

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2009 FINANCIAL YEAR
WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the attached consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group, for which Powszechny Zakład Ubezpieczeń Spółka Akcyjna with the registered office in Warsaw, Al. Jana Pawła II 24 is the Parent Company ("Parent Company"), including:

- consolidated statement of financial position prepared as at 31 December 2009, with total assets and equity and liabilities of PLN 53,176,209 thousand;
- consolidated income statement for the period from 1 January 2009 to 31 December 2009, disclosing a net profit of PLN 3,762,911 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2009 to 31 December 2009 disclosing a total comprehensive income of PLN 3,964,429 thousand;
- consolidated statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing a decrease in equity of PLN 8,785,511 thousand;
- consolidated statement of cash flows for the period from 1 January 2009 to 31 December 2009, disclosing a cash outflow of PLN 166,405 thousand;
- additional information and explanations, including information on the adopted accounting policy and other explanatory notes.

Preparation of these consolidated financial statements has been the responsibility of the Management Board of the Parent Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

The statutory consolidated financial statements have been prepared by the Parent Company in accordance with the International Financial Reporting Standards (IFRS) in the form adopted by the European Union. The statutory consolidated financial statements of the Capital Group for the previous financial year ended 31 December 2008 were prepared in line with the Accounting Act and were audited by another certified auditor, who issued an unqualified opinion of 15 April 2009 on these financial statements. The consolidated financial statements of the Capital Group for the previous financial year ended 31 December 2008 were prepared by the Parent Company in accordance with the International Financial Reporting Standards (IFRS) in the form approved by the European Union. The aforementioned financial statements were audited by another certified auditor, who issued an emphasis of matter opinion of 5 June 2009 on these financial statements. The financial statements constitute a comparable base for the data presented in the 2009 consolidated financial statements. Our opinion refers only to the consolidated financial statements for the financial year ended 31 December 2009.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Journal of Law from 2009, no. 152, item 1223 with subsequent amendments);
- auditing standards issued by the National Council of Statutory Auditors in Poland;

in such a way as to obtain a reasonable and sufficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included, in particular, examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, the audited financial statements of the Powszechny Zakład Ubezpieczeń SA Capital Group for the 2009 financial year were prepared in all material respects based on the accounting records kept in line with the Accounting Act of 29 September 1994 and give a true and fair view of all information essential for evaluating the financial and economic position as well as the financial result of the PZU Group for the 12-month period ended 31 December 2009 and as at that date, in accordance with International Financial Reporting Standards, as approved by the European Union.

Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the fact presented in item 1 of the consolidated financial statements, that the Parent Company has prepared the consolidated financial statements for statutory purposes in line with the principles set out in the International Financial Reporting Standards in the form approved by the European Union pursuant to the resolution of the Extraordinary Shareholders' Meeting of 3 March 2010 on conditional adoption of the IFRS under Article 55 clause 6 of the Accounting Act applicable to consolidated financial statements of entities intending to apply for admission to trading securities on a regulated market. The condition allowing for the adoption of the IFRS will be met when the entity has filed a motion to approve its prospectus by the Polish Financial Supervision Authority under the Act of 29 July 2005 on trading financial instruments (Journal of Law from 2005, no. 183, item 1538, with subsequent amendments).

The Report on the activities of the Capital Group in the 2009 financial year is complete within the meaning of Article 49 clause 2 of the Accounting Act and consistent with the underlying information disclosed in the audited consolidated financial statements.

Piotr Sokołowski
Deputy Chairman of the Board
Certified auditor
No. 9752

Dariusz Szkaradek
Member of the Board
Certified auditor
No. 9935

Jacek Marczak
Certified auditor
No. 9750

Represented by

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warsaw

Entity entitled to audit financial
statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 7 March 2010

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT SUPPLEMENTING THE AUDITOR'S OPINION ON THE AUDIT
OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNY
ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP FOR THE
2009 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited entity

The Parent Company of the Capital Group operates under the name Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("Parent Company" or "Company"). The Parent Company's registered address is located in Warsaw, Al. Jana Pawła II 24.

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw at Al. Jana Pawła II 24, was established via transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company, pursuant to Article 97 of the Act of 28 July 1990 on insurance activity (consolidated text, Journal of Law from 1996, no. 11, item 62, as amended).

The terms and procedures of transformation and assignment of liabilities of Państwowy Zakład Ubezpieczeń are governed by the Ordinance of the Minister of Finance of 18 December 1991 (Journal of Law from 1991, no. 119, item 522). Formal and actual transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company took place on 23 December 1991 pursuant to a notarized deed Rep. A-III-21516/91.

Currently, the Company is recorded in the register of entrepreneurs kept by the District Court for the capital city of Warsaw, XII Business-Registry Division in Warsaw under number KRS9831.

The Company has the following tax identification number NIP: 526-025-10-49, assigned by the Second Tax Office Warszawa-Śródmieście on 4 June 1993. The REGON number assigned to the Company by the Statistical Office on 5 July 1993 is: 010001345.

The Company operates based on the provisions of the Code of Commercial Companies.

According to the Statistical Classification of Economic Activities in the European Community, the Company's core business involves insurance (EKD 6603) including other personal and property insurance (Section II of the Attachment to the Act of 22 May 2003 on insurance activity (Journal of Law from 2003, no. 124, item 1151, "Insurance Act").

As of 31 December 2009, the Company's share capital equaled PLN 86,352,300 and was divided into 86,352,300 ordinary shares with nominal value of PLN 1 each. As of 2 December 2009 (the date of the last Shareholders' Meeting) the Company's shareholders included:

– State Treasury	– 50.1875% of shares;
– Eureko B.V	– 22.9953% of shares;
– Kappa SA	– 14.9000% of shares;
– Other shareholders	– 11.9172% of shares.

"Other shareholders" includes employees who acquired shares from the State Treasury free of charge as well as individuals and legal persons that subsequently bought the shares from such employees.

No changes in the Company's share capital took place during the financial year.

No changes in the Company's share capital took place after the balance sheet date.
The Capital Group's financial year is a calendar year.

As at the opinion date, the composition of the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna was as follows:

- Andrzej Klesyk – President of the Management Board;
- Rafał Stankiewicz – Member of the Management Board;
- Witold Jaworski – Member of the Management Board.

The following changes in the Parent Company's Management Board took place during the audited period:

- Magdalena Nawłoka was dismissed from the position of Deputy Chairman of the Board on 1 October 2009.

The above changes were filed with and recorded in the appropriate court register.

As of 31 December 2009, the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group included:

- the Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna and
- Subsidiaries:
 - Powszechny Zakład Ubezpieczeń na Życie SA
 - Powszechne Towarzystwo Emerytalne PZU SA
 - PZU Centrum Operacji SA – former Centrum Informatyki Grupy PZU SA
 - PZU Tower Sp. z o.o.
 - PrJSC Insurance Company PZU Ukraine and its subsidiaries
 - UAB DK PZU Lietuva
 - Ogrodowa-Inwestycje Sp. z o.o.
 - PZU Pomoc SA
 - Ipsilon Sp. z o.o.
 - Syta Development Sp. z o.o. in liquidation
 - Towarzystwo Funduszy Inwestycyjnych PZU SA
 - Sigma Investments Sp. z o.o.
 - PZU Asset Management SA
 - Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA
 - PrJSC IC PZU Ukraine Life Insurance
 - UAB PZU Lietuva Gyvybes Draudimas
 - Krakowska Fabryka Armatur SA and its subsidiaries
 - ICH Center SA
- associates:
 - Kolej Gondolowa Jaworzyna Krynicka SA
 - Nadwiślańska Agencja Ubezpieczeniowa SA

As at 31 December 2009 the consolidated financial statements included the following companies and entities:

- a) the Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the statutory financial statements of the Parent Company Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period from 1 January to 31 December 2009. As a result of our audit on 7 March 2010 we issued an unqualified opinion.

b) Companies and entities subject to consolidation using the full method:

Name and address of the Company	Share in the capital (%)	Name of the entity that audited the financial statements/consolidation package and type of opinion issued	Opinion date
Powszechny Zakład Ubezpieczeń na Życie SA	100%	Deloitte Audyt Sp. z o.o. - unqualified opinion	7 March 2010
Powszechne Towarzystwo Emerytalne PZU SA	100%	Deloitte Audyt Sp. z o.o. - unqualified opinion	5 February 2010
PZU Centrum Operacji SA – former Centrum Informatyki Grupy PZU SA	100%	Deloitte Audyt Sp. z o.o. - unqualified opinion	12 February 2010
PZU Tower Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. - unqualified opinion	10 February 2010
PrJSC Insurance Company PZU Ukraine	100%	Deloitte Ukraine – unqualified opinion	10 February 2010
UAB DK PZU Lietuva	99,76%	Deloitte Lietuva UAB - unqualified opinion	10 February 2010
Ogrodowa-Inwestycje Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. - unqualified opinion	10 February 2010
PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych Polonez	50,71%	Ernst & Young Audit Sp. z o.o. - unqualified opinion	19 February 2010

In the view of insignificance for the Capital Group profit/loss, the following companies were excluded from consolidation:

Company's name	Share in the capital (%)	Relationship	Value of shares at cost including impairment (PLN '000)
TFI PZU SA	100%	Subsidiary	24,793
PZU Asset Management SA	100%	Subsidiary	4,642
PZU Pomoc SA	100%	Subsidiary	10,950
UAB PZU Lietuva Gyvybes Draudimas	99.34%	Subsidiary	40,235
PrJSC IC PZU Ukraine Life Insurance	100%	Subsidiary	8,697
Krakowska Fabryka Armatur SA (Capital Group)	64.63%	Subsidiary	42,952
ICH Center SA	90%	Subsidiary	1,292
Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	100%	Subsidiary	500
Ipsilon Sp. z o.o.	100%	Subsidiary	52
Syta Development Sp. z o.o. in liquidation	100%	Subsidiary	0
Sigma Investments Sp. z o.o.	100%	Subsidiary	50
Kolej Gondolowa Jaworzyna Krynicka SA	37.53%	Associated entity	5,347
Nadwiślańska Agencja Ubezpieczeniowa SA	30%	Associated entity	540
Total			140,050

2. Information on the consolidated financial statements for the previous financial year

The activities of the Capital Group in 2008 resulted in a net profit of PLN 2,344,449 thousand. The consolidated financial statements of the Capital Group for the 2008 financial year prepared in line with the Accounting Act were audited by a certified auditor. The audit was performed by the authorized entity Ernst & Young Audit Sp. z o.o. On 15 April 2009, the certified auditor issued an unqualified opinion on these financial statements.

The Capital Group also prepared the consolidated financial statements for the previous financial year in accordance with the International Financial Reporting Standards in the form approved by the European Union. The financial statements were audited by another certified auditor, who issued an emphasis of matter opinion on 5 June 2009 which constitutes a comparable base for the 2009 consolidated financial statements.

The Shareholders Meeting which approved the statutory consolidated financial statements for the 2008 financial year was held on 29 July 2009.

The consolidated financial statements for the 2008 financial year were submitted in accordance with the law to the National Court Register on 11 August 2009. The financial statements were published in Monitor Polski B no. 2235 on 9 November 2009.

3. Data identifying the entity authorized to audit financial statements and the certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 28 August 2009 concluded between Powszechny Zakład Ubezpieczeń Spółka Akcyjna and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, Al. Jana Pawła II 19, registered under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of a certified auditor Jacek Marczak (No. 9750), in the registered office of the Parent Company and outside its premises from 8 February to 7 March 2010.

The authorized entity was appointed by the Supervisory Board by resolution of 13 August 2009 based on authorization presented in Article 22, clause 2, point 10 of the Parent Company.

The Company prepared the consolidated financial statements for statutory purposes in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union pursuant to the resolution of the Extraordinary Shareholders Meeting of 3 March 2010 on the conditions of adopting the IFRS in compliance with Article 55 clause 6 of the Accounting Act applicable to consolidated financial statements of entities intending to apply for admission to trading securities on a regulated market. The condition allowing for the adoption of the IFRS will be met when the entity has filed a motion to approve its prospectus by the Polish Financial Supervision Authority under the Act of 29 July 2005 on trading financial instruments (Journal of Law from 2005, no. 183, item 1538, with subsequent amendments).

Deloitte Audyt Sp. z o. o. and the certified auditor Jacek Marczak confirm that they are authorized to carry out audits of financial statements and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing bodies, entities authorized to audit financial statements and public supervision (Journal of Law from 2009, no. 77, item 649) to express an unbiased and independent opinion on the consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group.

4. Availability of data and management representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the certified auditor, as confirmed in a written representation of the Management Board of the Parent Company of 7 March 2010.

5. Economic and financial position of the Capital Group

Presented below are the main items from the consolidated statement of financial position, consolidated income statement and consolidated statement of other comprehensive income as well as financial ratios describing the financial profit/loss of the Capital Group and its financial position as compared with the same items in the previous year.

<u>Selected items from the statement of financial position</u> <u>(in PLN '000)</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
Intangible assets	85,069	69,573
Property, plant and equipment	1,043,811	1,085,561
Investment property	346,552	282,678
Financial assets	48,237,593	54,220,993
Receivables	1,383,978	1,412,184
Reinsurers' share in technical provisions	748,313	884,852
Total assets	53,176,209	59,359,041
Equity	11,266,879	20,052,390
Undistributed profit / uncovered loss	5,377,826	5,371,288
Technical provisions	30,481,797	30,767,412
Investment contracts	3,726,529	5,991,121
Other provisions	575,541	498,387
Provision for deferred income tax	444,053	205,273
Other liabilities	5,974,052	1,082,161
Accruals and deferred income	700,769	652,573
<u>Selected items from the consolidated income statement</u> <u>(in PLN '000)</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
Net earned premiums	14,485,214	14,285,612
Net investment income	2,363,384	2,411,755
Revenue from commissions and fees	340,876	338,022
Net profit/loss on realization and impairment loss on investments	261,310	(855,895)
Net change in the fair value of assets and liabilities measured at fair value	844,307	(975,962)
Other operating revenue	260,066	192,266
Net insurance claims	(9,436,281)	(8,592,057)
Acquisition costs	(1,839,605)	(1,668,023)
Administrative expenses	(1,808,881)	(1,774,846)
Claims and change in measurement of investment contracts	(275,057)	245,505
Income tax	(802,900)	(601,340)
Net profit	3,762,911	2,329,718
<u>Main items from the consolidated statement of other comprehensive income (in PLN '000)</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
Net profit	3,762,911	2,329,718
Other comprehensive income	201,518	(113,409)
Net comprehensive income total	3,964,429	2,216,309

<u>Profitability ratios</u>	<u>2009</u>	<u>2008</u>
– profitability ratio on the basis of gross premium written (net profit / gross written premium)	26.2%	16.0%
– profitability ratio on the basis of net premium written (net profit / net written premium)	26.5%	16.1%
<u>Claims ratios</u>		
– gross claims ratio (claims and change in technical provisions/gross earned premium)	64.7%	59.0%
– net claims ratio (claims and net change in technical provisions/net earned premium)	65.1%	60.1%
<u>Total operating costs ratio</u>		
– administrative expenses ratio (administrative expenses/gross written premium)	12.6%	12.2%
– acquisition costs ratio (acquisition costs/gross written premium)	12.8%	11.5%
<u>Return on investment and equity ratios:</u>		
– investment level ratio (financial assets and investment property / equity and technical provisions less reinsurers' share as at the end of the reporting period)	117.7%	108.6%
– return on equity (net profit/average equity) ¹	24.0%	12.3%
<u>Solvency and funds security ratios</u>		
– provision allocation ratio (financial assets and investment property / technical provisions less reinsurers' share)	162.2%	181.4%

The analysis of the above figures and ratios identified the following trends in 2009:

- an increase in profitability ratio on the basis of gross written premium from 16.0% in 2008 to 26.2% in 2009;
- an increase in profitability ratio on the basis of net written premium from 16.1% in 2008 to 26.5% in 2009;
- an increase in gross claims ratio from 59.0% in 2008 to 64.7% in 2009;
- an increase in net claims ratio from 60.1% in 2008 to 65.1% in 2009;
- an increase in investment level ratio from 108.6% at the end of 2008 to 117.7% at the end of 2009;
- an increase in return on equity from 12.3% in 2008 to 24.0% in 2009;
- a decrease in provision allocation ratio from 181.4% at the end of 2008 to 162.2% at the end of 2009.

¹ The average calculated as an arithmetic average of the equity balance as at the beginning and the end of the reporting period.

II. DETAILED INFORMATION

1. Information on the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2009 and include:

- consolidated statement of financial position prepared as at 31 December 2009, with total assets and equity and liabilities of PLN 53.176.209 thousand;
- consolidated income statement for the period from 1 January 2009 to 31 December 2009, disclosing a net profit of PLN 3,762.911 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2009 to 31 December 2009 disclosing a total comprehensive income of PLN 3.964.429 thousand;
- consolidated statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing a decrease in equity of PLN 8.785.511 thousand;
- consolidated statement of cash flows for the period from 1 January 2009 to 31 December 2009, disclosing a cash outflow of PLN 166.405 thousand;
- additional information and explanations, including information on the adopted accounting policy and other explanatory notes.

The structure of assets and equity plus liabilities as well as items affecting the financial result has been presented in the consolidated financial statements.

The audit covered the period from 1 January to 31 December 2009 and consisted mainly in:

- auditing the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
- auditing the consolidation documentation;
- evaluating the correctness of consolidation methods and procedures applied during consolidation;
- review of opinions and reports on the audit of financial statements of subsidiaries and other entities included in consolidation, prepared by other certified auditors;

The audit of the consolidated financial statements was conducted in line with the relevant legal regulations as well as auditing standards issued by the National Council of Statutory Auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

- 1) statutory financial statements of entities covered by the consolidated financial statements;
- 2) consolidation packages of subsidiaries covered by the consolidated financial statement appropriated adjusted in accordance with IFRS and accounting principles (policy) of the Group applied in consolidation;
- 3) consolidation packages of subsidiaries translated into PLN;
- 4) all consolidation adjustments and eliminations, necessary for the preparation of the consolidated financial statements;
- 5) calculation of impairment of goodwill;
- 6) calculation of minority interest;
- 7) calculation of exchange rate difference from translation of financial statements of subsidiaries expressed in foreign currencies.

Basis for preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2009 financial year were prepared in accordance with the International Financial Reporting Standards in the form approved by the European Union.

Description of the entities within the Capital Group

The criteria specified in the International Financial Reporting Standards were applied when determining relationships as well as the consolidation scope and methods.

Financial period

The consolidated financial statements were prepared as of the same balance sheet date and the same financial year as the financial statements of the Parent Company – Powsechny Zakład Ubezpieczeń Spółka Akcyjna. Subsidiaries included in consolidation prepared financial statements as of the same balance sheet date as the Parent Company. The financial year of all subsidiaries included in consolidation ended 31 December 2009.

Consolidation method

The consolidation of the financial statements of the Capital Group, as regards subsidiaries, was carried out in line with the full method by summing up all individual respective items of financial statements of the Parent Company and subsidiaries included in consolidation.

After adding up the values, consolidation adjustments and exclusions were applied to:

- acquisition value of shares held by the Parent Company in subsidiaries and part of net assets of subsidiaries, corresponding to the interest held by the Parent Company in these entities;
- mutual receivables and liabilities of entities included in consolidation;
- material revenue and expenses related to transactions between entities included in consolidation.

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

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

The Parent Company confirmed the validity of the going concern principle followed in the preparation of the consolidated financial statements. The additional information and explanations to the consolidated financial statements give a correct and complete description of valuation principles regarding assets and liabilities plus equity, principles of measurement of the financial profit/loss as well as method of preparation of the consolidated financial statements.

The Parent Company prepared the additional information and explanations in the form of tabular notes to individual items in the consolidated statement of financial position, income statement and statement of comprehensive income as well as narrative descriptions in line with IFRS. Explanatory notes describing: property, plant and equipment, intangible assets and provisions, including technical provisions correctly present increases and decreases as well as their basis during the financial year. Limited disposability was indicated for individual assets presented in the consolidated statement of financial position, as some of them constituted collateral of creditors.

Individual assets and equity and liabilities as well as revenue and expenses were correctly presented by the Parent Company in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows with additional notes,

information and explanations constituting an integral part thereof, contain all the items, whose disclosure in the financial statements is required by the provisions of IFRS.

The Report on the activities of the Capital Group in the 2009 financial year is complete within the meaning of Article 49 clause 2 of the Accounting Act and consistent with the underlying information disclosed in the audited consolidated financial statements.

4. Final information and findings

Management Board's Representations

Deloitte Audyt Sp. z o.o. and the certified auditor received a representation letter from the Management Board of the Parent Company in which the Board stated that the companies from the PZU Capital Group complied with the laws in force.

Piotr Sokołowski
Deputy Chairman of the Board
Certified auditor
No. 9752

Dariusz Szkaradek
Member of the Board
Certified auditor
No. 9935

Jacek Marczak
Certified auditor
No. 9750

Represented by

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warsaw

Entity entitled to audit financial
statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 7 March 2010

**CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2009
PREPARED IN LINE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN '000)

Assets	Note	31 December 2009	31 December 2008
Intangible assets	9	85 069	69 573
Goodwill	10	19 631	20 216
Property, plant and equipment	11	1 043 811	1 085 561
Investment property	12	346 552	282 678
Entities measured using the equity method		-	-
Financial assets			
Financial instruments held to maturity	13.1	23 327 568	24 567 510
Financial instruments available for sale	13.2	10 027 845	11 570 255
Financial instruments measured at fair value through profit or loss	13.3	10 213 631	9 744 200
Loans	13.4	4 668 549	8 339 028
Receivables, including receivables from insurance contracts	14	1 383 978	1 412 184
Reinsurers' share in technical provisions	15	748 313	884 852
Estimated recoveries and recourses	17	82 330	56 649
Deferred tax assets	18	24 913	9 869
Current income tax receivables	19	87 599	334
Deferred acquisition costs	20	481 139	454 198
Prepayments	21	252 944	291 417
Other assets	22	15 781	11 723
Cash and cash equivalents	23	366 556	533 206
Assets used in continuing operations		53 176 209	59 333 453
Non-current assets held for sale and disposal groups	24	-	25 588
Total assets		53 176 209	59 359 041

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

(in PLN '000)

Equity and liabilities	Note	31 December 2009	31 December 2008
Equity			
Issued share capital and other equity attributable to the shareholders of the parent			
Share capital	25.1	86 352	86 352
Other capitals		5 802 568	14 594 582
Supplementary capital		5 485 014	14 478 547
Revaluation reserve	25.2	340 970	139 314
Exchange differences from translation of controlled entities	26	(23 416)	(23 279)
Undistributed profit / uncovered loss		5 377 826	5 371 288
Previous year profit (loss)		2 365 282	3 041 547
Net profit (loss)		3 762 945	2 329 741
Appropriations on net profit during the financial year		(750 401)	-
Minority interest		133	168
Total equity		11 266 879	20 052 390
Liabilities			
Technical provisions	27		
Provision for unearned premiums and for unexpired risks		3 846 600	4 126 583
Life insurance provision		14 582 590	15 289 073
Provisions for outstanding claims		4 456 464	4 322 352
Provision for capitalized value of annuity claims		4 874 653	4 528 618
Provisions for bonuses and rebates for the insured		5 071	1 553
Other technical provisions		698 918	733 944
Unit linked technical provisions		2 017 501	1 765 289
Investment contracts	28		
- with guaranteed and fixed terms and conditions		2 632 054	4 964 593
- for the client and at the client's risk		1 094 475	1 026 528
Provisions for employee benefits	29	260 946	261 911
Other provisions	30	314 595	236 476
Provision for deferred income tax	31	444 053	205 273
Current income tax liabilities	32	3 056	81 992
Derivatives		3 533	27 732
Other liabilities	33	5 974 052	1 082 161
Accruals and deferred income	34		
Cost accruals		464 126	391 400
Deferred income		236 643	261 173
Liabilities related to continuing operations		41 909 330	39 306 651
Liabilities directly related to non-current assets classified as held for sale		-	-
Total liabilities		41 909 330	39 306 651
Total equity and liabilities		53 176 209	59 359 041

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

CONSOLIDATED INCOME STATEMENT

(in PLN '000)

Consolidated income statement	Note	1 January – 31 December 2009	1 January – 31 December 2008
Gross written premiums	35	14 362 717	14 563 147
Reinsurer's share in the written premium		(162 758)	(130 395)
Net written premium		14 199 959	14 432 752
Change in net provision for unearned premium		285 255	(147 140)
Net earned premiums		14 485 214	14 285 612
Revenue from commissions and fees	36	340 876	338 022
Net investment income	37	2 363 384	2 411 755
Net profit or loss on realization and impairment loss on investments	38	261 310	(855 895)
Net change in the fair value of assets and liabilities plus equity measured at fair value	39	844 307	(975 962)
Other operating revenue	40	260 066	192 266
Claims and change in technical provisions		(9 470 174)	(8 503 230)
Reinsurers' share in claims and change in technical provisions		33 893	(88 827)
Net insurance claims	41	(9 436 281)	(8 592 057)
Claims and change in measurement of investment contracts	42	(275 057)	245 505
Acquisition expense	43	(1 839 605)	(1 668 023)
Administrative expense	44	(1 808 881)	(1 774 846)
Other operating expense	56	(593 582)	(675 319)
Operating profit (loss)		4 601 751	2 931 058
Financial expense	47	(35 940)	-
Share in net profit (loss) of entities measured using the equity method		-	-
Gross profit (loss)	49	4 565 811	2 931 058
Income tax			
- current portion		(632 407)	(773 920)
- deferred portion		(170 493)	172 580
Net profit (loss), including:		3 762 911	2 329 718
- profit (loss) attributable to equity holders of the parent		3 762 945	2 329 741
- minority profits (loss)		(34)	(23)
 Net profit (loss) from continuing operations		 3 762 911	 2 329 718
Net profit (loss) from discontinued operations		-	-
Weighted average basic and diluted number of ordinary shares		86 352 300	86 352 300
Basic and diluted profit (loss) on continuing operations per ordinary share (in PLN)		43,58	26,98
Basic and diluted profit (loss) on discontinued operations per ordinary share (in PLN)		-	-
Basic and diluted profit (loss) per ordinary share (in PLN)		43,58	26,98

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN '000)

