped, accordingly) during the period of two subsequent quarters following a quarter which closed with a decrease (or increase, accordingly) of the share in the net assets of the fund below (or above, accordingly) 20% when this decrease (or increase) resulted from amounts paid in (or out) of participants not belonging to PZU Group.

Investment funds controlled by PZU Group are consolidated – their assets are fully presented in the statement of financial position as financial assets by type and portfolio classification, while the liability related to the net assets of the fund held by third-party investors – as other liabilities under "Liabilities to participants of consolidated investment funds".

6.1.2. Classification of insurance contracts in accordance with IFRS 4

PZU Group entities that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (ie have no discernible effect on the economics of the transaction), ie when the contract involves significant insurance risk transfer.

Assessment whether a contract does transfer significant insurance risk requires an analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a subjective judgment which significantly impacts accounting principles applied. Based on the assumptions adopted by PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, concluded contracts are recognized either in accordance with IFRS 4 or IAS 39.

6.1.3. Contract classification in non-life insurance

The analysis carried out proves that all non-life insurance contracts transfer significant insurance risk and therefore are governed by regulations of IFRS 4.

Additionally, in light of work on the second stage of IFRS 4 carried out by IASB, the Group continues to apply insurance contract accounting to financial guarantees that meet the definition of a financial instrument.

6.1.4. Classification of life insurance contracts

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

Both insurance and investment contracts can include discretionary participation features (DPF). They entitle the insured to receive additional claims or bonuses as an extra to the guaranteed claim. Such a claim constitutes a significant part of the total contractual claim; its amount and period of validity are of contractual nature and they depend on the insurer's discretion and their occurrence depends on:

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

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 4.

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

6.1.5. Unrecognized deferred tax assets

PZU Group applies the prudence principle and recognizes deferred tax assets resulting from tax losses of PZU Group entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group entities is presented in Note 38.

6.2 Estimates and assumptions made

6.2.1. Fair value

Assumptions applicable for determining the fair value of assets have been presented in Note 10.

6.2.2. Impairment

6.2.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Note 29 (for subsidiaries) and Note 32 (for the entities measured using the equity method).

6.2.2.2. Financial instruments measured at amortised cost

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

6.2.2.3. Equity instruments listed on regulated markets as well as participation units and investment certificates issued by investment funds

Impairment losses on equity instruments listed on regulated markets, units in open-end investment funds and certificates issued by closed-end investment funds classified as available for sale are recognized if at least one of these two conditions is met:

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

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

6.2.2.4. Receivables from policyholders

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

Firstly, impairment losses for individual assets are assessed. An impairment loss for individual asset is made for a single account receivable after an evaluation of the economic and financial situation of the debtor and the probability that the amount due will be paid. These receivables are not taken into account in group impairment losses.

As far as accounts receivable from debtors that are in liquidation or bankrupt are concerned, the impairment loss is based on the amount not covered by a guarantee or another security of receivables made known to the liquidator in case of liquidation or to the Magistrate in Bankruptcy in bankruptcy proceedings. If the debtor saw their bankruptcy petition dismissed and the debtor's assets are not sufficient to satisfy the costs of bankruptcy proceedings, the total value of the account receivable is written-off.

An impairment loss for individual asset is increased when there are indications suggesting that the estimated amount which can be recovered has decreased or that the amount due, for which the impairment loss for individual asset was created – has grown. An impairment loss for individual asset is reversed if it is estimated that the amount which can be recovered exceeds previous estimates or if it has been confirmed that the receivables will be paid partially or in total, or if the amount has been deemed undue. An impairment loss for individual asset is used if the receivables are to be partially or fully remitted or written-off.

Where no case-by-case estimates have been made, the impairment of receivables is assessed on a collective-basis, which provides grounds for a group impairment loss.

Non-life insurance

The group impairment loss is assessed on the basis of the adopted model of a permanent yet individually insignificant impairment assessment. In the model, the impairment loss is determined on the basis of a collective assessment of impairment of receivables due from policyholders grouped according to similar characteristics of the credit risk.

Mature receivables are subject to age analysis, depending on their overdue period. Mature receivables are reduced by the value of the receivables subject to impairment losses for individual assets. The group impairment loss is assessed according to individual overdue periods and on the basis of the unrecoverability ratios of mature receivables that are determined on the basis of a historical analysis.

The value of receivables that will probably become mature on the basis of a historical analysis of the share of overdue receivables is determined for non-mature receivables. The amount determined in this way is reduced by the value of the receivables subject to impairment losses for individual assets. On the basis of the remaining amount of receivables, an impairment loss in the amount of the unrecoverability ratio of mature receivables for the shortest overdue period is determined.

Life insurance

The group impairment loss is assessed for receivables which are not subject to impairment losses for individual assets. Receivables are grouped according to similar credit risk characteristics which indicate the debtor's ability to repay the entire debt. It is also allowed to group receivables according to criteria different than how long they have been overdue, as long as it allows for a more accurate estimate of the value of the group impairment loss. Calculations are carried out separately for each insurance product or groups of insurance products.

The amount of group impairment losses is estimated with the help of models which are created and updated on the basis of data on debt collection in particular groups sharing similar characteristics. Such estimates are created on the basis of historical data concerning defaults on loans and receivables in various categories of overdueness.

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

The final estimated value of claims and benefits paid has been presented in the provision development triangles in Note 8.6.1.1. Methodologies used to calculate the IBNR provision and the old portfolio provision are described in Note 5.17.2.1.

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

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

The technical interest rate applied to all annuities was 3.6% both as at 31 December 2014 and 31 December 2013. At the same time, based on the forecast inflation and the pay growth rates, a growth rate of 3.9% was used for annuities both as at 31 December 2014 and 31 December 2013.

As regards life annuities, the period during which annuity claims are paid is determined based on publicly available statistics, such as, for example, the Polish Life Expectancy Tables (PLET), published by the Central Statistical Office in Poland. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

6.2.4. Assumptions made in estimation of technical provisions for life insurance products

The amount of life insurance provision, except for unit-linked provisions, equals to the value of liabilities related to the concluded insurance contracts. It is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method.

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

The assumptions used in calculation of life insurance provision are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product (the so-called lock-in assumptions). During preparation of financial statements the adequacy of assumptions is verified.

Incidence of events covered by insurance

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

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

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in Note 8.6.1.2.

6.2.5. Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as described in Note 30) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

(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 and death benefits	31 December 2014	31 December 2013
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve [1]	in accordance with the bond yield curve [2]
- other PZU Group entities	1.0%-4.5%	2.0%-4.5%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group entities	0.2%-4.3%	1.5%-3.0%
Mortality rate, including:		
- PZU and PZU Życie	PLET [3]	PLET [3]
- other PZU Group entities	PLET [3]	PLET [3]
Employee turnover ratio, including:		
- PZU and PZU Życie	specific to company [4]	specific to company [4]
- other PZU Group entities	0.0%-10.0% [5]	0.0%-10.0%
Disability rate (entitlement to a disability pension), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group entities	30%-60% PLET [6]	30%-60% PLET [6]

1) The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2014 covers the period from 2015 to 2045, assuming increasing values for the range until 2033 (1.75%-2.90%) and subsequently becoming an inverted yield curve decreasing to the level of 2.88%.

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

3) The assumed mortality rate matches the level defined in PLET.

4) The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and sex. Some PZU Group entities do not take the aforementioned ratio into account.

5) In one of the Group's companies, due to a very high employee turnover, the assumed ratio equaled 90.0%.

6) The disability rate represents a relevant percentage of the mortality rate described above. Some PZU Group entities do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	31 December 2014		31 December 2013	
	Retirement benefits	Death benefits	Retirement benefits	Death benefits
Discount rates				
- increase by 1 p.p.	(2,124)	(2,629)	(1,505)	(1,953)
- decrease by 1 p.p.	2,652	3,176	1,863	2,328
Projected pay growth rates:				
- increase by 1 p.p.	2,611	3,125	1,866	2,331
- decrease by 1 p.p.	(2,134)	(2,639)	(1,514)	(1,962)
Mortality rate:				
- increase by 10%	(245)	1,978	(164)	1,707
- decrease by 10%	251	(2,022)	167	(1,736)
Employee turnover ratio:				
- increase by 10%	(356)	(620)	(214)	(457)
- decrease by 10%	375	650	224	479

6.2.6. Estimated provisions for disputes

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

6.2.7. Deferred tax assets and liabilities

PZU Group entities estimated taxable future income taking into account the possibility of realization of negative temporary differences due to a tax loss incurred by these companies. No deferred tax assets concerning unused tax loss were recognised in result of the estimations. Deferred tax assets and liabilities are recognized according to the principles defined in Note 5.22.

7. Segment reporting

7.1 Reporting segments

7.1.1. Key division criterion

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

The key segmentation pattern of PZU Group is based on the criterion of consolidated entities with the exception of the insurance companies in PZU Group (PZU, PZU Życie, and Link4) with the registered office in Poland where additional segments based on the criteria such as client groups, product lines and types of activities can be distinguished.

PZU and Link4 segments:

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

PZU Życie segments:

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

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

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

Operating segments may be aggregated into a single reporting segment if the qualitative and quantitative criteria described in IFRS 8.12-19 are met. In the consolidated financial statement separate operating segments have not been aggregated into reportable segments with the exception of the "Investments" segment, which comprises investment activities using the PZU Group entities' own funds, and the "Baltic States" segment in which the countries have been classified together due to the similar products and services offered and a similar regulatory environment.

7.1.2. Geographical areas

PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltic states;
- Ukraine.

7.2 Settlements among segments

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

7.3 Measure of profit of a segment

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

- in insurance companies registered in Poland – a profit or loss on insurance constituting the profit or loss before tax and other operating income and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and based on it regulations (National Accounting Standards, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- in the case of insurance companies registered abroad – as described above, taking into account the total investment performance of the company, i.e. without adjusting the profit on investment described above, calculated in accordance with IFRS;
- in non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

7.4 Segments characteristics

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

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, third party and motor insurance products customized to meet clients' expectations and with individual risk assessment, offered to big enterprises;
- Retail client insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to retail clients and entities in the SME sector;
- Group and individually continued insurance (life insurance) – reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;

- Individual insurance (life insurance) – reporting in accordance with Polish Accounting Standards – insurance offered by PZU to individual clients whereby an insurance contract covers a given individual who is subject to separate risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investment – reporting in accordance with Polish Accounting Standards – comprises investment activity conducted with the PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions of PZU and PZU Życie in insurance products, i.e. the surplus of income from investment activities of PZU and PZU Życie over the income to insurance segments according to transfer prices. Additionally, the "Investments" segment includes income earned on other excess cash in PZU Group;
- Pension insurance – reporting in accordance with Polish Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB, AAS Balta, PZU Lietuva, UAB PZU Gyvybes Draudimas and their branches in Latvia and Estonia;
- Investment contracts - reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products), described in Note 7.5.2;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "Other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

7.5 Polish Accounting Standards applied

7.5.1. PZU

Polish Accounting Standards and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna 2014, in accordance with PAS, signed by the Management Board on 16 March 2015 ("Separate financial statements of PZU for 2014").

The separate financial statements of PZU for 2014 are available on the PZU website www.pzu.pl, under "Investor Relations".

7.5.2. PZU Życie

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

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU have been presented in Notes 5.11.4, 5.11.5, 5.17.1.2, 5.17.2.2.

The key difference between PAS and IFRS as regards accounting for insurance contracts and investment contracts of PZU is the classification of contracts. In PAS there is no concept of investment contract and as a result all contracts are classified as insurance contracts. According to IFRS, the classification of contracts should follow the guidelines included in IFRS 4 regarding the classification of products as insurance contracts (subject to IFRS 4) or as investment contracts (recognized in accordance with IAS 39). The classification of contracts is described in Note 6.1.2.

7.6 Structure of the segment reporting note and reconciliations

Due to the fact that the profits of segments are measured in accordance with the accounting policies of the country of residence of the PZU Group's company, financial data from segments are disclosed according to several different accounting standards. Moreover, due to significant differences in the formats of management reports submitted to the Management Board of PZU compared to the format of the financial statements prepared under IFRS, two separate reporting formats had to be used: the format of the management reports submitted to the Management Board of PZU (left-hand side of the note) and the format of the financial statements prepared under IFRS (right-hand side of the note).

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

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

7.7 Simplifications in the segment note

Some simplifications in the segment note have been made, acceptable under IFRS 8. Justification of the simplifications:

- Withdrawal from presentation of information about allocation of all assets and liabilities to individual segments. The reason – there no such documents are prepared or presented to the Management Board of PZU. The key information submitted to the Management Board of PZU is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirements related to capital adequacy ratios and having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- Presentation of the net profit or loss on an investment with a single amount expressed as a difference between realised and unrealised revenue and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- Revenue and expenses other than realised and unrealised investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- Presentation of other operating income and expenses and Borrowing costs of the companies PZU, PZU Życie and Link4 for their operating segments combined (and as a result, not allocating any amounts in this respect to the "investment contracts" segment) – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation;
- Presentation of income tax charges expressed as a single sum of consolidated data – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation.

7.8 Information on key accounts

Due to the nature of operations undertaken by the companies of PZU Group, there are no accounts that would provide 10% or more of total revenues of PZU Group (defined as gross written premium). The note 58.5 presents revenues from 10 biggest business partners of PZU Groups which are state-controlled companies. PZU Group does not recognize different entities controlled by the Polish government as a single client (including government bodies and similar entities on the local, national or international level).

(in PLN ‘000)

Statement of Profit of Loss from 1 January 2014 to 31 December 2014	Corporate insurance (property and casualty insurance)	Mass-market insurance (property and casualty)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic States	Investment contracts	Other activity	Presentation differences	Property and financial assets	Investment contracts	Prevention Fund, equalization provision and impairment towards Company's	Consolidation and non-allocated adjustments	Consolidated value	**Statement of Profit of Loss from 1 January 2014 to 31 December 2014**
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	1 807 349	6 559 511	6 539 082	1 268 637	-	-	173 562	536 498	374 467	-	-	-	(374 467)	-	-	16 884 639	Gross written premiums - external
Gross written premiums - cross-segment	23 794	9 973	-	-	-	-	-	-	-	-	-	-	-	-	(33 767)	-	Gross written premiums - cross-segment
Gross written premiums	**1 831 143**	**6 569 484**	**6 539 082**	**1 268 637**	**-**	**-**	**173 562**	**536 498**	**374 467**	**-**	**-**	**-**	**(374 467)**	**-**	**(33 767)**	**16 884 639**	
Reinsurers’ share in written premium	(226 610)	(62 606)	(4 272)	(122)	-	-	(32 988)	(27 698)	-	-	-	-	-	-	4 384	(349 912)	Reinsurer’s share in the written premium
Net written premium	**1 604 533**	**6 506 878**	**6 534 810**	**1 268 515**	**-**	**-**	**140 574**	**508 800**	**374 467**	**-**	**-**	**-**	**(374 467)**	**-**	**(29 383)**	**16 534 727**	**Net written premiums, including:**
Changes in unearned premiums and unexpired risks reserves (gross)	(201 832)	37 816	2 242	(1 088)	-	-	(13 076)	(31 528)	14	-	86 015	-	(14)	-	16 094	(105 357)	Changes in unearned premiums and unexpired risks reserves (net)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	59 559	18 311	-	-	-	-	8 423	(278)	-	-	(86 015)	-	-	-	-	-	
Net earned premiums	**1 462 260**	**6 563 005**	**6 537 052**	**1 267 427**	**-**	**-**	**135 921**	**476 994**	**374 481**	**-**	**-**	**-**	**(374 481)**	**-**	**(13 289)**	**16 429 370**	**Net earned premiums**
											417 786	-	12 282	-	(79 304)	350 764	Fee and commission income
Investment income, including:	136 456	562 821	713 254	326 696	2 823 234	11 639	41 058	14 617	43 550	167 678	(4 841 003)						
Net investment income (external transactions)	136 456	562 821	713 254	326 696	578 923	11 639	41 058	14 617	43 550	167 678	(2 596 692)						
Net investment income (cross-segment transactions)	-	-	-	-	2 244 311	-	-	-	-	-	(2 244 311)						
											1 970 605	2 775	-	23	(179 565)	1 793 838	Net investment income (external transactions)
											2 244 311	-	-	-	(2 244 311)	-	Net investment income (cross-segment transactions)
											437 938	(3 914)	-	-	(6 877)	427 147	Net profit/loss on realization and impairment loss on investments
											395 700	49 394	-	-	67 439	512 533	Net change in the fair value of assets and liabilities measured at fair value
Other technical revenue net of reinsurance	37 215	106 596	1 103	48	-	-	-	-	5	-	(144 967)						
Operating revenues of non-insurance companies	-	-	-	-	-	270 565	-	-	-	443 144	(713 709)						
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	711	-	-	-	5 916	708 697	(16 180)	-	-	(161 511)	537 633	Other operating revenue
Gross claims and benefits paid	(774 846)	(3 728 363)	(4 513 462)	(658 202)	-	-	(103 247)	(312 758)	(1 389 147)	-	(677 511)	-	376 230	7 413	40 665	(11 733 228)	Claims, benefits and change in technical reserve
Changes in provisions for outstanding claims and benefits (gross)	(315 611)	(693 683)	14 017	19 413	-	-	(1 786)	(21 625)	(2 571)	-	1 001 846						
Reinsurers’ share in claims and benefits paid	28 166	34 380	85	-	-	-	7 208	26 293	-	-	109 225	-	-	-	(13 837)	191 520	Reinsurers’ share in claims, benefits and change in technical reserve
Reinsurer’ share in change in provisions	98 323	24 254	-	-	-	-	3 477	(4 126)	-	-	(121 928)						
Net claims and benefits	**(963 968)**	**(4 363 412)**	**(4 499 360)**	**(638 789)**	**-**	**-**	**(94 348)**	**(312 216)**	**(1 391 718)**	**-**	**311 632**	**-**	**376 230**	**7 413**	**26 828**	**(11 541 708)**	**Net claims and benefits**
Changes in technical provision net of reinsurance, life insurance provisions where the investment risk is borne by the policyholder, risk equalization provisions	2 427	(9 526)	(70 328)	(611 119)	-	-	-	-	1 015 526	-	(326 980)						
											-	-	(14 031)	-	-	(14 031)	Benefits and change in measurement of investment contracts
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(2 325)	-	(638)	-	-	-	-	-	(38)	-	3 001						
Other technical charges net of reinsurance	(39 759)	(220 142)	(21 227)	(1 689)	-	-	-	-	(494)	-	283 311						
Acquisition costs	(306 347)	(1 238 906)	(356 627)	(126 442)	-	(6 349)	(52 126)	(115 445)	(16 466)	-	-	-	-	818	70 866	(2 147 024)	Acquisition costs
Administrative expenses	(125 050)	(617 450)	(542 974)	(53 381)	-	(72 838)	(28 130)	(80 239)	(9 716)	-	(1)	(2 179)	-	(13 493)	17 752	(1 527 699)	Administrative expenses
Reinsurance commission and share in profits	16 192	(26 506)	1 570	-	-	-	-	-	-	-	8 744						
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(415 875)	415 875						
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(244)	-	-	-	(25 625)	(936 742)	(3 745)	-	(67 989)	126 605	(907 740)	Other operating expenses
Insurance result / Operating profit (loss)	**217 101**	**756 480**	**1 761 825**	**162 751**	**2 823 234**	**203 484**	**2 375**	**(16 289)**	**15 130**	**175 238**	**234 198**	**26 151**	**-**	**(73 228)**	**(2 375 367)**	**3 913 083**	**Operating profit (loss)**
Other operating income	146 808		67 856				11 608	7 279			(233 551)						
Other operating expenses	(219 894)		(34 756)				(4 662)	(23 063)			282 375						
Financial costs										(82 944)	(283 020)				146 099	(219 865)	Financial costs
																(1 525)	Share in net profit (loss) of companies measured using the equity method
																3 691 693	**Gross profit (loss)**
																(724 066)	Income tax
																2 967 627	**Net profit (loss)**

(in PLN '000)

Statement of Profit of Loss from 1 January 2013 to 31 December 2013	Corporate insurance (property and casualty insurance)	Mass-market insurance (property and casualty)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic States	Investment contracts	Other activity	Presentation differences	Property and financial assets	Investment contracts	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	**Statement of Profit of Loss from 1 January 2013 to 31 December 2013**
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	1 735 259	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	-	16 480 003	Gross written premiums - external
Gross written premiums - cross-segment	4 898	-	-	-	-	-	-	-	-	-	-	-	-	-	(4 898)	-	Gross written premiums - cross-segment
Gross written premiums	**1 740 157**	**6 533 743**	**6 415 178**	**1 329 894**	**-**	**-**	**203 640**	**262 289**	**1 097 951**	**-**	**-**	**-**	**(1 097 951)**	**-**	**(4 898)**	**16 480 003**	
Reinsurers' share in written premium	(160 273)	(43 756)	(2 848)	(58)	-	-	(31 253)	(20 795)	-	-	-	-	-	-	1 946	(257 037)	Reinsurer's share in the written premium
Net written premium	**1 579 884**	**6 489 987**	**6 412 330**	**1 329 836**	**-**	**-**	**172 387**	**241 494**	**1 097 951**	**-**	**-**	**-**	**(1 097 951)**	**-**	**(2 952)**	**16 222 966**	**Net written premiums, including:**
Changes in unearned premiums and unexpired risks reserves (gross)	(35 703)	64 717	1 739	946	-	-	(9 036)	(17 606)	606	-	19 631	-	(606)	-	1 115	25 803	Changes in unearned premiums and unexpired risks reserves (net)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	11 571	(2 419)	-	-	-	-	7 221	3 258	-	-	(19 631)	-	-	-	-	-	
Net earned premiums	**1 555 752**	**6 552 285**	**6 414 069**	**1 330 782**	**-**	**-**	**170 572**	**227 146**	**1 098 557**	**-**	**-**	**-**	**(1 098 557)**	**-**	**(1 837)**	**16 248 769**	**Net earned premiums**
											340 282	-	18 808	-	(59 921)	299 169	Fee and commission income
Investment income, including:	140 039	556 759	735 242	321 867	4 858 794	11 580	24 373	6 511	104 495	65 018	(6 824 678)						
Net investment income (external transactions)	140 039	556 759	735 242	321 867	896 372	11 580	24 373	6 511	104 495	65 018	(2 862 256)						
Net investment income (cross-segment transactions)	-	-	-	-	3 962 422	-	-	-	-	-	(3 962 422)						
											1 863 272	-	-	-	3 378	1 866 650	Net investment income (external transactions)
											3 962 422	-	-	-	(3 962 422)	-	Net investment income (cross-segment transactions)
											116 995	24 782	-	-	(99 230)	42 547	Net profit/loss on realization and impairment loss on investments
											768 849	(105 879)	-	-	(57 612)	605 358	Net change in the fair value of assets and liabilities measured at fair value
Other technical revenue net of reinsurance	11 522	34 872	1 524	1 867	-	-	-	-	83	-	(49 868)						
Operating revenues of non-insurance companies	-	-	-	-	-	218 300	-	-	-	400 948	(619 248)						
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	3 090	-	-	-	6 002	602 126	(16 189)	-	-	(109 808)	485 221	Other operating revenue
Gross claims and benefits paid	(890 923)	(3 410 960)	(4 290 148)	(609 567)	-	-	(83 190)	(147 070)	(1 334 969)	-	(1 609 046)	-	1 157 463	6 323	16 810	(11 195 277)	Claims, benefits and change in technical reserve
Changes in provisions for outstanding claims and benefits (gross)	(1 959)	(761 742)	(9 526)	(17 034)	-	-	(5 417)	(359)	5 221	-	790 816						
Reinsurers' share in claims and benefits paid	112 577	154 450	164	-	-	-	2 516	10 829	-	-	(242 600)	-	-	-	(3 883)	34 053	Reinsurers' share in claims, benefits and change in technical reserve
Reinsurer' share in change in provisions	(73 805)	(174 716)	-	-	-	-	5 199	(2 487)	-	-	245 809						
Net claims and benefits	**(854 110)**	**(4 192 968)**	**(4 299 510)**	**(626 601)**	**-**	**-**	**(80 892)**	**(139 087)**	**(1 329 748)**	**-**	**(815 021)**	**-**	**1 157 463**	**6 323**	**12 927**	**(11 161 224)**	**Net claims and benefits**
Changes in technical provision net of reinsurance, life insurance provisions where the investment risk is borne by the policyholder, risk equalization provisions	(5 887)	(436)	(270 964)	(712 390)	-	-	-	-	172 272	-	817 405						
											-	-	(77 715)	-	-	(77 715)	Benefits and change in measurement of investment contracts
Bonuses and rebates for the insured net of reinsurance, 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 costs	(300 302)	(1 141 493)	(322 765)	(109 519)	-	(16 776)	(62 446)	(67 137)	(18 318)	-	-	-	-	(126)	22 944	(2 015 938)	Acquisition costs
Administrative expenses	(115 829)	(546 865)	(545 720)	(53 225)	-	(77 923)	(35 904)	(26 490)	(11 377)	-	-	1 131	-	(20 568)	26 290	(1 406 480)	Administrative expenses
Reinsurance commission and share in profits	8 022	66 967	501	-	-	-	-	-	-	-	(75 490)						
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(369 897)	369 897						
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(839)	-	-	-	(6 519)	(874 683)	(8 946)	-	84 583	100 805	(705 599)	Other operating expenses
Insurance result / Operating profit (loss)	**391 481**	**1 067 271**	**1 603 421**	**139 857**	**4 858 794**	**137 432**	**15 703**	**943**	**11 277**	**95 552**	**18 403**	**(105 101)**	**(1)**	**70 212**	**(4 124 486)**	**4 180 758**	**Operating protif (loss)**
Other operating income	65 131		14 763				796	3 613			(84 303)						
Other operating expenses	(58 067)		(50 159)				(874)	(4 075)			113 175						
Financial costs										(57 112)	(47 270)				42 718	(61 664)	Financial costs
																1 404	Share in net profit (loss) of companies measured using the equity method
																4 120 498	**Gross profit (loss)**
																(825 543)	Income tax
																3 294 955	**Net profit (loss)**

(in PLN '000)

2014	Poland	Baltic States	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	16,174,579	536,498	173,562	-	16,884,639
Gross written premiums - cross-segment	26,815	-	-	(26,815)	-
Revenue from commissions and fees	350,764	-	-	-	350,764
Net investment income	1,743,915	10,241	39,682	-	1,793,838
Net result on realization and impairment losses on investments	426,016	1,402	(271)	-	427,147
Net change in the fair value of assets and liabilities measured at fair value	507,904	2,974	1,655	-	512,533
Non-current assets other than financial instruments [1)]	1,706,430	160,650	3,887	(666)	1,870,301
Change in deferred tax assets	20,556	5,383	1,018	-	26,957
Assets	67,788,204	1,185,229	224,704	(1,625,376)	67,572,761

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

2013	Poland	Baltic States	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	16,014,074	262,289	203,640	-	16,480,003
Gross written premiums - cross-segment	2,439	-	-	(2,439)	-
Revenue from commissions and fees	299,169	-	-	-	299,169
Net investment income	1,834,841	7,783	24,026	-	1,866,650
Net result on realization and impairment losses on investments	44,070	(1,905)	382	-	42,547
Net change in the fair value of assets and liabilities measured at fair value	604,745	633	(20)	-	605,358
Non-current assets other than financial instruments [1)]	1,216,845	14,125	5,822	(785)	1,236,007
Change in deferred tax assets	15,351	-	1,598	-	16,949
Assets	62,512,606	415,708	259,963	(400,973)	62,787,304

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

8. Risk management

8.1 Introduction

Risk management is aimed at:

- increasing the value of PZU Group through active and conscious changes in the level of risk assumed;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

Risk management in PZU Group is based on risk analysis of all processes and units. Risk management is an integral part of the management process.