Consolidated statement of comprehensive income	1 January – 31 December 2009	1 January – 31 December 2008
Net profit (loss)	3 762 911	2 329 718
Other comprehensive income:	201 518	(113 409)
Financial assets available for sale	184 693	(108 402)
Exchange differences from translation of controlled entities	(138)	(5 281)
Real property reclassified from property, plant and equipment to investment property	16 963	274
Net comprehensive income total	3 964 429	2 216 309
- comprehensive income attributable to holders of the parent's equity	3 964 464	2 216 288
- comprehensive income attributable to equity under discretionary participation features	-	-
contracts		
- comprehensive income attributable to minority interest	(35)	21

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in PLN '000)

Statement of changes in consolidated Equity	Equity and provisions attributable to owners of the parent's share capital							Minority interest	Total equity
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Appropriations of net profit during the financial year (negative value)		
Balance as at 1 January 2009	86 352	14 478 547	139 314	(23 279)	5 371 288	-	-	168	20 052 390
Change in measurement of AFS financial assets	-	-	184 693	-	-	-	-	-	184 693
Exchange differences from translation	-	-	-	(137)	-	-	-	(1)	(138)
Real property reclassified from property, plant and equipment to investment property	-	-	16 963	-	-	-	-	-	16 963
Total increases (decreases) recognized directly in net capital (including income tax)	-	-	201 656	(137)	-	-	-	(1)	201 518
Net profit (loss) for the financial year	-	-	-	-	-	3 762 945	-	(34)	3 762 911
Total increases (decreases)	-	-	201 656	(137)	-	3 762 945	-	(35)	3 964 429
Other changes, including:	-	(8 993 533)	-	-	(3 006 006)	-	(750 401)	-	(12 749 940)
Distribution of the financial profit/loss to Supplementary capital	-	3 005 798	-	-	(3 005 798)	-	-	-	-
Advance payment for dividend	-	(11 999 516)	-	-	-	-	(750 401)	-	(12 749 917)
Other	-	185	-	-	(208)	-	-	-	(23)
Balance as at 31 December 2009	86 352	5 485 014	340 970	(23 416)	2 365 282	3 762 945	(750 401)	133	11 266 879

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

(in PLN '000)

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's equity						Minority interest	Total equity
	Share capital	Supplementary capital	Other capitals	Exchange differences from translation	Previous year profit (loss)	Undistributed profit / uncovered loss		
			Revaluation reserve			Net profit (loss)		
Balance at 1 January 2008	86 352	13 058 343	247 442	(17 954)	4 461 760	-	147	17 836 090
Change in measurement of AFS financial assets	-	-	(108 402)	-	-	-	-	(108 402)
Exchange differences from translation	-	-	-	(5 325)	-	-	44	(5 281)
Real property reclassified from property, plant and equipment to investment property	-	-	274	-	-	-	-	274
Total increases (decreases) recognized directly in net capital (including income tax)	-	-	(108 128)	(5 325)	-	-	44	(113 409)
Net profit (loss) for the financial year	-	-	-	-	-	2 329 741	(23)	2 329 718
Total increases (decreases)	-	-	(108 128)	(5 325)	-	2 329 741	21	2 216 309
Other changes, including:	-	1 420 204	-	-	(1 420 213)	-	-	(9)
Financial profit/loss reclassified to supplementary capital	-	1 420 088	-	-	(1 420 088)	-	-	-
Other	-	116	-	-	(125)	-	-	(9)
Balance at 31 December 2008	86 352	14 478 547	139 314	(23 279)	3 041 547	2 329 741	168	20 052 390

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN '000)

Consolidated statement of cash flows	1 January – 31 December 2009	1 January – 31 December 2008
Cash flows from operating activities		
Inflows	19 181 014	22 487 003
- gross inflows from insurance premiums	14 526 646	14 621 987
- inflows from investment contracts	3 576 627	6 952 972
- inflows from reinsurance commissions and share in reinsurers' profits	11 781	9 073
- reinsurers' payments due to share in claims	173 025	102 679
- other inflows from operating activities	892 935	800 292
Outflows	(20 721 570)	(17 872 129)
- insurance premiums paid due to reinsurance	(143 575)	(124 820)
- paid commissions and profit sharing due to outward reinsurance	(24 413)	(17 358)
- gross claims paid	(8 871 634)	(8 567 232)
- claims paid due to investment contracts	(5 991 022)	(3 343 550)
- outflows due to acquisition	(1 322 888)	(1 218 617)
- administrative outflows	(2 142 752)	(2 187 420)
- interest payments	(170)	(46)
- income tax payments	(617 902)	(1 126 338)
- other operating outflows	(1 607 214)	(1 286 748)
Net cash flows generated by operating activities	(1 540 556)	4 614 874
Cash flows from investment activities		
Inflows	419 444 801	433 485 216
- inflows from investment property	6 546	21 273
- disposal of intangible assets and property, plant and equipment	2 712	4 552
- disposal of shares	3 430 935	3 630 097
- redemption of debt securities	34 672 090	20 237 927
- withdrawal of term deposits at credit institutions	182 406 133	206 864 509
- cash from other investments	197 472 475	201 421 476
- interest received	1 393 811	1 189 603
- dividends received	60 030	114 332
- other inflows from investments	69	1 447
Outflows	(410 040 675)	(438 136 757)
- acquisition of investment property	(283)	(1 420)
- payments for maintenance of investment property	(8 431)	(13 422)
- acquisition of intangible assets and property, plant and equipment	(155 781)	(382 571)
- acquisition of shares	(3 625 911)	(3 694 909)
- decrease in cash balance due to discontinued investment funds consolidation	(43 784)	(89 638)
- acquisition of debt securities	(30 645 717)	(22 159 974)
- acquisition of term deposits at credit institutions	(178 998 253)	(212 726 050)
- acquisition of other investments	(196 505 813)	(198 979 612)
- other payments for investments	(56 702)	(89 161)
Net cash used in/generated by investment activities	9 404 126	(4 651 541)

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

(in PLN '000)

Consolidated cash flow statement	1 January – 31 December 2009	1 January – 31 December 2008
Cash flows from financing activities		
Inflows	4 712 755	1 516
- loans and borrowings and issues of debt securities	4 712 755	1 516
Outflows	(12 742 730)	(5 356)
- dividends paid to holders of the parent's equity	(12 742 237)	(3 851)
- repayment of loans and borrowings and redemption of debt securities	(493)	(1 502)
- interest on loans and borrowings and issued debt securities	-	(3)
Net cash used in financing activities	(8 029 975)	(3 840)
Total net cash flows	(166 405)	(40 507)
Cash and cash equivalents at the beginning of the financial year	533 206	573 358
Change in cash due to exchange differences	(245)	355
Cash and cash equivalents at the end of the financial year, including:	366 556	533 206
- of limited disposability	29 666	68 575

Warsaw, 7 March 2010

The attached notes constitute an integral part of the financial statements

SEGMENT REPORTING

(in PLN '000)

Income statement for 1 January – 31 December 2009	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	8 021 895	6 340 822	-	-	14 362 717
Gross written premiums - cross-segment	1 832	-	-	(1 832)	-
Reinsurer's share in gross written premium	(160 728)	(2 030)	-	-	(162 758)
Net written premium including:	7 862 999	6 338 792	-	(1 832)	14 199 959
Net written premium - external	7 861 167	6 338 792	-	-	14 199 959
Net written premium - cross-segment	1 832	-	-	(1 832)	-
Change in net provision for unearned premium	284 141	1 086	-	28	285 255
Net earned premiums	8 147 140	6 339 878	-	(1 804)	14 485 214
Revenue from commissions and fees	-	-	309 702	31 174	340 876
Net investment income (external transactions)	1 258 266	898 762	17 357	188 999	2 363 384
Net investment income (cross-segment transactions)	1 420 594	108 870	-	(1 529 464)	-
Net profit or loss on realization and impairment loss on investments	47 947	213 106	35	222	261 310
Net change in the fair value of assets and liabilities measured at fair value	109 286	637 584	-	97 437	844 307
Other operating revenue	221 737	73 511	1 661	(36 843)	260 066
Claims and change in technical provisions	(5 676 562)	(3 793 582)	-	(30)	(9 470 174)
Reinsurers' share in claims and change in technical provisions	33 893	-	-	-	33 893
Net insurance claims	(5 642 669)	(3 793 582)	-	(30)	(9 436 281)
Claims and change in measurement of investment contracts	-	-	-	(275 057)	(275 057)
Acquisition expense	(1 366 522)	(391 911)	(61 177)	(19 995)	(1 839 605)
Administrative expense	(1 055 255)	(619 764)	(122 425)	(11 437)	(1 808 881)
Other operating expense	(421 331)	(184 087)	(1 181)	13 017	(593 582)
Operating profit (loss)	2 719 193	3 282 367	143 972	(1 543 781)	4 601 751
Financial expense	(35 940)	-	-	-	(35 940)
Share in net profit (loss) of entities measured using the equity method	-	-	-	-	-
Gross profit (loss)	2 683 253	3 282 367	143 972	(1 543 781)	4 565 811
Income tax	(189 308)	(604 847)	(27 090)	18 345	(802 900)
Net profit (loss)	2 493 945	2 677 520	116 882	(1 525 436)	3 762 911

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

Income statement for 1 January – 31 December 2008	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	8 432 994	6 130 153	-	-	14 563 147
Gross written premiums - cross-segment	2 143	-	-	(2 143)	-
Reinsurer's share in gross written premium	(123 088)	(7 307)	-	-	(130 395)
Net written premium including:	8 312 049	6 122 846	-	(2 143)	14 432 752
Net written premium - external	8 309 906	6 122 846	-	-	14 432 752
Net written premium - cross-segment	2 143	-	-	(2 143)	-
Change in net provision for unearned premium	(112 476)	(34 521)	-	-	-
Net earned premiums	8 199 573	6 088 325	-	(143)	(147 140)
Revenue from commissions and fees	-	-	291 829	46 193	338 022
Net investment income (external transactions)	1 240 788	878 391	13 151	279 425	2 411 755
Net investment income (cross-segment transactions)	2 202 240	125 671	-	(2 327 891)	-
Net profit or loss on realization and impairment loss on investments	(403 557)	(215 397)	3 950	(240 891)	(855 895)
Net change in the fair value of assets and liabilities measured at fair value	(326 062)	(412 888)	-	(237 012)	(975 962)
Other operating revenue	145 927	74 589	645	(28 895)	192 266
Claims and change in technical provisions	(5 095 145)	(3 407 066)	-	(1 019)	(8 503 230)
Reinsurers' share in claims and change in technical provisions	(88 827)	-	-	-	(88 827)
Net insurance claims	(5 183 972)	(3 407 066)	-	(1 019)	(8 592 057)
Claims and change in measurement of investment contracts	-	-	-	245 505	245 505
Acquisition expense	(1 266 939)	(332 192)	(52 030)	(16 862)	(1 668 023)
Administrative expense	(1 036 720)	(626 787)	(110 275)	(1 064)	(1 774 846)
Other operating expense	(460 737)	(189 059)	(14 187)	(11 336)	(675 319)
Operating profit (loss)	3 110 541	1 983 587	133 083	(2 296 153)	2 931 058
Financial expense	-	-	-	-	-
Share in net profit (loss) of entities measured using the equity method	-	-	-	-	-
Gross profit (loss)	3 110 541	1 983 587	133 083	(2 296 153)	2 931 058
Income tax	(223 519)	(369 026)	(25 422)	16 756	(601 340)
Net profit (loss)	2 887 022	1 614 561	107 661	(2 279 526)	2 329 718

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

2009	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Segment assets, including:					
Deferred tax assets	22 920 818	26 816 242	363 404	3 075 745	53 176 209
Entities measured using the equity method	734	-	4 811	19 368	24 913
Liabilities	19 031 239	19 070 259	40 972	3 766 860	41 909 330
Investment outlays in the period*	115 913	50 070	72	9 535	175 590
Depreciation for the period*	(94 607)	(60 415)	(721)	(20 011)	(175 754)
Impairment loss on assets*	(8 631)	(5 507)	-	-	(14 138)
Reversal of impairment loss on assets *	118	12 748	-	-	12 866

* Include intangible assets and property, plant and equipment

2008	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Segment assets, including:					
Deferred tax assets	28 217 706	25 460 306	358 919	5 322 110	59 359 041
Entities measured using the equity method	483	-	4 580	4 806	9 869
Liabilities	14 163 782	19 102 369	46 673	5 993 827	39 306 651
Investment outlays in the period*	337 939	179 789	523	(394 013)	124 238
Depreciation for the period*	(102 366)	(63 806)	(703)	(32 309)	(199 184)
Impairment loss on assets*	(57 826)	(59 140)	-	-	(116 966)
Reversal of impairment loss on assets*	-	-	-	-	-

* Include intangible assets and property, plant and equipment

(in PLN '000)

2009	Poland	Lithuania	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	14 118 594	163 338	80 785	-	14 362 717
Gross written premiums - cross-segment	10 695	-	-	(10 695)	-
Revenue from commissions and fees	340 876	-	-	-	340 876
Net investment income (external transactions)	2 344 319	12 211	6 854	-	2 363 384
Net profit or loss on realization and impairment loss on investments (external transactions)	263 671	(307)	(2 054)	-	261 310
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	840 934	3 373	-	-	844 307
Non-current assets other than financial instruments*	1 158 090	11 281	8 606	(49 097)	1 128 880
Deferred tax assets	25 899	-	734	(1 720)	24 913
Assets	53 162 159	275 721	73 847	(335 518)	53 176 209

* Include intangible assets and property, plant and equipment

2008	Poland	Lithuania	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	14 285 145	214 783	63 219	-	14 563 147
Gross written premiums - cross-segment	60 304	-	-	(60 304)	-
Revenue from commissions and fees	338 022	-	-	-	338 022
Net investment income (external transactions)	2 394 843	7 298	9 614	-	2 411 755
Net investment income (cross-segment transactions)	-	-	-	-	-
Net profit or loss on realization and impairment loss on investments (external transactions)	(851 693)	(1 492)	(2 710)	-	(855 895)
Net profit or loss on realization and impairment loss on investments (cross-segment transactions)	-	-	-	-	-
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	(959 123)	(16 839)	-	-	(975 962)
Net change in the fair value of assets and liabilities plus equity measured at fair value (cross-segment transactions)	-	-	-	-	-
Non-current assets other than financial instruments*	1 167 654	12 959	10 327	(35 806)	1 155 134
Deferred tax assets	9 386	-	483	-	9 869
Assets	59 245 429	362 959	85 271	(334 618)	59 359 041

* Include intangible assets and property, plant and equipment

ADDITIONAL INFORMATION AND EXPLANATORY NOTES

1. Introduction

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

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2009 to 31 December 2009.

Pursuant to Article 55 clauses 6 and 8 of the Accounting Act of 29 September 1994 (Dz. U. No. 152 of 2009, item. 1223, "Accounting Act") consolidated financial statements of issuers of securities intending to apply for admission to trading securities on a regulated market in the European Economic Area can be prepared in line with IFRS provided that an appropriate resolution has been adopted by the approving body of the parent company. The Extraordinary Shareholders' Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna adopted such a resolution on 3 March 2010. These consolidated financial statements were approved for publication by the Management Board of PZU on 7 March 2010.

The consolidated financial statements will be subject to approval of the General Shareholders' Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna pursuant to Article 63d of the Accounting Act provided that the company obtains a status of an entity applying for admission to trading securities on a regulated market, i.e. after submission of a motion for admission to trading securities on a regulated market.

The consolidated financial statements for the year 2008 was the last consolidated financial statements of the PZU Group prepared in line with the Accounting Act and related regulations, subject to the approval of the General Shareholders' Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna. Reconciliation of the consolidated 2008 financial profit/loss and the consolidated equity as at 31 December 2008 presented in the aforementioned financial statements with the consolidated financial profit/loss and the consolidated equity disclosed in these financial statements has been presented in item.

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

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

The consolidated financial statements have been prepared based on the assumption that the PZU Group entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing the consolidated financial statements, no facts and circumstances indicate a risk to the Group entities' ability to operate as a going concern during 12 months after the balance sheet date due to the intended or forced discontinuation or material limitation of their activities.

In 2009, PZU Group entities did not discontinue any activity.

2. Structure of the Capital Group

2.1 Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", „the parent")

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

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

Based on NACE classification, the core business of PZU includes property and personal insurance (NACE 66.03).

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

2.2 PZU Group companies

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU	% of votes directly or indirectly held by PZU	Business activity
				31 December 2009	31 December 2008	
Entities included in consolidation						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Property and personal insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	Warsaw	18.12.1991	100,00%	100,00%	Life insurance
3	Powszechnie Towarzystwo Emerytalne PZU SA („PTE PZU”)	Warsaw	08.12.1998	100,00%	100,00%	Pension fund management
4	PZU Centrum Operacji SA („PZU CO”) – former Centrum Informatyki Grupy PZU SA	Warsaw	30.11.2001	100,00%	100,00%	Auxiliary activity related to insurance and pension funds
5	PZU Tower Sp. z o.o. („PZU Tower”)	Warsaw	27.08.1998	100,00%	100,00%	Acquisition, operation, lease and disposal of real property
6	PrJSC IC PZU Ukraine („PZU Ukraine”)	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva”)	Vilnius (Lithuania)	26.04.2002	99,76%	99,76%	Property insurance
8	Ogrodowa-Inwestycje Sp. z o.o. PZU Fundusz Inwestycyjny	Warsaw	15.09.2004	100,00%	100,00%	Acquisition, operation, lease and disposal of real property
9	Otwarty Akcji Krakowiak	Warsaw	11.10.1999	48,30%*	n/a	Investing funds collected from members of the fund
10	PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych Polonez („Fundusz Polonez”)	Warsaw	11.10.1999	50,71%	n/a	Investing funds collected from members of the fund

* Since 1 January 2009 eliminated from consolidation due to loss of control.

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2009	31 December 2008	31 December 2009	31 December 2008	
Non-consolidated subsidiaries								
11	PZU Pomoc SA	Warsaw	18.03.2009	100,00%	n/a	100,00%	n/a	Assistance services
12	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100,00%	n/a	100,00%	n/a	Assistance and medical services
13	Syta Development Sp. z o.o. in liquidation	Warsaw	29.04.1996	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of real property, trade agency and administration of real property
14	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	Warsaw	30.04.1999	100,00%	100,00%	100,00%	100,00%	Creation, representing and management of investment funds
15	Sigma Investments Sp. z o.o.	Warsaw	28.12.1999	100,00%	100,00%	100,00%	100,00%	Investment activity
16	PZU Asset Management SA („PZU AM”)	Warsaw	12.07.2001	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of shares in public companies, bonds and other listed securities. Management of securities portfolios for the account of third parties
17	Miejszyskadowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA”)	Warsaw	13.08.2004	100,00%	100,00%	100,00%	100,00%	Management of employee pension fund
18	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Life insurance
19	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Assistance services
20	Company with Additional Liability Inter-Risk Ukraine	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Legal services
21	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99,34%	99,34%	99,34%	99,34%	Life insurance
22	Krakowska Fabryka Armatur SA	Kraków	07.10.1999	64,63%	67,01%	64,63%	67,01%	Production of kitchen and bathroom mixing faucets
23	Armatoora SA	Nisko	10.12.2008	64,63%	67,01%	64,63%	67,01%	Production of radiators and aluminum casts
24	Armatoora SA i wspólnik sp. k.	Kraków	10.02.2009	64,63%	n/a	64,63%	n/a	Use of free funds, development investments.
25	Armagor Sp. z o.o.	Gorzów Śląski	06.09.2009	63,20%	n/a	63,20%	n/a	Production of valves, tooling services
26	ICH Center SA Affiliates	Warsaw	31.01.1996	90,00%	90,00%	90,00%	90,00%	Green Card claims handling
27	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37,53%	37,53%	36,71%	36,71%	Operation of ski hoists
28	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30,00%	30,00%	30,00%	30,00%	Insurance activities
29	Polskie Towarzystwo Reasekuracji SA	Warsaw	10.09.1996	0%	23,77%	0%	23,77%	Reinsurance activities

The following table presents key financial data of PZU Group entities for the financial year ended 31 December 2009

No.	Entity's name	% of share capital directly or indirectly held by PZU as at 31 December 2009	Net profit (loss)	Sales and financial revenue	Total assets	Liabilities and provisions for liabilities	Equity
1	PZU Pomoc SA 6/	100,00%	(5)	978	11 118	200	10 918
2	Ipsilon Sp. z o.o. 1/ 6/	100,00%	(5)	1	47	2	45
3	SYTA Development Sp. z o.o. in liquidation 1/ 6/	100,00%	728	2 339	7 966	13 585	(5 619)
4	TFI PZU SA 6/	100,00%	8 913	36 236	46 284	9 856	36 428
5	Sigma Investments Sp. z o.o. 1/ 6/	100,00%	(8)	-	41	1	40
6	PZU Asset Management SA 6/	100,00%	1 159	21 348	14 531	4 460	10 071
7	MPT E PZU SA 6/	100,00%	113	1 062	748	135	613
8	PrJSC IC PZU Ukraine Life Insurance 1/ 5/	100,00%	(6 404)	14 758	24 201	24 646	(445)
9	LLC SOS Services Ukraine 1/ 5/	100,00%	(60)	2 271	664	175	489
10	Company with Additional Liability Inter-Risk Ukraine 1/ 5/	99,34%	47	832	111	67	44
11	UAB PZU Lietuva Gyvybes Draudimas 1/ 2/ 3/ 4/	100,00%	(479)	26 989	61 723	35 944	25 779
12	Grupa Krakowskiej Fabryki Armatur 1/ 7/	64,63%	25 753	170 408	398 532	157 120	241 412
13	ICH Center SA 1/ 6/	90,00%	622	4 167	6 011	555	5 456
14	Kolej Gondolowa Jaworzyna Krynicka SA 1/ 6/	37,53%	1 864	14 728	44 089	5 444	38 645
15	Nadwiśńska Agencja Ubezpieczeniowa SA 1/ 6/	30,00%	502	3 352	2 709	275	2 434

1/ Data not audited by a certified auditor

2/ Sales revenue is defined as the gross written premium total summed up with other technical revenue net of reinsurance.

3/ Financial revenue is defined as a difference between Investment revenue plus Unrealized investment gains and Costs of investment activity plus Unrealized investment losses.

4/ Data according to Lithuanian GAAP.

5/ Data according to Ukrainian GAAP.

6/ Data according to PAS.

7/ Data as at 30 September 2009.

3. Key accounting principles (policy)

These consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EC Commission, which means they comply with all Standards and Interpretations adopted by IASB, published and effective as at 31 December 2009 and approved by EC Commission.

The process of preparing of consolidated financial statements requires making estimates and judgments in application of accounting principles. Areas that require comprehensive assessment and those most dependent on assumptions and estimates are presented in points 4 and 5.

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

3.1 Introduction of new IFRS

3.1.1. *Standards and interpretations as well as amended standards effective from 1 January 2009*

The following Standards and Interpretations, as well as amended Standards effective from 1 January 2009 have been first time adopted in these financial statements:

Standard/Interpretation	Date of entry into force for periods beginning on	EC Regulation endorsing a standard or interpretation
IFRS 8 – Operating Segments	1 January 2009	1358/2007
Amendments to IAS 23 – Borrowing costs	1 January 2009	1260/2008
Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements	1 January 2009	69/2009
Amendments to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation	1 January 2009	53/2009
Amendments to IAS 1 – Presentation of Financial Statements	1 January 2009	1274/2008
Amendment to IFRS 2 – Share-Based Payment	1 January 2009	1261/2008
IFRIC 13 – Loyalty Programs	1 July 2008	1262/2008
IFRIC 12 – Service Concession Agreements	1 January 2008	254/2009
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	1 October 2008	460/2009
IFRIC 15 – Agreements for the Construction of Real Estate	1 January 2009	636/2009
Amendments to IAS 39 – Financial Instruments: Recognition and Measurement and to IFRS 7 – Financial Instruments: Disclosures (effective date and transition)	1 July 2008	824/2009
Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 – Financial Instruments: Recognition and Measurement	1 July 2009	1171/2009
Amendment to IFRS 7 – Financial Instruments: Disclosures	1 January 2009	1165/2009

The above Standards and Interpretations do not affect accounting principles in relation to comprehensive income or equity of the PZU Group as presented in these consolidated financial statements.

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

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

• **Approved by EC Regulations:**

Standard/Interpretation	Date of entry into force for periods beginning on	EC Regulation endorsing a standard or interpretation
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement	1 July 2009	839/2009
IFRIC 17 – Distribution of Non-cash Assets to Owners	1 July 2009	1142/2009
IFRIC 18 – Transfers of Assets from Customers	1 July 2009	1164/2009
Amendment to IFRS 3 – Business Combination	1 July 2009	495/2009
Amendment to IAS 27 – Consolidated and Separate Financial Statements	1 July 2009	494/2009
Amendment to IFRS 1 – First-time Adoption of IFRS	1 July 2009	1136/2009
Amendment to IAS 32 regarding rights issue classification	1 February 2010	1293/2009

• **Not approved by EC Commission:**

Standard/Interpretation	Date of entry into force for periods beginning on
IFRS 9 – Financial Instruments	1 January 2013
Amendment to IFRIC 14 – regarding minimum funding requirements	1 January 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS improvements resulting from 2009 annual review	1 July 2009 / 1 January 2010
Amendment to IFRS 2 – regarding group share-based payments settled in cash	1 January 2010
Amendment to IFRS 1 – additional exemptions for first-time adopters	1 January 2010
Amended IAS 24 – Related Party Disclosures	1 January 2011
Amendment to IFRS 1 – First-time Adoption of IFRS, exemptions from additional disclosures to IFRS 7	1 July 2010

The PZU Group did not take the opportunity of earlier application of the above Standards, Interpretations and amended Standards.

Application of the above Standards and amended Standards should not materially affect the financial profit/loss and equity of the PZU Group.

3.2 Change in preparation of the consolidated financial statements compared to the previous year

In order to improve clarity of the consolidated financial statements, the following changes have been introduced compared to the consolidated IFRS financial statements of the Group for 2008.

3.2.1. Change in presentation of estimated accruals on liabilities

In Statement of Financial Position presentation of liabilities arising from non-invoiced supplies and services was changed from “Accruals and deferred income – costs accruals” to “Other liabilities”. The same principle applies to cases where determination of the volume and/or price of a supply/service may require making estimates.