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of both strategic plans of individual companies and business objectives of the whole PZU Group. These include i.a.:

- the systems of limits and restrictions of the acceptable risk level, including the level of appetite for risk;
- processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;

- organisational structure of risk management, in which Management Boards and Supervisory Boards of companies as well as dedicated Committees play the key role.

8.2 Description of the risk management system

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

- organisational structure – including division of responsibilities and tasks performed by statutory bodies, committees as well as individual organisational units in the risk management process;
- the risk management process – including the methods of identification, measurement and assessment, monitoring and control, reporting risk and taking management action.

8.3 Organisational structure

The risk management system organisational structure is consistent in PZU Group and in individual companies and includes four competence levels.

The first three are:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the given company's Articles of Association and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- Committees which make decisions on reducing individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

The fourth competence level relates to operational actions and is divided between the three lines of defence:

- the first line of defence – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defence – denotes risk management by specialised units responsible for risk identification, monitoring and reporting as well as controlling limits;
- the third line of defence – comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the activity.

8.4 Risk appetite, risk profile and risk tolerance

The process of determining the risk appetite and limits in line with the group process has been implemented in the PZU Group entities. The Management Board of each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group.

The risk appetite has been defined as the risk that the company is prepared to accept in pursuit of its business goals. The measure of risk appetite is the level of potential financial loss, decrease in the value of assets or an increase in the value of liabilities in the period of one year. The level of risk appetite for is defined as the minimum capital requirement coverage ratio. The risk appetite determines the maximal level of acceptable risk when setting limits and restrictions for individual partial risks and the level which, when exceeded, results in taking specific management measures necessary to limit further risk growth.

The risk profile involves quantitative limits which define the risk appetite more precisely.

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

Such an attitude ensures appropriateness and efficiency of the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of both individual companies and the entire PZU

Group. The company's Management Board is responsible for determining the appropriate risk level for that company. The risk unit reviews the level risk appetite once a year. All activities are coordinated at the level of the Group.

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

Identification, measurement, evaluation, monitoring and reporting of risk and implemented management actions ensure ongoing adequacy and effectiveness of the risk management system. The risk management process in PZU Group consists of:

- identification – beginning with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process, as well upon the occurrence of any other event which potentially results in a risk. The identification process takes place until the expiry of the liabilities, receivables or activities related to the given risk. Identification of risk consists in the identification of actual and potential sources of risk, which are later analysed in terms of significance;
- measurement and evaluation of risk – depending on the characteristics of the given risk type and the level of its significance. Risk is measured by specialised units. The risk unit in each company is responsible for the development of tools and measurement of risk in terms of risk appetite, risk profile and tolerance limits;
- monitoring and control of risk – consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values as well as recommendations and guidance issued, conducted by dedicated units;
- reporting – it allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions, including i.a. risk avoidance, risk transfer, risk mitigation, determination of risk appetite, risk level acceptance as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

Two levels are distinguished in the risk management process:

- the PZU Group level – it ensures that PZU Group implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in business lines, e.g. collective catastrophe risk, entire exposure of PZU Group to financial risk or counterparty risk. PZU Group ensures support in the implementation of coherent risk management standards and monitors their implementation. Dedicated employees from PZU Group cooperate with Management Boards of the companies and with management of such areas as finance, risk, actuary, reinsurance, investment;
- the company level – it ensures that the company implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in the given company and implementation of the risk management process at the level of the single company (both in terms of local legal regulations and standards of PZU Group).

8.6 Risk profile

PZU Group risk profile did not change significantly in 2014. The main types of risks incurred by PZU Group include insurance risk, market risk, credit risk, concentration risk, operational risk and compliance risk.

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

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

Insurance risk includes:

	Non-life insurance	Life insurance
Longevity risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,	x	x
Cost risk – a risk of loss or unfavourable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management.	x	x
Laps Risk – a risk of loss or unfavourable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators, including withdrawal from contracts, termination or buyout of policies.	x	x
Catastrophe risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and provisions for extreme or exceptional events.	x	x
Premium risk – a risk of loss or unfavourable changes in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of insured events.	x	n/a
Provision risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of claims paid and their amounts.	x	n/a
Annuity revision risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured.	x	n/a
Mortality risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities.	n/a	x
Disability risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases.	n/a	x

PZU Group manages insurance risk i.a. by way of:

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

Calculation and monitoring of adequacy of technical provisions

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

- prudent approach to determining technical provisions,
- continuity principle, consisting in the unchangeability of the methods of technical provisioning, provided there are no significant circumstances which justify introduction of changes.

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

For life insurance products, public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. Periodic statistical analyses of claims incidence are made at the level of product groups, individual insurance portfolios and well-defined homogeneous risk groups. These analyses allow determining relative frequency of claims compared to public statistics. The use of appropriate statistical methods allows to determine the significance of the determined statistics. If necessary, determined appropriate security charges are applied when creating technical provisions and risk evaluation.

Estimating of technical provisions in PZU Group is supervised by main actuaries. Furthermore, every year an independent expert performs a separate calculation of provisions for the purpose of verifying the internal results or performs an evaluation of life insurance portfolios as part of the embedded value calculation.

(in PLN '000)

Tariff strategy, monitoring of current estimates and premium adequacy assessment

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

Underwriting

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

Reinsurance

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

PZU Group limits its risk i.a. by way of:

- non-proportional excess of loss treaties which protect the portfolios against catastrophic losses (e.g. flood, hurricane);
- non-proportional excess of loss treaties which protect property, technical, marine, aviation, TPL and MTPL portfolios against the effects of large, single losses;
- proportional treaties which protects the financial insurance portfolio.

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

8.6.1.1. Exposure to insurance risk in non-life products

Primary cost ratios in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Expense ratio	28.94%	25.94%
Claims ratio, net of reinsurance	66.39%	61.90%
Reinsurer's retention ratio	3.84%	2.93%
Combined ratio	95.32%	87.84%

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

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

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

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

(in PLN '000)

The following tables present development of technical provisions and payments in subsequent financial years.

Claims development in direct property and personal insurance, gross (by financial year)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Provision at the end of the financial year	7,458,401	7,540,570	7,898,097	8,292,721	8,698,661	9,380,501	9,870,123	10,989,024	11,782,567	13,311,566
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	6,915,636	7,300,086	7,697,588	8,382,022	8,560,746	9,680,960	10,298,173	11,285,586	12,241,486	
- calculated two years later	6,814,742	7,286,968	7,833,155	8,409,631	8,855,827	10,192,492	10,752,650	11,958,413		
- calculated three years later	7,013,528	7,436,865	7,852,001	8,757,918	9,346,313	10,718,813	11,589,871			
- calculated four years later	7,113,164	7,443,246	8,140,607	9,215,412	9,874,432	11,574,390				
- calculated five years later	7,119,925	7,661,124	8,599,531	9,723,948	10,712,439					
- calculated six years later	7,307,058	8,102,772	9,076,948	10,558,365						
- calculated seven years later	7,703,019	8,523,330	9,842,325							
- calculated eight years later	8,057,693	9,224,422								
- calculated nine years later	8,707,732									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	8,707,732	9,224,422	9,842,325	10,558,365	10,712,439	11,574,390	11,589,871	11,958,413	12,241,486	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	4,037,917	4,091,129	4,182,939	4,271,913	3,837,143	4,033,634	3,209,619	2,591,660	1,695,817	
Provision recognized in the statement of financial positions	4,669,815	5,133,293	5,659,386	6,286,452	6,875,296	7,540,756	8,380,252	9,366,753	10,545,669	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,249,331)	(1,683,852)	(1,944,228)	(2,265,644)	(2,013,778)	(2,193,889)	(1,719,748)	(969,389)	(458,919)	
The above difference as a percentage of the first year provision	-17%	-22%	-25%	-27%	-23%	-23%	-17%	-9%	-4%	

(in PLN '000)

Claims development in direct property and personal insurance, net of reinsurance (by financial year)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Provision at the end of the financial year	6,246,070	6,356,239	6,916,099	7,433,410	7,972,938	8,639,044	9,304,621	10,413,376	11,453,315	12,813,985
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	5,651,285	6,145,931	6,790,822	7,568,099	7,843,760	8,838,330	9,731,139	10,722,247	11,787,321	
- calculated two years later	5,605,428	6,201,722	6,968,715	7,597,785	8,091,605	9,344,945	10,185,213	11,282,329		
- calculated three years later	5,838,544	6,396,354	6,991,045	7,909,625	8,558,410	9,872,521	10,946,654			
- calculated four years later	5,978,990	6,405,273	7,246,292	8,343,715	9,106,236	10,672,033				
- calculated five years later	5,984,459	6,589,073	7,683,193	8,874,588	9,891,566					
- calculated six years later	6,145,804	7,008,662	8,189,106	9,656,518						
- calculated seven years later	6,515,396	7,457,627	8,904,032							
- calculated eight years later	6,882,188	8,108,651								
- calculated nine years later	7,482,106									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	7,482,106	8,108,651	8,904,032	9,656,518	9,891,566	10,672,033	10,946,654	11,282,329	11,787,321	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	3,018,595	3,183,149	3,453,469	3,587,041	3,236,477	3,377,151	2,837,946	2,264,973	1,638,017	-
Provision recognized in the statement of financial positions	4,463,511	4,925,502	5,450,563	6,069,477	6,655,089	7,294,882	8,108,708	9,017,356	10,149,304	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,236,036)	(1,752,412)	(1,987,933)	(2,223,108)	(1,918,628)	(2,032,989)	(1,642,033)	(868,953)	(334,006)	
The above difference as a percentage of the first year provision	-20%	-28%	-29%	-30%	-24%	-24%	-18%	-8%	-3%	

Motor insurance products (MTPL and own damage) account for the major part of PZU portfolio. Both types of insurances are usually concluded for a year, during which a claim must occur to be covered. The own damage insurance is based on a claim-made principle, so it is not a source of uncertainty. It is unlike MTPL, which is an occurrence insurance (there is up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which significantly add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

Depending on the percentage of the value of paid out flood and hurricane damage in the total value of claims paid in the period in which the catastrophic events occurred, i.e. the floods or hurricanes, three groups of regions have been distinguished. Next, relevant insurance sums and the number of policies was defined for each region, thus arriving at flood and hurricane risk concentration.

Risk concentration in non-life insurance – flood claims exposure

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2014		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where flood claims constitute 0 to 5% of total claims	Sum insured	3.8%	6.6%	2.5%	1.2%	12.4%	**26.5%**
	Number of policies	18.6%	5.6%	1.2%	0.3%	0.3%	**26.0%**
B group regions - where flood claims constitute 5 to 15% of total claims	Sum insured	2.5%	2.8%	1.1%	0.9%	6.4%	**13.7%**
	Number of policies	12.3%	2.8%	0.5%	0.2%	0.2%	**16.0%**
C group regions - where flood claims constitute over 15% of total claims	Sum insured	8.2%	12.9%	4.9%	2.4%	31.4%	**59.8%**
	Number of policies	41.8%	13.0%	2.3%	0.5%	0.4%	**58.0%**
Total	**Sum insured**	**14.5%**	**22.3%**	**8.5%**	**4.5%**	**50.2%**	**100.0%**
	Number of policies	**72.7%**	**21.4%**	**4.0%**	**1.0%**	**0.9%**	**100.0%**

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2013		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where flood claims constitute 0 to 5% of total claims	Sum insured	2.3%	2.8%	1.3%	0.7%	8.2%	**15.3%**
	Number of policies	11.0%	2.7%	0.6%	0.2%	0.2%	**14.7%**
B group regions - where flood claims constitute 5 to 15% of total claims	Sum insured	3.1%	3.8%	1.7%	1.1%	9.4%	**19.1%**
	Number of policies	15.5%	3.7%	0.8%	0.2%	0.3%	**20.5%**
C group regions - where flood claims constitute over 15% of total claims	Sum insured	9.9%	14.5%	5.3%	2.7%	33.2%	**65.6%**
	Number of policies	47.2%	14.1%	2.4%	0.6%	0.5%	**64.8%**
Total	**Sum insured**	**15.3%**	**21.1%**	**8.3%**	**4.5%**	**50.8%**	**100.0%**
	Number of policies	**73.7%**	**20.5%**	**3.8%**	**1.0%**	**1.0%**	**100.0%**

Risk concentration in property and personal insurance - hurricane claims exposure

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2014		Sum Insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where hurricane claims constitute 0 to 5% of total claims	Sum insured	8.9%	15.6%	6.0%	3.0%	38.3%	**71.8%**
	Number of policies	46.3%	14.5%	2.8%	0.7%	0.8%	**65.1%**
B group regions - where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.7%	5.8%	2.2%	1.3%	9.8%	**23.8%**
	Number of policies	22.8%	5.9%	1.0%	0.3%	0.3%	**30.3%**
C group regions - where hurricane claims constitute over 15% of total claims	Sum insured	0.7%	0.9%	0.3%	0.2%	2.3%	**4.4%**
	Number of policies	3.5%	0.9%	0.2%	0.0%	0.0%	**4.6%**
Total	**Sum insured**	**14.3%**	**22.3%**	**8.5%**	**4.5%**	**50.4%**	**100.0%**
	Number of policies	**72.6%**	**21.3%**	**4.0%**	**1.0%**	**1.1%**	**100.0%**

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2013		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where hurricane claims constitute 0 to 5% of total claims	Sum insured	7.9%	11.6%	4.6%	2.3%	26.4%	**52.8%**
	Number of policies	38.1%	11.2%	2.1%	0.5%	0.5%	**52.4%**
B group regions - where hurricane claims constitute 5 to 15% of total claims	Sum insured	6.4%	7.9%	3.1%	1.9%	18.8%	**38.1%**
	Number of policies	30.4%	7.8%	1.4%	0.4%	0.4%	**40.4%**
C group regions - where hurricane claims constitute over 15% of total claims	Sum insured	1.0%	1.5%	0.6%	0.4%	5.6%	**9.1%**
	Number of policies	5.3%	1.4%	0.3%	0.1%	0.1%	**7.2%**
Total	**Sum insured**	**15.3%**	**21.0%**	**8.3%**	**4.6%**	**50.8%**	**100.0%**
	Number of policies	**73.8%**	**20.4%**	**3.8%**	**1.0%**	**1.0%**	**100.0%**

Risk concentration in non-life insurance: general liability insurance

Risk concentration in property and casualty general liability insurance insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premium in non-life insurance – TPL as at 31 December 2014	Sum insured					Total
	PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
General TPL in personal life and other	15.5%	3.4%	2.5%	2.9%	14.1%	**38.4%**
Medical TPL	0.6%	1.0%	1.2%	6.4%	33.1%	**42.3%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.5%	2.9%	1.3%	1.5%	3.7%	**14.9%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	4.3%	0.0%	**4.3%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**21.6%**	**7.3%**	**5.0%**	**15.1%**	**51.0%**	**100.0%**

Gross written premium in non-life insurance – TPL as at 31 December 2013	Sum insured					Total
	PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
General TPL in personal life and other	16.1%	3.3%	2.4%	2.9%	14.2%	**38.9%**
Medical TPL	0.6%	1.0%	1.2%	6.2%	31.9%	**40.9%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.7%	3.0%	1.3%	1.2%	3.4%	**14.6%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	5.3%	0.0%	**5.3%**
Product TPL	0.1%	0.0%	0.1%	0.0%	0.1%	**0.3%**
Total	**22.5%**	**7.3%**	**5.0%**	**15.6%**	**49.6%**	**100.0%**

Capitalised annuity amount

The below results do not take into account the impact of changes in valuation of deposits taken into consideration in the calculation of the provision value.

Change in the assumptions for the provision for capitalised value of annuities amount in non-life insurance - gross (in PLN '000)	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical rate – increase by 0.5 p.p.	426,244	421,951	426,244	421,951
Technical rate – decrease by 1.0 p.p.	(1,101,344)	(1,092,141)	(1,101,344)	(1,092,141)
Mortality at 110% of the currently assumed rate	132,268	129,725	132,268	129,725
Mortality at 90% of the currently assumed rate	(147,984)	(145,112)	(147,984)	(145,112)

Change in the assumptions for the provision for capitalised value of annuities amount - net of reinsurance in property and personal insurance (in PLN '000)	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical rate – increase by 0.5 p.p.	415,451	411,121	415,451	411,121
Technical rate – decrease by 1.0 p.p.	(1,073,704)	(1,064,334)	(1,073,704)	(1,064,334)
Mortality at 110% of the currently assumed rate	128,940	126,437	128,940	126,437
Mortality at 90% of the currently assumed rate	(144,263)	(141,438)	(144,263)	(141,438)

8.6.1.2. Exposure to insurance risk in life products

PZU Group has not presented information on the development of claims in life insurance due to the fact that the uncertainty regarding amounts and claim payment periods usually stops within one year.

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

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

(in PLN '000)

In the case of group insurance contracts, allowing adjusting of coverage at the level of each group of contracts, a simplified risk assessment is applied. It is carried out on the basis of information about the industry of a given employer, assuming appropriate participation limits of the insured in respect of all persons employed in the workplace. In such cases, premium and charges are based on statistical analyses carried out in relation to the frequency of claims on the level of defined homogeneous risk groups, including relative frequency of events compared to public statistics.

It should be noted that for most contracts, the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio	Effect of change in the assumptions on the net financial profit/loss		Effect of change in the assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical interest rate – decrease by 1 p.p.	(34,259)	(36,080)	(34,259)	(36,080)
Mortality at 90% of the currently assumed rate	(12,318)	(12,539)	(12,318)	(12,539)

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

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products	Effect of change in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical interest rate – decrease by 1.0 p.p.	(2,194,319)	(2,221,496)	(2,194,319)	(2,221,496)
Mortality at 110% of the currently assumed rate	(922,805)	(937,246)	(922,805)	(937,246)
110% morbidity and accident rate	(187,082)	(194,624)	(187,082)	(194,624)

Effects of clients' withdrawing from life insurance products

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

Item in financial statements	31 December 2014	31 December 2013
Change in technical provisions	2,093,927	2,025,688
Claims and benefits paid	(782,563)	(725,871)
Change in deferred acquisition costs	(6,256)	(5,943)
Gross financial profit/loss	1,305,109	1,293,874
Net financial profit/loss	1,057,138	1,048,038
Equity	1,057,138	1,048,038

8.6.2. Market risk

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

Market risk in PZU Group includes:

- equity instruments price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices of shares or their volatility;
- property price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;

(in PLN '000)

- goods price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;
- inflation risk – a possibility of incurring a loss resulting from inflation, in particular inflation of goods and services prices, as well as expectations regarding the future inflation level which impact valuation of assets and liabilities;
- liquidity risk – the inability to realise investments and other assets with no impact on their market prices in order to settle one's financial liabilities when they fall due;
- interest rate risk – a possibility of incurring a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term of structure of market interest rates or volatility of these risk-free rates;
- basis risk – a possibility to incur a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term structure of market interest rate spreads as compared to risk-free rates or volatility of these spreads - with the exception of credit spreads;
- currency risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in exchange rates or their volatility.

Market risk in PZU Group originates from two key sources:

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

The investment activity in the PZU Group entities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Departments of risk management take part in the risk identification process, measure those risks, monitor and report those risks. Market risk is measured by the Value at Risk method. The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. In order to effectively manage market risk, limits in form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined.

Market risk exposure

Carrying amount as at 31 December 2014	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**48,991,002**	**1,557,038**	**50,548,040**
Fixed interest debt instruments	33.1,33.2, 33.3,33.4	30,686,636	1,368,931	32,055,567
Floating interest debt instruments	33.1,33.2, 33.3,33.4	5,851,652	105,969	5,957,621
Term deposits at credit institutions	33.4	6,061,643	82,138	6,143,781
Loans and receivables	33.4	2,309,972	-	2,309,972
Cash	42	324,007	-	324,007
Buy sell-back transactions	33.4	3,250,173	-	3,250,173
Derivatives	33.3	506,919	-	506,919
Financial assets exposed to other price risk		**3,110,178**	**3,422,151**	**6,532,329**
Shares listed on a regulated market	33.2, 33.3	2,831,054	532,352	3,363,406 [1)]
Participation units and certificates in investment funds	33.2, 33.3	239,640	2,889,799	3,129,439 [2)]
Derivatives	33.3	39,484	-	39,484
Total		**52,101,180**	**4,979,189**	**57,080,369**

[1)] Difference of the values presented as equity instruments listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 10,529 thousand regards listed units and investment certificates in the line below.

[2)] Difference of the values presented as equity instruments not listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 10,073 thousand regards listed units and investment certificates (PLN 10,529 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 456 thousand).

(in PLN '000)

Carrying amount of financial assets and liabilities held for sale	Note 43	31 December 2014
Financial assets and cash exposed to interest rate risk		314,284
Fixed interest debt securities		217,852
Term deposits with credit institutions		88,085
Cash		8,347
Financial assets exposed to other price risk		36,702
Equity instruments listed on the regulated market		16,366
Participation units and investment certificates in investment funds		20,336
Total		**350,986**

Carrying amount as at 31 December 2013	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**47,671,217**	**1,630,915**	**49,302,132**
Fixed interest debt instruments	33.1,33.2, 33.3,33.4	30,133,778	1,450,292	31,584,070
Floating interest debt instruments	33.1,33.2, 33.3,33.4	4,521,641	99,512	4,621,153
Term deposits at credit institutions	33.4	7,305,896	81,111	7,387,007
Loans and receivables	33.4	1,722,208	-	1,722,208
Cash	42	569,157	-	569,157
Buy sell-back transactions	33.4	3,203,344	-	3,203,344
Derivatives	33.3	215,193	-	215,193
Financial assets exposed to other price risk		**3,220,389**	**3,129,095**	**6,349,484**
Shares listed on the regulated market	33.2, 33.3	3,109,602	576,046	3,685,648 [1)]
Participation units and certificates in investment funds	33.2, 33.3	65,937	2,553,049	2,618,986 [2)]
Derivatives	33.3	44,850	-	44,850
Total		**50,891,606**	**4,760,010**	**55,651,616**

[1)] The difference to the values presented as equity instruments listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 5,305 thousand regards listed units and investment certificates in the line below.
[2)] The difference to the values presented as equity instruments not listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 5,251 thousand regards listed units and investment certificates (PLN 5,305 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 54 thousand).

In its investing activities PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks. In 2014 and 2013, the PZU Group's derivatives comprised interest rate and FX swaps and forwards, stock index futures and bond futures. All the derivatives held by PZU Group are classified as financial instruments held for trading.

The table below presents the PZU Group's derivatives as at 31 December 2014 and 31 December 2013.

Interest rate derivatives	Base amount by maturity as at 31 December 2014					Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC, including:	5,316,874	12,300,000	27,874,630	5,145,782	50,637,286	506,919	556,426
- futures	2,500,000	5,400,000	-	-	7,900,000	7,203	5,735
- SWAP transactions	2,816,874	6,900,000	27,874,630	5,145,782	42,737,286	499,716	550,691
Interest rate derivatives, total	**5,316,874**	**12,300,000**	**27,874,630**	**5,145,782**	**50,637,286**	**506,919**	**556,426**

(in PLN '000)

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

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on a regulated market, including:	-	620,808	1,030,540	1,651,348	-	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
OTC instruments, including:	8,262,468	50,000	-	8,312,468	14,975	48,266
- futures	423,422	-	-	423,422	720	15,633
- SWAP transactions	7,839,046	-	-	7,839,046	13,016	32,633
- call options	-	25,000	-	25,000	994	-
- put options	-	25,000	-	25,000	245	-
Total derivatives linked to currency exchange rates	**8,262,468**	**670,808**	**1,030,540**	**9,963,816**	**14,975**	**57,782**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2013			Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Total		
OTC instruments, including:	1,505,938	344,873	1,850,811	22,492	632
- FRA transactions	341,136	344,873	686,009	5,592	-
- SWAP transactions	1,164,802	-	1,164,802	16,900	632
Total derivatives linked to currency exchange rates	**1,505,938**	**344,873**	**1,850,811**	**22,492**	**632**

Security price derivatives	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on a regulated market, including:	-	620,840	1,030,540	1,651,380	1,843	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
- call options	-	32	-	32	1,843	-
OTC instruments, including:	215,110	102,539	365,732	683,381	22,666	2,120
- futures	153,443	-	-	153,443	-	2,120
- call options	61,667	102,539	365,732	529,938	22,666	-
Security price derivatives, total	**215,110**	**723,379**	**1,396,272**	**2,334,761**	**24,509**	**11,636**

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

Risk concentration

	as at 31 December 2014 (in PLN '000)	31 December 2014 (% financial asset value)	as at 31 December 2013 (in PLN '000)	31 December 2013 (% financial asset value)
Involvement in treasury instruments issued and guaranteed by the Polish State Treasury and buy sell-back transactions on these instruments	36,161,177	63.7%	34,789,026	63.2%
PZU Group's involvement in shares listed on the Warsaw Stock Exchange	2,713,587	4.8%	3,006,599	5.5%
Involvement in assets related to one bank (PKO BP SA - bank deposits, debt instruments and shares of that bank)	1,953,044	3.4%	2,341,320	4.3%
General involvement bank assets - bank deposits, debt instruments issued by banks, shares of banks and derivative transactions concluded with banks	13,201,504	23.3%	10,153,416	18.4%
Involvement in financial assets denominated in Polish zloty	52,678,740	92.8%	51,487,201	93.5%
Investments where the investment risk is borne by the policyholder	4,979,189	8.8%	4,760,010	8.6%

Exposure to debt instruments issued by treasuries other than the Polish Treasury, companies and local government authorities

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

(in PLN '000)

Debt instruments issued by treasuries other than the Polish Treasury

As at 31 December 2014	Currency	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	12,589	13,941	13,941	-
Croatia	USD	at fair value	13,489	15,555	15,555	-
Croatia	EUR	at amortised cost	2,418	2,447	2,478	-
Cyprus	EUR	at fair value	20,663	21,585	21,585	-
Iceland	USD	at fair value	24,745	29,246	29,246	-
Lithuania	EUR	at fair value	61,935	68,565	68,565	-
Lithuania	LTL	at fair value	436,696	458,145	458,145	-
Lithuania	USD	at fair value	14,178	17,113	17,113	-
Lithuania	EUR	at amortised cost	12,964	14,050	15,380	-
Lithuania	LTL	at amortised cost	14,857	15,196	15,786	-
Latvia	EUR	at fair value	66,277	70,051	70,051	-
Latvia	USD	at fair value	31,236	35,048	35,048	-
Latvia	EUR	at amortised cost	1,631	1,679	1,781	-
Romania	EUR	at fair value	143,607	156,896	156,896	-
Romania	RON	at fair value	48,545	50,882	50,882	-
Romania	USD	at fair value	15,631	20,436	20,436	-
Turkey	USD	at fair value	449	477	477	-
Ukraine	USD	at fair value	1,458	1,663	1,663	-
Ukraine	UAH	at fair value	10,183	9,343	9,343	-
Ukraine	UAH	at amortised cost	25,181 [1)]	9,231 [1)]	9,196	-
Ukraine	USD	at amortised cost	23,692	25,916	25,785	-
Hungary	EUR	at fair value	17,308	20,230	20,230	-
Hungary	HUF	at fair value	160,882	163,499	163,499	-
Hungary	USD	at fair value	7,801	9,456	9,456	-
Hungary	EUR	at amortised cost	570	655	721	-
other	EUR/USD	at fair value	53,492	59,279	59,279	-
Total			**1,222,477**	**1,290,584**	**1,292,537**	**-**

1) for these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

(in PLN '000)

As at 31 December 2013	Currency	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
Croatia	EUR	at fair value	142	143	143	-
Croatia	USD	at fair value	50,038	48,677	48,677	-
Iceland	USD	at fair value	88,150	84,365	84,365	-
Lithuania	EUR	at fair value	1,888	1,992	1,992	-
Lithuania	LTL	at fair value	3,255	3,351	3,351	-
Lithuania	USD	at fair value	14,354	14,893	14,893	-
Lithuania	EUR	at amortised cost	74,206	75,835	79,247	-
Lithuania	LTL	at amortised cost	81,242	82,012	84,393	-
Latvia	USD	at fair value	35,960	33,737	33,737	-
Germany	EUR	at fair value	129,700	126,939	126,939	-
Romania	EUR	at fair value	371,772	381,138	381,138	-
Romania	RON	at fair value	108,132	108,686	108,686	-
Romania	USD	at fair value	27,985	27,856	27,856	-
Slovenia	EUR	at fair value	389,175	443,084	443,084	-
Slovenia	USD	at fair value	138,259	134,090	134,090	-
Ukraine	USD	at fair value	12,678	10,933	10,933	-
Ukraine	UAH	at amortised cost	25,095 1)	14,556 1)	n/a	-
Ukraine	USD	at amortised cost	17,070	15,665	n/a	-
Hungary	EUR	at fair value	125,401	136,097	136,097	-
Hungary	EUR	at amortised cost	5,124	5,324	5,420	-
Turkey	TRL	at fair value	45,746	41,963	41,963	-
other	EUR/USD	at fair value	57,363	59,068	59,068	-
Total			**1,802,735**	**1,850,404**	**n/a**	**-**

1) for these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

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

Debt instruments issued by companies and local government authorities.

As at 31 December 2014	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	184,224	190,676	190,676	-
	at amortized cost	1,616,283	1,630,862	1,711,036	-
WIG index companies -Fuels	at fair value	303,226	314,558	314,558	-
	at amortized cost	700,000	700,746	715,642	-
WIG index companies – Chemical index	at amortized cost	1,211	1,236	1,229	-
WIG index companies – Energy	at amortized cost	400,000	401,778	399,721	-
Domestic banks not listed	at amortized cost	20,000	20,271	23,594	-
Foreign banks	at fair value	23,600	24,081	24,081	-
	at amortized cost	76,359	77,813	82,944	-
Mortgage banks	at fair value	41,983	42,623	42,623	-
Local government	at fair value	45,632	58,608	58,608	-
	at amortized cost	50,000	52,504	60,884	-
Other	at fair value	38,427	38,942	38,942	-
	at amortized cost	62,751	63,760	64,409	-
WIG index companies - Raw materials - written down	at amortized cost	200,000	193,142	201,339	10,144
Other impaired	at fair value	11,630	-	-	11,630
Other impaired foreign banks	at amortized cost	1,142	-	-	1,142
Total		**3,776,468**	**3,811,600**	**3,930,288**	**22,916**

As at 31 December 2013	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	138,661	140,340	140,340	-
	at amortized cost	1,336,121	1,349,381	n/a	-
WIG index companies - Fuels	at fair value	268,489	283,249	283,249	-
	at amortized cost	700,000	700,816	n/a	-
Domestic banks not listed	at amortized cost	65,000	66,227	n/a	-
Foreign banks	at fair value	552	634	634	-
	at amortized cost	90,548	92,296	n/a	-
Local governments	at fair value	45,632	54,279	54,279	-
	at amortized cost	50,000	52,507	n/a	-
Other	at fair value	5,154	5,573	5,573	-
	at amortized cost	23,657	23,835	22,408	-
Other impaired	at fair value	11,630	-	-	11,630
Other impaired foreign banks	at amortized cost	1,142	-	-	1,142
Total		**2,736,586**	**2,769,137**	**n/a**	**12,772**

8.6.2.1. Interest rate risk

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 b.p.	125,668	223,086	432,701	464,288
Market interest rate increase by 100 b.p.	(138,436)	(219,307)	(403,257)	(434,618)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance and investment contract liabilities. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 8.6.1.

8.6.2.2. Currency risk

Degree of risk exposure

Information regarding exposure to currency risk by class of financial instruments is presented in item 16.

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	6,052	118,583	18,669	82,775
20% decrease in FX to PLN rates	(6,052)[1)]	(118,583)[1)]	(18,669)	(82,775)

[1)] with assumption of decrease by 80% in exchange rates of UAH against PLN (while retaining 20% decrease for other currencies) the negative influence on financial result and equity would amount, respectively: PLN 46,550,000 and PLN 159,081,000.

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

8.6.2.3. Equity instruments price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in items 16.2 and 16.3 respectively.

Sensitivity analysis

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
increase in measurement of listed equity instruments by 20%	345,885	561,156	395,590	455,567
decrease in measurement of listed equity instruments by 20%	(345,885)	(561,156)	(395,590)	(455,567)

8.6.2.4. Liquidity risk

Financial liquidity risk of the PZU Group may result from three types of events:

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

In the liquidity risk management process, liquidity is controlled in the short, medium and long term, i.e.:

- short-term liquidity – the balance of funds in the liquidity and currency portfolios is held as not greater than the limit defined. Furthermore, conditional sell buy-back transactions are used in liquidity management;
- medium-term liquidity – PZU and PZU Życie hold adequate liquid investments portfolios;
- long-term liquidity and structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM), i.e. matching of the structure of financial investments which cover technical provisions to the nature of such provisions is applied.

Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavourable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyses, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

Degree of risk exposure

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

For the purpose of the analysis the adjustments of cash flows presented in tables on following pages and engagement of PZU Group in investment funds (units and investment certificates) were not consolidated. This means that they are presented as units and investment certificates rather than assets held by the funds. Such an attitude reflects the liquidity management perspective and ensures coverage of technical provisions with assets at the level of given companies, taking into account statutory limits for type concentration of those assets.

(in PLN '000)

Non-life insurance

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

Item	Projected cash flows				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(1,647,787)	(1,176,099)	(1,752,775)	(5,163,674)	(11,243,357)
I. Outflows	(1,678,327)	(1,192,951)	(1,770,576)	(5,206,545)	(11,337,138)
II. Inflows	30,540	16,852	17,801	42,871	93,781
B. Inflows from assets covering technical provisions	4,038,705	1,372,188	1,917,156	5,629,030	11,786,596
I. Future inflows whose value is known as at the end of reporting year	4,014,383	441,151	1,339,895	4,374,964	5,269,161
- Treasury bonds	1,229,660	164,105	1,040,255	3,310,581	5,073,670
- Other debt securities	8,278	26,758	135,119	589,475	72,252
- Term deposits with credit institutions	1,529,722	63,253	22,789	-,	-,
- Loans	662,658	24,177	2,725	282,813	70,710
- Receivables	558,975	87,889	48,853	4,676	-,
- Other	25,090	74,969	90,154	187,419	52,529
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	10,258	930,871	576,511	1,253,265	6,441,014
- Treasury bonds	-	-	25,354	374,974	358,926
- Other debt securities	8,530	-	18,772	10,927	1,482
- Loans and receivables	38	314	638	3,276	193
- Shares listed on a regulated market	1,690	-	-	-	10,485
- Shares not listed on a regulated market	-	-	-	-	30
- Investment fund units	-	930,557	531,747	864,088	4,320,442
- Investment certificates	-	-	-	-	1,749,456
III. Inflows from other assets	14,064	166	750	801	76,421
C. Balance of projected cash flows (A + B)	2,390,918	196,089	164,381	465,356	543,239
D. Balance of accumulated cash flows	2,390,918	2,587,007	2,751,388	3,216,744	3,759,983

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

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance was 2.9 (4.9 in 2013), whereas the duration of technical provisions was 5.8 (5.1 in 2013).

(in PLN '000)

Life insurance

The table below presents the match between cash flows from technical provisions and liabilities under investment contracts with guaranteed and fixed terms and conditions, and the assets associated with them. The table does not present cash flows relating to unit-linked insurance products and investment contracts.

Item	Projected cash flows					
	up to 6 months	**over 6 months and up to 1 year**	**over 1 year and up to 5 years**	**over 5 years and up to 10 years**	**over 10 years and up to 20 years**	**over 20 years**
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	**(838,189)**	**(380,932)**	**(1,252,388)**	**(1,254,326)**	**(3,597,926)**	**(5,630,259)**
I. Outflows	(1,680,214)	(1,196,287)	(6,916,352)	(6,650,475)	(10,396,779)	(9,640,084)
II. Inflows	842,025	815,355	5,663,964	5,396,149	6,798,853	4,009,825
B. Inflows from assets covering technical provisions	1,948,026	2,772,638	6,034,370	7,994,242	3,705,617	5,544,570
I. Future inflows whose value is known as at the end of reporting year	1,891,087	2,768,796	6,015,453	6,356,417	3,705,617	1,777,285
- Treasury bonds	1,108,501	2,411,170	5,528,852	6,255,333	3,705,617	1,777,285
- Other debt securities	8,066	5,710	159,352	13,256	-	-
- Term deposits with credit institutions	677,655	99,639	207,341	-	-	-
- Loans	96,865	252,277	119,908	87,828	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	56,939	3,842	18,917	1,637,825	-	3,767,285
- Treasury bonds	24,868	80	2,021	-	-	-
- Other debt securities	2,195	1,265	7,055	-	-	-
- Deposits with credit institutions	28,215	663	-	-	-	-
- Loans and receivables	1,661	1,834	9,841	2,000	-	-
- Investment fund units	-	-	-	-	-	3,767,285
- Investment certificates	-	-	-	1,635,825	-	-
III. Inflows from other assets	-	-	-	-	-	-
C.Balance of projected cash flows (A + B)	1,109,837	2,391,706	4,781,982	6,739,916	107,691	(85,689)
D. Balance of accumulated cash flows	1,109,837	3,501,543	8,283,525	15,023,441	15,131,132	15,045,443

The forecast of future claims and future net premiums in life insurance takes into account assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance was 4.9 (5.5 in 2013), whereas the duration of technical provisions was 22.4 (21.1 in 2013).

8.6.3. Credit risk and concentration risk

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

Credit risk in PZU Group includes:

- credit spread risk – the sensitivity of the value of assets, liabilities and financial instruments to changes in the level of credit spreads with regard to the time structure instruments issued by the State Treasury or their volatility;
- counterparty default risk - the risk of losses due to a counterparties' and debtors' failure to meet their obligations;

- credit risk in financial insurance – credit risk arising from activity in the financial insurance sector, related primarily to the danger of the client's company, the debtor's or the borrower's failure to meet obligations towards a third party; this risk may result from unsuccessful venture implementation or the economic environment's unfavourable impact.

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

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

- bankruptcy of an issuer of financial instruments (e.g. corporate bonds) in which PZU Group invests, or which it trades, e.g. corporate bonds;
- risk of a contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities;
- risk of a PZU Group client's failure to meet its obligations to a third party, e.g. insurance of monetary receivables, insurance guarantees.

Investment activity

The principles of credit risk management in PZU Group regarding risk arising from investing activities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Credit and concentration risk limits are set by dedicated Committees.

Limits for banks and other issuers of debt securities are determined based on the level of exposure. The exposure limits are regarded with reference to a single entity or capital group (both credit limits and concentration limits). The use of credit and concentration risk limits is being monitored. Exceeding the limit results in obligation to prepare and submit a plan to reduce exposure.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type). Ratings are based on a quantitative and qualitative analysis and provide the basis for determining the limits. The ratings are updated for credit quality monitoring purposes.

Degree of risk exposure

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

Reports presenting assets exposed to credit risk does not include receivables, including insurance receivables. This was due to significant dispersion of the portfolio of assets, resulting in, among others, a significant share of receivables from small enterprises and retail clients who do not have ratings.

(in PLN '000)

Assets exposed to credit risk as at 31 December 2014	Note	AAA	AA	A	BBB	BB	No rating	Assets at the customer's risk	Total
Debt securities	33.1	-	-	33,685,106	2,415,765	310,188	127,229	1,474,900	38,013,188
- held to maturity	33.1	-	-	19,933,317	50,372	-	-	-	19,983,689
- available for sale	33.2	-	-	2,141,329	261,139	-	32,397	-	2,434,865
- measured at fair value	33.3	-	-	10,533,633	326,441	208,738	60,367	1,474,900	12,604,079
- loans and receivables	33.4	-	-	1,076,827	1,777,813	101,450	34,465	-	2,990,555
Bank deposits and repo transactions involving treasury securities	33.4	-	-	7,195,733	1,746,022	-	370,061	82,138	9,393,954
Other loans	33.4	-	-	-	-	256,763	2,053,209	-	2,309,972
Derivative instruments	33.3	574	14,725	516,252	3,073	-	11,779	-	546,403
Reinsurers' share in net outstanding claims provisions	35	-	208,856	174,539	12,175	-	55,372	-	450,942
Reinsurance receivables	34	-	5,308	12,730	491	-	10,153	-	28,682
Assets held for sale		**-**	**-**	**305,937**	**-**	**-**	**-**	**-**	**305,937**
Debt securities	43	-	-	217,852	-	-	-	-	217,852
Bank deposits	43	-	-	88,085	-	-	-	-	88,085
Total assets exposed to credit risk		**574**	**228,889**	**41,890,297**	**4,177,526**	**566,951**	**2,627,803**	**1,557,038**	**51,049,078**

Assets exposed to credit risk as at 31 December 2013	Note	AAA	AA	A	BBB	BB	No rating	Assets at the client's risk	Total
Debt securities		128,757	7,648	31,702,962	1,958,877	720,342	136,832	1,549,805	36,205,223
- held to maturity	33.1	-	-	18,604,202	165,926	12,913	76,861	-	18,859,902
- available for sale	33.2	126,939	-	1,117,344	22,909	243,965	-	-	1,511,157
- measured at fair value	33.3	-	658	11,148,733	566,749	421,680	57,647	1,549,805	13,745,272
- loans and receivables	33.4	1,818	6,990	832,683	1,203,293	41,784	2,324	-	2,088,892
Bank deposits and repo transactions involving treasury securities	33.4	26,854	43,956	4,737,001	4,070,651	1,605,745	25,033	81,111	10,590,351
Other loans	33.4	-	-	-	305,164	95,142	1,321,902	-	1,722,208
Derivative instruments	33.3	22,114	21,834	136,028	40,759	36	39,272	-	260,043
Reinsurers' share in net claim provisions	35	-	125,409	125,504	16,666	-	48,976	-	316,555
Deposits with ceding undertakings	33.4	-	87	-	-	-	-	-	87
Reinsurance receivables	34	-	751	3,938	655	-	13,484	-	18,828
Total		**177,725**	**199,685**	**36,705,433**	**6,392,772**	**2,421,265**	**1,585,499**	**1,630,916**	**49,113,295**

(in PLN '000)

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

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating[1)]
Ratio (%) for 2014	0.74	0.84	1.59	4.33	14.39	26.97
Ratio (%) for 2013	0.76	0.88	1.65	4.59	15.09	27.84

[1)] In the case of exposure to mortgages with no rating, the ratio of 2% was adopted corresponding to the lowest BBB+ investment rating.

The credit risk, to which PZU Group was exposed as at 31 December 2014 amounted to PLN 1,639,172 thousand (PLN 1,708,948 thousand as at 31 December 2013; after applying the coefficients of 31 December 2014, the risk would amount to PLN 1,639,445 thousand).

Risk related to financial insurance (i.a. credit insurance, surety insurance, guarantees)

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

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

A control function in terms of risk monitoring which is independent from the sales function is established at three levels:

- level I – individual level – measurement of risk of financial insurance (i.a. underwriting);
- level II – portfolio level – analysis of changes in the exposure value, level of claims related to the portfolio as well as analysis of concentration and exposure to one entity and capital group. Information about the level of risk in the portfolio is transferred and aggregated in order to monitor the overall exposure of PZU Group;
- level III – relevant committee.

Degree of risk exposure

As at 31 December 2014, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,673 million (PLN 2,410 million as at 31 December 2013).

Reinsurance (from the credit risk perspective of the reinsurer)

PZU Group enters into proportional and non-proportional reinsurance contracts with the objective to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk arising from reinsurers' default on their obligations.

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

(in PLN '000)

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

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2014	Rating assigned by Standard&Poor's as at 31 December 2014
Reinsurer 1	69,490	AA-
Reinsurer 2	50,938	AA-
Reinsurer 3	50,069	A+
Reinsurer 4	46,689	AA-
Reinsurer 5	45,389	AA-
Reinsurer 6	25,556	AA-
Reinsurer 7	20,969	A+
Reinsurer 8	19,689	A+
Reinsurer 9	16,185	BBB+
Reinsurer 10	15,355	no rating
Reinsurer 11	14,803	AA
Reinsurer 12	14,549	A+
Reinsurer 13	14,125	A+
Reinsurer 14	13,603	AA-
Reinsurer 15	12,349	A+
Reinsurer 16	11,126	AA+
Reinsurer 17	10,592	no rating
Reinsurer 18	10,369	AA+
Reinsurer 19	9,736	A
Reinsurer 20	9,183	no rating
Others [1]	292,215	
Total [2]	**772,979**	

[1] "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.
[2] PLN 753,115 thousand was reported in the consolidated statement of financial position in "Reinsurers' share in technical provisions", and PLN 19,864 thousand was reported in 'assets held for sale". Additional information concerning assets held for sale has been presented in 43.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2013	Rating assigned by Standard&Poor's as at 31 December 2013
Reinsurer 1	59,295	AA-
Reinsurer 2	36,135	AA-
Reinsurer 21	35,419	no rating
Reinsurer 6	27,678	AA-
Reinsurer 4	24,579	AA-
Reinsurer 8	18,445	A+
Reinsurer 9	17,141	BBB+
Reinsurer 7	14,669	A+
Reinsurer 22	13,979	no rating
Reinsurer 10	13,465	no rating
Reinsurer 5	13,099	AA-
Reinsurer 13	10,412	A+
Reinsurer 16	9,483	AA+
Reinsurer 23	8,499	no rating
Reinsurer 20	7,223	no rating
Reinsurer 3	6,830	A
Others [1]	210,254	
Total	**526,605**	

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

8.6.4. Operational risk

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

The objective of operational risk management is to optimize the level of operational risk and operating effectiveness in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective control mechanisms. Operational risk management complies with defined guidelines which take into account external conditions and gathered information on the level of operational risk are reported to relevant internal authorities periodically.

8.6.5. Compliance risk

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

Internal regulations impose a division of duties regarding on-going and system management of non-compliance risk.

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

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

9. Capital management

On 26 August 2013 the Management Board and the Supervisory Board adopted the capital policy and dividend policy for PZU Group for the years 2013-2015. Assumptions of the capital policy and dividend policy are presented below.

9.1 Capital policy

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

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

9.2 Dividend policy

On 13 May 2014, the Management Board of PZU decided to update the capital and dividend Policy of PZU Group for the years 2013-2015 ("Policy"). At the same time, the Management Board of PZU decided to file a request to the Supervisory Board of PZU to adopt a resolution to approve the update of the Policy. In accordance with the request, on 13 May 2014, the Supervisory Board of PZU approved the updated Policy with the wording prepared by the Management Board.

Due to the uncertainty existing at the time of adopting the current Policy concerning the profit and loss of PZU Group in 2013, as well as the implementation of acquisition plans, the Policy does not specify the proceedings in a case the safety indicators are met, despite the lack of subordinated debt issue.

Due to the fact that PZU Group's financial results for 2013 were higher than expected and the current and projected safety indicators will be no lower than the ones assumed in the Policy, amendments have been made to the Policy, under which the advance paid on 19 November 2013 towards the dividend expected at the end of the financial year 2013 was considered as part of the payment from the capital surplus.

9.3 External capital requirements

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

In accordance with the Act on Insurance Activity, an insurance company with its registered office on the territory of the Republic Poland is obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital.

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

The principles of calculating own funds to cover the solvency margin are specified in the Insurance Activity Act and the principles for calculation of the required solvency margin and the minimum value of the guarantee capital have been laid down in the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee capital for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060 with subsequent amendments, the "Solvency Margin Ordinance").

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

(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 2014	31 December 2013
PZU equity	**12,328,724**	**12,259,761**
Intangible assets	(283,999)	(244,582)
Value of assets used to finance equity of other insurance companies operating within the insurance capital group of PZU	(6,065,985)	(4,565,872)
Deferred tax assets	(408,388)	(347,521)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**2,411,116**	**2,403,826**
PZU Życie SA 100.00%	2,213,301	2,407,872
Own funds	3,996,487	4,184,609
Required solvency margin	1,783,186	1,776,737
Surplus/shortage of own funds to cover the required solvency margin	2,213,301	2,407,872
Link4 SA 100.00%	55,638	n/a
Own funds	124,938	n/a
Required solvency margin	69,300	n/a
Surplus/shortage of own funds to cover the required solvency margin	55,638	n/a
Lietuvos Draudimas AB 99.98%	127,853	n/a
Own funds	214,515	n/a
Required solvency margin	86,636	n/a
Surplus/shortage of own funds to cover the required solvency margin	127,879	n/a
AAS Balta 99.99%	22,216	n/a
Own funds	62,207	n/a
Required solvency margin	39,989	n/a
Surplus/shortage of own funds to cover the required solvency marginrequired solvency margin	22,218	n/a
UAB DK PZU Lietuva 99.88% (31 December 2013: 99.76%)	4,692	7,931
Own funds	76,220	48,438
Required solvency margin	71,522	40,488
Surplus/shortage of own funds to cover the required solvency margin	4,698	7,950
UAB PZU Lietuva Gyvybes Draudimas 99.34%	5,696	6,608
Own funds	21,504	21,996
Required solvency margin	15,770	15,344
Surplus/shortage of own funds to cover the required solvency margin	5,734	6,652
PrJSC PZU Ukraine 100.00%	(12,314)	(13,094)
Own funds	5,199	10,554
Required solvency margin	17,513	23,648
Surplus/shortage of own funds to cover the required solvency margin	(12,314)	(13,094)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(5,966)	(5,491)
Own funds	9,437	9,557
Required solvency margin	15,403	15,048
Surplus/shortage of own funds to cover the required solvency margin	(5,966)	(5,491)
Own funds of PZU	**7,981,468**	**9,505,612**
Required solvency margin of PZU	1,362,353	1,362,353
Guarantee capital of PZU	454,118	454,118
Surplus of own funds to cover the required solvency margin	**6,619,115**	**8,143,259**
Surplus of own funds to cover the guarantee capital	**7,527,350**	**9,051,494**

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt securities

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

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

10.1.2. Equity assets

Fair value of equity assets is determined based on quotations available to the public on an active market.

Fair values of participation units and investment certificates in investment funds are specified as per the values of the participation units and investment certificates in investment funds published by the investment fund companies. The valuation reflects the PZU Group's share in net assets of these funds.

10.1.3. Derivatives

For derivatives traded on an active market, fair value shall be the closing price on the trading date.

The fair value of derivatives not quoted on an active market including forwards and interest rate swaps (IRS) is determined using the discounted cash flows and the information used in the measurement of the instruments comes from the money market. Interest rate yield curves associated with a particular type of financial instrument and currency, constructed on the basis of available market data are used to discount cash flows.

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

10.1.4. Property measured at fair value

Depending on the characteristics of a given real property its fair value is measured using the comparable, income or residual method.

With the comparable method available development land and some smaller and less valuable buildings are measured (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by a reference to the observable market prices, including adjustment ratios. The adjustment ratios take such factors into account as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighbourhood (including location against attractive facilities), investment opportunities, physical conditions, ownership etc.

The income method consists in estimating the fair value of real property based on discounted cash flows. The calculation takes into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city centre, availability, exposure etc.) as well as local market parameters (such as the capitalisation rate, rental fee, maintenance costs). The residual method is used to determine the market value if the real property is to undergo construction work. The fair value of the real property is defined as the difference in value of the real property after the execution of construction works and average values of the cost of these works, including the revenues attained by similar properties on the market.

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

Investment property is measured in accordance with the following rules:

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

10.1.5. Liabilities due to unit-linked investment contracts

Liabilities due to unit-linked investment contracts are measured in accordance with fair value of the assets which cover liabilities of a capital fund associated with a given investment contract.

10.1.6. Liabilities to participants in the consolidated investment funds

Liabilities to participants of consolidated investment funds are measured at the fair value of the assets of the investment fund (based on the share in the net assets of the investment fund).

10.2 Fair value hierarchy

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

- Level I – Financial assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
  - listed liquid debt instruments;
  - listed shares;
  - listed derivatives.
- Level II – assets and liabilities measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market. The level includes:
  - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);
  - derivatives other than listed ones;
  - investment fund units;
  - investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
  - liabilities to participants in consolidated investment funds;
  - unit-linked investment contracts.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes investment property or property held for sale, measured using the income method or the residual method.

(in PLN '000)

In a situation where input data classified into different levels of fair value hierarchy is used for measurement of asset or liability elements, the measured component is attributed to the lowest level, from which the input data originate, which have a significant impact on the overall measurement.

Assets and liabilities measured at fair value as at 31 December 2014	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	2,523,930	458,234	-	2,982,164
Equity instruments	357,732	189,567	-	547,299
Debt securities	2,166,198	268,667	-	2,434,865
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	12,503,393	67,744	-	12,571,137
Equity instruments	1,444,157	38,440	-	1,482,597
Debt securities	11,059,236	29,304	-	11,088,540
Financial instruments measured at fair value through profit or loss – held for trading	2,990,261	3,535,086	-	6,525,347
Equity instruments	1,572,464	2,890,941	-	4,463,405
Debt securities	1,415,953	99,586	-	1,515,539
Derivatives	1,844	544,559	-	546,403
Investment property	-	161,092	2,074,970	2,236,062
Assets held for sale [1]	-	69,259	60,001	129,260
Liabilities				
Derivatives	19,032	606,812	-	625,844
Liabilities to participants of consolidated investment funds	-	856,865	-	856,865
Unit linked investment contracts	-	587,267	-	587,267

1) Additional information concerning assets held for sale has been presented in Note 43.

Assets and liabilities measured at fair value as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	1,637,420	279,564	-	1,916,984
Equity instruments	370,228	35,599	-	405,827
Debt securities	1,267,192	243,965	-	1,511,157
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10,963,791	25,088	-	10,988,879
Equity instruments	791,919	25,088	-	817,007
Debt securities	10,171,872	-	-	10,171,872
Financial instruments measured at fair value through profit or loss – held for trading	5,976,711	2,938,586	-	8,915,297
Equity instruments	2,528,806	2,553,048	-	5,081,854
Debt securities	3,442,825	130,575	-	3,573,400
Derivatives	5,080	254,963	-	260,043
Investment property	-	162,441	1,312,329	1,474,770
Assets held for sale [1]	-	38,568	51,435	90,003
Liabilities				
Derivatives	1,169	236,580	-	237,749
Liabilities to participants in the consolidated investment funds	-	688,282	-	688,282
Unit linked investment contracts	-	870,545	-	870,545

1) Additional information concerning assets held for sale has been presented in 43.

Level III investment property	31 December 2014	31 December 2013
Office property	929,977	888,458
Commercial property	230,270	214,440
Warehouse property	891,690	183,790
Other	23,033	25,641
Level III investment property, total	**2,074,970**	**1,312,329**

[1] Additional information concerning assets held for sale has been presented in 43.

(in PLN '000)

Assets and liabilities whose fair value is disclosed as at 31 December 2014	Level I	Level II	Level III	Total
Assets				
Financial instruments held to maturity	20,443,747	3,080,645	-	23,524,392
Entities measured using the equity method - EMC	52,737	-	-	52,737
Liabilities				
Liabilities arising from issue of debt securities	-	2,180,294	-	2,180,294
Investment contracts with guaranteed and fixed terms and conditions	-	520,383	-	520,383

Assets and liabilities whose fair value is revealed as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments held to maturity	19,668,604	128,135	-	19,796,739
Entities measured using the equity method - EMC	47,954	-	-	47,954
Liabilities				
Investment contracts with guaranteed and fixed terms and conditions	-	1,253,256	-	1,253,256

10.3 Reclassifications between levels of fair value hierarchy

In the event of a change in the method of measuring assets or liabilities, arising e.g. from losing (or gaining) the availability of quotations observed in an active market, such assets or liabilities are transferred between Levels I and II.