Data as at 31 December 2008 were restated to ensure comparability.

3.2.2. Change of allocation in Activity Based Costing in PZU Życie

Following a number of process and organizational changes in PZU Życie, in 2009 changes in indirect cost allocation models were introduced. The comparable data for 2008 have been translated using a model based on the new methodology. Also the allocation keys used for the purpose of reclassification of costs between basic and additional insurance contracts have been updated.

Comparative data for 2008 were restated in accordance to the current ABC methodology.

3.2.3. *Change in presentation of revenue and expense from insurance*

Before, premiums, damages and changes in technical provisions in the income statement were presented separately divided by insurance type (property, personal and life insurance), including reinsurers' share in individual items.. In these consolidated financial statements, both insurance segments are combined without presenting separately reinsurers' share. Divided data have been moved to relevant notes.

3.2.4. *Change in presentation of costs in pension insurance products*

Operating costs of PTE PZU, formerly presented in a separate item of the income statement – Costs in pension insurance products – have been allocated to acquisition and administrative expense, respectively.

Data for 2008 have been restated to ensure comparability. Effects of the changes on the statement of financial position and income statement:

Consolidated statement of financial position	Point	31 December 2008 Historical data	Adjustment	31 December 2008 Comparative data
Other liabilities	3.2.1	984 375	97 786	1 082 161
Cost accruals	3.2.1	489 186	(97 786)	391 400

Consolidated income statement	Point	1 January - 31 December 2008 Historical data	Adjustment	1 January - 31 December 2008 Comparative data
Gross written premium – property and personal insurance	3.2.3	8 432 994	(8 432 994)	n/a
Reinsurers' share in gross written premium – property and personal insurance	3.2.3	(123 088)	123 088	n/a
Gross written premium – life insurance	3.2.3	6 130 153	(6 130 153)	n/a
Reinsurers' share in gross written premium – life insurance	3.2.3	(7 307)	7 307	n/a
Gross written premiums	3.2.3	n/a	14 563 147	14 563 147
Reinsurer's share in gross written premium	3.2.3	n/a	(130 395)	(130 395)
Net written premium		14 432 752	-	14 432 752
Change in gross provision for unearned premiums – property and personal insurance	3.2.3	(111 166)	111 166	n/a
Reinsurers' share in change in provision for unearned premiums – property and personal insurance	3.2.3	(1 453)	1 453	n/a
Change in gross provision for unearned premiums – life insurance	3.2.3	(34 521)	34 521	n/a
Reinsurers' share in change in provision for unearned premiums – life insurance		-	-	n/a
Change in net provision for unearned premium		(147 140)	-	(147 140)
Net earned premiums		14 285 612	-	14 285 612
Net investment income	3.2.2	2 407 390	4 365	2 411 755
Claims and change in technical provisions – property and personal insurance	3.2.3	(5 096 289)	5 096 289	n/a
Reinsurers' share in claims and change in technical provisions – property and personal insurance	3.2.3	(88 827)	88 827	n/a
Claims and change in technical provisions – life insurance	3.2.3	(3 431 870)	3 431 870	n/a
Claims and change in technical provisions	3.2.2	n/a	24 929 (8 528 159)	(8 503 230)
Reinsurers' share in claims and change in technical provisions	3.2.3	n/a	(88 827)	(88 827)
Net insurance claims		(8 616 986)	24 929	(8 592 057)
Costs of pension insurance	3.2.4	(138 269)	138 269	n/a

Consolidated income statement	Point	1 January - 31 December 2008 <i>Historical data</i>	<i>Adjustment</i>	1 January - 31 December 2008 <i>Comparative data</i>
Acquisition expense	3.2.2	(1 625 108)	1 039	(1688 023)
	3.2.4		(43 954)	
Administrative expense	3.2.2	(1 650 638)	(28 847)	(1 774 846)
	3.2.4		(95 361)	
Other operating expense	3.2.2	(674 879)	(440)	(675 319))
Net profit (loss)		2 329 718	-	2 329 718

3.3 Opis istotnych różnic pomiędzy stosowanymi zasadami rachunkowości

Presented below is a description of significant differences between the accounting policies applied for the purpose of preparing the consolidated financial statements of the PZU Group in accordance with PAS and IFRS, which affect the consolidated financial result or the consolidated equity.

The last consolidated financial statements of PZU Group had been prepared for the year 2008.

3.3.1. Valuation of properties

In accordance with the provisions of the Decree of Minister of Finance dated 23 December 2008 on specific accounting principles for insurance companies (Dz. U. Nr 236 of 2008, item 1634, „Decree on specific accounting principles for insurance companies”), owner-occupied property is stated at cost less any accumulated depreciation as at the balance sheet date and less any accumulated impairment losses.

As at the date of transition to IFRS (as at 1 January 2004), the deemed cost of owner-occupied property was determined and the difference [from the acquisition cost] was taken to the “Accumulated profits/ (losses) from previous years”. In the ensuing reporting periods, this will result in a difference in the amount of the depreciation charge and accumulated depreciation.

According to IFRS, investment property is valued at fair value determined as at the balance sheet date with any changes in the fair value during the reporting period taken to the income statement for the period.

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

3.3.2. Perpetual usufruct right

In the consolidated PAS financial statements, the perpetual usufruct right received free of charge on the basis of an administrative decision has the corresponding entry under deferred income on the liabilities’ side and is subsequently amortized.

According to IFRS, a free of charge receipt of assets with no additional conditions shall be recognized as income upon asset receipt, if there is no allocation key for the received assets to be assigned to other reporting periods than those in which they were received.

The perpetual usufruct right has also been covered by adjustments described in Note 3.3.1 to these consolidated financial statements.

3.3.3. Revaluation reserve

In accordance with the Accounting Act and based on separate regulations relating to revaluation of property, plant and equipment in 1995, the entities of the PZU Group performed revaluations of property, plant and equipment and recognized the resulting gains and losses in the revaluation reserve. The revaluations did not meet the requirements of IAS 29.

3.3.4. Risk equalization reserve in property and casualty insurance

The Decree on specific accounting policies for insurance companies defines the principles for creation and use of risk equalization reserve. This reserve does not relate to any specific obligations under insurance policy contracts. In accordance with PAS, risk equalization reserve is the cost of the current period, while in accordance with IFRS – an appropriation item for the net profit.

3.3.5. *Catastrophe and exceptional risk reserve in property and casualty insurance*

In accordance with the provisions of the Decree on specific accounting policies for insurance companies, and based on the Company's Articles of Association and the Regulations concerning technical reserves, PZU creates a catastrophe and exceptional risk reserve. This reserve does not relate to any specific obligations under insurance policy contracts. In accordance with PAS, catastrophe and exceptional risks reserve is the cost of the current period, while in accordance with IFRS – an appropriation item for the net profit.

3.3.6. *Technical rates in life insurance*

In accordance with the Polish Accounting Standards, technical interest rates in life insurance depend on restrictions imposed by the Polish Financial Supervision Authority.

In accordance with IFRS 4, if the shareholder valued its insurance contracts with sufficient prudence, then it should not introduce any additional elements that could increase the level of the prudence already accepted. However, if the insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence measures. Consequently, technical interest rates applied in calculation of provisions for the needs of IFRS can differ from those applied for the needs of the Polish Accounting Standards. Hence, technical provisions presented in accordance with the Polish Accounting Standards and those disclosed in line with the IFRS can differ considerably.

3.3.7. *Prevention fund*

In accordance with the Insurance Act of 22 May 2003 (Dz. U. Nr 124 of 2003, item 1151 with later amendments), PZU and PZU Życie, i.e. the PZU Group companies with their registered offices in Poland, may expense amounts transferred to the prevention fund in the consolidated income statement for the current reporting period. In accordance with the Decree on specific accounting principles for insurance companies, this fund is presented in 'Special funds' in liabilities.

In accordance with IAS 37, funds of this type should not be expensed but rather treated as an item for appropriation of the net profit with simultaneous recognition of costs of prevention activities when they are incurred.

3.3.8. *Valuation of equity instruments classified as available-for sale*

In the consolidated financial statements prepared in accordance with PAS, certain equity instruments classified as financial instruments available-for-sale have been measured at cost less any impairment losses.

In accordance with the provisions of the Accounting Act, if the reason for which the impairment loss of a financial asset was made is no longer valid, the equivalent of the whole or appropriate part of the previously recognized impairment losses increases the value of the given asset and is recognized under finance income.

In accordance with the provisions of paragraph 66 of IAS 39, it is not possible to reverse impairment losses recognized on unquoted equity instruments that are measured at cost less impairment losses and for which fair value cannot be determined in a reliable manner.

3.3.9. *Classification of financial assets*

The provisions of the Accounting Act binding until December 2008 offered the possibility to reclassify to the held for trading category those financial assets that upon their acquisition were classified to other categories, provided it was highly probable that in the short-term an entity will realise economic benefits from the contracts made. In the year 2007, the PZU Group reclassified certain available-for-sale financial assets to the held for trading category. However, those financial assets were sold in the period ended before 31 December 2008.

3.3.10. *Intangible assets with indefinite useful life, including goodwill*

According to PAS, intangible assets with indefinite useful lives are subject to amortization.

In accordance with IFRS, such assets are not subject to amortization but are tested for impairment at each balance sheet date. In subsequent reporting periods, this will result in a difference in the amount of amortization charge and accumulated amortization of those assets.

3.3.11. *Social Fund*

Allocation of accumulated profits from previous years to the Social Fund

If the Annual General Meeting of one of the key companies of the PZU Group decides to transfer a part of its net profit for the prior year to the Social Fund, then in the consolidated financial statements prepared in accordance with PAS this fact is recognized as appropriation of the net profit for the prior year that does not affect the net result for the year, in which such appropriation was made.

The above transaction meets the definition of expenses under IFRS and in accordance with IAS 1 it is recognized in the consolidated income statement for the year in which such transfer to the Social Fund was made.

In addition, due to the fact that transfer of a part of the prior year net profit to the Social Fund became the expected practice at certain PZU Group companies, it was assumed that as at 31 December 2008, the PZU Group companies had constructive obligation to appropriate a part of their net profit for the previous financial year to the Social Fund. As a result, in the 2008 consolidated financial statements the amounts transferred to the Social Fund in 2009, as part of appropriation of the 2008 profit were recognized as costs of 2008.

3.3.12. *Deferred taxation*

Where appropriate, for all differences between PAS and IFRS described, the effect of deferred tax was calculated and included in the calculation of all adjustments.

3.3.13. *Minority capital*

In these IFRS consolidated financial statements, the minority capital is presented as equity item, while in the PAS financial statements - it represents a separate item of equity and liabilities, however, not classified under equity or liabilities.

3.3.14. *Reconciliation of equity as at 31 December 2008 and net profit for the year 2008 prepared in accordance with PAS and IFRS*

Description	Note	Net Profit	Equity
Consolidated PAS financial statements		2 344 449	19 067 881
Property valuation	3.3.1, 3.3.3	(48 101)	104 448
Perpetual usufruct right	3.3.2, 3.3.3	(1 319)	10 934
Risk equalization reserve in property and casualty insurance	3.3.4	15 405	413 872
Catastrophe and exceptional risk reserve in property and casualty insurance	3.3.5	(55 083)	-
Technical rate in life insurance	3.3.6	201 808	421 717
Prevention fund	3.3.7	(43 878)	74 395
Valuation of equity instruments classified as available-for-sale	3.3.8	(7 934)	(35 423)
Classification of financial assets	3.3.9	(61 060)	-
Intangible assets with indefinite useful lives, including goodwill	3.3.10	6 756	15 581
Social Fund	3.3.11	(21 000)	(21 000)
Minority capital		(14)	168
Other		(311)	(183)
Total adjustments		(14 731)	984 509
Consolidated IFRS financial statements		2 329 718	20 052 390

3.4 Consolidation principles

In the financial year ended 31 December 2009 all material subsidiaries were subject to consolidation. The criteria taken into consideration while determining materiality include the income generated by the entities, their financial profit/loss in absolute terms as well as the balance sheet total. The consolidated financial statements include the balances of the parent and subsidiaries following elimination of mutual transactions.

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

3.5 Currency exchange rates

The following currency exchange rates have been adopted herein:

Currency exchange rates adopted to translate financial data of foreign controlled entities	1 January - 31 December 2009	31 December 2009	1 January - 31 December 2008	31 December 2008
LTL	1.2571	1.1898	1.0230	1.2084
UAH	0.3897	0.3558	0.4525	0.3730

3.6 Intangible assets

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

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

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

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

3.7 Goodwill

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

3.8 Property, plant and equipment

Property, plant and equipment are recognized at acquisition price, increased by all costs directly related to the purchase of the asset and its adjustment for use, less depreciation charges and impairment loss.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction.

Depreciation follows the straight line method over the estimated useful life of the assets, using the annual depreciation rates presented below.

Asset class	Rate
Perpetual usufruct of land	10%
Ownership right of cooperative residential or commercial space	2,5%
Buildings and structures	1,4% - 10%
Machines and technical devices	10% - 67%
Vehicles	10% - 40%
IT hardware	14% - 50%
Other non-current assets	7% - 50%

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

3.9 Impairment of property, plant and equipment and intangible assets

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

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

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

3.10 Investment property

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

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

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

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

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

3.11 Financial instruments

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

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

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

Release of financial instruments is determined using the FIFO method (first in, first out) and in the case of instruments acquired at the same date, using the HIFO method (highest in, first out)

Fair values of financial instruments are determined based on quotations available to the public on an active market; when no such quotations are available, using the valuation models applied to public quotations of financial instruments, interest rates and stock market indices. Valuations include the implied volatility provided by banks. Correlation coefficients between the prices of financial instruments are calculated based on past observations.

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

3.11.1. Financial instruments held to maturity

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

3.11.2. Loans and receivables

Loans and receivables include in particular:

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

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

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

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

3.11.3. Financial instruments available for sale

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

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

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

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

- financial instruments held for trading - assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments classified at the time of acquisition as those measured at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include some instruments that pursuant to the Act of 22 May 2003 on insurance activity (Dz. U. No. 124 of 2003, item 1151 with subsequent amendments, henceforth "Act on insurance activity") are aimed at covering technical provisions and investment contracts in life insurance products. Adopted classification of those instruments eliminates or significantly limits mismatch between measurement and recognition of assets and liabilities covered by those assets.
- financial instruments classified at the time of acquisition to those measured at fair value through profit or loss, managed and evaluated based on fair value in accordance to documented risk management principles. The group includes unit-linked investment contracts.

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

3.11.5. Derivatives

Derivatives (including separated embedded derivatives) are recognized in the accounting records at fair value as at the transaction date. Later, they are measured at fair value.

3.11.5.1. Derivatives which are not hedging instruments

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

3.11.6. Financial liabilities other than ones measured at fair value

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

Other financial liabilities are measured at adjusted acquisition price.

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

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

3.11.7. Impairment of financial assets

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

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

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor resulting from financial difficulties of the debtor which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
 - negative changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments) or
 - unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant and prolonged decrease in the fair value of an investment in an equity instrument below the acquisition cost;
- unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

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

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

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

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

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

3.12 Recoveries and recourses in property and personal insurance

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

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

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

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

3.13 Costs of acquisition and deferred costs of acquisition

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

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

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

3.13.1. Property and personal insurance

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

3.13.2. Life insurance

In the case of life insurance products, acquisition costs are recognized over time for traditional individual insurance contracts (contracts with discretionary participation features, DPF) based on the Zillmer method, where the surplus of the initial acquisition costs, in particular commissions and the costs of conclusion of an insurance contract over the regular costs are recognized over the time of the contract, in proportion to the future premiums. In the case of group and continued insurance products where there is no material difference between the first-year costs and costs incurred in subsequent years and for unit-linked insurance products, acquisitions costs are not recognized over time.

3.13.3. Pension insurance

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

3.14 Cash and cash equivalents

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

Cash is recognized at face value.

3.15 Equity

3.15.1. Share capital

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

3.15.2. Supplementary capital

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

3.15.3. Revaluation reserve

Revaluation reserve includes the effects of:

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

3.15.4. Undistributed profit / uncovered loss

Undistributed profit/uncovered loss includes:

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

Profit distribution (or loss coverage) of the parent and companies of PZU Group takes place only with respect to the profit (loss) disclosed in the company's separate financial statements prepared according to the accounting standards adopted in the country with the registered office of the company.

3.16 Classification of insurance products

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

3.16.1. Property and personal insurance

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

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

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

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

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

3.16.2. Life insurance

Pursuant to the assumptions adopted by PZU Życie, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Therefore, contracts concluded with PZU Życie are recognized either in line with IFRS 4 or IAS 39.

The classification did not identify any life insurance contracts which assume transfer of both insurance risk and financial risk which would require unbundling of insurance and investment part. In the case of contracts for which unbundling of options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required, it is assumed that the investment component is not unbundled.

3.16.2.1. Insurance contracts and DPF investment contracts

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

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

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

3.16.2.2. Unit-linked products

Unit-linked insurance contracts are concluded both as group and individual products. The most significant are Pogodna Jesień contracts which provide for additional payment of 10% of the value of funds accumulated on the individual account of the insured, in the case of death.

3.16.2.3. Investment contracts with no DPF

The principles of recognition and measurement of contracts which, in line with IFRS4, do not meet the classification criteria of an insurance contract, i.e. classified as investment contracts, are specified by IAS 39. Therefore, financial liability measurement principles are applied to investment contracts: measurement at amortized cost using the effective interest rate method or at fair value through profit or loss. The effects of measurement of financial liabilities under investment contracts are charged to profit or loss under "Claims and change in investment contract measurement".

3.17 Insurance contracts

3.17.1. Written premium and provision for unearned premiums

3.17.1.1. Property and personal insurance

PZU, PZU Lietuva and PZU Ukraine are party to insurance contracts in property and personal insurance and may be party to reinsurance and outward reinsurance treaties. Personal and property insurance contracts are short-term.

Written premiums are recognized as at the date of the first day of insurance cover. Paid premium for policies with insurance starting in the next reporting period is recognized under deferred income.

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

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

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

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

3.17.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the reporting period, irrespective of the fact whether the amounts refer to the whole of the next reporting period or its part. The premiums are adjusted by the change in the provision for unearned premiums during the reporting period and reduced by the amount of premium due to the reinsurers. The provision for unearned premiums is created as a part of the written premium related to the future reporting periods proportionally to the period of the premium and is recognized under technical provisions.

3.17.2. Costs of claims paid and technical provisions

3.17.2.1. Property and personal insurance

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

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

The provision for claims outstanding includes:

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

The provision for claims Reported But Not Paid (hereinafter referred to as "RBNP" or "Provision I") is determined as the amount of the average loss for losses not assessed by the loss adjuster or as the amount determined by a loss adjusting unit. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

The provisions for claims Incurred But Not Reported (hereinafter referred to as "IBNR" or "provision II") is created for losses and claims which have not been reported by the date of the provision. IBNR is calculated using the loss triangle: generalized Chain Ladder method, Cape Cod method and Bornhuetter-Ferguson method for the year of the claim. The basis for calculation are annual triangles for claims paid and claims reported.

The value of the provision for claims handling costs is directly proportional to the provision for claims outstanding. Provisions I and II and the provision for claims handling costs are recognized at the nominal value, i.e. they are not discounted.

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

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

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

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

3.17.2.2. Life insurance

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

Costs of claims paid

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

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

Life insurance provision

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

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

The assumptions used in calculation of provisions for life insurance are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product (the so-called lock-in assumptions). During preparation of financial statements the adequacy of assumptions is verified. If a given assumption is found to be inadequate, it is verified and as a result the amount of provisions presented in the financial statements is changed. Provisions for life insurance are determined based on actuarial methods in the following way:

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

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

Provision for life insurance linked to insurance capital funds

Provisions for unit-linked life insurance products are created at the amount of the total value of shares in the fund on the accounts of the insured, measured at fair value as at the end of the reporting period.

Provision for outstanding claims and benefits

The provision for claims outstanding is created independently for:

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

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

Provisions for bonuses and rebates for the insured

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

Other technical provisions

Other technical provisions in life insurance include:

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

The above provisions for litigations correspond to the forecasted value of additional benefits resulting from litigations based on the information of PZU Życie about the trends in settlements and finished court proceedings;

- provision in case of low interest rates - related to forecasted decrease in profitability of insurance fund investments in the case of individual life insurance, individual increasing term insurance and increasing premium term insurance, Firma group insurance and annuity insurance created with an actuarial method, individually for each insurance contract at the amount corresponding to the difference between:
 - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates including their projected future decrease and
 - amount of mathematical provisions calculated in line with valid regulations regarding provisions with the original technical rate applied for other product pricing.

3.17.3. Provision adequacy tests

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

3.18 Employee benefits

3.18.1. Defined contribution plans

Social security contributions

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

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

3.18.2. Defined benefit plans

3.18.2.1. Provision for retirement benefits

The principles of remuneration valid at PZU Group companies with their registered offices in Poland assume that employees of the companies are entitled to retirement benefits upon retirement. The benefit amount depends on the number of years in service and average monthly salary.

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

Actuarial gains and losses are recognized in full in the period in which they occurred.

3.18.2.2. Survivor benefits

Pursuant to the Labor Code of 26 June 1974 (consolidated text: Dz.U. no. 21 of 1998 item 94 as amended - "the Labor Code"), employees of PZU Życie with registered offices located in Poland are entitled to survivor benefits. In case of death of an employee during their employment or at the time of receiving benefit as a result of inability to work due to sickness, the family is entitled to survivor benefits depending on the employee's duration of employment at the PZU Group which is an equivalent of 1 to 6-month salary.

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

3.18.3. Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Dz. U. No. 43 of 1994, item 163 with subsequent amendments) and internal regulations of the PZU Group companies with their registered offices in Poland which create Company Social Benefit Funds, the benefits and financial services of the fund may be used by pensioners (former employees of the company) and their families. Liabilities due to post-employment benefits recognized in the statement of financial position are measured at the current value of discounted cash flows. The costs of post-employment benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

3.18.4. Provisions for jubilee benefits

The principles of remuneration valid at the PZU Group companies included in consolidation with their registered offices in Poland assume that employees of the companies are entitled to jubilee benefits if they have been employed for a specific number of years. The benefit amount depends on the number of years in service and average monthly salary.

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

Actuarial gains and losses are fully recognized in the period when they occurred and the past service costs, as understood by IAS 19, are immediately recognized in profit or loss.

Liabilities due to jubilee benefits recognized in the statement of financial position are measured at fair value.

3.18.5. Costs of paid vacation

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

3.19 Revenue recognition

Recognition of revenue due to insurance contracts has been described in point 3.17.

Interest

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

Dividends

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

Revenue from pension fund management services

Revenue from management of OFE PZU is recognized in the periods when the services were rendered. The revenue includes in particular:

- handling fees on premiums transferred by the Social Insurance Institution ("ZUS") to OFE PZU in the amount specified in the Articles of Association of OFE PZU and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Dz.U. no.159 of 2004, item 1667 with subsequent amendments; "Pension Funds Act),
- fees specified in the Articles of Association of OFE PZU for managing OFE PZU, in accordance with the limits specified in the Pension Funds Act,
- other fees determined in the Articles of Association of OFE PZU.

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

3.20 Taxes

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

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

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

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

3.21 Recognition of foreign currency transactions and balances

Transactions executed in currency other than Polish zloty (PLN) are recognized at the average NBP exchange rate valid on the transaction date. As at the end of the reporting period, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Gains and losses on currency translation are charged directly to profit or loss. The only exceptions are gains and losses on currency translation concerning AFS equity instruments which are charged to the revaluation reserve.

4. Key assumptions underlying accounting estimations

4.1 Receivables from policyholders

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

4.1.1. Property and personal insurance

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

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

4.1.2. Life insurance

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

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

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

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

When calculating a provision for capitalized annuity amount, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future.

Future profitability of the portfolio of investments covering the provision for capitalized annuity amount is calculated as projected profitability of the portfolio of bonds maintained to maturity in line with the prudence principle. As at 31 December 2009 the technical interest rate of 3.7% was applied and the limitations resulting from the maximum technical interest rate published by the Polish Financial Supervision Authority were also taken into consideration. At the same time, based on inflation and pay rise forecasts, the annuity growth rate of 3.7% was applied. As at 31 December 2008 the discount rate, taking into account the technical interest rate and the annuity growth rate, was 0%.

As regards life annuities, the period during which annuity claims are paid is determined based on the Polish Life Expectancy Tables for 2008, published by the Central Statistical Office.

Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

Methodology of estimating old portfolio provisions is described in point 3.17.2.

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

Key assumptions made when estimating technical provisions for life insurance products, referring among others to assumed frequency of events under insurance coverage are described in point 3.17.2.2.

Type P group insurance and type P and D individually continued insurance guarantee insurance cover for both the main 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.

PZU Życie carries out regular adequacy assessment of all assumptions made when calculating liabilities, including technical rates applied. Should indication of potential profitability decrease regarding assets covering insurance contract liabilities occur in future, the present assumptions regarding technical rates shall be revised.

Provision for revaluation of old portfolio claims and for pending litigation

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

Provision adequacy tests

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

4.4 Deferred acquisition costs in life insurance products

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

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

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

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

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

5.1 Classification of insurance contracts in line with IFRS 4

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

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

5.1.1 Contract classification in property and personal insurance

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

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

5.1.2 Classification of life insurance contracts

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

5.2 Special purpose vehicles

In order to determine whether PZU Group controls an investment fund, a case by case evaluation is necessary. For this purpose, various criteria are considered, in particular the fact of managing the fund's assets by a PZU Group company, interest in net assets of the fund, as well as materiality.

Material funds controlled by the PZU Group are included in consolidation. In such cases, their assets are presented in the statement of financial position as financial assets, while the portion of their assets held by external investors is presented as other liabilities.

5.3 Financial instruments held to maturity

Non-derivative financial assets with fixed or determinable payments and defined maturity are classified as HTM assets in line with IAS 39. The classification is mainly based on a judgment of the Management Board of PZU, which assesses its intentions and ability to hold these financial instruments to maturity.

The assessment is based on an analysis of the material and financial position as well as possible mismatch of assets and liabilities of the PZU Group. According to the management boards of the PZU Group companies, no factors indicate that holding of these instruments to maturity is threatened.