Both in 2014 and 2013 there were no significant transfers between Levels I and II.

Elements of assets or liabilities are transferred between Levels II and III (respectively between Levels III and II) when:

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

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

Transfers between levels of the fair value hierarchy are made at the end of each financial year, according to the value at that date.

(in PLN '000)

10.4 Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy

Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy	1 January 2014 - 31 December 2014		1 January 2013 - 31 December 2013	
	Investment property	Assets held for sale	Investment property	Assets held for sale
Opening balance	1,312,329	51,435	451,607	4,461
Acquisition	667,058	-	65,560	-
Reclassification from own property	33,964	789	24,767	21,943
Reclassification from investment property	-	10,786	-	62,313
Profits or losses disclosed in profit or loss as:	76,391	(1,358)	(92,546)	(37,282)
- net profit/loss on realisation and impairment loss on investments	(693)	359	4,430	-
- net change in the fair value of assets and liabilities measured at fair value	77,084	(1,717)	(96,976)	(37,282)
Profits or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	8,725	-	6,308	-
Reclassification to own property	-	-	(24,153)	-
Reclassification to assets held for sale	(10,786)	-	(62,313)	-
Disposal	(15,307)	(1,651)	(9,561)	-
Reclassification to Level II	-	-	(118,214)	-
Change in group composition	3,481	-	1,070,945	-
Exchange differences	(885)	-	(71)	-
Closing balance	**2,074,970**	**60,001**	**1,312,329**	**51,435**

Property classified to Level III of the fair value

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
1.	Office complex, Wrocław	276,220	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 14.50 - 15.50
				Capitalisation rate	1)
2.	Warehouse and office building, Łódź	220,990	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 7.50 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.60 - 3.60
				Capitalisation rate	1)
3.	Office complex, Gdańsk	168,910	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 12.00 - 16.00
				Capitalisation rate	1)
4.	Office building, Warsaw	156,000	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 (office space)	EUR 12.00 - 15.00
				Monthly rental rate per one parking spot (parking lot)	EUR 70.00 - 150.00
				Capitalisation rate	1)
5.	Office building, Warsaw	140,240	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 7.98 - 22.00
				Monthly rental rate per one parking spot (parking lot)	EUR 23.46 - 150.00
				Capitalisation rate	1)
6.	Warehouses, Czeladź	129,500	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 8.00 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 3.00 - 4.40
				Capitalisation rate	1)
7.	Warehouse and office building, Nowa Wieś Wrocławska	124,370	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 8.00 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.40 - 4.20
				Capitalisation rate	1)
8.	Office building, Warsaw	115,330	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space)	EUR 11.50 - 14.50
				Monthly rental rate per one parking spot (parking lot)	EUR 55.00 - 85.00
				Capitalisation rate	1)

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
9.	Warehouse and office building (under construction), Komorniki	101,190	Mixed approach with the use of the residual method	Monthly rental rate per 1 m^2 (office space)	EUR 8.50 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.30 - 4.00
				Capitalisation rate	1)
				Construction costs	2)
10.	Shopping centre, Pabianice	97,250	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented	3)
				Capitalisation rate	1)
11.	Warehouse and office building, Bielany Wrocławskie	88,830	The income approach for the part of the property constituting Hall A and mixed approach using the residual method for the part of property allocated for the construction of Hall B	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 8.00 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.40 - 4.20
				Capitalisation rate	1)
				Construction costs	4)
12.	Warehouse and office building, Gdańsk	85,070	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 8.00 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.60 - 3,.60 5)
				Capitalisation rate	1)
13.	Retail park, Iława	69,100	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented	3)
				Capitalisation rate	1)
14.	Warehouse and office building, Łódź	62,780	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 7.50 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.60 - 3.60
				Capitalisation rate	1)
15.	Warehouse and office building, Nowa Wieś Wrocławska	60,050	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 8.00 - 9.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.40 - 4.20
				Capitalisation rate	1)
16.	Warehouse and office building, Błonie	44,180	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 (office space) in warehouse parks	EUR 7.00 - 8.00
				Monthly rental rate per 1 m^2 (warehouse space)	EUR 2.10 - 3.00
				Capitalisation rate	1)
17.	Retail building, Nowy Targ	39,040	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented	3)
				Capitalisation rate	1)

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
18.	Retail park, Lublin	38,650	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented	3)
				Capitalisation rate	1)
19.	Other	57,270	n/a	n/a	n/a
	Total	**2,074,970**			

[1)] the capitalisation rate was determined based on the base rate determined for the selected market transaction (the choice depends on the location and nature of the property which is being measured) and the base rate adjustments resulting from the following factors which characterising the property: general location, immediate neighbourhood, specification of the building, the characteristics of the building, the rent condition, the remaining duration of lease contracts, the transaction value, turnover, average rents, the age and type of building, distance from communication routes.

[2)] the value of construction costs was determined based on the investment budget.

[3)] the market rent for the property was determined based on a market analysis of retail space in similarly located buildings with similar characteristics to the property which is being measured, in particular is was based on rental rates in contracts signed for the shopping centre in question.

[4)] the value of construction costs was determined based on market cost of building construction.

[5)] the market rent was determined based on rates included in recently concluded contracts for the park.

[6)] the value of construction costs was determined based on market cost of office building construction minus costs incurred as at the measurement date.

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

(in PLN '000)

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

In 2014 and 2013 there were no changes introduced to method of determining fair value of financial instruments measured at fair value, the value of which is significant from the consolidated financial statements perspective.

10.6 The highest and best use of a non-financial asset vs. its current use

As at 31 December 2014 and 31 December 2013, the actual use of one item of investment property (carrying amount of PLN 2,822 thousand) was not the most extensive and best use. However, the carrying amount measurement assumes its most extensive and best use.

The estate is a land with a structure that requires demolition and an optimal use is to bulid new facilities.

11. Gross written premiums

Gross written premiums	1 January – 31 December 2014	1 January – 31 December 2013
Gross written premium – non-life insurance	8,999,205	8,656,694
In direct insurance	8,905,802	8,601,894
In indirect insurance	93,403	54,800
Gross written premium – life insurance	7,885,434	7,823,309
Individual premiums	3,256,968	3,303,824
Group insurance premiums	4,628,466	4,519,485
Total gross written premiums	**16,884,639**	**16,480,003**

In 2014 and 2013, the life insurance entities did not engage in reinsurance inwards.

Gross written premiums in direct property and casualty insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January – 31 December 2014	1 January – 31 December 2013
Accident and sickness insurance (group 1 and 2)	527,989	506,773
Motor third-party liability insurance (group 10)	2,899,442	2,939,441
Other motor insurance (group 3)	2,209,647	2,127,195
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	77,015	58,338
Insurance against fire and other damage to property (groups 8, 9)	2,043,689	1,969,678
Third-party liability insurance (groups 11, 12, 13)	798,498	705,364
Credit insurance and surety ship (groups 14, 15)	97,884	49,255
Assistance (group 18)	248,180	214,657
Legal protection (group 17)	877	848
Other (group 16)	95,984	85,145
Total	**8,999,205**	**8,656,694**

(in PLN '000)

12. Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 December 2014	1 January – 31 December 2013
Pension contracts	**270,565**	**217,189**
Commission on handling fees	19,871	48,664
Asset management fee for open pension fund	112,100	168,525
Other	138,594 [1)]	-
Investment contracts	**12,282**	**18,808**
Fees from unit-linked investment contract	12,282	18,808
Other	**67,917**	**63,172**
Revenue and payments received from funds and investment fund management companies	67,917	63,172
Total revenue from commissions and fees	**350,764**	**299,169**

[1)] including PLN 132,267 thousand due to liquidation of the additional part of the OPF PZU Guarantee Fund.

13. Net investment income

Net investment income	1 January – 31 December 2014	1 January – 31 December 2013
Interest income, including:	1,480,543	1,697,218
- financial assets available for sale	55,849	58,219
- financial assets held to maturity	961,401	1,156,453
- loans and receivables	439,660	478,130
- receivables, including insurance receivables	484	-
- cash and cash equivalents	23,149	4,416
Dividend income, including:	88,121	127,421
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	63,903	5,742
- financial assets held for trading	18,059	74,899
- financial assets available for sale	6,159	46,780
Income from investment property	137,428	120,328
Exchange differences, including:	147,510	5,695
- financial assets held to maturity	1,957	1,512
- financial assets available for sale	8,421	(503)
- loans and receivables	81,952	6,489
- receivables, including insurance receivables	21,210	(1,128)
- cash and cash equivalents	33,970	(675)
Other, including:	(59,764)	(84,012)
- costs of investment activities	(24,512)	(42,553)
- investment property maintenance costs	(61,209)	(61,423)
- other	25,957	19,964
Total net investment income	**1,793,838**	**1,866,650**

(in PLN '000)

14. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	1 January – 31 December 2014	1 January – 31 December 2013
Net result on realizationof investments	**380,284**	**89,329**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	317,227	117,530
- equity instruments	56,405	126,369
- debt instruments	260,822	(8,839)
Financial assets held for trading, including:	97,886	21,011
- equity instruments	(36,469)	75,790
- debt instruments	34,251	(41,517)
- derivatives	100,104	(13,262)
Financial assets available for sale, including:	21,071	30,685
- equity instruments	633	12,104
- debt instruments	20,438	18,581
Financial assets held to maturity, including:	1,371	6,440
- debt instruments held to maturity	1,371	6,440
Loans and receivables	(368)	(33)
Receivables, including insurance receivables	(56,733)	(98,997)
Investment property	(170)	4,430
Associates accounted for using the equity method [1)]	-	8,263
Impairment losses	**46,863**	**(46,782)**
Financial assets available for sale, including:	(3,945)	(110)
- equity instruments	(3,945)	(110)
Loans and receivables	(10,242)	-
Receivables, including insurance receivables	61,050 [2)]	(46,672)
Net result on realization and impairment losses on investments	**427,147**	**42,547**

[1)] Result on disposal of KGJK
[2)] including reversal of receivables impairment losses in the amount of PLN 26,275 thousand due to a mortgage to Metro-Projekt Sp. z o.o. described in point 56.6.

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

Net change in the fair value of assets and liabilities measured at fair value	1 January – 31 December 2014	1 January – 31 December 2013
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	413,373	145,650
- equity instruments	(160,394)	43,881
- debt instruments	615,929	154,150
- valuation of liabilities to participant of consolidated investment fund	(42,162)	(52,381)
Financial instruments held for trading, including:	22,945	386,196
- equity instruments	42,707	221,241
- debt instruments	83,448	142,760
- derivatives	(103,210)	22,195
Investment property	76,215	(99,206)
Result onconsolidation of investment funds, including:	-	172,718
- amount reclassified from the "Revaluation reserve" to the consolidated profit or loss upon consolidation date	-	184,535
- amount resulting from consolidation of special purpose entities, controlled by consolidated investment funds	-	(11,817)
Net change in the fair value of assets and liabilities measured to fair value	**512,533**	**605,358**

(in PLN '000)

16. Other operating income

Other operating income	1 January – 31 December 2014	1 January – 31 December 2013
Release of provisions for future and existing pensioners benefits	30,966	-
Commission on claims representative services	7,162	7,772
Release of provisions	34,773 [1)]	19,347 [2)]
Released impairment losses on non-financial assets	8,098	14,688
Sale of property, plant and equipment and property, plant and equipment under construction	2,252	3,645
Reinsurers' commissions and share in reinsurers' profit	(6,613)	76,856
Release of provision for restructuring expenses	-	18,626
Revenues from sale of products, goods, and services by non-insurance companies	295,222	262,131
Change in the scope of consolidation and equity method valuation	-	35,392
Revenues from direct claims handling regarding policies concluded with other insurance companies	69,381	-
Interest from overdue receivables in direct insurance and outward reinsurance	35,434	17,264
Other	60,958	29,500
Total other operating income	**537,633**	**485,221**

[1)] The item presents, among others, the effect of reversal of the provision for the costs of closing the IT GraphTalk project (PLN 28,785 thousand).
[2)] The item presents, among others, the effect of reversal of the provision for the Office of Competition and Consumer Protection (PLN 13,148 thousand).

17. Claims, benefits and change in technical provisions

Claims, benefits and change in technical provisions	1 January – 31 December 2014	1 January – 31 December 2013
Claims, benefits and change in technical provisions – non-life insurance	5,866,427	5,250,037
Reinsurers' share in claims, benefits and change in technical provisions – non-life insurance	(191,284)	(33,889)
Claims, benefits and change in technical provisions - life insurance	5,866,801	5,945,240
Reinsurers' share in claims, benefits and change in technical provisions - life insurance	(236)	(164)
Total claims, benefits and change in technical provisions	**11,541,708**	**11,161,224**

17.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Gross claims and change in provisions in non-life insurance	**5,866,427**	**5,250,037**
Claims and claims handling expenses for the current period	3,154,034	2,876,867
Claims and claims handling expenses for previous periods	1,669,781	1,601,198
Change in provision for outstanding claims	1,042,612	771,972
Reinsurers' share in claims and change in provisions in non-life insurance	**(191,284)**	**(33,889)**
Claims and claims handling expenses for the current period	(18,718)	(9,973)
Claims and claims handling expenses for previous periods	(67,478)	(266,072)
Change in provision for outstanding claims	(105,088)	242,156
Net claims and change in provisions in non-life insurance	**5,675,143**	**5,216,148**
Claims and claims handling expenses for the current period	3,135,316	2,866,894
Claims and claims handling expenses for previous periods	1,602,303	1,335,126
Change in provision for outstanding claims	937,524	1,014,128

(in PLN '000)

17.2 Life insurance

Benefits in life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Resulting from maturity	497,470	368,811
Resulting from benefits paid as a result of death	2,708,948	2,754,574
Resulting from morbidity	609,461	608,914
Resulting from resignation from the insurance contract	265,425	252,719
Resulting from disability and entitlement to a disability pension	4,889	5,135
Resulting from annuity benefits	41,657	41,517
Resulting from childbirth	322,564	306,859
Resulting from hospital treatment	300,846	288,703
Resulting from a refund of accumulated cash and transfer payments	281,834	141,703
Other	121,195	146,889
Total benefits in life insurance	**5,154,289**	**4,915,824**

17.3 Claims handling expenses

Claims handling expenses, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	16,722	18,766
External services	189,921	185,488
Taxes and charges	20,037	15,330
Employee expenses	295,472	297,618
Depreciation of property, plant and equipment	11,820	13,603
Amortization of intangible assets	18,650	12,904
Other, including:	119,981	86,582
- awarded costs, penal interest and penalties awarded in cases over claims	110,184	77,608
- other	9,797	8,974
Total claims handling expenses	**672,603**	**630,291**

18. Change in measurement of investment contracts

Change in measurement of investment contracts	1 January – 31 December 2014	1 January – 31 December 2013
Resulting from investment contracts with guaranteed and fixed terms and conditions:	16,609	43,536
- interest expense calculated using the effective interest rate method	16,609	43,536
Resulting from unit-linked investment contracts	(2,578)	34,179
Total change in measurement of investment contracts, total	**14,031**	**77,715**

(in PLN '000)

19. Acquisition costs

Acquisition costs, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	28,754	31,058
External services	87,212	86,743
Taxes and charges	5,791	5,712
Employee expenses	406,247	371,888
Depreciation of property, plant and equipment	13,432	13,726
Amortization of intangible assets	19,111	12,284
Other, including:	1,701,745	1,527,023
- commissions from direct activity	1,644,032	1,464,182
- advertisement	43,576	51,854
- commissions from indirect activity	6,543	5,218
- other	7,594	5,769
Change in deferred acquisition expenses	(115,268)	(32,496)
Total acquisition expenses	**2,147,024**	**2,015,938**

20. Administrative expenses

Administrative expenses, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	36,708	44,763
External services	233,534	202,192
Taxes and charges	51,335	37,137
Employee expenses	775,232	715,242
Depreciation of property, plant and equipment	50,869	44,223
Amortization of intangible assets	38,365	33,819
Remuneration of people handling group insurance with companies	209,376	208,165
Other (by type), including:	132,280	120,939
- advertisement	88,941	77,633
- other	43,339	43,306
Total administrative expenses	**1,527,699**	**1,406,480**

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

21. Employee expenses

Employee expenses	1 January – 31 December 2014	1 January – 31 December 2013
Wages and salaries	1,247,136	1,138,055
Defined contributions plans, including:	262,903	249,252
- overheads	199,746	189,517
- third pillar pension plans, including costs of premiums to PPE incurred in the period	63,157	59,735
Other	76,673	69,741
Total employee expenses	**1,586,712**	**1,457,048**

As at 31 December 2013, PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, considered defined contribution plans. Due to these plans, the employer paid additional 7% of the gross salary.

Employee expenses are disclosed under "Claims, benefits and change in technical provisions", "Acquisition costs", "Administrative expenses" and "Other operating expenses" of consolidated statement of profit or loss.

(in PLN '000)

22. Other operating expenses

Other operating expenses	1 January – 31 December 2014	1 January – 31 December 2013
Costs of core business of non-insurance companies	307,172	270,895
Amortization of intangible assets acquired in company takeover transactions	87,795	-
Costs from direct claims handling regarding claims on policies concluded with other insurance companies	73,051	-
Expenses due to prevention activities	68,234	40,752
Compulsory payments to the insurance market authorities	58,744	51,046
Insurance Guarantee Fund	35,872	36,703
Creation of provisions	33,365	9,036
Donations [1)]	31,508	35,467
National Headquarters of the State Fire Service and Volunteer Fire Service Association	28,869	30,215
Rechargeable expenses	12,313	7,429
Impairment of non-financial assets	5,106	54,039
Costs of acquisition for investment fund management companies	2,301	1,850
Net value of property, plant and equipment and property, plant and equipment under construction sold	1,883	897
Change in the scope of consolidation	-	35,134
Other	161,527	132,136
Total other operating expenses	**907,740**	**705,599**

[1)] Including donations to PZU Foundation in the amount of PLN 30,000 thousand (in 2013: PLN 32,000 thousand).

23. Borrowing costs

Borrowing costs	1 January – 31 December 2014	1 January – 31 December 2013
Interest, including:	130,676	60,663
- loans	32	744
- sell buy-back transactions	105,975	44,474
- own debt instruments	15,676	-
- bank loans	8,908	14,453
- other	85	992
Other, including:	89,189	1,001
- exchange differences on own debt instruments	79,171	-
- exchange differences	9,218	557
- other	800	444
Total borrowing costs	**219,865**	**61,664**

24. Exchange differences

Exchange differences recognized in the consolidated statement of profit or loss	1 January – 31 December 2014	1 January – 31 December 2013
Financial assets:	92,330	7,498
- financial assets held to maturity	1,957	1,512
- financial assets available for sale	8,421	(503)
- loans and receivables	81,952	6,489
Receivables, including insurance receivables	21,210	(1,128)
Cash and cash equivalents	33,970	(675)
Liabilities arising from the issue of own debt instruments	(79,171)	-
Other liabilities	33	4
Total exchange differences recognized in the consolidated statement of profit or loss	**68,372**	**5,699**

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

(in PLN '000)

25. Earnings per share

Earnings per share	1 January – 31 December 2014	1 January – 31 December 2013
Net profit from continued operations attributable to equity holders of the parent entity	2,967,731	3,293,496
Basic and diluted weighted average number of ordinary shares in issue	86,351,949	86,351,949
Number of shares issued	86,352,300	86,352,300
Number of treasury shares (held by consolidated investment funds)	(351)	(351)
Basic and diluted profit (loss) per ordinary share (in PLN)	34,37	38,14

No operations were discontinued in both 2014 and 2013.

There were neither transactions, nor events resulting in the dilution of profit per one share in both 2014 and 2013.

26. Income tax

Income tax	1 January – 31 December 2014	1 January – 31 December 2013
Gross profit (consolidated)	3,691,693	4,120,498
CIT rate (or range of rates) for the country of the registered office of the parent entity (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country for the registered office of the parent entity	701,422	782,895
Differences between the income tax calculated above and the income tax recognized in the statement of profit or loss:	22,644	42,648
- tax losses	1,474	(874)
- fines, contractual penalties	1,370	1,678
- dividends	(3,182)	(4,025)
- valuation of financial assets	(13,018)	(17,359)
- valuation of investment property	5,365	-
- created/reversed impairment losses on receivables not classified as tax deductible expenses	(3,731)	4,137
- other created/reversed provisions and impairment losses on other assets not classified as tax deductible expenses	18,865	51,401
- unrealized profits and losses on outward reinsurance	-	(4,033)
- tax on insurance activities in Ukraine	4,015	4,585
- depreciation	(524)	448
- other tax increases, cancellations, exemptions, deductions and reductions	12,010	6,690
Income tax recognized in the statement of profit or loss	**724,066**	**825,543**

Total current and deferred tax	1 January – 31 December 2014	1 January – 31 December 2013
1. Recognized in the statement of profit or loss, including:	**724,066**	**825,543**
- current portion	673,506	885,776
- deferred tax	50,560	(60,233)
2. Recognized in other comprehensive income, including:	**3,383**	**(39,581)**
- current portion	-	-
- deferred tax	3,383	(39,581)

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

(in PLN '000)

On 25 September 2014, a new Tax Capital Group ("TCG") agreement was signed between the PZU Group entities, comprising 13 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU AM SA, TFI PZU SA, PZU Zdrowie SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The TCG was formed for a period of 3 years from 1 January 2015 to 31 December 2017.

PZU is the parent entity and the company representing the TCG in the above-mentioned agreement. In accordance with paragraph 25 clause 1 of the CIT Act, the TCG conducts settlements with the Tax Office on a monthly basis. PZU makes advance payments of corporate income tax to the Tax Office, which are due from all the companies belonging to the TCG and the said companies transfer the CIT advances related to their business activities to PZU.

27. Income tax presented in other comprehensive income

Income tax relating to components of other comprehensive income	1 January – 31 December 2014	1 January – 31 December 2013
Other comprehensive income before tax	20,576	(144,064)
Income tax	(3,383)	39,581
Financial assets available for sale	(1,743)	42,766
Provisions for retirement and death benefits	1,526	-
Property reclassified from property, plant and equipment to investment property	(3,166)	(3,185)
Other comprehensive income, net	**17,193**	**(104,483)**

(in PLN '000)

28. Intangible assets

Changes in intangible assets (by group) in the year ended 31 December 2014

	Costs of completed development works	Acquired concession, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	-	764,179	649,709	185,704	1,961	951,844
Increases (due to):	50,355	201,713	187,219	132,885	539,393	924,346
- purchase	469	9,682	8,409	129,640	128	139,919
- change in group composition	49,798	76,031	67,273	2,072	539,265 [1)]	667,166
- reclassification from intangible assets under construction	88	115,898	111,435	-	-	115,986
- other	-	102	102	1,173	-	1,275
Decreases (due to):	-	(22,601)	(18,911)	(130,753)	(585)	(153,939)
- liquidation	-	(7,739)	(4,049)	(13,301)	-	(21,040)
- transfer to a category of assets designated for sale in accordance with IFRS 5[2)]	-	(14,853)	(14,853)	(70)	(485)	(15,408)
- reclassification from intangible assets under construction	-	-	-	(115,986)	-	(115,986)
- other	-	(9)	(9)	(1,396)	(100)	(1,505)
Exchange differences	878	(343)	(425)	15	6,953	7,503
Gross value of intangible assets – closing balance	**51,233**	**942,948**	**817,592**	**187,851**	**547,722**	**1,729,754**
Accumulated depreciation – opening balance	-	(476,148)	(398,033)	-	(836)	(476,984)
Changes (due to):	(30,731)	(100,293)	(94,385)	(81)	(91,784)	(222,889)
- amortization for the period	(1,136)	(76,049)	(73,162)	-	(87,853)	(165,038)
- liquidation	-	7,283	3,590	-	-	7,283
- change in group composition	(29,068)	(42,412)	(35,789)	(80)	(2,877)	(74,437)
- transfer to a category of assets designated for sale in accordance with IFRS 5 [2)]	-	10,745	10,745	-	-	10,745
- exchange differences	(527)	249	360	(1)	(1,154)	(1,433)
- other	-	(109)	(129)	-	100	(9)
Accumulated amortization – closing balance	**(30,731)**	**(576,441)**	**(492,418)**	**(81)**	**(92,620)**	**(699,873)**
Impairment losses – opening balance	-	(34,165)	-	(131,969)	-	(166,134)
Other operating expenses - changes	-	(301)	(301)	(121)	-	(422)
Other changes:	-	(7,801)	(7,801)	13,168	-	5,367
- change in group composition	-	(8,075)	(8,075)	-	-	(8,075)
- other	-	274	274	13,168	-	13,442
Impairment losses – closing balance	**-**	**(42,267)**	**(8,102)**	**(118,922)**	**-**	**(161,189)**
Net value of intangible assets – closing balance	**20,502**	**324,240**	**317,072**	**68,848**	**455,102**	**868,692**

[1)] including assets acquired in company takeover transactions (customer relations, relations with brokers, future profits from concluded insurance contracts) amounting to PLN 536,387 thousand.

[2)] this item presents the transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in Note 59.9.1. The decrease in assets were converted with an average exchange rate disclosed in Note 5.3.

The item "Impairment losses" indicate losses for total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand (PLN 116,309 thousand as at 31 December 2013); and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand (PLN 34,165 thousand as at 31 December 2013).

(in PLN '000)

Intangible assets with indefinite period of use (trademarks with a total value of PLN 169,344 thousand) were tested for impairment, including goodwill. Detailed information concerning those tests has been presented in Note 29.

Changes in intangible assets (by group) in the year ended 31 December 2013

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

Amortization of intangible assets by position in the consolidated statement of profit or loss	**1 January – 31 December 2014**	**1 January – 31 December 2013**
Insurance claims and change in technical provisions	18,650	12,904
Change in measurement of investment contracts	1	2
Acquisition costs	19,111	12,284
Administrative expenses	38,365	33,819
Other operating expenses	88,830 [1)]	1,355
Costs of investment activities	81	79
Total depreciation	**165,038**	**60,443**

[1)] Including amortization of intangible assets acquired in company takeover transactions amounting to PLN 87,795 thousand

(in PLN '000)

29. Goodwill

Goodwill	31 December 2014	31 December 2013
Lietuvos Draudimas AB	360,018	-
Link4	236,813	-
Codan Branch	112,319	-
AAS Balta	38,258	-
Health care companies	29,580	-
Other	8,675	8,519
Goodwill, total	**785,663**	**8,519**

Changes in goodwill	1 January – 31 December 2014	1 January – 31 December 2013
Gross value of goodwill – opening balance	20,123	20,451
Changes in the period:	772,572	(328)
- acquisition of Lietuvos Draudimas AB	357,119	-
- acquisition of Link4	236,813	-
- acquisition of Codan Branch	110,399	-
- acquisition of AAS Balta	37,348	-
- acquisition of other entities	29,651	-
- exchange differences	1,242	(328)
Gross value of goodwill – closing balance	792,695	20,123
Impairment losses – opening balance	(11,604)	(11,977)
Changes in impairment losses due to exchange differences	4,572	373
Impairment losses – closing balance	(7,032)	(11,604)
Net value of goodwill – closing balance	**785,663**	**8,519**

Impairment test

Impairment test is the comparison of carrying amounts (including goodwill) and recoverable amounts of CGUs. CGUs are particular entities or their foreign branches which are subject to separate internal monitoring. An impairment test regarding goodwill and intangible assets with indefinite period of use was prepared as at 31 December 2014.