5.4 Impairment of AFS equity instruments

Impairment of AFS financial instruments is recognized in case of a significant and prolonged decrease of their fair value below the initial value. Determining whether the decrease is significant and prolonged is based on a judgment. When making such a judgment, standard volatility of equity instrument prices is considered along with other factors. Recognition of impairment may also be reasonable when evidence exists that the issuer's financial standing has deteriorated (in particular with regard to financial and operating cash flows), or the situation in the given sector, industry or technology has worsened.

In case of impairment, loss on measurement of AFS equity instruments, previously recognized in revaluation reserve, are reclassified to the income statement and charged to profit/loss of the period in which impairment occurred.

5.5 Transactions of acquiring and disposing of financial instruments whose economic content differs from legal content

According to PZU Group companies, buy-and-sell-back and sell-and-buy-back transactions do not mean transfer of rights and obligations related to the given financial instrument. In line with IAS 39.14 and 29, the above transactions are classified as loans or liabilities, respectively.

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

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

In case of real property used both for internal purposes and for investment, separation is carried out according to principles described in 3.9, when both parts of such property can be sold separately or leased.

5.7 Presentation of transactions with entities related to the State Treasury

Pursuant to IAS 24 entities are required to present transactions with related parties but due to the fact that the State Treasury holds interest in PZU's share capital exceeding 50% - with entities related to the State Treasury.

For the purpose of point 53.3 and 53.4, in which related party transactions have been presented, "entities controlled by the State Treasury" denote only commercial companies being State Treasury controlled entities, whose lists are published on the website of the Ministry of Treasury.

In 2009 and 2008 the PZU Group did not enter into related party transactions under non-arm's length terms.

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

6. Segment reporting

IFRS 8 requires that operating segments are identified on the basis of internal reports regularly reviewed for bodies in charge of allocating resources to individual segments and evaluating their performance.

Based on the criterion of products and services offered by PZU Group companies included in consolidation, the following operating segments have been identified:

- Property and personal insurance
- Life insurance
- Pension insurance.

Due to their individual specifics, no segments have been combined.

Accounting principles used for the purpose of the above segments are the same as described in point 3.

Financial data of the pension insurance segment have not reached the limit values defined in IFRS 8.13, but they have been separated for their specific nature and the internal reporting system applied by the PZU Group.

The Group applies an additional geographical segmentation based on which the following segments have been defined:

- Poland
- Lithuania
- Ukraine.

All business transactions concluded both among operating and geographical segments are arms-length based.

7. Risk management

7.1 Introduction

The PZU Group developed and implemented a risk management system focusing on both risk control and ensuring the adequate level of capitalization. Operational risk identification, analysis, measurement, control, management and reporting allow the PZU Group to meet its obligations to customers and business partners and to satisfy the requirements resulting from legal provisions and external regulations. Risk management is based on three defense lines that include:

- Line 1: risk management on the business (organizational) unit level in accordance with valid procedures, guidelines and limits. On this level, risk management is additionally supported by internal control principles.
- Line 2: risk management through specialized units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on current principles, methodologies and procedures;
- Line 3: the internal audit, which conducts independent control and audit of key risk management system elements and control activities embedded in the Group's operations.

Further in this section, the risk management system in PZU and PZU Życie is presented due to significance of their operation and risk exposure on the Group level.

7.2 Key risk management assumptions

7.2.1. Risk management model

The entity assumes controlled risk on the basis of the following processes:

- Identification of risk related to operations, products and investing activities;
- risk assessment based on adopted methodologies, historical data and market parameters;
- laying down rules/guidelines for entities responsible for assuming risk, including those relating to reflecting the risk in the price of products offered;
- risk mitigation by accepting collateral or by reinsurance;
- measurement and control of assumed risk reported within the risk management process.

Environment and corporate culture

The environment and corporate culture of the PZU Group are based on key risk management principles and sufficient internal communication.

In order to ensure sufficient risk understanding and awareness among employees and management, the PZU Group puts emphasis on an information system regarding risk exposure and management among particular areas of activity.

7.2.2. Risk appetite

Risk appetite reflects the maximum level of acceptable risk that the organization can take and is closely related to business strategy and financial targets. It may be described both in terms of quality and quantity.

The risk level is managed by the PZU Group in a manner ensuring that the value of capital, considering its availability, corresponds at least to the "AA" risk rating, in line with the capital model of Standard&Poor's Ratings Services (S&P).

Market risk appetite is determined using the Value-at-Risk method (VaR). VaR is a generally recognized approach to measurement of the risk of loss resulting from a given financial asset portfolio within a specified time horizon.

Respective risk appetite is defined in the form of limits accepted by the Management Board or one of the following committees:

- Asset and Liability Management Committee of PZU Group (ALCO)
- Committee of Financial Insurance and Guarantee Risk (CFIGR) Group.

Next step involves allocation of risk limits to organizational units on lower levels of the organizational structure.

7.2.3. Key risk management principles

Risk management in PZU Group is based on the following main principles:

- Controlled risk acceptance: financial capacity and sustainable value growth are an integral part of the Group's business strategy. In order to achieve these objectives, the Group's operations are limited by clearly defined risk policy and risk control framework.
- Clear responsibility: the Group's operations are based on allocation of tasks, competencies and accountabilities. Delegated employees are accountable for risk they undertake, and their incentives are aligned with the Group's business objectives.
- Adapting to changes in business environment: ability to respond to changes in business environment caused both by external conditions and internal changes is an integral part of the risk control process in the Group.

7.3 Risk management structure

The following units participate in risk management process in PZU and PZU Życie:

- Supervisory Board of PZU / PZU Życie
- Management Board of PZU / PZU Życie
- ALCO
- CFIGR
- selected offices and teams of PZU and PZU Życie
- PZU AM.

The management boards are accountable for implementing of the risk management system based on recommendations of ALCO and CFIGR.

ALCO submits recommendations regarding management of the balance sheet structure in order to ensure that PZU SA and PZU Życie SA have the sufficient level of security, liquidity and profitability. Additionally, it presents recommendations regarding acceptable level of financial risk and investment guidelines for PZU SA, PZU Życie SA and PZU AM (a subsidiary of PZU responsible for management of selected portfolios of PZU and PZU Życie)

CFIGR defines the strategy of PZU regarding financial insurance products and insurance guarantees. Additionally, CFIGR allocates risk exposure limits and monitors operations of PZU in areas of significant financial risks related to these products.

7.4 Risk profile

Management of individual risk types is centralized both in PZU and PZU Życie. This principle applies to market risk, credit risk regarding investments and reinsurance and liquidity risk. Insurance risk is managed on the level of individual companies depending on the nature of their operations. Credit risk related to insurance and financial guarantees is managed on the level of PZU SA since this sort of operations is carried out by this company only.

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

PZU and PZU Życie control individual types of risks both by quantity analysis (model based risk quantification) and by quality (which is of crucial importance for quality risks, such as strategic and reputation risk). On this basis, PZU and PZU Życie determine their risk profile and exposure to individual risks.

Defining of individual risks

Insurance risk is the risk of incurring a financial loss or unfavorable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of covered events and from volatility of claims payments.

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

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

7.4.1. Insurance risk (property, personal and life insurance)

Insurance risk in PZU and PZU Życie includes:

- for property and personal insurance (PZU):
 - **premium risk** – the risk of inappropriate estimation of tariffs and possible deviation of written premium from the expected level resulting from volatility in occurrence, frequency and scale of covered events;
 - **provision risk** – a risk that the technical provision level estimate is incorrect, and actual claims may fluctuate around the statistical average due to the stochastic nature of future claims payments;
 - **longevity risk** – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities;
 - **annuity amount revision risk** – a risk of loss or unfavorable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity amount revision indicators in TPL insurance related to changes in legal environment or health of the insured;
 - **catastrophe risk** – a risk of catastrophes, such as natural disasters or terrorist attacks.
- In case of life insurance products offered by PZU Życie:
 - **mortality risk** – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities;
 - **longevity risk** – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities;
 - **disability risk** – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases;
 - **risk related to the incurred cost amount** – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred in relation to insurance or reinsurance contracts;
 - **risk related to contract withdrawal** – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators including withdrawal from contracts, termination or buyout of policies;
 - **catastrophe risk** – a risk of catastrophes, such as pandemia.

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

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

Calculation and monitoring of adequacy of technical provisions

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

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

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

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

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

Tariff strategy, monitoring of current estimates and premium adequacy assessment

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

Underwriting

As regards SME and corporate customers, a separate underwriting process independent from the sales function is carried out, which involves risk assessment and taking a decision on its acceptance. The assessment of risk related to SME customers is conducted by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system depending on competency scopes and limits granted (Branch Sales Team, Branch Underwriting Team, HO).

Reinsurance (as an insurance risk mitigating tool)

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

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

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

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

Exposure to insurance risk in property and personal products

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

Ratio	1 January - 31 December 2009	1 January - 31 December 2008
Expense ratio	29.27%	27.05%
Claims ratio net of reinsurance	69.28%	63.25%
Reinsurer's retention ratio	2.00%	1.46%
Mixed ratio	98.55%	90.30%

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

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

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

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

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

Claims development in direct property and personal insurance, gross (by reporting year)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Provision at the end of the reporting year	6 312	6 939	7 295	7 247	7 458	7 541	7 898	8 293	8 700
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)									
- calculated a year later	6 153	6 656	6 471	6 868	6 916	7 300	7 698	8 382	
- calculated two years later	5 872	6 010	6 534	6 387	6 815	7 287	7 833		
- calculated three years later	5 505	6 162	6 097	6 355	7 014	7 437			
- calculated four years later	5 667	5 797	6 083	6 560	7 113				
- calculated five years later	5 395	5 805	6 272	6 659					
- calculated six years later	5 423	6 014	6 361						
- calculated seven years later	5 657	6 111							
- calculated eight years later	5 749								
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	5 749	6 111	6 361	6 659	7 113	7 437	7 833	8 382	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	2 832	2 873	2 789	2 715	2 723	2 528	2 262	1 814	
Provision recognized in the statement of financial position	2 917	3 238	3 572	3 944	4 390	4 909	5 571	6 568	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	563	828	934	588	345	104	65	(89)	
The above difference as a percentage of the originally estimated provision	9%	12%	13%	8%	5%	1%	1%	-1%	

Claims development in direct property and personal insurance net of reinsurance (by reporting year)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Provision at the end of the reporting year	4 640	5 212	5 750	5 980	6 246	6 356	6 916	7 433	7 900
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):									
- calculated a year later	4 237	5 092	5 134	5 630	5 651	6 146	6 791	7 568	
- calculated four years later	4 113	4 651	5 251	5 175	5 605	6 202	6 969		
- calculated four years later	3 917	4 824	4 839	5 200	5 839	6 396			
- calculated four years later	4 084	4 485	4 874	5 405	5 979				
- calculated eight years later	3 836	4 533	5 063	5 529					
- calculated eight years later	3 904	4 729	5 173						
- calculated eight years later	4 102	4 840							
- calculated eight years later	4 202								
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	4 201	4 840	5 173	5 529	5 979	6 396	6 969	7 568	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	1 829	2 190	2 206	2 208	2 235	2 167	2 084	1 699	
Provision recognized in the statement of financial position	2 372	2 650	2 967	3 321	3 744	4 229	4 885	5 869	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	439	372	577	451	267	(40)	(53)	(135)	
The above difference as a percentage of the originally estimated provision	9%	7%	10%	8%	4%	-1%	-1%	-2%	

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

Risk concentration in property and personal insurance

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

Risk concentration in property and personal insurance: flood claims exposure

Risk concentration in property and personal insurance: flood claims exposure by level as at 31 December 2009		Sum insured					Total
		0-200 PLN '000	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: inspectorates where flood claims account for 0 to 5% of total claims	Sum insured	4.3%	7.8%	3.0%	1.8%	31.2%	48.1%
	Number of policies	39.8%	5.3%	0.9%	0.3%	0.3%	46.6%
B class regions: inspectorates where flood claims account for 5 to 15% of total claims	Sum insured	0.8%	0.6%	0.3%	0.2%	5.1%	7.0%
	Number of policies	4.5%	0.4%	0.1%	0.0%	0.0%	5.0%
C class regions: inspectorates where flood claims account for over 15% of total claims	Sum insured	3.5%	7.3%	2.7%	1.8%	29.6%	44.9%
	Number of policies	41.8%	5.1%	0.8%	0.3%	0.4%	48.4%
Sum insured		8.6%	15.7%	6.0%	3.8%	65.9%	100.0%
Total	Number of policies	86.1%	10.8%	1.8%	0.6%	0.7%	100.0%

Risk concentration in property and personal insurance: flood claims exposure by level as at 31 December 2008		Sum insured					Total
		0-200 PLN '000	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: inspectorates where flood claims account for 0 to 5% of total claims	Sum insured	12.8%	12.7%	4.8%	3.1%	52.8%	86.2%
	Number of policies	70.1%	12.2%	2.1%	0.6%	0.6%	85.6%
B class regions: inspectorates where flood claims account for 5 to 15% of total claims	Sum insured	0.9%	0.6%	0.2%	0.1%	1.9%	3.7%
	Number of policies	4.3%	0.6%	0.1%	0.0%	0.0%	5.0%
C class regions: inspectorates where flood claims account for over 15% of total claims	Sum insured	1.4%	1.8%	0.7%	0.4%	5.8%	10.1%
	Number of policies	7.2%	1.7%	0.3%	0.1%	0.1%	9.4%
	Sum insured	15.1%	15.1%	5.7%	3.6%	60.5%	100.0%
Total	Number of policies	81.6%	14.5%	2.5%	0.7%	0.7%	100.0%

Risk concentration in property and personal insurance: hurricane claims exposure

Risk concentration in property and personal insurance: hurricane claims exposure by level as at 31 December 2009		Sum insured					Total
		0-200 PLN '000	PLN 200- 500 thousand	PLN 500- 1000 thousand	PLN 1000- 2000 thousand	over PLN 2000 thousand	
A class regions: inspectorates where hurricane claims account for 0 to 5% of total claims	Sum insured	3.2%	5.8%	2.4%	1.5%	29.6%	42.5%
	Number of policies	33.6%	4.0%	0.7%	0.2%	0.2%	38.7%
B class regions: inspectorates where hurricane claims account for 5 to 15% of total claims	Sum insured	2.9%	3.9%	1.4%	0.7%	8.1%	17.0%
	Number of policies	17.8%	2.7%	0.4%	0.1%	0.1%	21.1%
C class regions: inspectorates where hurricane claims account for over 15% of total claims	Sum insured	2.5%	6.0%	2.2%	1.6%	28.2%	40.5%
	Number of policies	34.7%	4.2%	0.7%	0.2%	0.4%	40.2%
Total	Sum insured	8.6%	15.7%	6.0%	3.8%	65.9%	100.0%
	Number of policies	86.1%	10.9%	1.8%	0.5%	0.7%	100.0%

Risk concentration in property and personal insurance: hurricane claims exposure by level as at 31 December 2008		Sum insured					Total
		0-200 PLN '000	PLN 200- 500 thousand	PLN 500- 1000 thousand	PLN 1000- 2000 thousand	over PLN 2000 thousand	
A class regions: inspectorates where hurricane claims account for 0 to 5% of total claims	Sum insured	2.4%	3.0%	1.5%	1.0%	22.8%	30.7%
	Number of policies	16.5%	2.8%	0.6%	0.2%	0.2%	20.3%
B class regions: inspectorates where hurricane claims account for 5 to 15% of total claims	Sum insured	4.6%	5.4%	2.1%	1.2%	17.6%	30.9%
	Number of policies	23.3%	5.1%	0.9%	0.3%	0.2%	29.8%
C class regions: inspectorates where hurricane claims account for over 15% of total claims	Sum insured	8.2%	6.7%	2.1%	1.4%	20.0%	38.4%
	Number of policies	41.8%	6.6%	0.9%	0.3%	0.3%	49.9%
Total	Sum insured	15.2%	15.1%	5.7%	3.6%	60.4%	100.0%
	Number of policies	81.6%	14.5%	2.4%	0.8%	0.7%	100.0%

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

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

Gross written premium in property and personal insurance – TPL as at 31 December 2009	Sum insured					Total
	0-200 PLN '000	200-500 PLN '000	500-1000 PLN '000	PLN 1000- 2000 thousand	over PLN 2000 thousand	
General TPL in personal life and other	15.1%	4.7%	3.5%	4.0%	20.7%	48.0%
Medical TPL	1.5%	2.0%	1.7%	1.8%	2.2%	9.2%
Professional TPL except from medical and agricultural (legal, consulting, etc.)	23.2%	4.1%	1.0%	1.5%	5.1%	34.9%
TPL of farmers and their movable property	0.0%	7.8%	0.0%	0.0%	0.0%	7.8%
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Total	39.8%	18.6%	6.2%	7.3%	28.1%	100.0%

Gross written premium in property and personal insurance – TPL as at 31 December 2008	Sum insured					Total
	0-200 PLN '000	200-500 PLN '000	500-1000 PLN '000	PLN 1000- 2000 thousand	over PLN 2000 thousand	
General TPL in personal life and other	14.6%	5.5%	4.3%	5.1%	20.7%	50.2%
Medical TPL	1.8%	2.2%	3.0%	4.2%	3.2%	14.4%
Professional TPL except from medical and agricultural (legal, consulting, etc.)	12.7%	2.8%	4.8%	1.5%	5.3%	27.1%
TPL of farmers and their movable property	0.0%	8.2%	0.0%	0.0%	0.0%	8.2%
Product TPL	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%
Total	29.2%	18.7%	12.1%	10.8%	29.2%	100.0%

Exposure to insurance risk in life products

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

In group products, concentration risk occurrence is limited by the contract portfolio size, including approx. 6 million employees, which allows significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract, under which all the insureds have the same sum insured and coverage, is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

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

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

Sensitivity analysis

Capitalized annuity amount

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

Change in the assumptions for the provision for gross capitalized annuity amount property and personal insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Technical interest rate – rise by 0.5 p.p.	354	333	354	333
Technical interest rate – drop by 1.0 p.p.	(926)	(867)	(926)	(867)
Mortality – 110% of the currently assumed level	108	100	108	100
Mortality – 90% of the currently assumed level	(121)	(112)	(121)	(112)

Change in the assumptions for the provision for capitalized annuity amount net of reinsurance in property and personal insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Technical interest rate – rise by 0.5 p.p.	316	293	316	293
Technical interest rate – drop by 1.0 p.p.	(829)	(761)	(829)	(761)
Mortality – 110% of the currently assumed level	98	89	98	89
Mortality – 90% of the currently assumed level	(109)	(99)	(109)	(99)

Change in assumptions for annuity insurance products in life insurance (PLN million)	Effect of change in the assumptions on the net financial profit/loss		Effect of change in the assumptions on equity	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Technical interest rate – drop by 1 p.p.	(38)	(39)	(38)	(39)
Mortality – 90% of the currently assumed level	(14)	(14)	(14)	(14)

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

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

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Technical interest rate – drop by 1 p.p.	(2 446)	(2 791)	(2 446)	(2 791)
Mortality – 110% of the currently assumed level	(1 045)	(1 154)	(1 045)	(1 154)
110% of incidence proportion	(247)	(300)	(247)	(300)

Effects of clients' withdrawing from life insurance products

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

Financial statements item (PLN million)	31 December 2009	31 December 2008
Change in technical provisions	1 722	1 766
Claims paid	(533)	(489)
Change in deferred acquisition costs	(8)	(8)
Gross financial profit/loss	1 181	1 269
Net financial profit/loss	957	1 028
Equity	957	1 028

7.4.2. Market risk

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

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

Market risk management organization is based on independent management and risk control functions, implementation and maintaining strict risk controls as well as establishment of separate decision-taking levels and reporting paths. *Funds investment principles* approved by the Supervisory Board (PZU) are the basis for all investment activities. Detailed standards and principles of market risk management are defined in *Internal investment regulations*, *Market risk management principles for Powszechny Zakład Ubezpieczeń SA and Powszechny Zakład Ubezpieczeń na Życie SA* and in *Investment objectives and guidelines*. Based on the *Investment objectives and guidelines*, which are subject to approval by the Management Board of PZU in line with the ALCO recommendations, PZU AM manages the SAA portfolios of PZU SA and PZU Życie SA.

Operational management of market risk in PZU and PZU Życie takes place on the Treasurer's Office (TO) level. TO manages portfolios of debt securities (ALM portfolio) in order to match them to maturity and amounts of liabilities. Additionally, on an ongoing basis, it controls investment risk and determines the prudence limits regarding assets for PZU AM. In order to ensure independence, functions related to portfolio management and risk control are assigned to two separate TO divisions. The Financial Risk Managing Team is responsible for risk control.

The acceptable levels of market risk are defined by the ALCO in the form of general exposure limits for financial instruments, which have to be complied with by the Treasurer's Office. Market risk is measured by the Treasurer's Office using the Value at Risk method (VaR) or based on a scenario analysis involving an analysis of impairment resulting from a change in risk factors (only for property price risk). The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. Risk measurement complies with the requirements laid down in the Solvency II Directive. In order to effectively manage market risk, limits in the form of capital amounts allocated to each market risk, as well as limits for separate market risk factors (BPV limits for the interest rate risk and exposure to share risk) are determined.

TO prepares daily reports on risk incurred, performance on investments and application of limits, and submits in to members of management boards in PZU SA and PZU Życie SA. The report includes also operations of PZU AM.

Operations of PZU AM regarding management of SAA portfolios in PZU and PZU Życie SA has been presented in *Investment objectives and guidelines*. They determine the SAA portfolio structure and the limit structure, subject to daily monitoring and reporting to TO. The limits are set on individual risk level (BPV, exposure related to shares) and determined by ALCO. Risk measurement is based on a VaR approach. Like in case of TO, functions related to portfolio management and risk control are assigned to two separate units in PZU AM. Risk Control Office in PZU AM is responsible for the risk control function.

Market risk exposure

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

Balance sheet value as at 31 December 2009 (PLN million)	Property and personal insurance	Life insurance	Unit-linked investment and insurance contracts
Financial assets exposed to interest rate risk	17 495	23 843	1 556
- Fixed interest debt securities	16 200	19 670	1 132
- Floating interest debt securities	571	509	56
- Term deposits with credit institutions	442	3 220	368
- Loans	21	-	-
- Cash	105	250	-
- Reverse repo transactions	155	191	-
- Derivatives	1	3	-
Financial assets exposed to other price risk	1 258	1 924	1 588
- Shares listed on a regulated market	1 056	1 292	352
- Participation units and certificates in investment funds	201	623	1 236
- Derivatives	1	9	-
Total	18 753	25 767	3 144

Balance sheet value as at 31 December 2008 (PLN million)	Property and personal insurance	Life insurance	Unit-linked investment and insurance contracts
Financial assets exposed to interest rate risk	23 023	25 662	1 495
- Fixed interest debt securities	20 563	18 440	1 151
- Floating interest debt securities	708	915	61
- Term deposits with credit institutions	1 249	5 880	237
- Loans	-	-	-
- Cash	233	253	21
- Reverse repo transactions	270	171	25
- Derivatives	-	3	-
Financial assets exposed to other price risk	931	1 466	1 313
- Shares listed on a regulated market	753	902	353
- Participation units and certificates in investment funds	178	544	960
- Derivatives	-	20	-
Total	23 954	27 128	2 808

Interest rate derivatives	Base amount by maturity At 31 December 2009					Assets at fair value as at 31 December 2009	Liabilities at fair value as at 31 December 2009
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments recognized as HFT including:	-	-	83 773	82 164	165 937	3 872	(3 182)
OTC including:	-	-	83 773	82 164	165 937	3 872	(3 182)
- SWAP transactions	-	-	83 773	82 164	165 937	3 872	(3 182)
Interest rate derivatives total	-	-	83 773	82 164	165 937	3 872	(3 182)

Interest rate derivatives	Base amount by maturity At 31 December 2008					Assets at fair value as at 31 December 2008	Liabilities at fair value as at 31 December 2008
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments recognized as HFT including:	-	29 500	233 773	300 000	563 273	3 186	(27 228)
OTC including:	-	29 500	233 773	300 000	563 273	3 186	(27 228)
- FRA transactions	-	-	10 000	-	10 000	-	(415)
- SWAP transactions	-	29 500	223 773	300 000	553 273	3 186	(26 813)
Interest rate derivatives total	-	29 500	233 773	300 000	563 273	3 186	(27 228)

Security price derivatives	Base amount by maturity At 31 December 2009					Assets at fair value as at 31 December 2009	Liabilities at fair value as at 31 December 2009
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on a regulated market including:	76 591	-	-	-	76 591	1 322	(351)
- Futures	76 591	-	-	-	76 591	1 322	(351)
OTC including:	8 301	2 481	144 888	-	155 670	8 529	-
- Call options	8 301	2 481	144 888	-	155 670	8 529	-
Security price derivatives total	84 892	2 481	144 888	-	232 261	9 851	(351)

Security price derivatives	Base amount by maturity At 31 December 2008					Assets at fair value as at 31 December 2008	Liabilities at fair value as at 31 December 2008
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on a regulated market including:	35 338	-	-	-	35 338	227	(504)
- Futures	35 338	-	-	-	35 338	227	(504)
OTC including:	-	191 503	75 207	-	266 710	19 518	-
- Call options	-	191 503	75 207	-	266 710	19 518	-
Security price derivatives total	35 338	191 503	75 207	-	302 048	19 745	(504)

Risk concentration

Exposure to treasury securities issued by Polish Ministry of Finance – as at the end of 2009, exposure of PZU Group to treasury securities issued by Polish Ministry of Finance along with contingent transactions on those securities amounted to PLN 37,803 million (PLN 42,027 million as at the end of 2008), accounting for 78.4% of the total financial assets (77.5% as at the end of 2008).

PZU Group's exposure to WSE-listed stock - as at the end of 2009, the Group's exposure to stock listed at WSE amounted to PLN 2,693 million (PLN 2,030 million as at the end of 2008), which accounted for 5.6% of the financial assets value (3.7% in 2008) and 99.3% of exposure in listed equity instruments (99.2% in 2008).

Exposure to assets of PKO BP SA Exposure to assets of a single bank was the highest for PKO BP SA. As at 31 December 2009, exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,660 million (PLN 1,652 million as at 31 December 2008).