The recoverable amount of PZU Lietuva was determined based on the selling price less the costs to sell (EUR 54,000 thousand; additional information on the sale is presented in Note 59.9.1). The recoverable amount of other CGUs was determined based on value in use, using the discounted cash flow method based on financial projections not exceeding 5 years. The adopted discount rates have been determined in accordance with the CAPM model. Risk-free rates have been determined based on the yield of 10-year government bonds offered by the country where the CGU has it registered seat; the beta ratio has been based on ratios of similar listed entities. Market premiums range between 5.5 and 6.0%. In the case of insurance companies, the projected cash flows include the need to maintain an adequate level of own funds (for branches that do not manage investments, assets under management at the level of the PZU were allocated pro forma). Terminal growth rates were adopted depending on the assumed long-term development prospects and the expected growth of the insurance market.

CGU	Discount rate	Terminal growth rate
Lietuvos Draudimas AB	6.6%	3.7%
AAS Balta	6.3%	3.8%
Codan branch	5.5%	3.5%
Link4	7.8%	2.5%
Health care companies	7.2%	3.0%

As a result of the test, there was no reason for impairment losses recognition. The table below shows the surplus of the recoverable amounts over the carrying amounts and the maximum discount rates and minimum terminal growth rate, at the level of which the carrying amount of a CGU equals its recoverable amount.

CGU	Surplus (in PLN '000)	Marginal value of discount rate	Marginal value of terminal growth rate
Lietuvos Draudimas AB	676,160	8.9%	0.9%
AAS Balta	602,798	13.7%	-7.7%
Codan branch	442,738	12.9%	-7.2%
Link4	220,411	9.7%	-0.7%
Health care companies	18,555	9.2% - 9.3%	0.1% - 0.5%

(in PLN '000)

30. Tangible assets

Changes in tangible assets (by group) in the year ended 31 December 2014

	Technical equipment and machines	Vehicles	Tangible assets under construction	Real Property [1]	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	582,604	116,418	22,954	1,081,035	139,549	1,942,560
Increases (due to):	64,174	53,269	66,747	132,354	54,759	371,303
- purchase	26,217	12,920	54,498	8,162	9,018	110,815
- change in group composition	27,563	15,782	730	105,199	39,899	189,173
- reclassification from investment property	-	-	-	15,419	-	15,419
- reclassification from tangible assets under construction	9,875	21,827	-	3,574	5,693	40,969
- other	519	2,740	11,519	-	149	14,927
Decreases (due to):	(108,241)	(25,255)	(46,798)	(83,617)	(18,344)	(282,255)
- sale	(1,691)	(22,926)	-	(233)	(1,367)	(26,217)
- liquidation	(98,748)	(2,329)	-	(608)	(14,737)	(116,422)
- reclassification to assets held for sale according to IFRS 5	(4,879)	-	-	(20,691)	(1,810)	(27,380)
- reclassification to investment property	(1,893)	-	(124)	(61,714)	(62)	(63,793)
- reclassification from tangible assets under construction	-	-	(40,969)	-	-	(40,969)
- other	(1,030)	-	(5,705)	(371)	(368)	(7,474)
Exchange differences	(1,887)	(771)	12	610	(961)	(2,997)
Gross value of tangible assets – closing balance	**536,650**	**143,661**	**42,915**	**1,130,382**	**175,003**	**2,028,611**
Accumulated depreciation – opening balance	(494,299)	(52,976)	-	(322,530)	(86,050)	(955,855)
Changes (due to):	55,925	(2,346)	(422)	(45,106)	(21,309)	(13,258)
- depreciation for the period	(29,785)	(14,318)	-	(29,960)	(15,372)	(89,435)
- sale	1,550	18,423	-	208	1,220	21,401
- liquidation	98,229	2,253	-	500	14,483	115,465
- change in group composition	(20,411)	(7,074)	(415)	(28,933)	(24,166)	(80,999)
- reclassification to assets held for sale according to IFRS 5	3,310	-	-	3,063	1,422	7,795
- reclassification to investment property	1,265	-	-	10,157	36	11,458
- exchange differences	1,412	462	(7)	22	898	2,787
- other	355	(2,092)	-	(163)	170	(1,730)
Accumulated depreciation – closing balance	**(438,374)**	**(55,322)**	**(422)**	**(367,636)**	**(107,359)**	**(969,113)**
Impairment losses – opening balance	-	-	-	(59,424)	-	(59,424)
Changes recognized in the financial profit/loss, including:	(2,452)	(20)	(15)	5,921	-	3,434
- other operating expenses	(2,490)	(20)	(15)	(2,139)	-	(4,664)
- other operating revenue	38	-	-	8,060	-	8,098
Other changes:	(961)	3	-	3,300	(4,241)	(1,899)
- change in group composition	(1,301)	-	-	-	(4,241)	(5,542)
- reclassification to assets held for sale according to IFRS 5	-	-	-	1,446	-	1,446
- reclassification to investment property	-	-	-	1,863	-	1,863
- other	340	3	-	(9)	-	334
Impairment losses – closing balance	**(3,413)**	**(17)**	**(15)**	**(50,203)**	**(4,241)**	**(57,889)**
Net value of tangible assets – closing balance	**94,863**	**88,322**	**42,478**	**712,543**	**63,403**	**1,001,609**

[1] including land perpetual usufruct

Position „reclassification to assets held for sale according to IFRS 5" disclodes the transfer of assets of PZU Lietuva to assets available for sale in relation to transaction described in Note 59.9.1. The decrese of assets was translated at an average exchange rate disclosed in Note 5.3.

(in PLN '000)

Changes in tangible assets (by group) in the year ended 31 December 2013

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

[1)] including land perpetual usufruct

"Reclassifications to investment property" include the same values, as explained in Note 31.

(in PLN '000)

31. Investment property

Investment property	31 December 2014	31 December 2014
Own land	177,791	176,730
Land perpetual usufruct right	39,557	32,210
Buildings and structures	2,017,141	1,259,223
Cooperative ownership of premises	1,573	6,607
Total investment property	**2,236,062**	**1,474,770**

Change in investment property	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	1,474,770	564,404
Increases (due to):	722,477	1,190,779
- purchase	668,524	321,498
- change in group composition	3,481	817,858
- reclassifications to real property used for internal purposes	50,472	51,423
Decreases (due to):	(53,192)	(198,754)
- sale and liquidation	(16,000)	(28,677)
- reclassifications to real property used for internal purposes	(15,419)	(46,966)
- reclassification to held for sale according to IFRS 5	(21,773)	(123,111)
Profit (loss) on fair value remeasurements	92,889	(81,586)
- recognized in profit or loss	76,215	(99,206)
- recognized in other comprehensive income	16,674	17,620
Exchange differences	(882)	(73)
Net book value – closing balance	**2,236,062**	**1,474,770**

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

"Reclassifications from property for internal purposes" present the carrying amount of property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date.

The fair value of investment property results from valuations by independent appraisers having the relevant licenses as required by the law, using the comparable or the income method based on the current market ratios, conducted mainly in 2014.

(in PLN '000)

32. Entities measured using the equity method

Associates and joint ventures	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA		Armatura Tower Sp. z o.o.	
Nature of the relationship between PZU and the entity	Associate - non-strategic		Associate - non-strategic		Joint-venture - non-strategic	
Seat of the entity	Wrocław	Wrocław	Tychy	Tychy	Kraków	Kraków
Share in the entity's capital	28.58%	29.87%	30.00%	30.00%	50.00%	50.00%
Share in the entity's votes	25.41%	25.31%	30.00%	30.00%	50.00%	50.00%
Valuation method in consolidated financial statements	Equity method		Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS		IFRS	
Carrying amount of the involvment in the entity	65,707	47,954	586	616	18	25
Fair value of the interest in the entity	52,737	44,746	None – entity is not listed	None – entity is not listed	None – entity is not listed	None – entity is not listed
Dividends received from the entity	-	-	36	104	-	-
Basic financial information						
Assets, including:	241,290	231,397	2,509	2,633	35	nd 1)
Short-term assets, including:	49,796	79,690	2,002	2,594	35	nd 1)
Cash and cash equivalents	16,931	59,685	1,752	2,494	32	nd 1)
Long-term assets	191,494	151,707	507	39	-	nd 1)

(in PLN '000)

Associates and joint ventures	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Equity	136,475	139,021	1,953	2,053	35	nd [1)
Liabilities, including:	104,815	92,376	556	580	-	nd [1)
Short-term liabilities, including:	60,162	48,905	556	580	-	nd [1)
Short-term financial liabilities	23,930	23,384	-	-	-	nd [1)
Long-term liabilities, including:	44,653	43,471	-	-	-	nd [1)
Long-term financial liabilities	24,286	25,436	-	-	-	nd [1)
Revenue from core operations	243,262	172,556	1,093	677	-	nd [1)
Depreciation and amortisation	12,607	9,121	49	24	-	nd [1)
Interest income	1,130	172	133	153	-	nd [1)
Interest expense	2,419	2,780	-	-	-	nd [1)
Income tax	(211)	569	33	54	-	nd [1)
Total net comprehensive income, including:	(7,233)	78	21	121	(15)	nd [1)
Profit/loss, including:	(6,605)	171	21	121	(15)	nd [1)
Profit (loss) from continued operations	(6,605)	171	21	121	(15)	nd [1)
Profit (loss) from discontinued operations	-	-	-	-	-	nd [1)
Other comprehensive income	(628)	(93)	-	-	-	nd [1)

[1) The company did not prepare financial statements as at 31 December 2013.

There are no restrictions (e.g. due to lending arrangements, regulatory requirements or contracts) concerning the possibility of transfer of funds by associates and joint ventures in the form of cash dividends.

(in PLN '000)

Change in the share in the net assets of associates	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	19,334	-
Change in the scope of entities measured using the equity method	-	685
Purchase of EMC shares	19,459	19,176
Acquisition of shares in Armatura Tower sp. z o.o.	-	25
Share in net profit/(loss)	(1,525)	(428)
Dividends [1]	(36)	(104)
Share in other comprehensive income	(182)	(20)
Closing balance	**37,050**	**19,334**

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

Change in goodwill related to associates	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	29,261	-
Acquisition of an associate	-	29,261
Closing balance	**29,261**	**29,261**

The total balance of goodwill related to associates concerns EMC.

Reconciliation of the EMC measurement	1 January - 31 December 2014	1 January - 31 December 2013
Net assets of EMC	136,475	139,021
Non-controlling interest	(7,825)	(4,141)
The increase registered on 14 March 2014 [1]	-	(70,890)
The difference between net assets resulting from the audit of financial statements of EMC conducted by an auditor	-	(260)
Goodwill in financial statements of EMC as at the moment of achieving a considerable inflow	(1,151)	(1,151)
Net assets of EMC measured using the equity method	127,499	62,579
PZU Group's share in EMC capitals	36,446	18,693
Goodwill in financial statements of PZU Group	29,261	29,261
Carrying amount	**65,707**	**47,954**

[1] The EMC's equities presented in the EMC 2013 financial statements have been increased by the effect of issuing new shares. The increase was registered on 14 March 2014. PZU Group has considered the effect of acquisition of shares from the new issue in the measurement using the equity method as of the date of registering the above increase. Hence, as at the end of 2013, for the purposes of equity measurement method the EMC equities have been decreased by the value of non-registered shares issue.

Impairment test

Based on the impairment test it was concluded that the recoverable amount was not lower than the carrying amount, hence no impairment losses are required to be recognised.

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

Entity generating cash flows	Discount rate	Terminal growth rate
EMC	6.9%	3.5%

As a result of the test, no impairment loss was recognized. The table below shows the surplus of the recoverable amount over the carrying amount and the maximum discount rates as well as minimum terminal growth rate, at the level of which the carrying amount of EMC shares equals its recoverable amount.

Entity generating cash flows	Surplus	Marginal value of discount rate	Marginal value of discount rate after the forecast period
EMC	783	6.93%	3.47%

33. Financial assets

In 2014 and in 2013, no financial instruments were reclassified from portfolios carried at fair value to those carried at cost or amortized cost.

(in PLN '000)

33.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2014			31 December 2013		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**19,983,689**	**19,983,689**	**23,524,392**	**18,859,902**	**18,859,902**	**19,796,739**
Debt instruments	19,983,689	19,983,689	23,524,392	18,859,902	18,859,902	19,796,739
Government securities	19,796,986	19,796,986	23,320,298	18,633,511	18,633,511	19,559,211
Fixed rate	18,555,389	18,555,389	22,082,026	17,589,984	17,589,984	18,545,453
Floating rate	1,241,597	1,241,597	1,238,272	1,043,527	1,043,527	1,013,758
Other	186,703	186,703	204,094	226,391	226,391	237,528
Listed on a regulated market	63,909	63,909	72,889	105,509	105,509	109,393
Fixed rate	63,909	63,909	72,889	105,509	105,509	109,393
Not listed on a regulated market	122,794	122,794	131,205	120,882	120,882	128,135
Floating rate	122,794	122,794	131,205	120,882	120,882	128,135
Total financial instruments held to maturity	**19,983,689**	**19,983,689**	**23,524,392**	**18,859,902**	**18,859,902**	**19,796,739**

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2014	up to 1 year	over 1 year up to 2 years	over 2 years up to 3 years	over 3 years up to 4 years	over 4 years up to 5 years	over 5 years	Total
Government securities	3,138,479	853,876	2,596,305	57,058	1,025,378	12,125,890	19,796,986
Fixed rate	3,138,479	563,973	2,328,480	31,883	1,005,296	11,487,278	18,555,389
Floating rate	-	289,903	267,825	25,175	20,082	638,612	1,241,597
Other	4,540	3,738	24,120	56,174	75,163	22,968	186,703
Listed on a regulated market	4,540	3,738	-	32,059	604	22,968	63,909
Fixed rate	4,540	3,738	-	32,059	604	22,968	63,909
Not listed on a regulated market	-	-	24,120	24,115	74,559	-	122,794
Floating rate	-	-	24,120	24,115	74,559	-	122,794
Total	**3,143,019**	**857,614**	**2,620,425**	**113,232**	**1,100,541**	**12,148,858**	**19,983,689**

(in PLN '000)

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

Short-term assets are assets with maturity up to 1 year.

Carrying amount of debt instruments held to maturity	31 December 2014				31 December 2013			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Government securities	19,762,959	18,830	15,197	19,796,986	18,435,340	116,159	82,012	18,633,511
Fixed rate	18,521,362	18,830	15,197	18,555,389	17,391,813	116,159	82,012	17,589,984
Floating rate	1,241,597	-	-	1,241,597	1,043,527	-	-	1,043,527
Other	102,876	83,827	-	186,703	102,939	123,452	-	226,391
Listed on a regulated market	52,504	11,405	-	63,909	52,506	53,003	-	105,509
Fixed rate	52,504	11,405	-	63,909	52,506	53,003	-	105,509
Not listed on a regulated market	50,372	72,422	-	122,794	50,433	70,449	-	120,882
Floating rate	50,372	72,422	-	122,794	50,433	70,449	-	120,882
Total	**19,865,835**	**102,657**	**15,197**	**19,983,689**	**18,538,279**	**239,611**	**82,012**	**18,859,902**

(in PLN '000)

33.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2014			31 December 2013		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**2,982,164**	**n/a**	**2,982,164**	**1,916,984**	**n/a**	**1,916,984**
Equity instruments	547,299	n/a	547,299	405,827	n/a	405,827
Listed on a regulated market	357,732	n/a	357,732	370,228	n/a	370,228
Not listed on a regulated market	189,567	n/a	189,567	35,599	n/a	35,599
Debt instruments	2,434,865	2,324,810	2,434,865	1,511,157	1,486,465	1,511,157
Government securities	1,922,939	1,828,110	1,922,939	1,134,622	1,127,859	1,134,622
Fixed rate	1,868,605	1,773,860	1,868,605	1,032,503	1,026,253	1,032,503
Floating rate	54,334	54,250	54,334	102,119	101,606	102,119
Other	511,926	496,700	511,926	376,535	358,606	376,535
Listed on a regulated market	272,564	263,117	272,564	132,570	124,937	132,570
Fixed rate	221,413	211,968	221,413	132,570	124,937	132,570
Floating rate	51,151	51,149	51,151	-	-	-
Not listed on a regulated market	239,362	233,583	239,362	243,965	233,669	243,965
Floating rate	239,362	233,583	239,362	243,965	233,669	243,965
Instruments for which fair value may not be determined	**3,158**	**n/a**	**n/a**	**3,128**	**n/a**	**n/a**
Equity instruments	3,158	n/a	n/a	3,128	n/a	n/a
Not listed on a regulated market	3,158	n/a	n/a	3,128	n/a	n/a
Financial instruments available for sale, total	**2,985,322**	**n/a**	**n/a**	**1,920,112**	**n/a**	**n/a**

(in PLN '000)

Financial instruments available for sale	31 December 2014	31 December 2013
Short-term	612,755	221,542
Long-term	2,372,567	1,698,570
Total financial instruments available for sale	**2,985,322**	**1,920,112**

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

Carrying amount of debt financial instruments available for sale as at 31 December 2014	up to 1 year	over 1 year up to 2 years	over 2 years up to 3 years	over 3 years up to 4 years	over 4 years up to 5 years	over 5 years	Total
Government securities	394,140	454,558	260,878	178,103	180,462	454,798	1,922,939
Fixed rate	392,605	454,501	208,136	178,103	180,462	454,798	1,868,605
Floating rate	1,535	57	52,742	-	-	-	54,334
Other	145,718	9,379	13,965	-	309,255	33,609	511,926
Listed on a regulated market	145,718	9,379	13,965	-	69,893	33,609	272,564
Fixed rate	137,190	9,379	13,965	-	27,270	33,609	221,413
Floating rate	8,528	-	-	-	42,623	-	51,151
Not listed on a regulated market	-	-	-	-	239,362	-	239,362
Floating rate	-	-	-	-	239,362	-	239,362
Total	**539,858**	**463,937**	**274,843**	**178,103**	**489,717**	**488,407**	**2,434,865**

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

(in PLN '000)

Financial instruments available for sale	31 December 2014					31 December 2013			
	PLN	EUR	LTL	Other	Total	PLN	EUR	Other	Total
Equity instruments	**539,734**	**10,601**	**30**	**92**	**550,457**	**408,778**	**99**	**78**	**408,955**
Listed on a regulated market	347,247	10,485	-	-	357,732	370,228	-	-	370,228
Not listed on a regulated market	192,487	116	30	92	192,725	38,550	99	78	38,727
Debt instruments	**1,625,802**	**346,424**	**453,828**	**8,811**	**2,434,865**	**1,116,963**	**394,194**	**-**	**1,511,157**
Government securities	1,357,136	103,164	453,828	8,811	1,922,939	845,858	288,764	-	1,134,622
Fixed rate	1,302,802	103,164	453,828	8,811	1,868,605	743,739	288,764	-	1,032,503
Floating rate	54,334	-	-	-	54,334	102,119	-	-	102,119
Other	268,666	243,260	-	-	511,926	271,105	105,430	-	376,535
Listed on a regulated market	29,304	243,260	-	-	272,564	27,140	105,430	-	132,570
Fixed rate	29,304	192,109	-	-	221,413	27,140	105,430	-	132,570
Floating rate	-	51,151	-	-	51,151	-	-	-	-
Not listed on a regulated market	239,362	-	-	-	239,362	243,965	-	-	243,965
Floating rate	239,362	-	-	-	239,362	243,965	-	-	243,965
Total	**2,165,536**	**357,025**	**453,858**	**8,903**	**2,985,322**	**1,525,741**	**394,293**	**78**	**1,920,112**

(in PLN '000)

33.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2014 and 31 December 2013, the PZU Group entities were not parties to any contracts with embedded derivatives, the nature and the relating risks of which, would not be closely connected with the host contract.

Financial instruments measured at fair value through profit or loss	31 December 2014	31 December 2013
Instruments designated as such upon initial recognition	**12,571,137**	**10,988,879**
Equity instruments	1,482,597	817,007
Listed on a regulated market	1,443,739	791,919
Not listed on a regulated market	38,858	25,088
Debt instruments	11,088,540	10,171,872
Government securities	11,005,221	10,138,525
Fixed rate	9,814,334	9,175,313
Floating rate	1,190,887	963,212
Other	83,319	33,347
Listed on a regulated market	83,319	33,347
Fixed rate	83,319	33,347
Instruments held for trading	**6,525,347**	**8,915,297**
Equity instruments	4,463,405	5,081,854
Listed on a regulated market	1,572,464	2,528,806
Not listed on a regulated market	2,890,941	2,553,048
Debt instruments	1,515,539	3,573,400
Government securities	1,441,296	3,499,207
Fixed rate	1,409,570	3,473,888
Floating rate	31,726	25,319
Other	74,243	74,193
Not listed on a regulated market	74,243	74,193
Floating rate	74,243	74,193
Derivative Instruments	546,403	260,043
Total financial instruments measured at fair value through profit or loss – held for trading	**19,096,484**	**19,904,176**

Additional information on involvement in derivative instruments and related risks are presented in point 8.6.2

Financial instruments measured at fair value through profit or loss	31 December 2014	31 December 2013
Short-term	10,858,702	12,970,979
Long-term	8,237,782	6,933,197
Total financial instruments measured at fair value through profit or loss	**19,096,484**	**19,904,176**

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

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2014	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**564,379**	**2,537,527**	**1,770,867**	**2,132,417**	**1,721,732**	**2,361,618**	**11,088,540**
Government securities	556,856	2,536,934	1,769,524	2,128,868	1,721,479	2,291,560	11,005,221
Fixed rate	556,856	2,536,838	1,542,427	1,944,593	1,277,261	1,956,359	9,814,334
Floating rate	-	96	227,097	184,275	444,218	335,201	1,190,887
Other	7,523	593	1,343	3,549	253	70,058	83,319
Listed on a regulated market	7,523	593	1,343	3,549	253	70,058	83,319
Fixed rate	7,523	593	1,343	3,549	253	70,058	83,319
Instruments held for trading	**27,063**	**458,380**	**350,305**	**352,300**	**325,609**	**1,882**	**1,515,539**
Government securities	27,063	458,380	299,332	329,030	325,609	1,882	1,441,296
Fixed rate	1,720	451,997	299,332	329,030	325,609	1,882	1,409,570
Floating rate	25,343	6,383	-	-	-	-	31,726
Other	-	-	50,973	23,270	-	-	74,243
Not listed on a regulated market	-	-	50,973	23,270	-	-	74,243
Floating rate	-	-	50,973	23,270	-	-	74,243
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**591,442**	**2,995,907**	**2,121,172**	**2,484,717**	**2,047,341**	**2,363,500**	**12,604,079**

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**527,985**	**192,344**	**2,278,299**	**1,995,778**	**993,229**	**4,184,237**	**10,171,872**
Government securities	527,985	192,344	2,277,469	1,995,627	993,229	4,151,871	10,138,525
Fixed rate	527,985	192,344	2,231,404	1,138,457	993,229	4,091,894	9,175,313
Floating rate	-	-	46,065	857,170	-	59,977	963,212
Other	-	-	830	151	-	32,366	33,347
Listed on a regulated market	-	-	830	151	-	32,366	33,347
Fixed rate	-	-	830	151	-	32,366	33,347
Instruments held for trading	**247,102**	**247,871**	**586,852**	**410,874**	**364,920**	**1,715,781**	**3,573,400**
Government securities	247,102	247,871	586,852	359,838	341,763	1,715,781	3,499,207
Fixed rate	247,102	222,552	586,852	359,838	341,763	1,715,781	3,473,888
Floating rate	-	25,319	-	-	-	-	25,319
Other	-	-	-	51,036	23,157	-	74,193
Not listed on a regulated market	-	-	-	51,036	23,157	-	74,193
Floating rate	-	-	-	51,036	23,157	-	74,193
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**775,087**	**440,215**	**2,865,151**	**2,406,652**	**1,358,149**	**5,900,018**	**13,745,272**

(in PLN '000)

Financial instruments measured at fair value through profit or loss by currency	31 December 2014					
	PLN	USD	EUR	HUF	Other	Total
Instruments classified as such upon initial recognition	**11,786,698**	**144,511**	**406,087**	**163,498**	70,343	**12,571,137**
Equity instruments	1,392,993	12,683	63,973	-	12,948	1,482,597
Listed on a regulated market	1,392,536	356	39,291	-	11,556	1,443,739
Not listed on a regulated market	457	12,327	24,682	-	1,392	38,858
Debt instruments	10,393,705	131,828	342,114	163,498	57,395	11,088,540
Government securities	10,364,401	131,380	288,547	163,498	57,395	11,005,221
Fixed rate	9,198,609	131,380	288,547	138,403	57,395 [1)]	9,814,334
Floating rate	1,165,792	-	-	25,095	-	1,190,887
Other	29,304	448	53,567	-	-	83,319
Listed on a regulated market	29,304	448	53,567	-	-	83,319
Fixed rate	29,304	448	53,567	-	-	83,319
Instruments held for trading	**5,851,418**	**190,206**	**232,091**	**92,574**	**159,058**	**6,525,347**
Equity instruments	4,080,344	136,881	170,477	27,502	48,201	4,463,405
Listed on a regulated market	1,379,609	49,612	67,540	27,502	48,201	1,572,464
Not listed on a regulated market	2,700,735	87,269	102,937	-	-	2,890,941
Debt instruments	1,479,939	10,758	24,842	-	-	1,515,539
Government securities	1,405,696	10,758	24,842	-	-	1,441,296
Fixed rate	1,373,970	10,758	24,842	-	-	1,409,570
Floating rate	31,726	-	-	-	-	31,726
Other	74,243	-	-	-	-	74,243
Not listed on a regulated market	74,243	-	-	-	-	74,243
Floating rate	74,243	-	-	-	-	74,243
Derivative instruments	291,135	42,567	36,772	65,072	110,857	546,403
Total financial instruments measured at fair value through profit or loss by currency	**17,638,116**	**334,717**	**638,178**	**256,072**	**229,401**	**19,096,484**

[1)] including PLN 50,885 in RON

(in PLN '000)

Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition	31 December 2013					
	PLN	USD	EUR	LTL	Other	Total
Instruments classified as such upon initial recognition	**10,182,335**	**307,754**	**260,651**	**8,262**	**202,216**	**10,988,879**
Equity instruments	562,762	96,765	73,341	4,911	51,567	817,007
Listed on a regulated market	562,709	86,622	59,779	3,561	51,567	791,919
Not listed on a regulated market	53	10,143	13,542	1,350	-	25,088
Debt instruments	9,619,573	210,989	187,310	3,351	150,649	10,171,872
Government securities	9,587,207	210,911	186,407	3,351	150,649	10,138,525
Fixed rate	8,623,995	210,911	156,183	3,351	150,649 [1)]	9,175,313
Floating rate	963,212	-	-	-	-	963,212
Other	32,366	78	903	-	-	33,347
Listed on a regulated market	32,366	78	903	-	-	33,347
Fixed rate	32,366	78	903	-	-	33,347
Not listed on a regulated market	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-
Instruments held for trading	**7,071,487**	**528,861**	**1,194,527**	-	**120,422**	**8,915,297**
Equity instruments	4,377,944	296,739	351,871	-	55,300	5,081,854
Listed on a regulated market	1,972,270	229,562	271,674	-	55,300	2,528,806
Not listed on a regulated market	2,405,674	67,177	80,197	-	-	2,553,048
Debt instruments	2,583,280	175,132	814,988	-	-	3,573,400
Government securities	2,509,087	175,132	814,988	-	-	3,499,207
Fixed rate	2,483,768	175,132	814,988	-	-	3,473,888
Floating rate	25,319	-	-	-	-	25,319
Other	74,193	-	-	-	-	74,193
Not listed on a regulated market	74,193	-	-	-	-	74,193
Floating rate	74,193	-	-	-	-	74,193
Derivative instruments	110,263	56,990	27,668	-	65,122	260,043
Total financial instruments measured at fair value through profit or loss by currency	**17,253,822**	**836,615**	**1,455,178**	**8,262**	**322,638**	**19,904,176**

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

(in PLN '000)

33.4 Loans and receivables

Loans and receivables	31 December 2014	31 December 2013
Short-term	9,286,581	10,351,969
Long-term	5,407,900	4,049,569
Loans and receivables, total	**14,694,481**	**14,401,538**

Loans and receivables as at 31 December 2014	Carrying value by redemption date						
	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 instruments	**31,938**	**704,738**	**722,721**	**214,196**	**61,336**	**1,255,626**	**2,990,555**
Government securities	28,056	2,788	1,246	-	3,056	-	35,146
Fixed rate	28,056	2,788	1,246	-	3,056	-	35,146
Other	3,882	701,950	721,475	214,196	58,280	1,255,626	2,955,409
Listed on a regulated market	3,882	-	-	-	-	-	3,882
Fixed rate	3,882	-	-	-	-	-	3,882
Not listed on a regulated market	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Floating rate	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Other, including:	**9,254,643**	**220,963**	**620,571**	**456,343**	**775,407**	**375,999**	**11,703,926**
- *buy sell-back* transactions	3,250,173	-	-	-	-	-	3,250,173
- term deposits with credit institutions	5,958,563	124,525	-	-	20,433	40,260	6,143,781 [1)]
- loans	45,907	96,438	620,571	456,343	754,974	335,739	2,309,972 [2)]
Total	**9,286,581**	**925,701**	**1,343,292**	**670,539**	**836,743**	**1,631,625**	**14,694,481**

[1)] For more than 89% of term deposits with credit institutions the maturity date falls before the end of March 2015.
[2)] Over 96% of loans and receivables are loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral.