General exposure to bank deposits, debt securities issued by banks, their shares, IRS transactions and options amounted to PLN 6,191 million (PLN 9,291 million as at the end of 2008), which accounted for 12.8% of financial deposits value (17.1% as at the end of 2008).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 98.1% of total financial assets as at the end of 2009 (98.8% as at the end of 2008).

Unit-linked insurance and investment contract portfolio, amounted to 6.5% of the total financial assets of the PZU Group as at the end of 2009 (5.2% in 2008).

7.4.2.1 Interest rate risk

Degree of risk exposure

The following table presents effective interest rates regarding non-unit-linked financial assets of PZU Group.

Average effective interest rate weighted by asset measurement at the adjusted acquisition price as at 31 December 2009	PLN	USD	EUR	LTL	UAH
Financial assets					
1. Debt instruments, including:					
- held to maturity	6.0%	n/a	5.1%	7.9%	n/a
- available for sale	5.5%	n/a	1.8%	n/a	25.4%
2. Loans	4.3%	8.7%	0.7%	9.9%	20.6%
Liabilities					
Investment contracts	4.8%	n/a	n/a	n/a	n/a
Liabilities to credit institutions	4,0 %	n/a	n/a	n/a	n/a

Average effective interest rate weighted by asset measurement at the adjusted acquisition price as at 31 December 2008	PLN	USD	EUR	LTL	UAH
Financial assets					
1. Debt instruments, including:					
- held to maturity	6.2%	n/a	5.1%	6.2%	n/a
- available for sale	6.0%	n/a	6.9%	4.6%	24.5%
2. Loans	5.9%	7.4%	2.7%	7.1%	24.8%
Liabilities					
Investment contracts	5.1%	n/a	n/a	n/a	n/a

Sensitivity analysis

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

Change in portfolio value (PLN million)	31 December 2009		31 December 2008	
	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.	88	238	78	270
Market interest rate increase by 100 b.p.	(83)	(227)	(73)	(254)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance and investment contract liabilities. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 7.4.1.

A decrease in sensitivity to interest rate risk at the end of 2009 compared to the end of 2008 resulted from a drop in exposure to fixed interest debt securities and reduced duration of debt securities portfolio.

7.4.2.2 FX risk

Degree of risk exposure

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

Sensitivity analysis

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

Change in portfolio value (PLN million)	31 December 2009		31 December 2008	
	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	152	152	101	101
20% decrease in FX to PLN rates	(152)	(152)	(101)	(101)

Financial assets exposed to FX risk include deposit transactions and debt securities that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE, as well as financial assets of Lithuanian and Ukrainian companies included in consolidation. Increased sensitivity to FX risk as at the end of 2009 compared to 2008 resulted mainly from an increase in deposit exposure (deposit transactions and debt securities) used as hedging of technical provisions denominated in foreign currencies.

Other price risk

Degree of risk exposure

The value of AVS instruments and MFVTPL portfolio is presented in items 13.2 and 13.3, respectively.

Sensitivity analysis

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

Change in portfolio value (PLN million)	31 December 2009		31 December 2008	
	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%	231	371	182	278
Decrease in measurement of listed equity instruments by 20%	(239)	(379)	(182)	(278)

Material changes compared to previous years

An increase in sensitivity of financial assets portfolio to changes in measurement of listed equity instruments as at the end of 2009 compared to 2008 results from an increased exposure to equity instruments exposed to other price risk.

7.4.3. Credit risk

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

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

Investment activity

Principles of managing credit risk resulting from investment activity have been defined in *Regulations of investment activity* and *Principles of measuring and monitoring of credit and concentration risk in banks*, as well as in *Methodology of granting investment limits to debt instruments issued by enterprises and local self-government entities*.

Credit and concentration risk limits are set by ALCO.

Limits for banks are determined based on the exposure. For limits granted to banks, prior to acceptance, each motion is revised by the TO Financial Risk Managing Team, which is also responsible for updating the internal rating of each bank. When determining the limits, the total exposure of PZU and PZU Życie is taken into account, but the limits are set for each Company individually. The limits for PZU and PZU Życie SA have the form of limits of exposure towards banks (the entire portfolio) and to a single bank and/or capital group (both credit and concentration limits). Factors considered in limit-setting include macroeconomic position, current portfolio profitability, credit margin level and capital surplus in PZU or PZU Życie. TO Financial Risk Managing Team monitors the limits both with reference to credit and concentration risk on a daily basis, except from those for Bancassurance Office, which are monitored in a weekly cycle. All breaches are reported to a respective unit and the Management Board of the Company. The unit is obliged to prepare and present the exposure reduction plan during next ALCO meeting.

Credit limits for enterprises and local self-government entities are based on internal ratings and directly derived from the rating assigned to an entity. The limits are set on the level of an entity (issuer) or program and expressed as the percentage share in the nominal value of the given program, but not higher than the pre-set absolute limit (expressed as a figure). TO monitors the limit application.

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

No exposure limits have been set for State Treasury securities since they have been considered the safest financial instruments available for PZU Group.

Degree of risk exposure in investment activity

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

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

Assets exposed to credit risk as at 31 December 2009 (PLN million)	AAA	AA	A	BBB	BB	No rating	Total
Debt securities	861	70	36 217	321	5	11	37 485
Bank deposits and repo transactions involving treasury securities	-	60	1 759	2 345	59	52	4 275
Loans	-	-	-	-	-	21	21
Derivatives	-	1	11	-	-	-	12
Reinsurers' share in net claims provisions	12	329	280	17	-	35	673
Receivables from reinsurance	1	8	10	1	-	6	26
Total assets exposed to credit risk	874	468	38 277	2 684	64	125	42 492

Assets exposed to credit risk as at 31 December 2008 (PLN million)	AAA	AA	A	BBB	BB	No rating	Total
Debt securities	432	-	40 275	203	14	17	40 941
Bank deposits and repo transactions involving treasury securities	-	225	4 636	3 026	76	70	8 033
Loans	-	-	-	-	-	-	-
Derivatives	-	17	6	-	-	-	23
Reinsurers' share in net claims provisions	16	619	144	17	-	24	820
Receivables from reinsurance	1	13	9	-	-	7	30
Total assets exposed to credit risk	449	874	45 070	3 246	90	118	49 847

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

Standard&Poor's rating	AAA	AA	A	BBB	BB	No rating
Ratio (%) for 2009	0,7	0,7	1,7	4,4	14,6	30,4
Ratio (%) for 2008	0,7	0,7	1,7	4,4	14,6	30,4

The credit risk in investment activity as at 31 December 2009 amounted to PLN 826 million (PLN 967 million as at 31 December 2008).

Financial insurance and guarantees

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

The risk monitoring function, independent from the sales function, operates at three levels. The first one applies to underwriting (the assessment of risk relating to financial insurance). The second is the portfolio level, for which the Financial Insurance Unit is responsible. The Financial Insurance Unit conducts an analysis of changes in the exposure value and claims related to the portfolio in terms of their value and volumes as well as analyses of concentration and exposure to one entity and capital group. The Financial Insurance and Guarantee Risk Committee is the third level.

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

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

At the portfolio level, threshold exposures are defined and monitored. Obligatory reinsurance contracts which protect the financial insurance portfolio constitute an additional risk mitigant. The assignment level, contract capacity and scope of protection are important elements taken into consideration in the risk management process.

The value of the insurance guarantee exposure, insurance of monetary receivables and bank loan insurance as well as the provisions of the reinsurance contract serve as the basis for estimating the maximum volume of claims retained by PZU SA. Additionally, the aforementioned assessment is conducted based on a simulation model used for estimating Value at Risk (VaR) and Tail Value at Risk (TVaR) for guarantees and insurance of monetary receivables.

At the product level, the Financial Insurance Unit manages risk through:

- development and modification of procedures and tools used for risk assessment and monitoring;
- introduction of new products as well as modification or withdrawal of products offered;
- definition of the minimum rates for product lines, ensuring that the margin earned is commensurate with the risk assumed;
- definition of the minimum requirements with respect to legal safeguards.

At the individual level, in the course of examining applications in the customer assessment process scoring sheets (with cut-off points defined) are used and safeguards commensurate with the risk assumed are determined, which involves a comprehensive assessment of the entity's risk taking into account quantitative and qualitative factors as well as the transaction risk.

Risk monitoring on a cyclical basis is an important element of the risk control process and it focuses on:

- the portfolio's exposure by insurance guarantees, insurance of monetary receivables as well as bancassurance;
- the risk exposure of a given Branch of PZU with the objective to conduct an assessment of territorial (branch) concentration;
- the exposure to an entity (single customer) and a capital group, together with the legal safeguards;
- profitability of the activities carried out by the Company at the level of the technical account, product lines and single contracts.

Degree of risk exposure

As at 31 December 2009, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,214 million (PLN 2,353 million as at 31 December 2008).

Reinsurance (from the credit risk perspective of the reinsurer)

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

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources e.g. S&P as well as using an internal model. The model divides reinsurers into several classes, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted.

The acceptance process is not automatic and analyses are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried out on the basis of an internal model.

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

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2009	Rating assigned by Standard&Poor's as at 31 December 2009	Reinsurers' share in (net) technical provisions as at 31 December 2008	Rating assigned by Standard&Poor's as at 31 December 2008
AXA France IARD - AAI Reassurance	241 311	AA	311 431	AA
SWISS Reinsurance Company	141 053	A+	144 724	AA-
Partner Reinsurance Europe Limited, Zurich Branch	32 483	AA-	32 276	AA-
Munich Reinsurance Company	24 352	AA-	29 672	AA-
Scor Global P&C Se	22 233	A	25 219	A-
Scor Global P&C (Ex Sorema)	18 145	A	18 328	A-
Everest Reinsurance Company	17 789	A+	18 008	AA-
Scor Rückversicherung (Deutschland) AG	16 530	A	16 648	A-
Polskie Towarzystwo Reasekuracji SA	15 850	BBB	19 463	BBB-
Hannover Rückversicherung AG	16 436	AA-	9 298	AA-
Genworth	12 570	A-	17 502	A
Compagnie Generale Reassurance Monte-Carlo	10 025	no rating	55 179	A-
Other	179 536		187 104	
Total	748 313		884 852	

7.4.4. Liquidity risk

Liquidity risk involves inability to settle liabilities to customers or counterparties at their maturity date.

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

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

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

As regards short-term liquidity risk management, the balance of funds in the liquidity and currency portfolios of PZU and PZU Życie is at least equal to the limit defined. Moreover, both companies have access to open lines of credit at banks. As regards medium-term liquidity management, PZU and PZU Życie hold highly liquid investment portfolios. Additionally, a centralized liquidity management process has been implemented with respect to individual portfolios under management of PZU AM. Long-term financial liquidity risk to which PZU and PZU Życie are exposed is mitigated through a system of liquidity gap limits (both in PLN and foreign currencies).

The level of liquidity risk at PZU and PZU Życie is measured by estimating the shortages of cash required for liability payments. The above estimates are 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, a currency gap analysis as well as an analysis of the demand for cash within one month expressed by other organizational units.

PZU and PZU Życie apply asset liability management (ALM) measures aimed at matching the structure of financial investments which cover technical provisions to the nature of such provisions and at minimizing the related risks. Another objective of the ALM process is to ensure the capability to pay claims within the shortest possible time also in unfavorable economic conditions. The aforementioned objectives are achieved by separating a portfolio of the most secure assets, whose risk profile corresponds to the technical provisions (the ALM portfolio). The principles governing the ALM process are defined by the ALCO and laid down in the "Market Risk Management Policy of Powszechny Zakład Ubezpieczeń SA and Powszechny Zakład Ubezpieczeń na Życie SA" and in the "ALM Policy of PZU SA" and "ALM Policy of PZU Życie SA". The ALCO assumes responsibility for selection of financial instruments classified to the ALM portfolio against such criteria as asset security, maturity match, investment type, diversification and the nature of cash flows relating to technical provisions. Additionally, investments covering technical provisions are made separately in each currency corresponding to the currency of the provisions and the portfolio value is increased compared to the value of the provisions to account for any losses of the portfolio's market value. The ALM policy is reviewed by the ALCO at least on an annual basis.

Ensuring operational liquidity

In order to mitigate liquidity risk, the Companies apply a minimum limit of exposure to deposits and repo transactions involving debt securities maturing within 1 month as well as securities issued by the State Treasury. As at 31 December 2009 the aforementioned limit was PLN 170 million for PZU and PLN 131 million for PZU Życie (PLN 182 million for PZU and PLN 150 million for PZU Życie as at 31 December 2008).

Operational liquidity of PZU and PZU Życie is additionally secured by the minimum liquidity gap limit for the index interest rate risk portfolio. The above limit denotes the minimum value of portfolio cash flows within 1 year. Additionally, cash is invested in highly liquid assets (in Poland: Treasury bonds and bills).

Degree of risk exposure

Property and personal insurance

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

Item	Projected cash flows (in PLN million)				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(1 184)	(922)	(1 430)	(3 095)	(7 826)
I. Outflows	(1 192)	(928)	(1 436)	(3 111)	(7 877)
II. Inflows	8	6	6	16	51
B. Inflows from assets covering technical provisions	1 993	518	1 526	8 715	3 680
I. Future inflows whose value is known as at the end of reporting year	1 853	378	1 234	8 312	3 117
- Treasury bonds	899	237	1 149	7 855	2 912
- Treasury bills	-	-	-	-	-
- Other debt securities	-	19	2	264	113
- Term deposits with credit institutions	381	19	22	43	-
- Receivables	569	25	11	2	-
- Other, including:	4	78	50	148	92
- reinsurer's share in technical provisions	4	2	4	4	-
II Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	140	140	292	403	537
- Treasury bonds	-	-	9	36	387
- Other debt securities	-	-	2	16	14
- Shares listed on a regulated market	140	140	281	351	136
- Other	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	26
C. Balance of projected cash flows (A + B)	809	(404)	96	5 620	(4 146)
D. Balance of accumulated cash flows	809	405	501	6 121	1 975

The projected net cash flows resulting from property and personal insurance contracts concluded by the end of the reporting period have been determined using statistical and actuarial mathematical methods, taking into account historical data. Inflows have been calculated on the basis of the gross premium. Outflows include all projected costs to be incurred by the insurance company in connection with insurance contracts concluded. Future cash flows resulting from assets used as a coverage of technical provisions in property and personal insurance have been presented as the nominal value of the projected future cash flows corresponding to the periods in which such cash flows are expected. As regards debt securities, loans and term deposits, all cash flows which are expected to occur by the date of redemption of such securities, withdrawal of investments or repayment of loans have been taken into consideration. Shares and units have been presented in the periods of their expected disposal or redemption.

The balance of accumulated cash flows in property insurance decreased from PLN 14,696 million as at the end of 2008 to PLN 1,975 million as at the end of 2009, which resulted from a reduction of the projected inflows from assets covering technical provisions by PLN 11,445 million and an increase in the projected net cash flows resulting from insurance contracts by PLN 1,276 million. A drop in inflows from assets was mainly caused by a reduction of the value of the investment portfolio due to advance dividend paid for 2009 to the shareholders of PZU.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in property and personal insurance was 2.8 (2.9 in 2008), whereas the duration of technical provisions was 4.1 (5.0 in 2008).

Life insurance

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

Item	Projected cash flows (in PLN million)					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(2 960)	(197)	(752)	(1 316)	(3 346)	(7 961)
I. Outflows	(3 905)	(1 120)	(7 307)	(7 855)	(12 399)	(15 951)
II. Inflows	945	923	6 555	6 539	9 053	7 990
B. Inflows from assets covering technical provisions	4 002	3 255	11 430	5 039	3 171	560
I. Future inflows whose value is known as at the end of reporting year	3 608	3 248	11 407	5 027	3 171	560
- Treasury bonds	1 022	2 854	11 056	4 947	3 171	560
- Treasury bills	-	330	-	-	-	-
- Other debt securities	8	1	313	80	-	-
- Term deposits with credit institutions	2 524	63	38	-	-	-
- Receivables	54	-	-	-	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	394	7	23	12	-	-
- Treasury bonds	-	5	10	-	-	-
- Other debt securities	-	2	13	12	-	-
- Investment fund units	394	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	1 042	3 058	10 678	3 723	(175)	(7 401)
D. Balance of accumulated cash flows	1 042	4 100	14 778	18 501	18 326	10 925

The forecast of future claims and future net premiums in life insurance has been prepared based on assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums. Future cash flows resulting from assets used as a coverage of technical provisions in life insurance have been presented as the nominal value of the projected future cash flows corresponding to the periods in which such cash flows are expected. As regards debt securities, loans and term deposits, all cash flows which are expected to occur by the date of redemption of such securities, withdrawal of investments or repayment of loans have been taken into consideration. Shares and units have been presented in the periods of their expected disposal or redemption.

A mismatch in the last periods results from limited availability of assets with such a long life in the Polish market, which generates reinvestment risk managed using the ALM models approved by PZU Życie.

The balance of accumulated cash flows at PZU Życie decreased from PLN 11,133 million as at the end of 2008 to PLN 10,925 million as at the end of 2009, which resulted from a reduction of the projected inflows from assets covering technical provisions by PLN 3,845 million and a decrease in the projected net cash flows resulting from insurance contracts and investment contracts by PLN 3,637 million. The reduction of inflows from assets and the projected net cash flows resulting from insurance contracts was mainly caused by a drop in sales of bancassurance products being short-term investment contracts with guaranteed and fixed terms and conditions. Additionally, the reduction of inflows from assets was caused by excluding a portion of the portfolio of Treasury bonds from the assets covering technical provisions.

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 4.0 (4.1 in 2008), whereas the duration of technical provisions was 18.4 (18.5 in 2008).

8. Equity management

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

8.1 External capital requirements

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

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

The principles for calculation of the required solvency margin and the minimum value of the guarantee fund have been laid down in the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee fund for insurance sections and classes (Dz. U. No. 211 of 2003, item 2060, the "Solvency Margin Ordinance"). The required solvency margin for property and personal insurance is determined based on the premium or the average annual value of insurance claims. The higher of the aforementioned figures is regarded as the required solvency margin for insurance companies. For life insurance the required solvency margin is calculated on the basis of the capital at risk, the value of technical provisions in life insurance as well as the provision for unearned premiums, whereas in the case of accident and sickness contracts – on the basis of the premium value.

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

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

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 2009	31 December 2008
PZU equity	10 411 542	19 151 579
Intangible assets	(49 560)	(31 855)
Value of shares in insurance companies operating within the insurance capital group of PZU	(7 463 664)	(6 081 563)
Deferred tax asset	(213 126)	(320 289)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	5 576 452	3 901 040
PZU Życie (100.00%)	5 584 807	3 859 926
Own funds	7 223 775	5 594 240
Required solvency margin	1 638 968	1 734 314
Surplus of own funds to cover the required solvency margin	5 584 807	3 859 926
UAB DK PZU Lietuva (99.76%)	6 792	10 533
Own funds	39 638	41 297
Required solvency margin	32 830	30 739
Surplus of own funds to cover the required solvency margin	6 808	10 558
OJSC IC PZU Ukraine (100.00%)	(11 654)	13 767
Own funds	1 697	25 279
Required solvency margin	13 351	11 512
Surplus of own funds to cover the required solvency margin	(11 654)	13 767
Other insurance companies	(3 493)	16 814
Own funds of PZU	8 261 644	16 618 912
Required solvency margin of PZU	1 338 798	1 338 798
Guarantee fund of PZU	446 266	446 266
Surplus of own funds to cover the required solvency margin	6 922 846	15 280 114
Surplus of own funds to cover the guarantee fund	7 815 378	16 172 646

8.2 Assessment of the PZU Group companies by credit rating agencies

PZU and PZU Życie are subject to assessment by credit rating agencies on a regular basis. The rating assigned to PZU and PZU Życie results from an analysis of its financial information, competitive position, management and corporate strategy. It also includes a rating outlook, i.e. an assessment of the future position of the Company in the event specific circumstances occur.

The table below presents the ratings assigned to the PZU Group companies by Standard&Poor's, together with the previous year's ratings. The ratings were valid as at the end of the respective reporting periods.

The ratings assigned in 2009 are valid as at the date of signing these consolidated financial statements.

Company name	Rating and outlook	Assignment date	Rating and outlook	Assignment date
PZU				
Financial strength rating	A /stable/	16 July 2009	A- /stable/	10 July 2008
Credit rating	A /stable/	16 July 2009	A- /stable/	10 July 2008
PZU Życie				
Financial strength rating	A /stable/	16 July 2009	A- /stable/	10 July 2008
Credit rating	A /stable/	16 July 2009	A- /stable/	10 July 2008

9. Intangible assets

As at 31 December 2009 and 31 December 2008 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	1 January – 31 December 2009	1 January – 31 December 2008
Claims and change in technical provisions – property and personal insurance	268	3 062
Claims and change in technical provisions – life insurance	266	1 105
Claims and change in measurement of investment contracts	283	307
Acquisition costs	344	2 323
Administrative expenses	41 414	36 773
Other operating expenses	276	2 377
Costs of investing activities	1	-
Total amortization	42 852	45 947

Changes in intangible assets in the year ended 31 December 2009

	Acquired concessions, patents, licenses and similar items, including:	computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	330 191	219 734	173 347	514	504 052
Increases (due to):	32 536	27 914	46 521	-	79 057
- purchase	16 285	13 702	46 521	-	62 806
- reclassification from intangible assets under construction	15 603	14 212	-	-	15 603
- other	648	-	-	-	648
Decreases (due to):	(5 054)	(4 067)	(30 490)	-	(35 544)
- liquidation	(3 440)	(2 945)	-	-	(3 440)
- reclassification from intangible assets under construction	-	-	(15 603)	-	(15 603)
- other	(1 614)	(1 122)	(14 887)	-	(16 501)
Exchange differences	(444)	(430)	165	(8)	(287)
Gross value of intangible assets – closing balance	357 229	243 151	189 543	506	547 278
Accumulated amortization – opening balance	(242 664)	(188 103)	-	(27)	(242 691)
Changes (due to):	(39 232)	(24 273)	-	(1)	(39 233)
- amortization for the period	(42 851)	(27 567)	-	(1)	(42 852)
- liquidation	3 289	2 941	-	-	3 289
- exchange differences	191	191	-	-	191
- other	139	162	-	-	139

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Accumulated amortization – closing balance	(281 896)	(212 376)	-	(28)	(281 924)
Impairment losses – opening balance	(34 950)	(785)	(156 838)	-	(191 788)
Changes recognized in the financial profit/loss, including in:	-	-	4 907	-	4 907
- other operating expenses	-	-	(1 874)	-	(1 874)
- other operating revenue	-	-	6 781	-	6 781
Other changes	-	-	6 596	-	6 596
Impairment losses – closing balance	(34 950)	(785)	(145 335)	-	(180 285)
Net value of intangible assets – closing balance	40 383	29 990	44 208	478	85 069

“Impairment losses”, include among others losses with respect to:

- the total balance of expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand (PLN 129,383 thousand as at 31 December 2008); the reduction in the value of the impairment loss recognized results from a decrease in the value of capitalized expenditures in the amount of PLN 13,074 thousand caused, among others, by expensing their portion in 2009;
- the unit-linked insurance management module and the base license Graph Talk in the amount of PLN 34,165 thousand (PLN 34,165 thousand as at 31 December 2008);
- the project entitled “Implementation of a corporate customer insurance management system (CORPO)” in the amount of PLN 15,852 thousand (PLN 13,978 thousand as at 31 December 2008);
- the “Central Customer Database” project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2008).

Changes in intangible assets in the year ended 31 December 2008

	Acquired concessions, patents, licenses and similar items, including:	computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	287 731	187 597	163 969	449	452 149
Increases (due to):	44 931	32 657	33 371	-	78 302
- purchase	21 962	11 281	33 371	-	55 333
- reclassification from intangible assets under construction	22 969	21 376	-	-	22 969
Decreases (due to):	(2 914)	(953)	(23 264)	-	(26 178)
- sale	(57)	(57)	-	-	(57)
- liquidation	(10)	(10)	-	-	(10)
- reclassification from intangible assets under construction	-	-	(22 969)	-	(22 969)
- other	(2 847)	(886)	(295)	-	(3 142)
Exchange differences	443	433	(729)	65	(221)
Gross value of intangible assets – closing balance	330 191	219 734	173 347	514	504 052
Accumulated amortization – opening balance	(196 799)	(162 864)	-	(26)	(196 825)
Changes (due to):	(45 865)	(25 239)	-	(1)	(45 866)
- amortization for the period	(45 945)	(25 162)	-	(2)	(45 947)
- sale	41	41	-	-	41
- liquidation	10	10	-	-	10
- exchange differences	(377)	(379)	-	1	(376)
- other	406	251	-	-	406
Accumulated amortization – closing balance	(242 664)	(188 103)	-	(27)	(242 691)
Impairment losses – opening balance	(785)	(785)	(131 559)	-	(132 344)
Changes charged to other operating expenses	(34 165)	-	(25 279)	-	(59 444)
Impairment losses – closing balance	(34 950)	(785)	(156 838)	-	(191 788)
Net value of intangible assets – closing balance	52 577	30 846	16 509	487	69 573

10. Goodwill

Goodwill	31 December 2009	31 December 2008
Goodwill – subsidiaries	19 631	20 216
- PZU CO	5 415	5 415
- PZU Życie	60	60
- PZU Lietuva	3 015	3 062
- PZU Ukraine	11 141	11 679
Total goodwill	19 631	20 216
Changes in goodwill	1 January – 31 December 2009	1 January – 31 December 2008
Gross value of goodwill – opening balance	20 216	23 178
Changes due to exchange differences	(585)	(2 962)
Gross value of goodwill – closing balance	19 631	20 216
Net value of goodwill – closing balance	19 631	20 216

Potential impairment of goodwill

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

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

- discount rate – 4.5% for PZU CO, 7.7% for PZU Lietuva and 19.2% for PZU Ukraine;
- period for which financial forecasts were prepared by the Company's management – 1 year for PZU CO and PZU Lietuva and 5 years for PZU Ukraine;
- the cash flows after the last period covered by the Company's financial plan were adopted at a level equal to the cash flows in the last period covered by the above plan;
- PLN/LTL and PLN/UAH exchange rates were adopted at the level of the average exchange rate published by the National Bank of Poland as at the end of the reporting period.

The maximum discount rates which do not result in a surplus of the carrying amount of investments over their recoverable amount are 5.2% for PZU CO, 24% for PZU Lietuva and 30.2% for PZU Ukraine.

11. Property, plant and equipment

Changes in property, plant and equipment in the year ended 31 December 2009						
	a	b	c	d	e	f
	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real property	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	624 944	93 350	42 766	1 161 928	184 786	2 107 774
Increases (due to):	105 447	25 399	81 619	25 349	5 848	243 662
- purchase	14 193	6 720	67 211	1 629	3 079	92 832
- modernization and improvements	-	-	14 408	5 544	-	19 952
- reclassification from property, plant and equipment under construction	35 315	18 679	-	18 176	6 285	78 455
- other	55 939	-	-	-	(3 516)	52 423
Decreases (due to):	(55 917)	(7 970)	(84 841)	(8 550)	(59 614)	(216 892)
- sale	(4 071)	(7 778)	-	(445)	(45)	(12 339)
- liquidation	(49 690)	(189)	(77)	(2 221)	(6 885)	(59 062)
- reclassification to investment property	-	-	(5 443)	(5 884)	-	(11 327)
- reclassification from property, plant and equipment under construction	-	-	(78 455)	-	-	(78 455)
- other	(2 156)	(3)	(866)	-	(52 684)	(55 709)
Exchange differences	(396)	(81)	-	(262)	19	(720)
Gross value of property, plant and equipment – closing balance	674 078	110 698	39 544	1 178 465	131 039	2 133 824
Accumulated depreciation – opening balance	(527 036)	(47 505)	-	(216 159)	(163 502)	(954 202)
Changes (due to):	(61 782)	(10 604)	-	(42 323)	53 088	(61 621)
- depreciation for the period	(63 242)	(17 283)	-	(43 914)	(8 463)	(132 902)
- sale	4 058	6 589	-	69	45	10 761
- liquidation	49 535	86	-	948	6 743	57 312
- reclassification to investment property	-	-	-	223	-	223
- exchange differences	271	38	-	30	4	343
- other	(52 404)	(34)	-	321	54 759	2 642
Accumulated depreciation – closing balance	(588 818)	(58 109)	-	(258 482)	(110 414)	(1 015 823)
Impairment losses – opening balance	(1 746)	-	(8 743)	(57 522)	-	(68 011)
Changes recognized in the financial profit/loss, including in:	-	-	118	(6 297)	-	(6 179)
- other operating expenses	-	-	-	(12 264)	-	(12 264)
- other operating revenue	-	-	118	5 967	-	6 085
Impairment losses – closing balance	(1 746)	-	(8 625)	(63 819)	-	(74 190)
Net value of property, plant and equipment – closing balance	83 514	52 589	30 919	856 164	20 625	1 043 811

Changes in property, plant and equipment in the year ended 31 December 2008						
	a	b	c	d	e	f
	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real property	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	713 524	95 691	43 580	1 142 620	179 704	2 175 119
Increases (due to):	30 177	8 277	48 713	29 893	24 014	141 074
- purchase	14 467	945	34 499	2 218	3 151	55 280
- modernization and improvements	-	-	13 502	123	-	13 625
- reclassification from investment property	-	-	-	3 288	-	3 288
- reclassification from property, plant and equipment under construction	14 594	7 254	-	6 627	20 302	48 777
- other	1 116	78	712	17 637	561	20 104
Decreases (due to):	(119 352)	(10 118)	(49 527)	(10 881)	(17 828)	(207 706)
- sale	(207)	(9 589)	-	(155)	(356)	(10 307)
- liquidation	(115 759)	(529)	-	(2 918)	(16 998)	(136 204)
- reclassification to investment property	-	-	-	(7 386)	-	(7 386)
- reclassification from property, plant and equipment under construction	-	-	(48 777)	-	-	(48 777)
- other	(3 386)	-	(750)	(422)	(474)	(5 032)
Exchange differences	595	(500)	-	296	(1 104)	(713)
Gross value of property, plant and equipment – closing balance	624 944	93 350	42 766	1 161 928	184 786	2 107 774
Accumulated depreciation – opening balance	(579 692)	(39 272)	-	(169 524)	(157 736)	(946 224)
Changes (due to):	52 656	(8 233)	-	(46 635)	(5 766)	(7 978)
- depreciation for the period	(65 847)	(17 748)	-	(45 946)	(23 696)	(153 237)
- sale	186	8 881	-	74	227	9 368
- liquidation	115 495	445	-	1 417	16 842	134 199
- reclassification to investment property	-	-	-	572	-	572
- exchange differences	(376)	189	-	36	488	337
- other	3 198	-	-	(2 788)	373	783
Accumulated depreciation – closing balance	(527 036)	(47 505)	-	(216 159)	(163 502)	(954 202)
Impairment losses – opening balance	(1 746)	-	(8 743)	-	-	(10 489)
Changes recognized in the financial profit/loss, including in:	-	-	-	(57 522)	-	(57 522)
- other operating expenses	-	-	-	(57 522)	-	(57 522)
Impairment losses – closing balance	(1 746)	-	(8 743)	(57 522)	-	(68 011)
Net value of property, plant and equipment – closing balance	96 162	45 845	34 023	888 247	21 284	1 085 561

12. Investment property

Investment property (by type)	31 December 2009	31 December 2008
Own land	171 748	134 524
Land perpetual usufruct right	31 611	20 779
Buildings and structures	142 996	127 178
Cooperative ownership of premises	197	197
Total investment property (by type)	346 552	282 678

Changes in investment property	1 January – 31 December 2009	1 January – 31 December 2008
Net book value – opening balance	282 678	294 564
Increases (due to)	14 223	7 562
- purchase	-	748
- capitalized modernization and improvements	2 753	-
- reclassification from real property used for internal purposes	5 661	6 814
- reclassification from construction investments	5 443	-
- other	366	-
Decreases (due to)	(372)	(3 578)
- sale and liquidation	(372)	(290)
- reclassification to real property used for internal purposes	-	(3 288)
Net gain (loss) on remeasurement at fair value	50 023	(15 870)
- recognized in the financial profit/loss	30 512	(15 870)
- recognized directly in equity	19 511	-
Net book value – closing balance	346 552	282 678

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 in 2008 and 2010 (for 44% of the value of investment property a valuation was conducted in January 2010).

13. Financial assets

In 2009 and in 2008, financial instruments were not reclassified from groups carried at fair value to those carried at cost or amortized cost.

13.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2009			31 December 2008		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	23 327 568	23 327 568	23 109 959	24 567 510	24 567 510	24 929 118
Debt securities	23 327 568	23 327 568	23 109 959	24 567 510	24 567 510	24 929 118
- government securities	22 724 017	22 724 017	22 469 200	24 106 711	24 106 711	24 441 325
- other securities	603 551	603 551	640 759	460 799	460 799	487 793
- listed on a regulated market	428 328	428 328	452 914	406 090	406 090	427 983
- not listed on a regulated market	175 223	175 223	187 845	54 709	54 709	59 810
Total financial instruments held to maturity	23 327 568	23 327 568	23 109 959	24 567 510	24 567 510	24 929 118

Financial instruments held to maturity	31 December 2009	31 December 2008
Short-term	4 353 068	4 010 999
Long-term	18 974 500	20 556 511
Total financial instruments held to maturity	23 327 568	24 567 510

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Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2009	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	4 353 068	1 802 886	1 127 318	6 033 671	1 184 515	8 826 110	23 327 568
Government securities	4 337 402	1 340 323	1 127 318	6 033 671	1 184 515	8 700 788	22 724 017
- fixed rate	4 020 892	1 340 323	1 127 318	6 033 671	1 184 515	8 700 788	22 407 507
- floating rate	316 510	-	-	-	-	-	316 510
Other	15 666	462 563	-	-	-	125 322	603 551
- listed on a regulated market	15 666	407 849	-	-	-	4 813	428 328
- fixed rate	15 666	407 849	-	-	-	4 813	428 328
- unlisted	-	54 714	-	-	-	120 509	175 223
- fixed rate	-	54 714	-	-	-	25 284	79 998
- floating rate	-	-	-	-	-	95 225	95 225
Total	4 353 068	1 802 886	1 127 318	6 033 671	1 184 515	8 826 110	23 327 568

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2008	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	4 010 999	4 230 358	1 482 249	960 673	5 945 876	7 937 355	24 567 510
Government securities	3 990 801	4 221 745	1 050 261	960 673	5 945 876	7 937 355	24 106 711
- fixed rate	3 466 282	3 908 579	1 050 261	960 673	5 945 876	7 937 355	23 269 026
- floating rate	524 519	313 166	-	-	-	-	837 685
Other	20 198	8 613	431 988	-	-	-	460 799
- listed on a regulated market	20 198	8 613	377 279	-	-	-	406 090
- fixed rate	20 198	8 613	377 279	-	-	-	406 090
- unlisted	-	-	54 709	-	-	-	54 709
- fixed rate	-	-	54 709	-	-	-	54 709
Total	4 010 999	4 230 358	1 482 249	960 673	5 945 876	7 937 355	24 567 510

Financial instruments held to maturity	31 December 2009				31 December 2008			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Debt securities	23 129 298	165 129	33 141	23 327 568	24 454 531	32 521	80 458	24 567 510
Government securities	22 616 168	81 548	26 301	22 724 017	24 022 544	17 446	66 721	24 106 711
- fixed rate	22 299 658	81 548	26 301	22 407 507	23 184 859	17 446	66 721	23 269 026
- floating rate	316 510	-	-	316 510	837 685	-	-	837 685
Other	513 130	83 581	6 840	603 551	431 987	15 075	13 737	460 799
- listed on a regulated market	407 849	13 639	6 840	428 328	377 278	15 075	13 737	406 090
- fixed rate	407 849	13 639	6 840	428 328	377 278	15 075	13 737	406 090
- unlisted	105 281	69 942	-	175 223	54 709	-	-	54 709
- fixed rate	79 998	-	-	79 998	54 709	-	-	54 709
- floating rate	25 283	69 942	-	95 225	-	-	-	-
Total	23 129 298	165 129	33 141	23 327 568	24 454 531	32 521	80 458	24 567 510

13.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2009			31 December 2008		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	9 926 704	n/a	10 025 927	11 452 682	n/a	11 452 682
Equity instruments	1 324 807	n/a	1 424 030	947 009	n/a	947 009
- listed on a regulated market	909 525*	n/a	1 008 748*	579 430	n/a	579 430
- not listed on a regulated market	415 282	n/a	415 282	367 579	n/a	367 579
Debt securities	8 601 897	7 137 188	8 601 897	10 505 673	10 332 880	10 505 673
- government securities	8 537 465	7 071 598	8 537 465	10 437 822	10 266 995	10 437 822
- other securities	64 432	65 590	64 432	67 851	65 885	67 851
- listed on a regulated market	15 067	15 137	15 067	15 208	15 205	15 208
- not listed on a regulated market	49 365	50 453	49 365	52 643	50 680	52 643
Instruments for which fair value may not be determined	101 141	n/a	n/a	117 573	n/a	n/a
Equity instruments	101 141	n/a	n/a	117 573	n/a	n/a
- not listed on a regulated market**	101 141	n/a	n/a	117 573	n/a	n/a
Total	10 027 845	n/a	n/a	11 570 255	n/a	n/a

* the item includes shares in a subsidiary not included under consolidation, whose carrying amount equaled PLN 42,952 thousand and the fair value was PLN 142,175 thousand.

**the item includes shares in controlled entities not included under consolidation, whose carrying amount equaled PLN 98,001 thousand as at 31 December 2009 (vs. PLN 112,316 thousand as at 31 December 2008).

As at 31 December 2009 and 31 December 2008 the fair value of equity instruments not listed on a regulated market was not determined as such an approach was regarded as impractical, and due to a substantial margin of error applicable to such estimates.

Financial instruments available for sale	31 December 2009	31 December 2008
Short-term	1 973 688	3 929 292
Long-term	8 054 157	7 640 963
Total financial instruments available for sale	10 027 845	11 570 255

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

Carrying amount of debt financial instruments available for sale as at 31 December 2009	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	1 529 834	2 344 608	2 304 196	1 329 110	498 741	595 408	8 601 897
Government securities	1 529 834	2 329 541	2 304 196	1 329 110	498 741	546 043	8 537 465
- fixed rate	1 529 834	2 122 624	2 304 196	1 329 110	498 741	423 792	8 208 297
- floating rate	-	206 917	-	-	-	122 251	329 168
Other	-	15 067	-	-	-	49 365	64 432
- listed on a regulated market	-	15 067	-	-	-	-	15 067
- floating rate	-	15 067	-	-	-	-	15 067
- unlisted	-	-	-	-	-	49 365	49 365
- floating rate	-	-	-	-	-	49 365	49 365
Total	1 529 834	2 344 608	2 304 196	1 329 110	498 741	595 408	8 601 897

Carrying amount of debt financial instruments available for sale as at 31 December 2008	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	3 705 843	2 105 808	1 046 468	596 680	1 238 135	1 812 739	10 505 673
Government securities	3 703 880	2 105 808	1 031 260	596 680	1 238 135	1 762 059	10 437 822
- fixed rate	3 703 880	2 105 808	826 920	596 680	1 238 135	1 640 930	10 112 353
- floating rate	-	-	204 340	-	-	121 129	325 469
Other	1 963	-	15 208	-	-	50 680	67 851
- listed on a regulated market	-	-	15 208	-	-	-	15 208
- floating rate	-	-	15 208	-	-	-	15 208
- unlisted	1 963	-	-	-	-	50 680	52 643
- fixed rate	1 963	-	-	-	-	-	1 963
- floating rate	-	-	-	-	-	50 680	50 680
Total	3 705 843	2 105 808	1 046 468	596 680	1 238 135	1 812 739	10 505 673

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Financial instruments available for sale	31 December 2009						31 December 2008					
	PLN	USD	EUR	LTL	UAH	Total	PLN	USD	EUR	LTL	UAH	Total
Equity instruments	1 376 065	70	79	40 235	9 499	1 425 948	1 015 107	42	51	40 235	9 147	1 064 582
- listed on a regulated market	909 525	-	-	-	-	909 525	579 430	-	-	-	-	579 430
- not listed on a regulated market	466 540	70	79	40 235	9 499	516 423	435 677	42	51	40 235	9 147	485 152
Debt securities	8 159 497	-	440 550	-	1 850	8 601 897	10 500 237	-	-	-	5 436	10 505 673
Government securities	8 095 065	-	440 550	-	1 850	8 537 465	10 434 349	-	-	-	3 473	10 437 822
- fixed rate	7 765 897	-	440 550	-	1 850	8 208 297	10 108 880	-	-	-	3 473	10 112 353
- floating rate	329 168	-	-	-	-	329 168	325 469	-	-	-	-	325 469
Other	64 432	-	-	-	-	64 432	65 888	-	-	-	1 963	67 851
- listed on a regulated market	15 067	-	-	-	-	15 067	15 208	-	-	-	-	15 208
- fixed rate	-	-	-	-	-	-	-	-	-	-	-	-
- floating rate	15 067	-	-	-	-	15 067	15 208	-	-	-	-	15 208
- unlisted	49 365	-	-	-	-	49 365	50 680	-	-	-	1 963	52 643
- fixed rate	-	-	-	-	-	-	-	-	-	-	1 963	1 963
- floating rate	49 365	-	-	-	-	49 365	50 680	-	-	-	-	50 680
Total	9 535 562	70	440 629	40 235	11 349	10 027 845	11 515 344	42	51	40 235	14 583	11 570 255

13.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2009 and 31 December 2008, the PZU Group companies were not parties to any contracts with embedded derivatives, whose nature and the relating risks would not be closely connected with the host contract.

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2009	31 December 2008
Instruments for which fair value may be determined	5 498 886	5 407 787
Equity instruments	340 009	198 941
- listed on a regulated market	6 887	7 399
- not listed on a regulated market	333 122	191 542
Debt securities	5 158 877	5 208 846
- government securities	5 094 085	5 140 079
- other securities	64 792	68 767
- listed on a regulated market	15 427	18 087
- not listed on a regulated market	49 365	50 680
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	5 498 886	5 407 787

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2009	31 December 2008
Instruments for which fair value may be determined	4 714 745	4 336 413
Equity instruments	3 001 885	2 345 318
- listed on a regulated market	1 795 234	1 459 692
- not listed on a regulated market	1 206 651	885 626
Debt securities	1 699 137	1 968 164
- government securities	1 649 374	1 922 626
- other securities	49 763	45 538
- listed on a regulated market	7 683	3 613
- not listed on a regulated market	42 080	41 925
Other, including:	13 723	22 931
- derivatives	13 723	22 931
Total financial instruments measured at fair value through profit or loss – held for trading	4 714 745	4 336 413

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	31 December 2009	31 December 2008
Short-term	1 205 862	1 871 904
Long-term	4 293 024	3 535 883
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	5 498 886	5 407 787

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

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Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2009							
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	872 740	1 600 511	1 129 125	558 422	519 989	478 090	5 158 877
Government securities	872 740	1 585 372	1 129 125	558 422	519 989	428 437	5 094 085
- fixed rate	872 740	1 344 178	1 129 125	558 422	519 989	428 437	4 852 891
- floating rate	-	241 194	-	-	-	-	241 194
Other	-	15 139	-	-	-	49 653	64 792
- listed on a regulated market	-	15 139	-	-	-	288	15 427
- fixed rate	-	-	-	-	-	288	288
- floating rate	-	15 139	-	-	-	-	15 139
- unlisted	-	-	-	-	-	49 365	49 365
- floating rate	-	-	-	-	-	49 365	49 365
Total	872 740	1 600 511	1 129 125	558 422	519 989	478 090	5 158 877

Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2008							
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	1 680 362	1 316 433	632 055	253 340	543 528	783 128	5 208 846
Government securities	1 677 480	1 316 433	616 850	253 340	543 528	732 448	5 140 079
- fixed rate	1 640 481	1 262 936	378 659	253 340	543 528	732 448	4 811 392
- floating rate	36 999	53 497	238 191	-	-	-	328 687
Other	2 882	-	15 205	-	-	50 680	68 767
- listed on a regulated market	2 882	-	15 205	-	-	-	18 087
- fixed rate	2 882	-	-	-	-	-	2 882
- floating rate	-	-	15 205	-	-	-	15 205
- unlisted	-	-	-	-	-	50 680	50 680
- floating rate	-	-	-	-	-	50 680	50 680
Total	1 680 362	1 316 433	632 055	253 340	543 528	783 128	5 208 846

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Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2009							
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	356 354	225 492	456 590	193 958	124 418	342 325	1 699 137
Government securities	354 155	218 540	450 644	193 258	116 434	316 343	1 649 374
- fixed rate	354 155	211 015	450 644	193 258	116 434	316 343	1 641 849
- floating rate	-	7 525	-	-	-	-	7 525
Other	2 199	6 952	5 946	700	7 984	25 982	49 763
- listed on a regulated market	699	-	-	-	6 984	-	7 683
- fixed rate	699	-	-	-	6 984	-	7 683
- unlisted	1 500	6 952	5 946	700	1 000	25 982	42 080
- fixed rate	-	2 952	-	-	-	-	2 952
- floating rate	1 500	4 000	5 946	700	1 000	25 982	39 128
Total	356 354	225 492	456 590	193 958	124 418	342 325	1 699 137

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2008							
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	672 195	687 965	103 456	89 534	148 753	266 261	1 968 164
Government securities	668 100	685 792	96 548	84 512	148 053	239 621	1 922 626
- fixed rate	668 100	675 093	77 969	84 512	148 053	239 621	1 893 348
- floating rate	-	10 699	18 579	-	-	-	29 278
Other	4 095	2 173	6 908	5 022	700	26 640	45 538
- listed on a regulated market	2 940	673	-	-	-	-	3 613
- fixed rate	-	673	-	-	-	-	673
- floating rate	2 940	-	-	-	-	-	2 940
- unlisted	1 155	1 500	6 908	5 022	700	26 640	41 925
- fixed rate	-	-	2 908	-	-	-	2 908
- floating rate	1 155	1 500	4 000	5 022	700	26 640	39 017
Total	672 195	687 965	103 456	89 534	148 753	266 261	1 968 164

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Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2009				31 December 2008					
	PLN	EUR	LTL	Other	Total	PLN	EUR	LTL	Other	Total
Equity instruments	333 122	3 686	3 049	152	340 009	191 552	3 341	3 800	248	198 941
- listed on a regulated market	-	3 686	3 049	152	6 887	10	3 341	3 800	248	7 399
- not listed on a regulated market	333 122	-	-	-	333 122	191 542	-	-	-	191 542
Debt securities	5 157 999	878	-	-	5 158 877	5 205 547	1 774	1 525	-	5 208 846
Government securities	5 093 495	590	-	-	5 094 085	5 139 662	-	417	-	5 140 079
- fixed rate	4 852 301	590	-	-	4 852 891	4 810 975	-	417	-	4 811 392
- floating rate	241 194	-	-	-	241 194	328 687	-	-	-	328 687
Other	64 504	288	-	-	64 792	65 885	1 774	1 108	-	68 767
- listed on a regulated market	15 139	288	-	-	15 427	15 205	1 774	1 108	-	18 087
- fixed rate	-	288	-	-	288	-	1 774	1 108	-	2 882
- floating rate	15 139	-	-	-	15 139	15 205	-	-	-	15 205
- unlisted	49 365	-	-	-	49 365	50 680	-	-	-	50 680
- floating rate	49 365	-	-	-	49 365	50 680	-	-	-	50 680
Total	5 491 121	4 564	3 049	152	5 498 886	5 397 099	5 115	5 325	248	5 407 787

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2009				31 December 2008				
	PLN	USD	EUR	Total	PLN	USD	EUR	Other	Total
Equity instruments	2 900 906	52 971	48 008	3 001 885	2 280 855	35 638	23 033	5 792	2 345 318
- listed on a regulated market	1 789 350	4 903	981	1 795 234	1 450 914	1 848	1 138	5 792	1 459 692
- not listed on a regulated market	1 111 556	48 068	47 027	1 206 651	829 941	33 790	21 895	-	885 626
Debt securities	1 699 137	-	-	1 699 137	1 968 164	-	-	-	1 968 164
Government securities	1 649 374	-	-	1 649 374	1 922 626	-	-	-	1 922 626
- fixed rate	1 641 849	-	-	1 641 849	1 893 348	-	-	-	1 893 348
- floating rate	7 525	-	-	7 525	29 278	-	-	-	29 278
Other	49 763	-	-	49 763	45 538	-	-	-	45 538
- listed on a regulated market	7 683	-	-	7 683	3 613	-	-	-	3 613
- fixed rate	7 683	-	-	7 683	673	-	-	-	673
- floating rate	-	-	-	-	2 940	-	-	-	2 940
- unlisted	42 080	-	-	42 080	41 925	-	-	-	41 925
- fixed rate	2 952	-	-	2 952	2 908	-	-	-	2 908
- floating rate	39 128	-	-	39 128	39 017	-	-	-	39 017
Other, including:	11 665	-	2 058	13 723	22 902	-	29	-	22 931
- derivatives	11 665	-	2 058	13 723	22 902	-	29	-	22 931
Total	4 611 708	52 971	50 066	4 714 745	4 271 921	35 638	23 062	5 792	4 336 413

13.4 Loans

Loans	31 December 2009	31 December 2008
Short-term	4 406 323	8 058 194
Long-term	262 226	280 834
Total	4 668 549	8 339 028

Loans as at 31 December 2009	Carrying amount by maturity date			Total
	up to 1 year	over 1 year and up to 2 years	over 3 years and up to 4 years	
Debt securities	-	-	-	-
Other, including:	4 406 323	33 306	228 920	4 668 549
- reverse repo transactions	345 789	-	-	345 789
- term deposits with credit institutions	4 034 958	33 306	228 920	4 297 184
- deposits with ceding undertakings	1 542	-	-	1 542
- loans	24 034	-	-	24 034
Total	4 406 323	33 306	228 920	4 668 549

Loans as at 31 December 2008	Carrying amount by maturity date			Total
	up to 1 year	over 1 year and up to 2 years	over 4 years and up to 5 years	
Debt securities	-	-	-	-
Other, including:	8 060 078	58 950	220 000	8 339 028
- reverse repo transactions	494 132	-	-	494 132
- term deposits with credit institutions	7 550 384	58 950	220 000	7 829 334
- deposits with ceding undertakings	12 347	-	-	12 347
- loans	3 215	-	-	3 215
Total	8 060 078	58 950	220 000	8 339 028

Both as at 31 December 2009 and 31 December 2008 the fair value of loans did not differ substantially from their carrying amount.

Loans as at 31 December 2009	PLN	USD	EUR	LTL	UAH	Other	Total
Debt securities	-	-	-	-	-	-	-
Other, including:	4 529 640	15 780	68 949	35 372	18 808	-	4 668 549
- reverse repo transactions	345 789	-	-	-	-	-	345 789
- term deposits with credit institutions	4 162 355	15 015	68 172	35 372	16 270	-	4 297 184
- deposits with ceding undertakings	-	765	777	-	-	-	1 542
- loans	21 496	-	-	-	2 538	-	24 034
Total	4 529 640	15 780	68 949	35 372	18 808	-	4 668 549

Loans as at 31 December 2008	PLN	USD	EUR	LTL	UAH	Other	Total
Debt securities	-	-	-	-	-	-	-
Other, including:	7 909 749	24 524	324 973	44 961	34 814	7	8 339 028
- reverse repo transactions	494 132	-	-	-	-	-	494 132
- term deposits with credit institutions	7 415 617	21 797	315 360	44 961	31 599	-	7 829 334
- deposits with ceding undertakings	-	2 727	9 613	-	-	7	12 347
- loans	-	-	-	-	3 215	-	3 215
Total	7 909 749	24 524	324 973	44 961	34 814	7	8 339 028

14. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	31 December 2009	31 December 2008
Receivables from direct insurance, including:	1 073 599	1 153 837
- receivables from policyholders	1 011 631	1 080 612
- receivables from insurance intermediaries	51 616	26 855
- other receivables	10 352	46 370
Receivables from reinsurance	26 334	30 421
Other receivables	284 045	227 926
Net receivables, including under insurance contracts	1 383 978	1 412 184

Both as at 31 December 2009 and 31 December 2008 the fair value of receivables did not differ substantially from their carrying amount.