As at 31 December 2014 the fair value of debt securities that was classified to Level II amounted PLN 3,091,685 thousand, while the fair value of loans amounted PLN 2,398,454 thousand. The fair value of buy sell-back transactions and term deposits at credit institutions that was classified to Level III did not significantly differ from their carrying amounts due to their short-term nature.

Loans and receivables as at 31 December 2013	Carrying value by redemption date						
	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 instruments	**56,997**	**29,898**	**291,704**	**700,816**	**100,224**	**909,253**	**2,088,892**
Government securities	2,142	28,079	-	-	-	-	30,221
Fixed rate	2,142	28,079	-	-	-	-	30,221
Other	54,855	1,819	291,704	700,816	100,224	909,253	2,058,671
Listed on a regulated market	8,916	1,819	-	-	-	-	10,735
Fixed rate	8,916	1,819	-	-	-	-	10,735
Not listed on a regulated market	45,939	-	291,704	700,816	100,224	909,253	2,047,936
Floating rate	45,939	-	291,704	700,816	100,224	909,253	2,047,936
Other, including:	**10,294,972**	**220,941**	**328,920**	**583,350**	**356,072**	**528,391**	**12,312,646**
- *buy sell-back* transactions	3,203,344	-	-	-	-	-	3,203,344
- term deposits with credit institutions	7,091,470	175,671	119,866	-	-	-	7,387,007
- deposits with ceding undertakings	87	-	-	-	-	-	87
- loans	71	45,270	209,054	583,350	356,072	528,391	1,722,208 [1)]
Total	**10,351,969**	**250,839**	**620,624**	**1,284,166**	**456,296**	**1,437,644**	**14,401,538**

[1)] Over 99% loans and receivables are loans with collaterals such as pledges on shares, liability portfolios, as well as bank accounts, other loans or other forms of collateral.

(in PLN '000)

As at 31 December 2013, the fair value of loans and receivables portfolio that was classified to Level III did not differ substantially from their carrying amounts.

Loans and receivables as at 31 December 2014	PLN	EUR	HUF	UAH	Other	Total
Debt instruments	**2,951,527**	**-**	**-**	**13,112**	**25,916**	**2,990,555**
Government securities	-	-	-	9,230	25,916	35,146
Fixed rate	-	-	-	9,230	25,916	35,146
Other	2,951,527	-	-	3,882	-	2,955,409
Listed on a regulated market	-	-	-	3,882	-	3,882
Fixed rate	-	-	-	3,882	-	3,882
Not listed on a regulated market	2,951,527	-	-	-	-	2,951,527
Floating rate	2,951,527	-	-	-	-	2,951,527
Other, including:	**10,057,726**	**1,137,511**	**380,702**	**72,068**	**55,919**	**11,703,926**
- buy sell-back transactions	3,250,173	-	-	-	-	3,250,173
- term deposits with credit institutions	4,642,200	1,005,698	380,702	59,262	55,919	6,143,781
- loans	2,165,353	131,813	-	12,806	-	2,309,972
Loans and receivables, total	**13,009,253**	**1,137,511**	**380,702**	**85,180**	**81,835**	**14,694,481**

Loans and receivables as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Total
Debt instruments	**2,047,936**	**15,665**	**-**	**-**	**25,291**	**2,088,892**
Government securities	-	15,665	-	-	14,556	30,221
Fixed rate	-	15,665	-	-	14,556	30,221
Other	2,047,936	-	-	-	10,735	2,058,671
Listed on a regulated market	-	-	-	-	10,735	10,735
Fixed rate	-	-	-	-	10,735	10,735
Not listed on a regulated market	2,047,936	-	-	-	-	2,047,936
Floating rate	2,047,936	-	-	-	-	2,047,936
Other, including:	**12,121,423**	**49,892**	**17,596**	**13,874**	**109,861**	**12,312,646**
- buy sell-back transactions	3,203,344	-	-	-	-	3,203,344
- term deposits with credit institutions	7,205,697	49,805	17,596	13,874	100,035	7,387,007
- deposits with ceding undertakings	-	87	-	-	-	87
- loans	1,712,382	-	-	-	9,826	1,722,208
Loans and receivables, total	**14,169,359**	**65,557**	**17,596**	**13,874**	**135,152**	**14,401,538**

34. Receivables, including insurance receivables

Receivables, including insurance receivables – carrying amount	31 December 2014	31 December 2013
Receivables from direct insurance, including:	1,710,083	1,384,325
- receivables from policyholders	1,557,003	1,245,337
- receivables from insurance intermediaries	127,271	113,941
- other receivables	25,809	25,047
Reinsurance receivables	28,682	18,828
Other receivables	1,330,048	1,268,811
Net receivables, including insurance receivables	**3,068,813**	**2,671,964**

Both as at 31 December 2014 and at 31 December 2013, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the policy of creating write-downs for impairment losses.

(in PLN '000)

Receivables, including insurance receivables – by contractual maturity	31 December 2014	31 December 2013
Up to 1 year	2,826,404	2,582,901
Over 1 year and up to 5 years	137,813	87,813
Over 5 years	104,596	1,250
Receivables, including insurance receivables – by contractual maturity	**3,068,813**	**2,671,964**

Receivables, including insurance receivables, by currencies as at 31 December 2014	PLN	USD	EUR	LTL	UAH	Other	Total
Receivables from direct insurance	1,509,391	132	97,154	92,338	11,068	-	1,710,083
Receivables from policyholders	1,369,247	132	86,110	90,459	11,055	-	1,557,003
Receivables from insurance intermediaries	117,315	-	9,552	391	13	-	127,271
Other receivables	22,829	-	1,492	1,488	-	-	25,809
Reinsurance receivables	16,143	2,597	5,602	-	4,170	170	28,682
Other receivables	1,037,918	165,148	108,838	1,448	2,857	13,839	1,330,048
Total receivables, including insurance receivables, by currencies,	**2,563,452**	**167,877**	**211,594**	**93,786**	**18,095**	**14,009**	**3,068,813**

Receivables, including insurance receivables, by currencies as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Other	Total
Receivables from direct insurance	1,330,874	1	1,335	32,379	18,872	864	1,384,325
Receivables from policyholders	1,194,600	1	1,028	30,630	18,847	231	1,245,337
Receivables from insurance intermediaries	111,305	-	307	1,671	25	633	113,941
Other receivables	24,969	-	-	78	-	-	25,047
Reinsurance receivables	16,682	944	1,182	-	20	-	18,828
Other receivables	1,099,118	72,197	81,523	334	878	14,761	1,268,811
Total receivables, including insurance receivables, by currencies,	**2,446,674**	**73,142**	**84,040**	**32,713**	**19,770**	**15,625**	**2,671,964**

34.1 Other receivables

Other receivables	31 December 2014	31 December 2013
Receivables from the State Budget, other than due to income tax	153,174	86,177
Receivables from Metro Projekt Sp. z o.o.	109,478	83,203
Receivables relating to prevention activities	64,647	53,506
Receivables from claims representative services	9,081	6,351
Receivables from security transactions and collateral deposits	758,394	902,019
Trade receivables	117,242	97,646
Receivables from immediate decommissioning charged to policies concluded with other insurance companies	34,086	-
Receivables from payments for the purchase of shares	20,890	-
Other	63,056	39,909
Total other receivables	**1,330,048**	**1,268,811**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in point 57.6.

The item "Receivables from security transactions and collateral deposits" presents receivables related to transactions regarding financial instruments which have been concluded but unsettled.

(in PLN '000)

34.2 Receivables from operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2014	31 December 2013
Up to 1 year	155,027	80,389
Over 1 year and up to 5 years	389,566	225,460
Over 5 years	184,977	94,158
Total future minimum receivables from lease payments	**729,570**	**400,007**

35. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	31 December 2014	31 December 2013
Unearned premiums reserve	302,173	210,026
Unexpired risks reserve	-	16
Provisions for claims outstanding, including:	296,900	170,375
- for claims reported	228,795	121,826
- for claims incurred but not reported (IBNR)	46,259	29,989
- for claims handling expenses	21,846	18,560
Provision for the capitalised value of annuities	154,042	146,180
Provision for bonuses and rebates	-	8
Total reinsurers' share in non-life technical provisions	**753,115**	**526,605**

Reinsurers' share in technical provisions by currency	31 December 2014	31 December 2013
PLN	690,347	477,692
EUR	35,319	19,912
UAH	27,205	28,915
Other	244	86
Total reinsurers' share in technical provisions by currency	**753,115**	**526,605**

Reinsurers' share in technical provisions	31 December 2014	31 December 2013
Short-term	199,156	131,580
Long-term	553,959	395,025
Reinsurers' share in technical provisions, total	**753,115**	**526,605**

(in PLN '000)

36. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2014	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange difference	Change in group composition	Other changes in impairment losses [2]	Impairment losses – closing balance
Available-for-sale financial instruments	**154,899**	**3,945**	**-**	**-**	**(681)**	**-**	**-**	**158,163**
Equity instruments	154,899	3,945	-	-	(681)	-	-	158,163
Financial assets held to maturity	**1,202**	**-**	**-**	**-**	**33**	**-**	**-**	**1,235**
Debt instruments	1,202	-	-	-	33	-	-	1,235
Loans and receivables	**24,725**	**10,242**	**-**	**-**	**86**	**-**	**(10,033)**	**25,020**
Debt instruments	-	10,144	-	-	-	-	-	10,144
Term deposits with credit institutions	9,797	-	-	-	100	-	(9,897)	-
Loans	14,928	98	-	-	(14)	-	(136)	14,876
Receivables, including insurance receivables	**651,579**	**66,974**	**(128,024)**	**(4,269)**	**(3,216)**	**13,273**	**(2,670)**	**593,647**
Receivables from direct insurance	597,608	58,748	(94,279)	(1,418)	(2,616)	10,143	(2,285)	565,901
Reinsurance receivables	4,619	5,319	(4,938)	-	-	21	-	5,021
Other receivables	49,352	2,907	(28,807) [1]	(2,851)	(600)	3,109	(385)	22,725
Reinsurers' share in technical provisions	**4,828**	**21,880**	**(9,178)**	**-**	**1**	**-**	**-**	**17,531**
Total	**837,233**	**103,041**	**(137,202)**	**(4,269)**	**(3,777)**	**13,273**	**(12,703)**	**795,596**

[1] including reversal of impairment losses in the amount of PLN 26,275 thousand due to a mortgage loan granted to Metro-Projekt Sp. z o.o. described in point 56.6.

[2] this item presents the transfer of impairment losses of PZU Lietuva's assets to assets held for sale due to the transaction described in point 59.9.1. The decreaseof impairment losses was translated at average rate presented in Note 5.3.

(in PLN '000)

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

(in PLN '000)

Credit quality of financial assets as at 31 December 2014	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**-**	**19,983,689**	**-**	**-**	**-**	**19,983,689**	**1,235**	**-**	**19,984,924**
Available-for-sale financial instruments	**-**	**2,434,865**	**-**	**-**	**-**	**2,434,865**	-	-	**2,434,865**
Loans and receivables	**193,144**	**14,501,059**	**278**	**-**		**14,694,481**	**25,020**	**-**	**14,719,501**
Debt instruments	193,144	2,797,411	-	-	-	2,990,555	10,144	-	3,000,699
Buy sell-back transactions	-	3,250,173	-	-	-	3,250,173	-	-	3,250,173
Term deposits with credit institutions	-	6,143,503	278	-		6,143,781	-	-	6,143,781
Loans	-	2,309,972	-	-	-	2,309,972	14,876	-	2,324,848
Receivables, including insurance receivables	**658,762**	**2,012,489**	**142,696**	**36,282**	**218,584**	**3,068,813**	**62,866**	**530,781**	**3,662,460**
Receivables from direct insurance	654,682	791,053	133,175	34,199	96,974	1,710,083	35,250	530,651	2,275,984
Reinsurance receivables	98	20,042	6,266	461	1,815	28,682	5,021	-	33,703
Other receivables	3,982	1,201,394	3,255	1,622	119,795 [1]	1,330,048	22,595	130	1,352,773
Reinsurers' share in technical provisions	**79,569**	**673,546**	**-**	**-**	**-**	**753,115**	**17,531**	**-**	**770,646**
Total	**931,475**	**39,605,648**	**142,974**	**36,282**	**218,584**	**40,934,963**	**106,652**	**530,781**	**41,572,396**

[1] including PLN 109,478 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in 56.6.

(in PLN '000)

Credit quality of financial assets as at 31 December 2013	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**-**	**18,859,902**	**-**	**-**	**-**	**18,859,902**	**1,202**	**-**	**18,861,104**
Available-for-sale financial instruments	**-**	**1,511,157**	**-**	**-**	**-**	**1,511,157**	**-**	**-**	**1,511,157**
Loans and receivables	**-**	**14,401,538**	**-**	**-**	**-**	**14,401,538**	**24,725**	**-**	**14,141,262**
Debt instruments	-	2,088,892	-	-	-	2,088,892	-	-	2,088,892
Buy sell-back transactions	-	3,203,344	-	-	-	3,203,344	-	-	3,203,344
Term deposits with credit institutions	-	7,387,007	-	-	-	7,387,007	9,797	-	7,396,804
Deposits with ceding undertaking	-	87	-	-	-	87	-	-	87
Loans	-	1,722,208	-	-	-	1,722,208	14,928	-	1,737,136
Receivables, including insurance receivables	**215,334**	**2,064,538**	**148,616**	**27,267**	**216,209**	**2,671,964**	**90,974**	**560,605**	**3,323,543**
Receivables from direct insurance	207,110	893,232	145,401	25,953	112,629	1,384,325	37,114	560,494	1,981,933
Reinsurance receivables	1,107	17,692	-	-	29	18,828	4,619	-	23,447
Other receivables	7,117	1,153,614	3,215	1,314	103,551 [1)]	1,268,811	49,241	111	1,318,163
Reinsurers' share in technical provisions	**38,870**	**487,735**	**-**	**-**	**-**	**526,605**	**4,828**	**-**	**531,433**
Total	**254,204**	**37,324,870**	**148,616**	**27,267**	**216,209**	**37,971,166**	**121,729**	**560,605**	**38,653,500**

[1)] including PLN 83,203 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in point 56.6.

(in PLN '000)

37. Estimated subrogations and salvages

Estimated subrogations, salvages and subsidies	31 December 2014	31 December 2013
Estimated subrogations	123,617	128,524
Estimated salvages	3,645	1,426
Total	**127,262**	**129,950**

Estimated subrogations, salvages and subsidies	31 December 2014	31 December 2013
Short-term	57,162	55,369
Long-term	70,100	74,581
Total	**127,262**	**129,950**

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

(in PLN '000)

38. Deferred tax assets

Changes in deferred tax assets in the year ended 31 December 2014	Opening balance	Changes recognized in the financial profit/loss	Change in group composition	Exchange difference	Other changes [1)]	Closing balance
Financial instruments	528	1,824	(2,891)	(223)	-	(762)
Receivables	342	477	494	44	-	1,357
Property	2,689	(303)	(357)	(4)	-	2,025
Provisions for employee benefits	129	(64)	1,081	(7)	-	1,139
Provision for bonuses and appropriation to the bonus fund	396	299	1,164	27	-	1,886
Other provisions and liabilities	3,506	1,809	2,790	(417)	-	7,688
Tax losses to be used in future periods	685	3,303	4,080	102	(1,567)	6,603
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,406	(32)	-	-	-	1,374
Tax allowance regarding operations in the special economic zone	7,268	(1,621)	-	-	-	5,647
Total deferred tax assets	**16,949**	**5,692**	**6,361**	**(478)**	**(1,567)**	**26,957**

[1)] this item presents the transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in 59.9.1. The decrease of assets was converted at average rate described in Note 5.3.

Changes in deferred tax assets in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Change in group composition	Exchange difference	Other changes	Closing balance
Financial instruments	(3,216)	400	334	(23)	3,033	528
Receivables	459	(186)	65	4	-	342
Property	-	2,689	-	-	-	2,689
Provisions for employee benefits	138	(9)	2	(2)	-	129
Provision for bonuses and deductions for the bonus fund	288	108	-	-	-	396
Other provisions and liabilities	3,564	(82)	62	(38)	-	3,506
Tax losses to be used in future periods	4,508	(3,845)	15	-	7	685
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,679	(273)	-	-	-	1,406
Tax allowance regarding operations in the special economic zone	6,543	725	-	-	-	7,268
Total deferred tax assets	**13,963**	**(473)**	**478**	**(59)**	**3,040**	**16,949**

For all consolidated entities participating in the Tax Capital Group (the "TCG"), deferred tax assets and provisions are offset.

(in PLN '000)

As at 31 December 2014 undisclosed deferred tax assets related to tax losses which, were as follows:

- in Link4: PLN 16,846 thousand;
- in PZU Lietuva: PLN 10,429 thousand (as at 31 December 2013: PLN 11,321 thousand);
- in PZU Lietuva Gyvybes Draudimas PLN 12,292 thousand (as at 31 December 2013: PLN 12,109 thousand).

Losses in Lithuanian companies can be realised at a time that is not prescribed by the provisions of law. Tax loss on Link4 can be realised during one year (PLN 4,441 thousand) and up to 5 years (PLN 12,405 thousand). These periods will be counted from the moment in which Link4 ceases to be part of the TCG (not earlier than the end of 2017).

39. Current income tax receivables

Current income tax receivables	31 December 2014	31 December 2013
Short-term	368	34,895
Long-term	-	-
Total current income tax receivables	**368**	**34,895**

40. Deferred acquisition costs

Deferred acquisition costs	31 December 2014	31 December 2013
Short-term	644,088	548,857
Long-term	67,978	60,962
Total deferred acquisition costs	**712,066**	**609,819**

40.1 Deferred acquisition costs – non-life insurance

Change in deferred acquisition costs in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	546,476	512,890
Deferred acquisition costs	689,604	571,978
Depreciation for the period recognized in the statement of profit or loss	(572,310)	(538,131)
Transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in point 60.7. [1]	(15,136)	-
Exchange difference	(4,183)	(261)
Carrying amount – closing balance	**644,451**	**546,476**

[1] The decrease of deferred acquisition expenses was translated at average rate described in Note 5.3.

40.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	63,343	61,599
Deferred acquisition costs	5,578	3,367
Depreciation for the period recognized in the statement of profit or loss	(1,432)	(4,719)
Change in group composition	-	3,156
Exchange difference	126	(60)
Carrying amount – closing balance	**67,615**	**63,343**

(in PLN '000)

41. Other assets

Other assets	31 December 2014	31 December 2013
Reinsurance settlements	79,010	63,272
IT expenses	25,963	18,202
Inventories:	84,762	93,240
- materials	28,528	39,572
- products and goods	55,720	53,422
- claim salvages	514	246
Other assets	45,515	20,735
Total other assets	**235,250**	**195,449**

Other assets	31 December 2014	31 December 2013
Short-term	229,056	192,664
Long-term	6,194	2,785
Total other assets	**235,250**	**195,449**

42. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	31 December 2014	31 December 2013
Cash in hand and at bank	323,675	566,764
Other cash	332	2,393
Total cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	**324,007**	**569,157**

Notes to the consolidated cash flow statement

The consolidated cash flow statement includes Prevention Funds as cash not available for use. Pursuant to Polish laws and the internal regulations adopted by the PZU Group entities on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities.

(in PLN '000)

43. Assets held for sale

Assets held for sale before reclassification	31 December 2014	31 December 2013
Groups held for sale	**188,747**	**-**
Assets	440,761	-
Intangible assets	4,745	-
Tangible assets	6,864	-
Financial assets	342,639	-
Receivables, including insurance receivables	32,106	-
Reinsurers' share in technical provisions	19,864	-
Estimated subrogations	6,988	-
Deferred tax assets	1,591	-
Deferred acquisition costs	15,399	-
Accruals	2,216	-
Other assets	2	-
Cash and cash equivalents	8,347	-
Libilities directly associated with assets held for sale	252,014	-
Technical provisions	215,057	-
Provisions for employee benefits	1,464	-
Other liabilities	28,721	-
Accruals and deferred income	6,772	-
Other assets held for sale	**165,849**	**178,897**
Tangible assets	51,534	55,786
Investment property	114,315	123,111
Assets and asset groups held for sale	**606,610**	**178,897**
Liabilities directly associated with assets qualified as held for sale	**252,014**	**-**

The item "Groups held for sale" include assets and liabilities of PZU Lietuva, which will be sold in a transaction described in Note 59.9.1. The sale price of PZU Lietuva shares is higher than the value of the net assets held for sale, that is why they have not been revaluated to fair value less the sale costs.

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

44. Issued share capital and other equity attributable to the equity holders of the parent entity

44.1 Share capital

All shares are paid in full.

As at 31 December 2014 and 31 December 2013

Series /issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (in PLN)	Capital coverage	Registration date	Right to dividend (since)
A	registered	none	none	4,011	4,011	cash	23.01.1997	27.12.1991
A	bearer's	none	none	60,442,309	60,442,309	cash	23.01.1997	27.12.1991
B	bearer's	none	none	25,905,980	25,905,980	contribution in kind	31.03.1999	01.01.1999
Total number of shares				**86,352,300**				
Total share capital					**86,352,300**			

The shareholding structure of PZU and information on transactions regarding significant packages of PZU shares are presented in Note 3.

(in PLN '000)

44.1.1. Appropriation of profit of the parent entity

As regards the distributable profit for 2014 and the preceding years, only the profit disclosed in the separate financial statements of the parent entity, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

44.1.1.1. Appropriation of profit for 2013

On 13 May 2014, the Management Board of PZU adopted a resolution concerning the appropriation of profit for the 2013 financial year, recommending payment of dividend of PLN 4,663,024 thousand, i.e. PLN 54 per share.

On 13 May 2014, the request of the Management Board of PZU was approved by the Supervisory Board of PZU and presented to the Annual General Meeting for consideration. On 17 June 2014, the Annual General Meeting of PZU decided on the distribution of the net profit for 2013 in the amount of PLN 5,106,345 thousand in the following manner:

- PLN 4,663,024 thousand for the payment of dividends to shareholders, i.e. PLN 54 per share;
- PLN 433,321 thousand for the supplementary capital;
- PLN 10,000 thousand for the Company's Social Benefits Fund.

Given the advance payment made on 19 November 2013, towards the dividend expected at the end of 2013 in the amount of PLN 1,727,046 thousand, i.e. PLN 20.00 per share, the remaining part of the dividend payable in 2014 amounted to PLN 2,935,978 thousand, i.e. PLN 34.00 per share.

The ex-dividend date for the remaining dividend was set for 17 September 2014. The dividend payment date was set as follows:

- PLN 1,467,989 thousand, i.e. PLN 17 per share was paid on 8 October 2014;
- PLN 1,467,989 thousand, i.e. PLN 17 per share was paid on 15 January 2015;

44.1.1.2. Appropriation of profit for 2014

By the date of signing of consolidated financial statements, the Management Board of PZU had not adopted a resolution concerning appropriation of profit for 2014.