Receivables, including under insurance contracts – by contractual maturity	31 December 2009	31 December 2008
Up to 1 year	1 324 056	1 370 903
Over 1 year and up to 5 years	48 309	36 141
Over 5 years	11 613	5 140
Receivables, including under insurance contracts – by contractual maturity	1 383 978	1 412 184

14.1 Other receivables

Other receivables	31 December 2009	31 December 2008
Receivables from the State Budget, other than due to income tax	764	31 695
Receivables from Metro Projekt sp. z o.o. claimed at court	89 831	73 189
Receivables relating to prevention activities	24 593	27 632
Advance payments	2 959	3 479
Receivables from OFE PZU	8 320	2 362
Receivables from loss adjusting services	41 568	24 976
Receivables of Open-Ended Investment Funds managed by TFI PZU	4 593	10 958
Receivables from disposal of securities	93 537	32 057
Other	17 880	21 578
Other receivables	284 045	227 926

As at 31 December 2009 and 31 December 2008 “Other receivables – other” included receivables from the Minister of Finance in the total amount of PLN 24,187 thousand due to refund of premium discounts in comprehensive car and TPL insurance, on the total value of which an impairment loss was recognized. On 30 December 2003, PZU filed a claim against the State Treasury represented by the Minister of Finance, in the District Court in Warsaw, demanding payment of the amount related to refunded discounts. On 24 February 2005, the case was dismissed.

On 8 July 2005, PZU appealed against the decision. On 8 February 2007, the Court of Appeal reversed the decision of the District Court and ordered the case to be re-examined by the court of the first instance. Once the case was re-examined, on 16 April 2009, the case was dismissed. PZU appealed against the decision to the District Court on 28 May 2009. By the date of signing these consolidated financial statements the appeal had not been examined.

14.2 Receivables due to operating leases

Operating leases concern mainly property lease agreements.

Future minimum receivables from lease payments	31 December 2009	31 December 2008
Up to 1 year	15 178	2 851
Over 1 year and up to 5 years	19 428	6 139
Over 5 years	118	-
Future minimum receivables from lease payments	34 724	8 990

15. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – property and personal insurance	31 December 2009	31 December 2008
Provision for unearned premiums	75 096	64 990
Provision for unexpired risks	-	51
Provisions for claims outstanding, including:	191 210	290 662
- for claims reported	156 106	190 623
- for claims incurred but not reported (IBNR)	19 056	73 401
- for claims handling costs	16 048	26 638
Provision for capitalized value of annuity claims	482 007	529 149
Reinsurers' share in technical provisions (net)	748 313	884 852

Reinsurers' share in technical provisions - property and personal insurance	31 December 2009	31 December 2008
Short-term	259 293	265 097
Long-term	489 020	619 755
Total	748 313	884 852

16. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2009	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (not recognized in the income statement)	Change in the balance of the class	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Financial assets available for sale	263 724	75 267	(294)	(34 836)	-	(82)	-	303 779
- equity instruments	263 724	75 267	(294)	(34 836)	-	(82)	-	303 779
Loans	51 911	-	(1)	(32 783)	-	(3)	-	19 124
Loans	51 911	-	(1)	(32 783)	-	(3)	-	19 124
Receivables, including under insurance contracts	421 494	77 908	(60 710)	(6 541)	-	(380)	736	432 507
Receivables from direct insurance	319 217	51 026	(21 567)	(1 168)	-	(262)	(167)	347 079
Receivables from reinsurance	20 365	21 463	(21 399)	(2 618)	-	(7)	20	17 824
Other receivables	81 912	5 419	(17 744)	(2 755)	-	(111)	883	67 604
Reinsurers' share in technical provisions	20 303	14 882	(4 815)	-	-	-	-	30 370
Total	757 432	168 057	(65 820)	(74 160)	-	(465)	736	785 780

Changes in impairment losses on financial assets in the year ended 31 December 2008	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (not recognized in the income statement)	Change in the balance of the class	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Financial assets available for sale	118 049	179 441	-	(33 280)	(49)	(437)	-	263 724
- equity instruments	118 049	179 441	-	(33 280)	(49)	(437)	-	263 724
Loans	51 892	-	(1)	-	-	20	-	51 911
Loans	51 892	-	(1)	-	-	20	-	51 911
Receivables, including under insurance contracts	373 174	68 577	(20 605)	(247)	-	(807)	1 402	421 494
Receivables from direct insurance	265 676	59 695	(6 493)	(187)	-	(876)	1 402	319 217
Receivables from reinsurance	20 140	5 464	(5 259)	-	-	20	-	20 365
Other receivables	87 358	3 418	(8 853)	(60)	-	49	-	81 912
Reinsurers' share in technical provisions	6 589	23 770	(10 056)	-	-	-	-	20 303
Total	549 704	271 788	(30 662)	(33 527)	(49)	(1 224)	1 402	757 432

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

Credit quality of financial assets as at 31 December 2009	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due		Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity								
Debt securities	-	23 327 568	-	-	23 327 568	-	-	23 327 568
Financial assets available for sale								
Debt securities	93 300	9 262 885	-	-	9 356 185	26 566	-	9 382 751
Investment fund units	93 300	660 988	-	-	8 601 897	-	-	8 601 897
Loans								
Reverse repo transactions	-	4 668 549	-	-	754 288	26 566	-	780 854
Term deposits with credit institutions	-	345 789	-	-	4 668 549	19 124	-	4 687 673
Deposits with ceding undertakings	-	4 297 184	-	-	345 789	-	-	345 789
Loans	-	1 542	-	-	4 297 184	-	-	4 297 184
Receivables, including under insurance contracts								
Receivables from direct insurance	25 217	1 159 259	48 248	21 210	1 383 978	19 124	-	1 403 102
Receivables from reinsurance	12 984	955 314	46 968	20 825	1 073 599	113 779	318 728	1 816 485
Other receivables	7 441	18 893	-	-	26 334	29 257	317 822	1 420 678
Reinsurers' share in technical provisions	4 792	185 052	1 280	385	284 045	17 824	-	44 158
Total	38 993	709 320	48 248	21 210	39 484 593	30 370	906	351 649
	157 510	39 127 581	48 248	21 210	39 484 593	189 839	318 728	39 993 160

* including PLN 89,831 thousand due to a mortgage loan extended to Metro-Projekt Sp. z o.o.

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group
Consolidated financial statements in line with IFRS for the financial year ended 31 December 2009

Credit quality of financial assets as at 31 December 2008	Net carrying amount of assets that are not past due			Net carrying amount of assets that are past due			Impairment losses			Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months	Net carrying amount	recognized for individual assets	recognized for asset classes		
Financial assets held to maturity	-	24 567 510	-	-	-	24 567 510	-	-	24 567 510	
Debt securities	-	24 567 510	-	-	-	24 567 510	-	-	24 567 510	
Financial assets available for sale	68 754	11 009 610	-	-	-	11 078 364	26 566	-	11 104 930	
Debt securities	-	10 505 673	-	-	-	10 505 673	-	-	10 505 673	
Investment fund units	68 754	503 937	-	-	-	572 691	26 566	-	599 257	
Loans	-	8 339 028	-	-	-	8 339 028	51 911	-	8 390 939	
Reverse repo transactions	-	494 132	-	-	-	494 132	-	-	494 132	
Term deposits with credit institutions	-	7 829 334	-	-	-	7 829 334	-	-	7 829 334	
Deposits with ceding undertakings	-	12 347	-	-	-	12 347	-	-	12 347	
Loans	-	3 215	-	-	-	3 215	51 911	-	55 126	
Receivables, including under insurance contracts	29 312	1 219 360	46 365	15 021	102 126	1 412 184	130 425	291 069	1 833 678	
Receivables from direct insurance	29 312	1 040 626	44 443	14 488	24 968	1 153 837	28 148	291 069	1 473 054	
Receivables from reinsurance	-	30 421	-	-	-	30 421	20 365	-	50 786	
Other receivables	-	148 313	1 922	533	77 158*	227 926	81 912	-	309 838	
Reinsurers' share in technical provisions	18 266	866 586	-	-	-	884 852	20 303	-	905 155	
Total	116 332	46 002 094	46 365	15 021	102 126	46 281 938	229 205	291 069	46 802 212	

* including PLN 73,189 thousand due to a mortgage loan extended to Metro-Projekt Sp. z o.o.

Impairment losses are not recognized for classes of equity instruments.

17. Estimated recoveries and recourses

Estimated recoveries and recourses	31 December 2009	31 December 2008
Estimated recourses	79 934	53 054
Estimated recoveries	2 396	2 011
Estimated subsidies	-	1 584
Total	82 330	56 649

Estimated recoveries and recourses	31 December 2009	31 December 2008
Short-term	50 929	32 983
Long-term	31 401	23 666
Total	82 330	56 649

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

18. Deferred tax asset

Changes in deferred tax asset in the year ended 31 December 2009	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Exchange differences	Total changes	Closing balance
Financial instruments	-	(1 940)	-	-	(1 940)	(1 940)
Real property	22	(1 255)	(336)	-	(1 569)	(1 569)
Provisions for jubilee bonuses, retirement severance pay etc.	332	17	-	-	17	349
Provision for bonuses and appropriation to the bonus fund	571	(43)	-	-	(43)	528
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	1	62	-	-	62	63
Other provisions and accruals	2 228	352	-	(48)	304	2 532
Tax losses to be used in future periods	4 225	18 299	-	-	18 299	22 524
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	2 546	(103)	-	-	(103)	2 443
Other differences	(56)	40	-	(1)	39	(17)
Total deferred tax asset	9 869	15 429	(336)	(49)	15 044	24 913

Changes in deferred tax asset in the year ended 31 December 2008	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Exchange differences	Total changes	Closing balance
Real property	-	22	-	-	22	22
Deferred acquisition costs relating to OFE PZU	7 044	(7 044)	-	-	(7 044)	-
Provisions for jubilee bonuses, retirement severance pay etc.	336	(4)	-	-	(4)	332
Provision for bonuses and appropriation to the bonus fund	841	(270)	-	-	(270)	571
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	-	1	-	-	1	1
Other provisions and accruals	1 374	1 011	-	(157)	854	2 228
Tax losses to be used in future periods	-	4 225	-	-	4 225	4 225
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	-	2 546	-	-	2 546	2 546
Other differences	(25)	(45)	-	14	(31)	(56)
Total deferred tax asset	9 570	442	-	(143)	299	9 869

Deductible temporary differences relating to not consolidated PZU Group companies for which the deferred tax asset was not recognized amounted to PLN 44,240 thousand as at 31 December 2009 (PLN 11,469 thousand as at 31 December 2008).

Unrecognized deferred tax asset (not disclosed in the statement of financial position)	31 December 2009	31 December 2008
Resulting from a tax loss in line with the use period specified in applicable regulations (including):	55 499	155 168
b) over 1 year and up to 5 years	-	115 827
d) period not specified in the applicable regulations	55 499	39 341
Total	55 499	155 168

As at 31 December 2009 and 31 December 2008, due to establishment of the Tax Capital Group (detailed information presented in point 49), the deferred tax asset and liability disclosed by PZU and PZU Życie were offset.

19. Current income tax receivables

Current income tax receivables	31 December 2009	31 December 2008
Short-term	87 599	334
Long-term	-	-
Total current income tax receivables	87 599	334

20. Deferred acquisition costs

Deferred acquisition costs	31 December 2009	31 December 2008
Short-term	404 455	374 638
Long-term	76 684	79 560
Total	481 139	454 198

20.1 Deferred acquisition costs – property and personal insurance

Changes in deferred acquisition costs in property and personal insurance	1 January – 31 December 2009	1 January – 31 December 2008
Net value – opening balance	368 605	358 531
Deferred acquisition costs	439 503	402 279
Amortization for the period, including:	(403 838)	(394 798)
- charged to the financial profit/loss	(403 838)	(394 798)
Other changes	185	2 593
- exchange differences	185	2 593
Net value – closing balance	404 455	368 605

20.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2009	1 January – 31 December 2008
Net value – opening balance	85 593	93 699
Deferred acquisition costs	-	4 693
Amortization for the period, including:	(8 909)	(12 799)
- charged to the financial profit/loss	(8 909)	(12 799)
Net value – closing balance	76 684	85 593

21. Prepayments

Prepayments	31 December 2009	31 December 2008
IT expenses	3 338	12 127
Deferred acquisition costs relating to OFE PZU	38 154	23 840
Prepayments relating to reinsurance	164 228	98 855
Settlements of payments to the National Health Fund	-	119 381
Commissions on prepaid premiums	37 140	30 594
Other	10 084	6 620
Total	252 944	291 417

The item: "Settlements of payments to the National Health Fund" refers to a lump sum fee for the National Health Fund, which was transferred by PZU in line with Article 43a of the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Dz. U. No. 124 of 2003, item 1152). The amount of the fee depended on the gross premium due to compulsory TPL insurance for the owners of motor vehicles. The obligation to pay the fee expired on 1 January 2009, as the above provision was revoked.

Prepayments	31 December 2009	31 December 2008
Short-term	243 384	286 852
Long-term	9 560	4 565
Total	252 944	291 417

22. Other assets

Other assets	31 December 2009	31 December 2008
Inventories, including:	12 099	7 028
- materials	11 709	6 476
- claim recoveries	390	552
Other assets:	3 682	4 695
Total	15 781	11 723

Other assets	31 December 2009	31 December 2008
Short-term	15 781	11 723
Long-term	-	-
Total	15 781	11 723

Inventories

Inventories (other information)	31 December 2009	31 December 2008
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	390	552

In 2009 and 2008 no impairment losses on inventories were recognized or reversed.

23. Cash and cash equivalents

Structure of cash and cash equivalents disclosed in the balance sheet and in the cash flow statement, including reconciliation	31 December 2009	31 December 2008
Cash in hand and at bank	361 455	527 066
Other cash	5 101	6 140
Total	366 556	533 206

Additional information to the consolidated cash flow statement

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

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

24. Non-current assets held for sale

On 12 January 2009, PZU and PZU Życie disposed of all 25,000 thousand shares in PTR (each company disposed of 12,500 thousand shares) with the total carrying amount of PLN 25,588 thousand for the total price of PLN 40,000 thousand (PLN 20,000 thousand for each company).

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

25.1 Share capital

Series/ issue	Share type	Type of preference	Number of shares	Nominal value of series/issue	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	60 446 320	60 446	cash	23.01.1997	27.12.1991
B	registered	non-preference	25 905 980	25 906	contribution in kind	31.03.1999	01.01.1999
Total number of shares			86 352 300				
Total share capital				86 352			

In 2009 the number of PZU shares did not change. The share capital of PZU has been fully paid-up.

25.1.1. Shareholders of PZU

As at 31 December 2009

No.	Shareholder's name	Series	Number of shares	Total paid-up value of shares in PLN	Number of ordinary shares	Number of registered shares	Percentage of votes at the Shareholders' Meeting
1	State Treasury	A	17 432 118	17 432 118	17 432 118	17 432 118	20,1875%
		B	25 905 980	25 905 980	25 905 980	25 905 980	30,0000%
2	Eureko B.V.	A	19 856 968	19 856 968	19 856 968	19 856 968	22,9953%
3	Kappa SA	A	12 866 492	12 866 492	12 866 492	12 866 492	14,9000%
3	Other shareholders	A	10 290 742	10 290 742	10 290 742	10 290 742	11,9172%
Total			86 352 300	86 352 300	86 352 300	86 352 300	100,0000%

As at 31 December 2008

No.	Shareholder's name	Series	Number of shares	Total paid-up value of shares in PLN	Number of ordinary shares	Number of registered shares	Percentage of votes at the Shareholders' Meeting
1	State Treasury	A	21 663 380	21 663 380	21 663 380	21 663 380	25,0872%
		B	25 905 980	25 905 980	25 905 980	25 905 980	30,0003%
2	Eureko B.V.	A	27 739 108	27 739 108	27 739 108	27 739 108	32,1232%
3	Other shareholders	A	11 043 832	11 043 832	11 043 832	11 043 832	12,7893%
Total			86 352 300	86 352 300	86 352 300	86 352 300	100,0000%

"Other shareholders" include employees who acquired shares from the State Treasury free of charge as well as natural and legal persons that subsequently bought the shares from such employees.

25.1.2. Dematerialization of PZU shares

On 2 December 2009, the Extraordinary Shareholders' Meeting of PZU adopted a resolution on dematerialization of PZU shares. Subsequently, PZU shares will be registered at the National Depository for Securities.

By the date of signing these financial statements PZU shares were not registered in the National Depository for Securities (KDWP).

25.1.3. Highest-level parent company of PZU

As at 31 December 2009 the State Treasury of the Republic of Poland (the "State Treasury") held 50.1875% of PZU shares giving the right to 50.1875% of votes at the Shareholders' Meeting. Therefore, there was no higher-level parent company of PZU drawing up its consolidated financial statements.

25.1.4. Distribution of profit of the parent company

As regards the distributable profit for 2009 and the preceding years, only the profit disclosed in the separate financial statements of the parent company, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

25.1.4.1. Distribution of profit for 2008

Pursuant to resolution no. 7 of the General Shareholders' Meeting of PZU of 29 July 2009, the net profit of PZU for the year ended 31 December 2008 of PLN 3,026,798 thousand was distributed in the following manner:

- PLN 3,005,798 thousand to the supplementary capital;
- PLN 21,000 thousand to increase the Company's Social Benefits Fund.

25.1.4.2. Advance dividend for 2009

As a result of the Settlement Agreement described in point 55.3 of the Additional Information and Explanations, on 1 October 2009, the Extraordinary Shareholders' Meeting adopted a resolution concerning creation of a reserve capital to finance advance dividends to be used to this effect by the Management Board and an increase in the capital by means of an appropriation of PLN 11,999,516 thousand from the supplementary capital.

The Extraordinary Shareholders' Meeting also authorized the Management Board to increase the advance dividend expected at the end of 2009, which may be paid to the shareholders of PZU based on profit generated by the end of the preceding financial year, by the funds from the reserve capital described above.

On 1 October 2009, the Management Board of PZU adopted a resolution concerning the advance payment of dividend expected at the end of the 2009 financial year, in which it decided that the total advance dividend would be PLN 12,749,917 thousand.

The amount included:

- PLN 750,401 thousand of net profit generated in the first half of 2009;
- PLN 11,999,516 thousand from the reserve capital.

The advance dividend payment was made with respect to 86,352,300 of ordinary registered shares, series A and B. The dividend per share was PLN 147.65. Cum dividend - 19 November 2009; the advance dividend was paid on 26 November 2009.

25.1.4.3. Distribution of profit for 2009

Up to the date of signing the consolidated financial statements the Management Board of PZU has not adopted a resolution on the proposed distribution of profit for 2009.

25.2 Revaluation reserve

Revaluation reserve	31 December 2009	31 December 2008
Revaluation of financial instruments available for sale	323 315	138 622
Reclassification of real property from property, plant and equipment to investment property	17 655	692
Total	340 970	139 314

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January – 31 December 2009	1 January – 31 December 2008
Opening balance	138 622	247 024
Changes	184 693	(108 402)
- change in fair value	224 324	(272 900)
- impairment losses	60 775	127 530
- sale	(100 402)	36 994
- exchange differences	(4)	(26)
Closing balance	323 315	138 622

26. Exchange differences from translation

	1 January – 31 December 2009	1 January – 31 December 2008
Exchange differences from translation – controlled entities		
Opening balance	(23 279)	(17 954)
Changes relating to subsidiaries	(137)	(5 325)
Closing balance	(23 416)	(23 279)

27. Technical provisions

27.1 Technical provisions – property and personal insurance

Technical provisions - property and personal insurance	31 December 2009	31 December 2008
Provision for unearned premiums	3 704 128	3 945 694
Provision for unexpired risks	37 167	74 498
Provisions for claims outstanding	3 837 211	3 776 095
Provision for capitalized value of annuity claims	4 874 653	4 528 618
Provisions for bonuses and rebates for the insured	4 180	-
Total	12 457 339	12 324 905

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2009	31 December 2008
Accident and sickness insurance (class 1 and 2)	317 113	318 136
TPL motor insurance (class 10)	8 068 194	7 787 153
Other motor insurance (class 3)	1 506 733	1 798 408
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	63 656	73 731
Insurance against fire and other damage to property (classes 8 and 9)	900 672	928 899
TPL insurance (classes 11, 12, 13)	1 266 605	1 215 681
Credit insurance and suretyship (classes 14, 15)	121 156	78 123
Assistance (class 18)	71 458	39 867
Legal protection (class 17)	2 002	1 731
Other (class 16)	139 750	83 176
Total	12 457 339	12 324 905

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2009	31 December 2008
Accident and sickness insurance (class 1 and 2)	318 556	320 379
TPL motor insurance (class 10)	7 401 141	6 966 441
Other motor insurance (class 3)	1 524 845	1 805 297
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	53 895	69 813
Insurance against fire and other damage to property (classes 8 and 9)	880 293	914 133
TPL insurance (classes 11, 12, 13)	1 246 414	1 207 030
Credit insurance and suretyship (classes 14, 15)	85 510	56 770
Assistance (class 18)	71 348	39 698
Legal protection (class 17)	2 002	1 707
Other (class 16)	125 022	58 785
Total	11 709 026	11 440 053

Technical provisions - property and personal insurance	31 December 2009	31 December 2008
Short-term	4 185 666	3 549 709
Long-term	8 271 673	8 775 196
Total	12 457 339	12 324 905

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.

27.2 Technical provisions – life insurance

Technical provisions - life insurance	31 December 2009	31 December 2008
Provision for unearned premiums	105 305	106 391
Life insurance provision	14 582 590	15 289 073
Provisions for claims outstanding	619 253	546 257
Provisions for bonuses and rebates for the insured	891	1 553
Other technical provisions	698 918	733 944
Unit-linked reserve	2 017 501	1 765 289
Total	18 024 458	18 442 507

Technical provisions – life insurance	31 December 2009	31 December 2008
Short-term	3 871 532	3 586 874
Long-term	14 152 926	14 855 633
Total	18 024 458	18 442 507

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

27.2.1. Conversion of group employee insurance contracts

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

27.2.2. Old life insurance portfolio

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

In the hyperinflationary period of the 1980’s, investment activities of Państwowy Zakład Ubezpieczeń were limited, as a result of which investment income was below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie revalued partly the old portfolio policies. Claim revaluation programs were implemented with respect to claims paid from 1996 to 2001 and they are planned for the years to come. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective to obtain higher claims.

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

	31 December 2009	31 December 2008
Life insurance provisions	515 442	529 690
Other technical provisions	248 135	228 799
IBNR and RBNP* provision	15 483	19 559
Total provisions for the old portfolio	779 060	778 048

* - IBNR – Incurred But Not Reported

- RBNP – Reported But Not Paid.

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

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

28. Investment contracts

Investment contracts – carrying amount	31 December 2009	31 December 2008
Investment contracts with guaranteed and fixed terms and conditions	2 632 054	4 964 593
- measured at amortized cost	2 631 567	4 948 501
- measured at fair value	487	16 092
Unit linked investment contracts	1 094 475	1 026 528
Total	3 726 529	5 991 121

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

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

Investment contracts (short-term)	31 December 2009	31 December 2008
Investment contracts with discretionary participation features, including:	-	-
Investment contracts with guaranteed and fixed terms and conditions	2 506 707	4 847 008
Unit-linked investment contracts	1 094 475	1 026 528
Total	3 601 182	5 873 536

As unit-linked contracts may be terminated by customers, they have been classified as short-term liabilities.

The value of short-term investment contracts with guaranteed and fixed terms and conditions has been determined on the basis of contractual terms. The related long-term liabilities mature within three years.

29. Provisions for employee benefits

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

Provisions for employee benefits	31 December 2009	31 December 2008
Post-employment benefits	105 253	118 419
- defined benefit plans	105 253	118 419
- provisions for retirement severance pay	89 998	101 183
- provisions for death benefits	15 255	17 236
Other long-term employee benefits	155 693	143 492
- provisions for jubilee bonuses	118 443	134 625
- other	37 250	8 867
Total	260 946	261 911

Provisions for employee benefits (by currency)	31 December 2009	31 December 2008
In PLN	260 946	261 911
In foreign currencies	-	-
Total	260 946	261 911

Revenue (expenses) recognized in the income statement and related to provisions for employee benefits	1 January – 31 December 2009	1 January – 31 December 2008
Post-employment benefits	9 509	(9 272)
- defined benefit plans	9 509	(9 272)
- provisions for retirement severance pay	7 577	(9 252)
- provisions for death benefits	1 932	(20)
Other long-term employee benefits	2 492	(5 827)
- provisions for jubilee bonuses	2 447	(5 373)
- other	45	(454)
Total	12 001	(15 099)

Provisions for employee benefits	31 December 2009	31 December 2008
Short-term	17 353	16 950
Long-term	243 593	244 961
Total	260 946	261 911

29.1 Provisions for retirement severance pay

Change in the balance of provision for retirement severance pay	1 January – 31 December 2009	1 January – 31 December 2008
Opening balance	101 183	106 915
Cost disclosed in the income statement	(7 577)	9 252
Benefits paid	(3 608)	(14 984)
Closing balance	89 998	101 183

Revenue and expenses recognized in the income statement and related to provision for retirement severance pay	1 January – 31 December 2009	1 January – 31 December 2008
Current service cost	(11 536)	(6 282)
Interest expenses	(1 913)	(1 828)
Actuarial (gains) and losses recognized in the current period	21 026	(1 142)
Total revenue and expenses recognized in the income statement and related to provision for retirement severance pay, including in the following items:	7 577	(9 252)
Claims and change in measurement of investment contracts	74	-
Acquisition costs	(2 327)	(1 896)
Administrative expenses	8 399	(8 851)
Claims	1 483	1 510
Other operating expenses	(52)	(15)

Pursuant to the Labor Code, an employee whose employment has been terminated due to retirement or disability is entitled to a severance pay in cash corresponding to the amount of a one-month pay. Internal regulations adopted by the PZU Group companies having their registered offices in Poland and subject to consolidation extend the aforementioned entitlements for employees whose length of service at the PZU Group companies exceeds 10 years (up to 6 times an employee's monthly pay, depending on the overall length of service).