44.2 Supplementary capital

Supplementary capital	31 December 2014	31 December 2013
Share premium	538,139	538,139
Division of results of the PZU Group entities	9,070,903	8,270,646
Other	69,879	47,214
Total supplementary capital	**9,678,921**	**8,855,999**

44.3 Revaluation reserve

Revaluation reserve	31 December 2014	31 December 2013
Measurement of available-for-sale financial instruments	127,260	118,785
Property reclassified from property, plant and equipment to investment property	121,283	123,512
Total revaluation reserve	**248,543**	**242,297**

(in PLN '000)

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	118,785	238,886
Changes	8,475	(120,101)
- change in fair value	11,931	174,973
- sale	(3,456)	(295,074)
Closing balance	**127,260**	**118,785**

44.4 Exchange differences from translation

Exchange differences from translation	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	(37,737)	(38,004)
Changes in the period:	2,287	267
Lietuvos Draudimas AB	6,164	-
AAS Balta	5,043	-
PZU Ukraine	(5,519)	(357)
PZU Ukraine Life	(4,472)	(306)
Pozostałe	1,071	
Closing balance	**(35,450)**	**(37,737)**

45. Technical provisions

Technical provisions	31 December 2014	31 December 2013
Technical provisions – non-life insurance	**18,410,647**	**16,242,254**
Unearned premiums reserve	5,133,390	4,428,845
Unexpired risks reserve	19,257	8,770
Outstanding claims provisions	7,258,764	6,041,030
Provisions for the capitalized value of annuities	5,997,595	5,761,332
Provisions for bonuses and rebates for the insured	1,641	2,277
Technical provisions – life insurance	**21,756,238**	**21,082,162**
Unearned premiums reserve	97,456	102,396
Life insurance provision	16,281,625	16,048,191
Outstanding claims provisions	511,587	545,751
Provisions for bonuses and rebates for the insured	650	616
Other technical provisions	439,364	477,987
Unit-linked reserve	4,425,556	3,907,221
Total technical provisions	**40,166,885**	**37,324,416**

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Note 5.17.2.2), which are as follows:

Technical provisions for old portfolio	31 December 2014	31 December 2013
Life insurance provisions	471,174	485,757
Other technical provisions	194,623	199,699
- provisions for low interest rates	123,273	127,149
- provisions for litigations	71,350	72,550
IBNR and RBNP reserve	2,298	2,873
Total technical provisions – old portfolio	**668,095**	**688,329**

(in PLN '000)

45.1 Technical provisions – non-life insurance

Gross technical provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2014	31 December 2013
Accident and sickness insurance (group 1 and 2)	406,557	383,967
Motor third-party liability insurance (group 10)	11,620,451	10,452,238
Other motor insurance (group 3)	1,865,335	1,664,589
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	113,307	70,633
Insurance against fire and other damage to property (groups 8, 9)	1,681,882	1,377,179
Third-party liability insurance (groups 11, 12, 13)	2,252,799	1,947,727
Credit insurance and suretyship (groups 14, 15)	162,080	135,806
Assistance (group 18)	151,905	121,669
Legal protection (group 17)	2,782	2,627
Other (group 16)	153,549	85,819
Total technical provisions	**18,410,647**	**16,242,254**

Technical provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2014	31 December 2013
Accident and sickness insurance (group 1 and 2)	405,573	383,795
Motor third-party liability insurance (group 10)	11,366,417	10,246,315
Other motor insurance (group 3)	1,829,788	1,635,612
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	87,795	59,173
Insurance against fire and other damage to property (groups 8, 9)	1,501,794	1,230,550
Third-party liability insurance (groups 11, 12, 13)	2,172,237	1,896,918
Credit insurance and suretyship (groups 14, 15)	94,747	86,202
Assistance (group 18)	147,603	121,126
Legal protection (group 17)	2,781	2,627
Other (group 16)	48,852	53,417
Total technical provisions	**17,657,587**	**15,715,735**

Technical provisions – non-life insurance	31 December 2014	31 December 2013
Short-term	4,411,180	3,245,725
Long-term	13,999,467	12,996,529
Total technical provisions	**18,410,647**	**16,242,254**

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

Change in provisions

Change in unearned premiums reserve in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	4,428,845	(209,940)	4,218,905	4,435,516	(190,865)	4,244,651
Increase (decrease) in provisions for policies concluded in the current year	4,335,362	(258,368)	4,076,994	4,220,358	(160,456)	4,059,902
Increase (decrease) in provisions for policies concluded in previous years	(4,157,746)	174,566	(3,983,180)	(4,225,756)	140,844	(4,084,912)
Exchange differences during the period	(18,556)	5,948	(12,608)	(1,290)	537	(753)
Change in group composition	642,510	(19,282)	623,228	17	-	17
Transfers to assets held for sale in accordance with IFRS 5 [1)]	(97,025)	4,958	(92,067)	-	-	-
Closing balance	**5,133,390**	**(302,118)**	**4,831,272**	**4,428,845**	**(209,940)**	**4,218,905**

[1)] Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

(in PLN '000)

Change in unexpired risk reserve in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	8,770	(16)	8,754	8,202	(5)	8,197
Increase (decrease) in provisions for policies concluded in the current year	17,077	12	17,089	5,546	-	5,546
Increase (decrease) in provisions for policies concluded in previous years	(5,316)	-	(5,316)	(5,016)	(12)	(5,028)
Exchange differences during the period	(561)	4	(557)	38	1	39
Change in group composition	12,739	-	12,739	-	-	-
Transfers to assets held for sale in accordance with IFRS 5	(13,452)	-	(13,452)	-	-	-
Closing balance	**19,257**	**-**	**19,257**	**8,770**	**(16)**	**8,754**

[1)] Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

Change in outstanding claims provisions in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance, including:	6,041,030	(170,375)	5,870,655	5,362,089	(304,051)	5,058,038
- for claims reported	2,072,193	(121,826)	1,950,367	1,970,611	(234,276)	1,736,335
- for claims incurred but not reported (IBNR)	2,615,113	(29,989)	2,585,124	2,413,008	(55,337)	2,357,671
- for claims handling expenses	1,353,724	(18,560)	1,335,164	978,470	(14,438)	964,032
Paid benefits concerning claims incurred in previous years, including:	(1,575,921)	54,322	(1,521,599)	(1,506,275)	265,311	(1,240,964)
- paid claims and benefits	(1,313,456)	50,481	(1,262,975)	(1,276,357)	261,990	(1,014,367)
- claims handling costs	(262,465)	3,841	(258,624)	(229,918)	3,321	(226,597)
Increase (decrease) in provisions, including:	2,450,810	(167,606)	2,283,204	2,185,105	(130,145)	2,054,960
- for losses incurred in the current year	2,041,127	(44,022)	1,997,105	1,895,793	(35,684)	1,860,109
- for losses incurred in previous years	409,683	(123,584)	286,099	289,312	(94,461)	194,851
Other changes	2	8,789	8,791	-	(1,834)	(1,834)
Exchange differences during the period	(10,665)	6,304	(4,361)	111	344	455
Change in group composition	454,412	(42,844)	411,568	-	-	-
Transfers to assets held for sale in accordance with IFRS 5	(100,904)	14,510	(86,394)	-	-	-
Closing balance	**7,258,764**	**(296,900)**	**6,961,864**	**6,041,030**	**(170,375)**	**5,870,655**
- for claims reported	2,704,345	(228,795)	2,475,550	2,072,193	(121,826)	1,950,367
- for claims incurred but not reported (IBNR)	2,868,611	(46,259)	2,822,352	2,615,113	(29,989)	2,585,124
- for claims handling expenses	1,685,808	(21,846)	1,663,962	1,353,724	(18,560)	1,335,164

[1)] Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

(in PLN '000)

Change in provisions for the capitalized value of annuities– non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	5,761,332	(146,180)	5,615,152	5,660,281	(254,413)	5,405,868
Paid claims concerning losses incurred in previous years	(182,358)	15,853	(166,505)	(179,944)	3,839	(176,105)
Increase (decrease) in provisions for losses incurred in the previous years	76,457	(17,444)	59,013	23,321	104,997	128,318
Changes in assumptions resulting from technical interest rate changes	(17,284)	446	(16,838)	(16,981)	775	(16,206)
Increase in provisions for losses incurred in the current year	278,344	(587)	277,757	274,655	-	274,655
Other changes	-	3,916	3,916	-	(1,378)	(1,378)
Exchange differences during the period	(8)	40	32	-	-	-
Change in group composition	81,112	(10,086)	71,026	-	-	-
Closing balance	**5,997,595**	**(154,042)**	**5,843,553**	**5,761,332**	**(146,180)**	**5,615,152**

(in PLN '000)

45.2 Life insurance technical provisions

Change in life insurance provision – insurance contracts	1 January - 31 December 2014			1 January - 31 December 2013		
	Gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	16,526,794	-	16,526,794	16,208,275	-	16,208,275
Increase (decrease) in provisions related to current year policies	490,085	-	490,085	564,859	-	564,859
Increase (decrease) in provisions related to prior year policies	(306,608)	-	(306,608)	(260,234)	-	(260,234)
Changes in assumptions resulting from technical interest rate changes	45,395	-	45,395	17,701	-	17,701
Exchange differences	(34,027)	-	(34,027)	(3,807)	-	(3,807)
Closing balance	**16,721,639**	**-**	**16,721,639**	**16,526,794**	**-**	**16,526,794**

Change in life unit-linked insurance provision, gross	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	3,907,221	-	3,907,221	3,113,798	-	3,113,798
Increases in the fund due to premiums	1,045,805	-	1,045,805	1,082,943	-	1,082,943
Payments deducted from the fund for risk, administration and other	(90,026)	-	(90,026)	(71,333)	-	(71,333)
Revenue from the fund's investments	147,597	-	147,597	123,774	-	123,774
Decreases in the fund due to claims, redemptions, etc.	(547,991)	-	(547,991)	(354,088)	-	(354,088)
Other decreases	(60,274)	-	(60,274)	(43,826)	-	(43,826)
Other increases	23,224	-	23,224	55,953	-	55,953
Closing balance	**4,425,556**	**-**	**4,425,556**	**3,907,221**	**-**	**3,907,221**

Change in provisions for outstanding claims, gross	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
RBNP at the beginning of the period	138,366	-	138,366	115,394	-	115,394
IBNR at the beginning of the period	407,385	-	407,385	400,962	-	400,962
Total RBNP and IBNR at the beginning of the period	**545,751**	**-**	**545,751**	**516,356**	**-**	**516,356**
Provisions for claims applied during the year	(523,413)	-	(523,413)	(516,356)	-	(516,356)
Provisions for claims created during the year	489,249	-	489,249	545,751	-	545,751
Total RBNP and IBNR at the end of the period	**511,587**	**-**	**511,587**	**545,751**	**-**	**545,751**
RBNP at the end of the period	112,728	-	112,728	138,366	-	138,366
IBNR at the end of the period	398,859	-	398,859	407,385	-	407,385

46. Investment contracts

Investment contracts – carrying amount	31 December 2014	31 December 2013
Investment contracts with guaranteed and fixed terms and conditions	520,840	1,250,492
- measured at amortised cost	520,840	1,250,492
Unit-linked investment contracts	587,267	870,545
Total investment contracts – carrying amount	**1,108,107**	**2,121,037**

(in PLN '000)

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

Total expected cash flows from investment contracts	31 December 2014	31 December 2013
Up to 1 year	989,481	1,890,179
Over 1 year and up to 5 years	124,908	243,996
Total	**1,114,389**	**2,134,175**

As at 31 December 2014, the fair value of liabilities under investment contracts with guaranteed and fixed terms and conditions amounted PLN 520,383 thousand (as at 31 December 2013: PLN 1,253,256 thousand).

Financial assets related to investment contracts:

- with guaranteed and fixed terms and conditions – bank deposits presented as "Loans and receivables – term deposits with credit institutions" described in point 33.4 or treasury bonds classified mainly as held to maturity;
- unit-linked – include mainly units in investment funds, recognized as "Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not listed on a regulated market", derivative instruments recognized as "Financial instruments measured at fair value through profit or loss – held for trading – derivative instruments" (presented in point 33.3), and bank deposits.

47. Provisions for employee benefits

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

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Note 6.2.5.

Provisions for employee benefits	31 December 2014	31 December 2013
Provision for employee leaves	71,923	60,094
Post-employment benefits	44,384	31,365
- provisions for retirement severence pay	20,923	12,141
- provisions for death benefits	23,461	19,224
Other long-term employee benefits	3,763	31,921
Total provisions for employee benefits	**120,070**	**123,380**

Net income and expenses recognized in the statement of profit or loss related to provisions for employee benefits	1 January – 31 December 2014	1 January – 31 December 2013
Net revenue (expenses) recognized in profit or loss	**(1,505)**	**(4,574)**
Defined benefit plans	(1,492)	(5,700)
- provisions for retirement severence pay	(1,896)	(2,654)
- provisions for death benefits	404	(3,046)
Other long-term employee benefits	(13)	1,126
Net revenue (expenses) recognized in other comprehensive income	**(8,438)**	**902**
Defined benefit plans	(7,933)	902
- provisions for retirement severence pay	(3,306)	862
- provisions for death benefits	(4,627)	40
Other long-term employee benefits	(505)	-
Total net income and expenses recognized in the statement of profit or loss related to provisions for employee benefits	**(9,943)**	**(3,672)**

(in PLN '000)

47.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	12,141	12,145
Changes recognized in profit or loss	1,896	2,654
- current service cost	1,561	1,084
- past service cost	185	440
- interest income or expense	150	1,130
Remeasurement of provision (changes recognized in other comprehensive income)	3,306	(862)
- actuarial profits and losses resulting from changes in demographic assumptions	(271)	113
- actuarial profits and losses resulting from changes in financial assumptions	3,577	(975)
Exchange differences	56	-
Benefits paid	(548)	(1,806)
Change in group composition	4,072	10
Closing balance	**20,923**	**12,141**

Total expected cash flows from retirement benefits since the end of the financial year	31 December 2014	31 December 2013
Up to 3 months	608	64
Over 3 months and up to 1 year	908	494
Over 1 year and up to 5 years	3,274	3,040
Over 5 years	69,207	65,092
Total	**73,997**	**68,690**

47.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	19,224	16,460
Changes recognized in profit or loss	(404)	3,046
- current service cost	2,195	1,369
- past service cost	(2,685)	1,334
- interest income or expense	86	343
Remeasurement of provision (changes recognized in other comprehensive income)	4,627	(40)
- actuarial profits and losses resulting from changes in demographic assumptions	227	896
- actuarial profits and losses resulting from changes in financial assumptions	4,400	(936)
Benefits paid	(81)	(242)
Change in group composition	95	-
Closing balance	**23,461**	**19,224**

Total expected cash flows from death benefits since the end of the financial year	31 December 2014	31 December 2013
Up to 3 months	299	56
Over 3 months and up to 1 year	948	957
Over 1 year and up to 5 years	6,043	5,798
Over 5 years	79,873	76,972
Total	**87,163**	**83,783**

(in PLN '000)

48. Other provisions

Other provisions	31 December 2014	31 December 2013
Short-term	177,400	177,307
Long-term	13,806	15,599
Total other provisions	**191,206**	**192,906**

(in PLN '000)

Changes in other provisions in the year ended 31 December 2014	Opening balance	Increase	Utilisation	Release	Combinations	Exchange differences	Closing balance
Restructuring provision	-	17,687	(8,333)	-	-	-	9,354
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(2,583)	-	-	781
Provision for the Office of Competition and Consumer Protection penalties	119,549	2	-	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	509	-	(28,785)	-	-	22,668
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	-	7,234
Other	11,021	14,878	(4,506)	(2,489)	12,522	192	31,618
Total other provisions	**192,906**	**33,365**	**(13,006)**	**(34,773)**	**12,522**	**192**	**191,206**

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

The item "Provision for the Office of Competition and Consumer Protection penalties" is described in points 56.2 and 56.3.

Provisions for restructuring expenses are described in point 59.2.

Provision for the GraphTalk project exit costs in PZU Życie

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

The provision was established in relation to completion of the GraphTalk project and failure to meet economic objectives. Additionally the provisions amount includes estimation of potential liabilities due to litigation with CSC Computer Sciences Sp. z o.o. – aspect described in point 56.4.

Provision for PTE's reimbursement of fees collected from contributions overpaid by ZUS

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

Since 2008, PTE PZU has been maintaining a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The calculation is made on the basis of information provided by the Social Security Institution for the years 1999 - 2013 (in 2014, the Social Security Institution has not provided any new information) and the rate of payment of premiums charged by PTE PZU.

Due to the fact that, as at signing of the consolidated financial statements, not all required information has been received from the Social Security Institution, it is not possible to specify the date of return of the fees on premiums.

(in PLN '000)

49. Deferred tax liabilities

Changes in deferred tax liabilities in the year ended 31 December 2014	Opening balance	Changes recognized in the statement of profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Closing balance
Financial instruments	246,912	27,175	1,743	5,716	-	281,546
Subrogation receivables	(2,399)	395	-	-	-	(2,004)
Property	13,271	20,807	3,166	(493)	(1)	36,750
Deferred acquisition costs	110,706	10,770	-	-	-	121,476
Accrued revenue and reinsurance costs	(20,032)	(3,972)	-	-	-	(24,004)
Provisions for employee benefits	(21,499)	2,889	(1,526)	(544)	-	(20,680)
Provision for bonuses	(41,199)	(2,123)	-	(251)	-	(43,573)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(52,389)	5,038	-	(8)	-	(47,359)
Other provisions and accruals	(108,108)	3,709	-	-	-	(104,399)
Prevention Fund	31,397	(12,921)	-	-	-	18,476
Equalisation provision	112,116	1,427	-	-	-	113,543
Provision for restructuring expenses	-	(1,777)	-	-	-	(1,777)
Other differences	(13,377)	4,835	-	78,204	776	70,438
Total deferred tax liabilities	**255,399**	**56,252**	**3,383**	**82,624**	**775**	**398,433**

(in PLN '000)

Changes in deferred tax liabilities in the year ended 31 December 2013	Opening balance	Changes recognized in the statement of profit or loss	Changes recognized in other comprehensive income	Change in group composition	Other changes	Closing balance
Financial instruments	358,165	(68,702)	(42,766)	(544)	759	246,912
Subrogation receivables	(3,706)	1,307	-	-	-	(2,399)
Property	29,609	(18,394)	3,185	(1,129)	-	13,271
Deferred acquisition costs	110,752	(46)	-	-	-	110,706
Accrued revenue and reinsurance costs	(21,208)	1,176	-	-	-	(20,032)
Provisions for employee benefits	(19,536)	(1,829)	-	(134)	-	(21,499)
Provision for bonuses	(41,488)	1,663	-	(1,374)	-	(41,199)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(41,074)	(11,307)	-	(8)	-	(52,389)
Other provisions and accruals	(107,977)	(864)	-	733	-	(108,108)
Prevention Fund	15,326	16,071	-	-	-	31,397
Equalisation provision	110,915	1,201	-	-	-	112,116
Other differences	(32,221)	19,018	-	(246)	72	(13,377)
Total deferred tax liabilities	**357,557**	**(60,706)**	**(39,581)**	**(2,702)**	**831**	**255,399**

Compensation of deferred tax assets and liabilities of companies included in the TCG is described in point 38.

(in PLN '000)

50. Current income tax liabilities

As at 31 December 2014 and 31 December 2013, all current income tax liabilities were short-term.

51. Liabilities arising from the issue of own debt instruments

On 3 July 2014, PZU (via its subsidiary, PZU Finance AB (publ) emitted five-year eurobonds for the amount of EUR 500.000 thousand, with the redemption date of 3 July 2019. The issue price of one bond with a nominal value of EUR 100.000 amounted to EUR 99.407. The bonds were released on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland. Standard & Poor's awarded these bonds a rating of "A-" for unsecured debt. Since 22 December 2014, bonds have also been traded on the Catalyst market.

The margin over mid-swap rate (the curve, which constitutes the average of the bid and ask curves for fixed-coupon bonds corresponding to the period of redemption of the bonds issued by PZU Finance AB (publ)) amounted to 85 bps, which resulted in the bond yield of 1.499%.

The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon will be paid once a year.

The bonds have been classified as measured at amortized cost. The carrying amount of liabilities arising from the bonds amounted to PLN 2,127,527 thousand as at 31 December 2014. The fair value of this liability, estimated using a model, amounts to PLN 2,180,293 thousand.

Undiscounted cash flows from the issued debt securities	31 December 2014
Up to 1 year	29,303
Over 1 year and up to 5 years	2,248,363
Total	**2,277,667**

The liabilities of PZU Finance AB (publ) arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by PZU to all bondholders. The maximum value of the guarantee was not specified and it expires upon the expiry of the claims of the bondholders towards PZU Finance AB (publ).

(in PLN '000)

52. Other liabilities

Other liabilities	31 December 2014	31 December 2013
Accrued costs	**743,655**	**638,382**
Accrued costs of brokers' commissions	250,867	209,871
Accrued remuneration costs	131,759	121,415
Accrued costs from reinsurance	214,268	194,079
Accrued employee bonuses	94,558	84,064
Other	52,203	28,953
Deferred income	**33,374**	**17,738**
Other liabilities	**8,584,248**	**8,695,294**
Direct insurance liabilities	686,714	634,831
Reinsurance liabilities	94,384	53,738
Liabilities due to sell buy-back transactions	4,411,497	5,124,161
Liabilities from credits	219,452	227,353
Liabilities from loans	53,952	-
Liabilities to participants of consolidated investment funds	856,865	688,282
Liabilities to the State Budget, other than due to income tax	30,001	147,721
Public legal settlements:	25,701	23,195
Liabilities to employees	13,106	3,481
Insurance Guarantee Fund	11,794	10,231
Liabilities arising from financial instrument transactions	444,089	1,533,088
Liabilities to Shareholds (dividends)	1,471,120	3,321
Trade payables to suppliers	89,787	69,273
Estimated non-insurance liabilities	133,359	125,673
Other	42,427	50,946
Total other liabilities	**9,361,277**	**9,351,414**

As at 31 December 2014 and 31 December 2013 the fair value of other liabilities did not differ substantially from their carrying amount, due to the fact that over 98% of them are short-term liabilities.

Liabilities by maturity	31 December 2014	31 December 2013
Up to 1 year	9,190,166	9,190,851
Over 1 year and up to 5 years	166,961	158,458
Over 5 years	4,150	2,105
Total liabilities by maturity	**9,361,277**	**9,351,414**

52.1 Direct insurance liabilities

Direct insurance liabilities	31 December 2014	31 December 2013
Liabilities to policyholders	408,721	368,130
Liabilities to insurance intermediaries	172,492	164,948
Other insurance liabilities	105,501	101,753
Total direct insurance liabilities	**686,714**	**634,831**

52.2 Liabilities due to sell buy-back transactions

Transactions were secured with financial instruments, described in point 54.1.

Presented below is the basic characteristics of the sell buy-back transactions as at 31 December 2014.

Maturity dates of transactions	Carrying amount	Transaction currency	Carrying amount of assets pledged as security	Financial instrument pledged as security	Quantity
Up to 1 month	4,211,114	PLN	4,213,474	Treasury bonds	3,837,200
up to 6 months	200,383	PLN	199,889	Treasury bonds	189,450
Total	**4,411,497**		**4,413,363**		**4,026,650**

(in PLN '000)

52.3 Liabilities from operating leases

The majority of liabilities from operating leases result from rental of retail and office space. PZU Group has a policy of concluding contracts for a limited period of 3 or 5 years with an option of extension.

Liabilities due to minimum operating lease fees	31 December 2014	31 December 2013
Up to 1 year	27,795	27,040
Over 1 year and up to 5 years	57,573	43,152
Over 5 years	7,856	5,792
Total liabilitiess due to minimum operating lease fees	**93,224**	**75,984**

Operating lease liabilites recognized in profit or loss for a given period	1 January – 31 December 2014	1 January – 31 December 2013
Minimum operating lease fees	98,827	61,088
Subleasing fees	(10)	(12)
Total	**98,817**	**61,076**

53. Notes to other inflows and outflows from operating activities

Other inflows from operating activities	1 January – 31 December 2014	1 January – 31 December 2013
Suspense accounts including outstanding contributions of fund members of PPE IKE and IP programmes	1,046,982	272,694
Inflows from the core business of non-insurance companies	524,014	568,423
Tax refunds (i.a. CIT, VAT)	106,621	140,205
Inflows from the liquidation of the additional part of the Guarantee Fund of PZU OPF	132,267	-
Other	261,169	266,973
Total	**2,071,053**	**1,248,295**

Other operating outflows	1 January – 31 December 2014	1 January – 31 December 2013
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programmes	1,049,504	272,371
Gross premiums returns	438,798	503,028
Costs of the core business of non-insurance companies	607,718	498,996
Donations made	31,446	34,171
Taxes	283,339	35,056
Other	521,938	389,658
Total	**2,932,743**	**1,733,280**

54. Assets recognised as collateral of receivables, liabilities and contingent liabilities

54.1 Financial assets recognised as collateral of liabilites

As at 31 December 2014 the treasury bonds with the carrying amount of PLN 4,413,363 thousand (PLN 5,123,990 thousand, as at 31 December 2013) held by the companies in PZU Group were used as collateral of the sell buy-back transactions described in point 52.2.

(in PLN '000)

54.2 Financial assets recognised as collateral for granted loans

As at 31 December 2014 and 31 December 2013, PZU and PZU Życie were party to buy sell-back transactions and granted loans secured on financial assets.

Information about the values of these transactions has been provided in point 33.4.

Tangible assets

As at 31 December 2014, assets held for sale were mortgaged up to the total amount of PLN 51,209 thousand (PLN 49,146 thousand, as at 31 December 2013).

55. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2014	31 December 2013
Contingent assets, including:	20,976	35,231
- guarantees and sureties received	20,976	21,259
- Other	-	13,972
Contingent liabilities	265,709	144,576
- guarantees and sureties issued	7,133	6,842
- disputed claims related to insurance	185,109	92,535
- other disputed claims	36,264	17,270
- other, including:	37,203	27,929
- potential liabilities arising from loan agreements entered into by the Armatura Group	34,115	27,622

55.1 Loan facility, loan collateral or guarantees granted by PZU or its subsidiaries

The guarantee issued by PZU in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company, described in Note 51.

55.2 Potential litigation related to the continued family insurance

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

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

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

56. Litigation claims

The entities in PZU Group are parties in a number of court and arbitration disputes as well as administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings, involving PZU Group entities, are those related to own property. The proceedings and disputes are typical and repetitive and, individually are not significant for PZU Group in most cases.

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

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

In 2014 and by the date of submission of the consolidated financial statements, PZU Group entities did not take part in any proceedings before court, competent authority for arbitration proceedings or public administration authority concerning liabilities or debt of PZU or its direct or indirect subsidiary of singular value of at least 10% of the equity of PZU.

As at 31 December 2014, the total value of all 60,534 cases heard by courts, competent authority for arbitration proceedings or public administration authority involving the PZU Group entities amounted to PLN 3,056,350 thousand. The amount includes PLN 2,509,850 thousand of liabilities and PLN 546,500 thousand of debt of the PZU Group entities, which accounted for 20.36% and 4.43% of the equity of PZU respectively, calculated in line with PAS.

All information available at the date upon which the consolidated financial statements are signed have been taken into account regarding estimations of provisions, however that value may be subject to change in the future.

56.1 Resolution of the General Shareholders Meeting of PZU regarding 2006 profit distribution

On 30 July 2007 a awsuit was filed by Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancellation of the General Meeting of Shareholders of PZU's Resolution no. 8/2007 of 30 June 2007 regarding distribution of PZUs' profit for 2006 as non-compliant with good practices and acting to the detriment of the plaintiff, a shareholder of PZU.

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

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

Thrugh its ruling, on 22 January 2010, the District Court in Warsaw cancelled the aforementioned resolution. PZU appealed against the judgment in its entirety, including final appeal to the Supreme Court with respect to the aforementioned decision, which dismissed the cassation complaint on 27 March 2013. The judgment is final and it may not be appealed against.

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

Following the decision cancelling resolution No. 8/2007 becoming effective, the agenda of the PZU GSM of 30 May 2012 included a point regarding distribution of profit for 2006 in a manner corresponding to the cancelled resolution No 8/2007. Manchester Securities Corporation objected against the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of the lawsuit filed by MSC to the District Court in Warsaw, which stated that said company seeks the cancellation of the resolution of the General Meeting of Shareholders of PZU dated 30 May 2012 on the distribution of profit for 2006, and the value of the subject of dispute was determined by the plaintiff to the amount of PLN 5,054 thousand. PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

On 17 December 2013, the District Court pronounced a judgement whereby the claims were accepted in their entirety and the costs of the proceedings were awarded from PZU to MSC. On 4 March 2014, PZU appealed against the judgement in its entirety. On 11 February 2015, the Appellate Court in Warsaw passed a judgement that changed the judgement of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgement of the Appellate Court is final.

On 16 December 2014, MSC called PZU to pay PLN 264,865 thousand of compensation due to the cancellation of the resolution No 8/2007 of the General Meeting of Shareholders of PZU of 30 June 2007 on the distribution of profit of PZU for 2006. PZU refused to fulfil the obligation.

As at 31 December 2014, no changes in the presentation of PZU capitals were made that may result from cancellation of the resolution of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company's Social Benefits Fund were not adjusted and no provisions were recognised against any potential additional claims resulting from cancellation of the above resolution.

56.1.1. Other demands for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU refused to fulfill the obligation.

Apart from the above mentioned documents, the shareholders or the former shareholders presented PZU with a request for payment based on the facts presented above. The parties requesting the payment did not indicate specific amounts, but a number of shares, or simply request the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

56.1.2. Other legal proceedings concerning the distribution of profit of PZU for 2006

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56,281 thousand. The date of the hearing was set for 19 February 2015.

On 2 February 2015, the District Court of Warsaw delivered a copy of an application of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014.

PZU is receiving other copies of motions for a summons to a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. Some of the proceedings have already ended.

PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

PZU is receiving single copies of requests for the payment of dividends or compensation. PZU consistently responds to such requests demanding their cancellation in their entirety.

56.2 Proceedings conducted by the Office of Competition and Consumer Protection ("UOKiK") against PZU

56.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting of:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with both the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection ("SOKiK") of 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgement of 6 November 2013 is final and was executed through the payment of PZU of the awarded financial penalty. 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgement on 24 July 2014, PZU received a response of President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration without setting a date for the hearing.

56.2.2. Fines imposed in 2011

56.2.2.1. Reimbursement of the costs of rental of a replacement car

In a decision of 18 November 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe on the collective interest of consumers as set out in Article 24.1 and 24.2 of the Act on competition and consumer protection (Journal of Laws No. 50 of 2007, item 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons. On 5 December 2011 PZU appealed against the decision (thus the decision did not become valid).

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU Życie appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court.

Regardless of the initiated legal procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 11,287 thousand.

56.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the clients of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those clients. The Office demanded that the practices be discontinued.

The Management Board of PZU refuses to agree with the facts and legal reasons presented in the decision, because the decision does not consider all the evidence and the legal classification was not correct.

On 18 January 2012 PZU appealed against the decision (thus the decision did not become valid). In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;

- the majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of President of Office of Competition and Consumer Protection to its appeal. The hearing, at which the appeal of PZU will be addressed, was scheduled for 13 March 2015.

Regardless of the initiated appellation procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 56,605 thousand.

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

On 1 June 2005, at the request of several petitioners the President of the Office of Competition and Consumer Protection ("OCCP") instituted anti-monopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might have constituted a breach of the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of the Office of Competition and Consumer Protection imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU was dominant. PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of the CCCP.

After several years of proceedings, the CCCP in a ruling of 17 February 2011 partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU appealed against the decision.

On 9 May 2013, the Appellate Court in Warsaw admitted the charges filed by PZU Życie and reversed the judgement of the CCCP on grounds of nullity of legal proceedings, cancelled the proceedings to the extent that they were null and remanded the matter for a new trial before the CCCP.

As a result of further proceedings, in the judgement of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014 PZU Życie appealed against the judgement of the CCCP of 28 March 2014, appealing against the judgement in its entirety. The court sent a copy of the appeal to the defendant and other participants who submitted a response to the appeal. Subsequently, the files were sent to the Appellate Court in Warsaw which will set the date for the appeal hearing.

Regardless of the initiated appellation procedures, PZU recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 50,384 thousand.

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

56.4.1. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw

On 9 April 2010 the Court of Arbitration served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. ("CSC") which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment. The amount sought by CSC included, among others, the claims related to licence fees, implementation works, support and maintenance services, contractual penalties and capitalized interests.

On 31 May 2010 PZU Życie requested that the Court of Arbitration dismiss some claims as time inappropriate and dismiss the lawsuit in its entirety. PZU Życie also filed a counter suit against CSC, demanding payment of PLN 71,890 thousand as a return of the remuneration collected by CSC or as damages for undue performance of obligations. On 31 August 2010, CSC motioned for dismissal of the entire claim of PZU Życie indicating absence of evidence to consider it.

After the proceedings before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, on 18 December 2012, the court issued a judgement ("Judgement of the Arbitration Court 108/10") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and discontinued the proceedings concerning the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the claim date. Furthermore, the Arbitration Court dismissed the remainder of the principal action and dismissed the PZU Życie mutual claim.

As at 31 December 2014 PZU Życie established a provision for the case in question in the amount of PLN 22,668 thousand (as at 31 December 2013: PLN 50,944 thousand).

56.4.2. Proceedings for a declaration of enforceability of the Judgement of the Arbitration Court 108/10

On 23 January 2013, CSC motioned the District Court in Warsaw for a statement of enforcement of the Judgement of Arbitration Court 108/10 and providing it with a writ of execution. On 15 March 2013 the court issued an order of enforcement with respect to the Judgement.

On 18 March 2013, PZU filed a complaint against the aforesaid decision of 15 March 2013 with the District Court in Warsaw, demanding suspension of its enforcement. In response, on 22 March 2013, the Court decided to suspend enforcement of the aforementioned decision until resolution of the complaint lodged by PZU Życie. On 4 April 2013, CSC submitted to the Court its response to the complaint filed by PZU Życie demanding its dismissal in its entirety. The Appellate Court decided to adjourn the hearing of the complaint until the date of the District Court's examination of the complaint filed by PZU Życie to reverse the Judgement of Arbitration Court 108/10.

On 28 November 2014, CSC requested the proceedings for a declaration of enforceability of the Judgement 108/10 in connection with a final dismissal of complaint filed by PZU Życie to reverse the Judgement of the Arbitration Court 108/1 described in 57.4.3). The District Court resumed the proceedings and referred the files to the Appellate Court for it to adjudicate the claim of PZU Życie.

56.4.3. Proceedings concerning the complaint filed by PZU to reverse the Judgement of the Arbitration Court 108/10

On 1 February 2013, PZU submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Judgement of the Arbitration Court 108/10 and suspension of its execution.

After the proceedings, on 12 November 2013, the District Court rejected the complaint to reverse the Judgement of the Arbitration Court 108/10. PZU appealed to the Appellate Court in Warsaw and on 17 February 2014 a response to the appeal was received. On 21 November 2014, the Appellate Court in its judgement dismissed the appeal of PZU Życie.

56.4.4. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw concerning a claim for payment

On 29 March 2013, CSC filed a suit against PZU with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, for the payment of PLN 6,690 thousand in statutory interest concerning the amounts awarded in the proceedings described in 57.4.1 accrued in the period from the suit date to the payment date.

After the proceedings, on 24 April 2014, the Court of Arbitration in its judgement ("Judgement of the Arbitration Court 67/13") adjudicating the payment of PLN 2,397 thousand for CSC by PZU Życie together with interest accrued from the judgement date to the payment date, the amount of PLN 40 thousand net as a refund of the arbitration fee, the amount of PLN 1 thousand as a refund of of the registration fee and PLN 18 thousand as a refund of the cost of legal representation. In other aspects, the Arbitration Court dismissed the claim of CSC.

56.4.5. Proceedings concerning the Judgement of the Arbitration Court 67/13

Following the exchange of the pleadings, in a decision of 22 August 2014, the Court issued a statement of enforceability of the Judgement of the Arbitration Court 67/13 in part of the claim of CSC and issued an order of enforcement with respect to the Judgement. On 10 September 2014 PZU Życie challenged this decision with a complaint. After CSC obtained the order of enforcement, on 15 September 2014, PZU Życie paid to CSC the amounts covered by the enforcement order, doing it under reserve.

On 4 June 2014, PZU submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Judgement of the Arbitration Court 67/13 and suspension of its execution. On 25 July 2014, CSC issued a response to the complaint to reverse the Judgement of the Arbitration Court 67/13.

On 12 August 2014, CSC submitted a complaint to reverse the Judgement of the Arbitration Court 67/13 to the District Court in Warsaw, mentioning to reverse the Judgement in, among others, the part dismissing CSC's claim in the amount of PLN 6,689 thousand. On 26 September 2014, PZU Życie filed its response to the complaint.

To the date of signing the consolidated yearly report, the complaints of PZU Życie and CSC to reverse the Judgement of the Arbitration Court 67/13 had not been considered.

56.5 Submission of PZU claims to the insolvency estate of PBG Capital Group companies

PZU concluded contracts of mandate regarding periodic insurance guarantees (contractual guarantees) with PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"). The registered offices of both companies are located in Wysogotowo near Poznań. PZU issued insurance guarantees on the basis of their contracts. Should PZU perform on these guarantees, its clients were obliged to refund amounts paid to PZU.

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012 PZU joined the above proceedings submitting its claims to the insolvency estate of both companies.

PBG and Hydrobudowa belong to the same capital group with PBG as the parent entity. They granted sureties to each other. All claims submitted to the insolvency estate of Hydrobudowa in the amount of PLN 100,996 thousand have been therefore submitted in relation to the insolvency estate of PBG as well. Out of the above claims:

- PBG granted sureties regarding PLN 33,747 thousand arising from guarantees issued for Hydrobudowa;
- Hydrobudowa granted sureties regarding PLN 67,249 thousand arising from guarantees issued for PBG.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of liabilities. As at 31 December 2014, the sureties amount to PLN 102,164 thousand and their reduction is due to the expiration of a part of guarantees to which no claims were reported.

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

In 1999 PZU granted a mortgage to Metro-Projekt Sp. z o. o. ("Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand . The loan was 177ollateralized by maximum value mortgage on property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

Metro-Projekt did not repay its loan, and in November 2002 it was declared bankrupt.

The proceedings resulting from the Receiver of Universal SA filing for a separation of the property located at Al. Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt began in 2004.

(in PLN '000)

As a result of a settlement concluded in 2013, in exchange for resigning from claims for the insolvency estate of Universal, the insolvency estate of Metro-Projekt was to be charged with an additional amount of PLN 5,722 thousand to be transferred to the former.

In 2013 and 2014, the Receiver of Metro-Projekt announced the sale of the enterprise of the bankrupt company under a single-source contract, with a provison that it should have the form of a tender auction. The starting price for the enterprise was PLN 110 million, PLN 99 million, PLN 93 million, PLN 90 million and PLN 90 million, respectively. As no tenders were submitted, the procedure was not carried out.

Another announcement of the Receiver concerning the sale of the enterprise was published on 25 August 2014. The starting price for was set at PLN 80 million and the opening of bids was originally planned for 24 September 2014, later postponed to 10 October 2014 and further to 17 October 2014. The only bid in the amount of PLN 80 million was opened on 21 October 2014.

The Receiver sold the enterprise for PLN 80 million on 18 December 2014. In the opinion of the Receiver, the claim of PZU in the amount disclosed on the list of liabilities should be fully satisfied.

As at 31 December 2014 the carrying amount of the receivables from Metro-Projekt was PLN 109,478 thousand (PLN 83,203 thousand as at 31 December 2013). The change resulted from the release due to the impairment loss presented in Note 14.

57. Related party transactions

57.1 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group entities included in consolidation, including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2014 and 2013 the companies in PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.

57.1.1. Remunerations in parent entity

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below:

Remunerations and other short-term employee benefits paid by PZU	1 January - 31 December 2014		1 January - 31 December 2013	
		including bonuses and special prizes:		including bonuses and special prizes:
Management Board, including:	**8,226**	**2,812**	**9,503**	**3,024**
Andrzej Klesyk	2,714	914	2,780	980
Przemysław Dąbrowski	1,054	313	1,135	336
Dariusz Krzewina	1,314	534	642	-
Barbara Smalska [1)]	1,088	399	593	-
Tomasz Tarkowski	891	228	1,102	336
Ryszard Trepczyński	1,165	424	1,535	736
Bogusław Skuza [2)]	-	-	1,716	636
High level management (Directors of PZU Group), including:	**3,717**	**1,193**	**3,263**	**1,122**
Rafał Grodzicki	936	312	874	250
Przemysław Henschke	936	312	804	180
Dariusz Krzewina [3)]	-	-	291	180
Sławomir Niemierka	860	199	863	200
Barbara Smalska [3)]	-	-	431 [4)]	312 [5)]
Tobiasz Bury	985	370 [6)]	-	-

(in PLN '000)

Supervisory Board, including:	**1,221**	**-**	**1,224**	-
Aleksandra Magaczewska	97	-	-	-
Waldemar Maj	90	-	192	-
Zbigniew Ćwiąkalski	168	-	168	-
Tomasz Zganiacz	144	-	144	-
Dariusz Daniluk	57	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Dariusz Kacprzyk	64	-	-	-
Jakub Karnowski	64	-	-	-
Włodzimierz Kiciński	57	-	120	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-

Remunerations and other short-terms employee benefits paid by other PZU Group entities	1 January - 31 December 2014		1 January - 31 December 2013	
		including bonuses:		including bonuses:
Management Board, including:	**2,942**	**996**	**3,826**	**1,224**
Andrzej Klesyk	-	-	320	-
Przemysław Dąbrowski	599	200	654	255
Dariusz Krzewina	553	133	1,121	561
Barbara Smalska [1]	596	225	327	-
Tomasz Tarkowski	536	179	510	153
Ryszard Trepczyński	658	259	654	255
Bogusław Skuza [2]	-	-	240	-
High level management (Directors of PZU Group), including:	**1,844**	**478**	**2,235**	**1,071**
Rafał Grodzicki	455	119	742	357
Przemysław Henschke	455	119	742	357
Sławomir Niemierka	427	70	751	357
Tobiasz Bury	507	170 [6]	-	-

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries	1 January – 31 December 2014	1 January – 31 December 2013
Management Board, including:	**1307**	**1,343**
Andrzej Klesyk	282	251
Przemysław Dąbrowski	186	167
Dariusz Krzewina [3]	217	214
Barbara Smalska [1] [3]	205	151
Tomasz Tarkowski	191	181
Ryszard Trepczyński	226	166
Bogusław Skuza [2]	-	213
High level management (Directors of PZU Group), including:	**908**	**401**
Rafał Grodzicki	170	183
Przemysław Henschke	203	55
Sławomir Niemierka	358	163
Tobiasz Bury	177	-

[1]) On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014.

[2]) On 27 December 2013, Bogusław Skuza resigned from the position of Member of the Management Board of PZU as at 31 December 2013.

[3]) On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the position of Members of the Management Board effective from 15 March 2013. (additionally Dariusz Krzewina and Barbara Smalska were Directors of PZU Group respectively till 14 March 2013 and form 5 January 2013 respectivly till 14 March 2013)

[4]) The aforementioned amount includes a bonus for 2012 as well as remuneration for the performance of other functions at PZU and PZU Życie until the date of appointment as the Group's Director.

[5]) Amount representing the bonus for 2012 granted during the performance of other functions in PZU and PZU Życie.

[6]) Amount representing the bonus for 2013 granted during the performance of other functions in PZU and PZU Życie.

(in PLN '000)

57.1.2. Remuneration in other PZU Group entities

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

Type of services	1 January – 31 December 2014	1 January – 31 December 2013
Members of the Management Boards	18,786	11,015
Members of the Supervisory Boards	844	898

57.2 Other related party transactions

Balances and turnovers of transactions between PZU Group and related parties	1 January – 31 December 2014 and as at 31 December 2014		1 January – 31 December 2013 and as at 31 December 2013	
	Key management personnel of the major entities [1]	Other related parties[2]	Key management personnel of the major entities [1]	Other related parties[2]
Gross written premium				
in non-life insurance	-	860	-	-
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	-	-	15
Costs	-	18	-	-
Including impairment losses on receivables recognized in current period	-		-	-
Receivables		40		
gross value	-	40	-	8,308
impairment losses	-	-	-	8,306
net value	-	40	-	2
Liabilities	-	11	-	-
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1] High level management, data as per statements.
[2] Non-consolidated companies in liquidation as well as associates and joint ventures measured with the equity method.

57.3 Presentation of transactions with entities related to the State Treasury

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

Non-life insurance contracts, life insurance contracts and investment contracts constituted the majority of transactions with subsidiaries, joint-ventures and associates of the State Treasury. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Insurance receivables from and insurance liabilities to related parties are short-term.

PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to being under control, joint control or significant influence of the same government, as referred to in Par. 25 of IAS 24. However, as such information is useful, PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, joint-ventures and associates of the State Treasury understood only as commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.

(in PLN '000)

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

Entities controlled by, joint-ventures of and entities associated with the State Treasury	1 January – 31 December 2014	1 January – 31 December 2013
Gross written premium - non-life insurance	69,347	102,371
Gross written premium - life insurance	30,749	27,514
Total	**100,096**	**129,885**

57.4 Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury

The tables below comprise written premiums and investment contracts in bancassurance transactions with banks controlled and associated with the State Treasury.

Written premium and volumes of investment contracts	1 January – 31 December 2014	1 January – 31 December 2013
Bank Powszechna Kasa Oszczedności BP SA	**44,815**	**44,994**
PZU gross written premium	14,066	17,480
PZU Życie gross written premium	30,749	27,514
Bank Ochrony Środowiska SA	**1**	**-**
PZU gross written premium	1	-
Bank Gospodarstwa Krajowego SA	**126**	**309**
PZU gross written premium	126	309

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

Gross written premiums[1)] from 10 largest counterparties of PZU Group who are subsidiaries of the State Treasury

Counterparty	1 January - 31 December 2014	Counterparty	1 January - 31 December 2013
Counterparty 1	44,815	Counterparty 1	44,994
Counterparty 2	27,282	Counterparty 6	30,378
Counterparty 3	5,017	Counterparty 8	16,396
Counterparty 4	3,847	Counterparty 11	5,619
Counterparty 5	3,189	Counterparty 4	5,366
Counterparty 6	2,530	Counterparty 5	5,263
Counterparty 7	1,925	Counterparty 3	4,289
Counterparty 8	1,521	Counterparty 2	4,160
Counterparty 9	1,154	Counterparty 7	1,763
Counterparty 10	1,106	Counterparty 9	1,476

[1)] The item includes gross written premium in non-life insurance, life insurance and volumes of investment contracts.

58. Employment

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

Type of services	1 January 31 December 2014	1 January 31 December 2013
Management Boards (number of people at the end of the financial year)	77	42
Management	1,216	957
Advisors	2	11
Other employees	15,629	13,082
Total	**16,924**	**14,092**

The 2014 increase in employment in the PZU Group is a result of the expansion of the PZU Group, by new subsidiaries: (Lietuvos Draudimas AB – 1,092 full-time employees; Link4 – 579 full time employees; AAS Balta – 544 full-time employees; other companies – 572 full-time employees)

(in PLN '000)

59. Other information

59.1 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts due to entities authorised to audit financial statements of PZU paid and payable for the reporting period period, including VAT, and determined on the accrual basis.

Type of services	1 January – 31 December 2014	1 January – 31 December 2013
Audit of the financial statements	714	633
Other assurance services	248	887
Tax advisory services	-	416
Other services	27	34
Total	**989**	**1,970**

[1] KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. is authorized to audit the 2014 financial statements.
[2] Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. was authorized to audit the 2013 financial statements.

An agreement with KPMG Audyt sp. z o.o. sp. k. concerning the reviews and audits of the separate financial statements of PZU and the consolidated financial statements of PZU Group for the years 2014-2016, with an option to extend the agreement for the years 2017-2018, was concluded on 26 June 2014.

59.2 Employment restructuring process

On 8 September 2014 the Management Boards for PZU and PZU Życie decided to continue the process of employment restructuring and announced their intention to o carry out group redundancies, in accordance to the Act from 13 March 2013 on special principles of employment termination for reasons not related to employees (Journal of Laws No. 90 of 2003, item 844, as amended – "Act on special principles of employment termination").

On 11 September 2014, PZU, PZU Życie and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in previous years.

Employment restructuring was conducted during the planned period (October – November 2014) and finally encompassed 643 people within PZU and PZU Życie, while the employment downsizing applied to 171 employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2013) were offered more favourable conditions of leaving than those provided by law. The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

On 18 December 2014, the Management Board of PZU adopted a decided to commence restructuring activities related to the implementation of the new IT systems and automation of operating processes. The expected commencement of the restructuring process is planned for 2015.

As at 31 December 2013, the provision for restructuring expenses amounted to PLN 9,354 thousand.

59.3 Changes in the operation of open-end pension funds

Pursuant to the Act of 6 December 2013 amending certain other acts due to determination of the terms of payment of pension benefits out of the funds accumulated in open-end pension funds (Journal of Laws of 2013, item 1717), changes were introduced to the operation of pension funds. The new legislation 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, OFE PZU transferred the assets corresponding to the redemption value to the Social Insurance Institution. Asset transfer to the Social Insurance Institution will have a significant effect on the revenue earned by PTE PZU on asset management, and consequently on the performance of the "Pension Insurance" segment.

The total effect of the transfer of OFE PZU assets to the Social Insurance Institution as well as other changes to the pension system on the revenue of PTE PZU in 2014 and in the following periods may not be estimated reliably, in particular due to uncertainty as to the final number of members that will continue to transfer premiums to the open-ended pension fund, the amount of such premiums and the period during which they will be transferred to OFE PZU, taking into account the method of transferring the pension entitlements of the insured from OFE PZU to the Social Insurance Institution prior to the actual payment of benefits. The Management Board of PZU is of the opinion that the aforementioned changes will not have an effect on the ability of PTE PZU to continue as a going concern in the foreseeable future.

59.4 Loan and capital injection granted to PZU Lietuva

On 25 September 2014, a subordinated loan agreement was concluded between PZU and PZU Lietuva covering the amount of EUR 46,000 thousand. The purpose of the loan was to provide funds for the acquisition of the Codan Branch and to meet the requirements specified by the Lithuanian supervisory authority in the scope of the minimum solvency margin (prior to and following the acquisition of Codan's assets, the solvency margin amounted to at least 120%). The loan was granted for a minimum of five years and the agreement did not specify the maximum duration of the loan. According to the Lithuanian law, a subordinated loan may be granted for a minimum of five years. The interest rate on the loan was determined on an arm's length basis (3-month EURIBOR rate increased by a margin of 340 bps.)

Under the agreement, a portion of the loan and the accrued interest (including not less than EUR 37,000 thousand) was converted in order to acquire the newly issued shares of PZU Lietuva. On 24 October 2014, the Extraordinary Shareholders' Meeting of PZU Lietuva resolved to increase the share capital of PZU Lietuva by LTL 86,000 thousand through the issuance of 860,000 ordinary shares with the nominal value of LTL 100 each and the share issuance price of LTL 150 per share. The total value of the newly issued shares amounted to LTL 129,000 (approximately EUR 37,361 thousand).

On the same day, an agreement was signed between PZU Lietuva and PZU concerning the acquisition of newly issued shares.

The loan, as a transaction between companies within the Group, is eliminated in the process of drawing up consolidated financial statements and does not affect its structure.

59.5 Loan granted to Link4

On 12 September 2014, a subordinated loan agreement was concluded between PZU and Link4 covering the amount of PLN 30,000 thousand. The loan should be paid on 15 September 2019 or the following working day, whereas an early repayment is possible only in case of liquidation of Link4 or with the consent of the Polish Financial Supervision Authority.

The interest rate on the loan was determined on an arm's length basis (WIBOR 6M rate increased by a margin of 350 bps.)

The loan, as a transaction between companies within PZU Group, is eliminated in the process of drawing up consolidated financial statements and does not affect its structure.

59.6 Inspection of the office of the Polish Financial Supervision Authority in PZU Życie

During the period between 12 August and 3 October 2014 the Polish Financial Supervision Authority conducted an inspection at PZU Życie. The inspection covered PZU Życie's operations and its financial status in respect of:

- organisation and management;
- bookkeeping;
- investment policy;
- technical provisions;
- fulfilment of benefits.

Until the date of signing the consolidated financial statements PZU Życie has not received the inspection report.

59.7 Situation in Ukraine

During 2014 Ukraine's political and economic situation has deteriorated significantly. Social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit, a depletion of the National Bank of Ukraine's foreign currency reserves, a further downgrading of the Ukrainian sovereign debt credit ratings and significant depreciation of Ukrainian hryvnia.

In connection with this volatile situation the management boards of PZU Ukraine and PZU Ukraine Life Insurance (hereinafter collectively referred to as the "Ukrainian Companies") have made the following decisions in order to mitigate the risk:

- in the scope of insurance activity, apart from standard exceptions (war, terrorism, etc.), insurance coverage does not apply to third party operations performed in violation of the law. In addition, it has been decided to temporarily suspend conclusion and renewal of non-life insurance contracts with natural and legal persons, including property that is subject to a lien or mortgage, if the contract is executed in the territory of Donetsk and Luhansk regions. The same applies to forwarding agent and carrier liability insurance, as well as cargo insurance, if the freight lane passes through the territory of the above mentioned regions;
- the regional office of PZU Ukraine in Simferopol and its customer service centre in Sevastopol are closed. In addition, four sales offices and two agencies were closed in the Donetsk and Luhansk regions;
- actions have been taken to transfer part of the assets, such as cash at current accounts and bank deposits owned by the Ukrainian Companies, to selected banks operating in Ukraine. The main criterion applied when making the above selection is whether a given institution has a trustworthy foreign majority shareholder.

Both in 2014 and early 2015, the Ukrainian Companies realised their sales plans approved by the Supervisory Board.

The Management Board of PZU, in cooperation with the management boards of the Ukrainian Companies, constantly monitors the situation in Ukraine. As at the date of this consolidated financial statements, the Management Board of PZU assumes that the Ukrainian Companies will continue their business activity in accordance with the approved objectives. Nevertheless, a continuation of the current unstable business environment could negatively affect in the future the Ukrainian Companies' results and financial position in a manner not currently determinable. These consolidated financial statements reflects the current assessment of the Management Board of PZU in this respect.

59.8 Revenue from the exchange of goods and services

Neither in 2014, nor in 2013 PZU Group did not obtain any revenues from the exchange of goods and services.

59.9 Events after the financial year

59.9.1. The sale of PZU Lietuva shares

On 2 February 2015, a share sales agreement for the sale of PZU Lietuva shares was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of LTL 100 (EUR 28,96) each, representing a total of 99.879% of the share capital of PZU Lietuva.

The share of sales is conditional on the meeting of the following conditions precedent:

- the lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lietuva by the purchaser;
- consent of the Latvian and Estonia antitrust authorities or a written confirmation that such consent is not required;
- consent of the Lithuanian Competition Council;
- completion of the process of separating assets and liabilities of PZU Lietuva related to the operations carried out by the branches of PZU Lietuva in Latvia and Estonia to PZU Group;
- obtaining the consent of the Bank of Lithuania on the early repayment by PZU Lietuva of a subordinated loan granted to PZU Lietuva by PZU;
- consent of the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lietuva by the purchaser;
- waiver of the preemptive right by the minority shareholder of PZU Lietuva (holding 0.121% of the share capital) in relation to the shares of PZU Lietuva in favour of PZU;
- consent of the Lithuanian government commission for the purchase of the shares in PZU Lietuva by the purchaser or a written confirmation that such consent is not required.

The above mentioned conditions should be met on 30 November 2015.

The price of the shares of PZU Lietuva amounts to EUR 54,000 thousand and the estimated amount of compensation constituting the difference between the estimated value of net assets and the notional value of net assets, as well as the as well as 4 payments made every 6 months, each in the amount of 1.5% of the amount of excess capital calculated as the difference between the actual equity of PZU Lietuva determined in accordance with the requirements of the Bank of Lithuania and the required PZU Lietuva capital calculated in accordance with the provisions of law and regulations binding PZU Lietuva.

59.9.2. Purchasing of Aquaform SA shares

On 15 January 2015, a share sales agreement for the sale of Aquaform SA shares was concluded between Saniku SA and Shower Star B.V. (Sellers) and Armatura Kraków SA and Armatoora SA (Buyer). Pursuant to that agreement, Armatura Kraków SA and Armatoora SA purchased 8,421,053 shares in the Aquaform SA company, with a nominal value of PLN 0.38 per share.

The purchase price consists of a fixed price of EUR 5,300 thousand and an additional price which constitutes 6.5% of the total sales value exceeding EUR 24,000 thousand obtained by Aquaform SA on markets in Germany, Austria, Switzerland, France, the Netherlands and Luxembourg in the years 2015-2017.

The total share of Armatura Kraków SA and Armatoora SA in the share capital of Aquaform SA amounts to 84.21%, which translates into 84.21% votes in the Shareholders' Meeting.

59.9.3. Administrative proceedings conducted by the Office of Competition and Consumer Protection

On 30 January 2015 PZU Życie received notice dated 26 January 2015 informing that administrative proceeding has been started, concerning practices that infringe the collective interest of consumers.

59.9.4. Settlement of the acquisition of shares of Link4

On 11 March 2014, the final settlement of acquisition of Link4 shares was prepared, which was described in the Note 2.4.5.2. As a result of difference between the final value of net assets and the notional value, RSA paid to PZU abovementioned difference amounted to EUR 2,070 thousand. The final purchase price amounted EUR 91,816 thousand.

Signatures of members of the Management Board of PZU

Name and surname	Position	
Andrzej Klesyk	President of the Management Board	.... (signature)
Przemysław Dąbrowski	Board Member	.... (signature)
Dariusz Krzewina	Board Member	.... (signature)
Tomasz Tarkowski	Board Member	.... (signature)
Ryszard Trepczyński	Board Member	.... (signature)

Person responsible for preparation of the consolidated financial statements:

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

Warsaw, 16 March 2015