29.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January – 31 December 2009	1 January – 31 December 2008
Opening balance	17 236	17 307
Cost disclosed in the income statement	(1 932)	20
Benefits paid	(49)	(91)
Closing balance	15 255	17 236

Revenue and expenses recognized in the income statement and related to provision for death benefits	1 January – 31 December 2009	1 January – 31 December 2008
Current service cost	(1 801)	(1 235)
Interest expenses	(284)	(281)
Actuarial (gains) and losses recognized in the current period	4 017	1 496
Total revenue and expenses recognized in the income statement and related to provision for death benefits, including in the following items:	1 932	(20)
Claims and change in measurement of investment contracts	3	-
Acquisition costs	479	(243)
Administrative expenses	870	(468)
Claims	592	601
Other operating expenses	(12)	90

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

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

Key actuarial assumptions made for calculation of the provision for retirement severance pay and death benefits	31 December 2009	31 December 2008
Discount rates /1	1.0% - 6.0%	1.0% - 5.5%
Forecast pay rise rates /1	0.0% - 4.5%	0.0% - 4.5%
Mortality rate /2	PLET	PLET
Employee turnover ratio /3	applicable for the company	applicable for the company
Disability rate (entitlement to disability pension) /4	30% - 60% of PLET	30% - 60% of PLET

/1 For certain PZU Group companies, discount rates at the level of 1.0% are adopted. In such case, the adopted discount rate includes the forecast pay rise rate (consequently presented at the level of 0.0% in the above table).

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

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

/4 The disability rate is adopted as a relevant percentage of the above mortality rate. Some PZU Group companies do not take the aforementioned rate into account.

30. Other provisions

Changes in other provisions in the year ended 31 December 2009	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring and reorganization expenses	-	158 763	-	-	158 763
Provisions created for potential liabilities relating to CLSiOR investments	1 282	-	-	(366)	916
Provision for disputed claims and potential liabilities under insurance contracts	131 078	1 799	-	(107 941)	24 936
Provision for the Office of Competition and Consumer Protection	50 384	14 792	-	-	65 176
Provision for exit costs of the GraphTalk project	17 340	31 292	-	-	48 632
Provision for the Company's Social Benefits Fund	21 000	-	(21 000)	-	-
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	13 399	655	(1 196)	-	12 858
Other	1 993	1 820	-	(499)	3 314
Total	236 476	209 121	(22 196)	(108 806)	314 595

Changes in other provisions in the year ended 31 December 2008	Opening balance	Increases	Application	Release	Closing balance
Provisions created for potential liabilities relating to CLSiOR investments	1 282	-	-	-	1 282
Provision for disputed claims and potential liabilities under insurance contracts	123 900	7 178	-	-	131 078
Provision for the Office of Competition and Consumer Protection	50 384	-	-	-	50 384
Provision for exit costs of the GraphTalk project	-	17 340	-	-	17 340
Provision for the Company's Social Benefits Fund	20 000	21 000	(20 000)	-	21 000
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	-	13 399	-	-	13 399
Other	7 352	-	(327)	(5 032)	1 993
Total other provisions	202 918	58 917	(20 327)	(5 032)	236 476

Other provisions	31 December 2009	31 December 2008
Short-term	275 887	69 718
Long-term	38 708	166 758
Total other provisions	314 595	236 476

Provision for restructuring and reorganization expenses

In connection with the planned implementation of the restructuring program for the years 2010-2012 announced on 29 December 2009, PZU and PZU Życie created a restructuring provision in the total amount of PLN 158,763 thousand. The provision covers costs relating to the headcount reduction planned for 2010 in the area of finance, operations, claims handling, customer service and sales. The estimated value of the provision includes the costs of termination benefits to which employees are entitled under the applicable laws as well as costs of additional compensation and the outplacement program.

On 10 February 2010, the Management Boards of PZU and PZU Życie adopted a resolution concerning planned lay-offs in both companies.

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 instituted antimonopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might breach the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of the Office of Competition and Consumer Protection imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account

all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant.

PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of the Office of Competition and Consumer Protection. By the date of signing these consolidated financial statements, no formal decisions had been taken with respect to the aforementioned case.

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

On 30 December 2009, the President of the Office of Competition and Consumer Protection issued decision No. RWR 41/2009 and fined PZU for PLN 14,792 thousand for practices which breach the collective consumer interest. PZU agrees neither with the contents of the decision nor its justification. On 18 January 2010, PZU appealed against the decision to the Court of Competition and Consumer Protection. As a result, the decision did not become final. By the date of signing these financial statements, the appeal had not been examined.

Irrespective of the appeal, as at 31 December 2009, PZU created a provision for the above fine in the amount of PLN 14,792 thousand.

Provision for the GraphTalk project exit costs at PZU Życie

The total "Provision for the GraphTalk project exit costs" includes the provision created for the costs of closing the IT GraphTalk project in the amount of PLN 48,632 thousand (PLN 17,340 thousand as at 31 December 2008).

The aforementioned provision is created on the basis of estimated expenditures required to complete the GraphTalk project, indicating the risk of non-achievement of the project goals and the expected economic benefits within the specified deadline, as well as the risk of a substantial increase in the estimated project costs.

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

In a letter received from the Social Insurance Institution PTE PZU was informed of the estimated amount of premiums overpaid by the Social Insurance Institution to open pension funds for the years 1999-2007. Upon reimbursement of premiums overpaid, the Social Security Institution will also be entitled to receive the nominal value of the handling fee charged by the pension society responsible for fund management. In view of the above, the Management Board of PTE PZU assumed that the conditions for recognition of a provision for reimbursement of handling fees collected in previous periods with respect to premiums overpaid by the Social Insurance Institution had been satisfied. The value of the provision has been estimated based on the information provided by the Social Insurance Institution regarding the estimated premium overpayment as well as the rate of the handling fee collected by PTE PZU in the years 1999-2007, less the fee reducing the premiums transferred by the Social Insurance Institution.

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

Provisions for disputable claims

The PZU Group companies create provisions due to pending litigious proceedings and potential liabilities related to concluded insurance contracts. In 2009 they carried out a review and adjusted estimated provisions based on the probability of a court decision disadvantageous for the PZU Group.

31. Deferred income tax liability

Changes in deferred tax liability in the year ended 31 December 2009	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Closing balance
Financial instruments	21 829	291 210	49 170	362 209
Recourse receivables	(10 226)	906	-	(9 320)
Real property	(993)	(539)	3 688	2 156
Deferred acquisition costs	84 371	9 979	-	94 350
Deferred acquisition costs relating to OFE PZU	(4 672)	(3 566)	-	(8 238)
Accrued revenue and reinsurance costs	22 916	(2 643)	-	20 273
Provisions for jubilee bonuses, retirement severance pay etc.	(49 324)	216	-	(49 108)
Provision for bonuses and appropriation to the bonus fund	(33 046)	7 563	-	(25 483)
Provisions for employee vacation	(6 346)	(470)	-	(6 816)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(25 330)	(9 751)	-	(35 081)
Other provisions and accruals	(13 635)	9 522	-	(4 113)
Payments to the National Health Fund	22 682	(22 682)	-	-
Prevention Fund	17 450	(8 527)	-	8 923
Equalization and catastrophe provision	96 861	4 337	-	101 198
Technical provisions	98 921	(13 108)	-	85 813
Provision for restructuring and reorganization expenses	-	(30 165)	-	(30 165)
Other differences	(16 185)	(46 360)	-	(62 545)
Total	205 273	185 922	52 858	444 053

Changes in deferred tax liability in the year ended 31 December 2008	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Closing balance
Financial instruments	251 057	(203 811)	(25 417)	21 829
Recourse receivables	(11 662)	1 436	-	(10 226)
Real property	21 824	(22 817)	-	(993)
Deferred acquisition costs	84 919	(548)	-	84 371
Deferred acquisition costs relating to OFE PZU	3 190	(7 862)	-	(4 672)
Accrued revenue and reinsurance costs	(1 986)	24 902	-	22 916
Provisions for jubilee bonuses, retirement severance pay etc.	(52 325)	3 001	-	(49 324)
Provision for bonuses and appropriation to the bonus fund	(38 383)	5 337	-	(33 046)
Provisions for employee vacation	(4 075)	(2 271)	-	(6 346)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(18 093)	(7 237)	-	(25 330)
Other provisions and accruals	(10 293)	(3 342)	-	(13 635)
Payments to the National Health Fund	9 178	13 504	-	22 682
Prevention Fund	27 743	(10 293)	-	17 450
Equalization and catastrophe provision	105 982	(9 121)	-	96 861
Technical provisions	51 584	47 337	-	98 921
- other differences	(15 832)	(353)	-	(16 185)
Total deferred tax liability	402 828	(172 138)	(25 417)	205 273

Due to establishment of the Tax Capital Group (detailed information presented in point 49), the deferred tax asset and liability disclosed by PZU and PZU Życie were offset.

32. Current income tax liabilities

As at 31 December 2009 and 31 December 2008 all current income tax liabilities were short-term.

33. Other liabilities

Liabilities - carrying amount	31 December 2009	31 December 2008
Liabilities due to reinsurers' deposits	-	56
Liabilities due to direct insurance	371 199	369 757
Liabilities due to reinsurance	26 959	28 809
Liabilities to credit institutions	4 780 108	8 013
Other liabilities	795 786	675 526
Total liabilities	5 974 052	1 082 161

As at 31 December 2009 and 31 December 2008 the fair value of other liabilities did not differ substantially from their carrying amount.

Liabilities to credit institutions include mainly liabilities due to sell-buy-back transactions entered into with the objective to finance the advance dividend payment described in point 25.1.4.2. Key information on the aforementioned transaction has been presented in the table below.

Creditor	Currency	Debt as at 31 December 2009	Outstanding amount	Maturity	Fair value of collateral as at 31 December 2009	Collateral
Bank Gospodarstwa Krajowego	PLN	3 593 295	3 637 452	22 April 2010	4 070 034	Treasury bonds
Bank Gospodarstwa Krajowego	PLN	174 247	176 388	22 April 2010	194 567	Treasury bills
Bank Handlowy w Warszawie SA	PLN	980 625	992 981	22 April 2010	1 067 010	Treasury bonds
Total		4 748 167	4 806 821		5 331 611	

Liabilities by contractual maturity	31 December 2009	31 December 2008
Up to 3 months	1 188 139	1 008 325
Over 3 months and up to 1 year	4 776 374	44 855
Over 1 year and up to 5 years	4 826	22 399
Over 5 years	4 713	6 582
Total liabilities by contractual maturity	5 974 052	1 082 161

Liabilities due to direct insurance	31 December 2009	31 December 2008
Liabilities to policyholders	263 797	241 332
Liabilities to insurance intermediaries	77 987	77 191
Other insurance liabilities	29 415	51 234
Total liabilities due to direct insurance	371 199	369 757

Liabilities due to reinsurance	31 December 2009	31 December 2008
Liabilities due to inward reinsurance	365	2 918
Liabilities due to outward reinsurance	26 594	25 891
Total liabilities due to reinsurance	26 959	28 809

Other liabilities	31 December 2009	31 December 2008
Liabilities to the State Budget, other than corporate income tax (CIT)	23 288	27 317
Regulatory liabilities – to the Social Insurance Institution, PFRON, the Company's Social Benefits Fund etc.	45 200	37 037
Due to IT services and hardware supplies	6 836	11 217
To employees	2 789	3 821
Insurance Guarantee Fund	4 118	4 724
Due to acquired securities	436 533	321 255
Investment fund liabilities	40 719	42 271
Liabilities due to loss adjusting services	30 941	14 765
Liabilities to the National Health Fund	-	33 416
Liabilities due to CEPiK	1 815	2 012
Estimated non-insurance liabilities	145 321	97 559
Other	58 226	80 132
Other total liabilities	795 786	675 526

Operating lease liabilities

The majority of operating lease liabilities result from rental of retail and office space. The above agreements have typically been concluded for an unlimited period and with the possibility of termination, and the majority of agreements concluded for a limited period may be renewed. The current policy provides for agreements concluded for a limited period of 5 years.

Liabilities due to minimum operating lease payments	31 December 2009	31 December 2008
Up to 1 year	36 966	29 608
Over 1 year and up to 5 years	84 257	46 272
Over 5 years	13 052	22
Total liabilities due to minimum operating lease payments	134 275	75 902

Liabilities due to minimum finance lease payments	31 December 2009	31 December 2008
Up to 1 year	-	4 032
Over 1 year and up to 5 years	-	8 207
Over 5 years	-	-
Total liabilities due to minimum finance lease payments	-	12 239

Operating lease payments disclosed in the income statement for the period	1 January – 31 December 2009	1 January – 31 December 2008
Minimum operating lease payments	57 664	62 669
Sublease payments	-	2 505
Total	57 664	65 174

34. Accruals and deferred income

Accruals and deferred income	31 December 2009	31 December 2008
Accrued expenses, including:	464 126	391 400
- long-term	1 920	285
- accrued costs of agency commissions	1 920	285
- short-term	462 206	391 115
- accrued costs of agency commissions	172 894	104 983
- accrued payroll costs	94 916	86 393
- Bonus Fund	1 814	888
- accrued costs of consulting services	105	-
- accrued costs and revenue from reinsurance	74 847	66 860
- remuneration of intermediaries in companies	19 523	18 404
- provision for paid vacation	38 633	37 240
- accrued employee bonuses	50 966	69 213
- other	8 508	7 134
Deferred income, including:	236 643	261 173
- long-term	168	1 327
- commission fee relating to "Złota Jesień" insurance	79	1 327

- other	89	-
- short-term	236 475	259 846
- deferred reinsurance commission	4 061	9 662
- prepaid premiums	232 414	250 163
- other	-	21
Total accruals and deferred income	700 769	652 573

35. Gross written premiums

Gross written premiums	1 January – 31 December 2009	1 January – 31 December 2008
Gross written premiums – property and personal insurance	8 021 895	8 432 994
In direct insurance	7 966 464	8 418 050
In indirect insurance	55 431	14 944
Gross written premiums – life insurance	6 340 822	6 130 153
Individual premiums	2 288 920	2 349 127
In direct insurance	2 288 920	2 349 127
In indirect insurance	-	-
Group insurance premiums	4 051 902	3 781 026
In direct insurance	4 051 902	3 781 026
In indirect insurance	-	-
Gross written premiums	14 362 717	14 563 147

In 2009 and 2008, PZU Życie did not carry out activities involving inward reinsurance.

Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January – 31 December 2009	1 January – 31 December 2008
Accident and sickness insurance (class 1 and 2)	503 242	507 062
TPL motor insurance (class 10)	2 699 655	2 925 409
Other motor insurance (class 3)	2 266 895	2 701 237
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	45 346	50 136
Insurance against fire and other damage to property (classes 8, 9)	1 597 276	1 559 989
TPL insurance (classes 11, 12, 13)	476 883	430 916
Credit insurance and surety ship (classes 14, 15)	67 959	60 924
Assistance (class 18)	148 783	93 948
Legal protection (class 17)	800	1 424
Other (class 16)	159 625	87 005
Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	7 966 464	8 418 050

Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January – 31 December 2009	1 January – 31 December 2008
Accident and sickness insurance (class 1 and 2)	327	142
TPL motor insurance (class 10)	43	87
Other motor insurance (class 3)	-	-
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	2 665	2 295
Insurance against fire and other damage to property (classes 8, 9)	40 961	6 047
TPL insurance (classes 11, 12, 13)	4 946	4 534
Credit insurance and surety ship (classes 14, 15)	-	-
Assistance (class 18)	-	-
Legal protection (class 17)	-	-
Other (class 16)	6 489	1 839
Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	55 431	14 944

36. Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 December 2009	1 January – 31 December 2008
Pension insurance	309 702	291 829
Commission on handling fees	196 380	190 308
Commission on asset management for open pension fund	113 296	101 507
Commission on transfer payments	26	14
Investment contracts	10 374	21 794
Revenue from unit-linked investment contract fees	10 374	21 794
Other	20 800	24 399
Revenue and payments received from funds and investment fund management companies	20 800	24 399
Total revenue from commissions and fees	340 876	338 022

Commission on handling fees

PTE PZU charges a handling fee on premiums transferred by the Social Insurance Institution to OFE PZU in the amount specified in the Articles of Association of OFE PZU and in line with the limits stipulated in the Act on Pension Funds.

The handling fee is recognized as revenue of PTE PZU in the month in which OFE PZU received the premium due.

Commission on asset management for open pension fund

PTE PZU charges a fee specified in the Articles of Association of OFE PZU for managing OFE PZU, in accordance with the limits specified in the Act on Pension Funds and conditional on the net value of assets under management.

37. Net investment income

Net investment income	1 January – 31 December 2009	1 January – 31 December 2008
Interest income, including:	2 273 225	2 230 345
- financial assets available for sale	622 816	522 981
- financial assets held to maturity	1 458 299	1 411 387
- loans	189 066	292 275
- receivables, including under insurance contracts	-	25
- cash and cash equivalents	3 044	3 677
Dividend income, including:	79 290	135 814
- financial assets held for trading	48 601	93 325
- financial assets available for sale	30 689	42 489
Income from property investments	22 678	15 464
Exchange differences, including:	14 609	54 961
- loans	26 501	45 777
- receivables, including under insurance contracts	(11 781)	8 098
- cash and cash equivalents	(111)	1 086
Other, including:	(26 418)	(24 829)
- costs of investing activities	(14 741)	(17 438)
- investment property maintenance costs	(11 677)	(7 391)
Total net investment income	2 363 384	2 411 755

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

Net profit/loss on realization and impairment loss on investments	1 January – 31 December 2009	1 January – 31 December 2008
Net profit/loss on realization of investments	353 480	(628 483)
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	39 377	18 381
- equity instruments	348	312
- debt securities	39 029	18 069
Financial assets held for trading, including:	259 260	(627 028)
- equity instruments	254 007	(599 306)
- debt securities	8 042	13 803
- other	(2 789)	(41 525)
Financial assets available for sale, including:	74 987	(12 174)
- equity instruments	63 089	70 519
- debt securities	11 898	(82 693)
Financial assets held to maturity, including:	17 315	(191)
- debt securities held to maturity	17 315	(191)
Loans	17 862	54 259
Receivables, including under insurance contracts	(55 321)	(61 730)
Impairment losses	(92 170)	(227 412)
Financial assets available for sale, including:	(74 973)	(179 441)
- equity instruments	(74 973)	(179 441)
Loans	1	1
Receivables, including under insurance contracts	(17 198)	(47 972)
Total net profit/loss on realization and impairment loss on investments	261 310	(855 895)

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

Net change in the fair value of assets and liabilities measured to fair value	1 January – 31 December 2009	1 January – 31 December 2008
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	306 925	235 163
- equity instruments	55 768	(127 963)
- debt securities	251 157	363 126
Financial instruments held for trading, including:	506 870	(1 195 255)
- equity instruments	433 254	(1 307 614)
- debt securities	73 887	161 636
- derivatives	1 494	(42 103)
- financial liabilities	(1 765)	(7 174)
Investment property	30 512	(15 870)
Net change in the fair value of assets and liabilities measured to fair value	844 307	(975 962)

40. Other operating revenue

Other operating revenue	1 January – 31 December 2009	1 January – 31 December 2008
Commission on loss adjusting services	6 024	5 075
Provisions released	109 217	12 809
Released impairment losses on non-financial assets	13 561	-
Disposal of property, plant and equipment and property, plant and equipment under construction	2 583	4 710
Recharged expenses	4 657	3 547
Reinsurers' commissions and share in reinsurers' profit	50 213	86 805
Revenue from disposal of units managed by TFI PZU	1 826	3 512
Payments from funds (additional IKE benefits)	11 149	12 256
Revenue from claims settlement fees	5 988	9 690
Other	54 848	53 862
Total other operating revenue	260 066	192 266

41. Insurance claims

Insurance claims	1 January – 31 December 2009	1 January – 31 December 2008
Claims and change in technical provisions - property and personal insurance	5 676 629	5 096 289
Reinsurers' share in claims and change in technical provisions - property and personal insurance	(33 893)	88 827
Claims and change in technical provisions - life insurance	3 793 545	3 406 941
Reinsurers' share in claims and change in technical provisions - life insurance	-	-
Total insurance claims	9 436 281	8 592 057

41.1 Property and personal insurance

Claims and change in provisions in property and personal insurance	1 January – 31 December 2009	1 January – 31 December 2008
Gross claims and change in provisions in property and personal insurance	5 676 629	5 096 289
Claims and loss adjustment expenses for the current period	3 470 912	3 200 961
Claims and loss adjustment expenses for previous periods	1 823 480	1 503 640
Change in provision for claims outstanding	382 237	391 688
Reinsurers' share in claims and change in provisions in property and personal insurance	(33 893)	88 827
Claims and loss adjustment expenses for the current period	(57 334)	21 981
Claims and loss adjustment expenses for previous periods	(124 061)	(78 027)
Change in provision for claims outstanding	147 502	144 873
Net claims and change in provisions in property and personal insurance	5 642 736	5 185 116
Claims and loss adjustment expenses for the current period	3 413 578	3 222 942
Claims and loss adjustment expenses for previous periods	1 699 419	1 425 613
Change in provision for claims outstanding	529 739	536 561

Loss adjustment expenses in property and personal insurance, by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	8 512	7 827
External services	124 153	124 491
Taxes and charges	6 385	5 891
Employee expenses	273 000	275 821
Depreciation of property, plant and equipment	6 574	10 684
Amortization of intangible assets	268	3 062
Other (by type), including:	66 014	42 338

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- awarded costs, interest and fines indemnification claims	64 132	37 242
- other	1 882	5 096
Total loss adjustment expenses in property and personal insurance	484 906	470 114

Change in technical provisions in property and personal insurance

Change in provision for unearned premium in property and personal insurance	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	3 945 694	(64 990)	3 880 704	3 862 087	(66 154)	3 795 933
Increase (decrease) in provisions for policies concluded in the current year	3 486 501	(35 415)	3 451 086	3 800 946	(27 813)	3 773 133
Increase (decrease) in provisions for policies concluded in previous years	(3 727 724)	26 325	(3 701 399)	(3 729 627)	33 380	(3 696 247)
Exchange differences during the period	(343)	(1 016)	(1 359)	12 288	(4 403)	7 885
Closing balance	3 704 128	(75 096)	3 629 032	3 945 694	(64 990)	3 880 704

Change in provision for unexpired risk in property and personal insurance	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	74 498	(51)	74 447	35 419	(256)	35 163
Increase (decrease) in provisions for policies concluded in the current year	30 528	53	30 581	75 223	(62)	75 161
Increase (decrease) in provisions for policies concluded in previous years	(67 411)	-	(67 411)	(35 374)	241	(35 133)
Exchange differences during the period	(448)	(2)	(450)	(770)	26	(744)
Closing balance	37 167	-	37 167	74 498	(51)	74 447

Change in provisions for claims outstanding in property and personal insurance	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	3 776 095	(290 662)	3 485 433	3 824 237	(455 434)	3 368 803
- for claims reported	1 498 823	(190 623)	1 308 200	1 374 853	(233 609)	1 141 244
- for claims incurred but not reported (IBNR)	1 651 469	(73 401)	1 578 068	1 845 209	(167 674)	1 677 535
- for loss adjustment expenses	625 803	(26 638)	599 165	604 175	(54 151)	550 024
Paid claims concerning losses incurred in previous years, including:	(1 714 897)	100 242	(1 614 655)	(1 408 625)	71 433	(1 337 192)
- claims paid	(1 508 472)	95 994	(1 412 478)	(1 237 150)	69 682	(1 167 468)
- loss adjustment expenses	(206 425)	4 248	(202 177)	(171 475)	1 751	(169 724)
Increase (decrease) in provisions, including:	1 779 982	(2 840)	1 777 142	1 355 334	92 337	1 447 671
- losses incurred in the current year	1 935 074	(27 601)	1 907 473	1 816 570	(18 395)	1 798 175
- losses incurred in the previous years	(155 092)	24 761	(130 331)	(461 236)	110 732	(350 504)
Other changes	-	1 155	1 155	-	3 815	3 815
Exchange differences during the period	(3 969)	895	(3 074)	5 149	(2 813)	2 336
Closing balance	3 837 211	(191 210)	3 646 001	3 776 095	(290 662)	3 485 433
- for claims reported	1 472 477	(156 106)	1 316 371	1 498 823	(190 623)	1 308 200
- for claims incurred but not reported (IBNR)	1 732 090	(19 056)	1 713 034	1 651 469	(73 401)	1 578 068
- for loss adjustment expenses	632 644	(16 048)	616 596	625 803	(26 638)	599 165

Change in provision for capitalized value of annuity claims – property and personal insurance	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4 528 618	(529 149)	3 999 469	4 083 236	(508 625)	3 574 611
Paid claims concerning losses incurred in previous years	(146 337)	16 530	(129 807)	(154 144)	20 760	(133 384)
Increase (decrease) in provisions for losses incurred in the previous years	235 096	21 699	256 795	(82 099)	(6 566)	(88 665)
Settlement of discount over time	-	-	-	20 416	(2 561)	17 855
Change in technical interest rates	-	-	-	379 569	(49 699)	329 870
Increase in provisions for losses incurred in the current year	235 105	-	235 105	334 622	-	334 622
Change of assumptions (%)	22 171	-	22 171	-	-	-
Other changes	-	8 913	8 913	(52 982)	17 542	(35 440)
Closing balance	4 874 653	(482 007)	4 392 646	4 528 618	(529 149)	3 999 469

41.2 Life insurance

Insurance claims in life insurance	1 January – 31 December 2009	1 January – 31 December 2008
Resulting from maturity	289 633	374 881
Resulting from claims paid in case of death	2 945 540	2 741 461
Resulting from resignation from the insurance contract	303 957	316 271
Resulting from disability and entitlement to a disability pension	6 704	6 175
Resulting from annuity claims	41 820	41 158
Resulting from childbirth	289 101	257 821
Resulting from hospital treatment	170 419	151 235
Resulting from a refund of accumulated cash and transfer payments	100 057	127 402
Other	62 656	46 014
Total insurance claims in life insurance	4 209 887	4 062 418

All claims for 2009 and 2008 related to direct insurance.

Loss adjustment expenses in life insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	984	1 566
External services	45 474	34 372
Taxes and charges	10 436	12 741
Employee expenses	71 837	68 328
Depreciation of property, plant and equipment	5 930	6 711
Amortization of intangible assets	266	1 105
Other	2 870	2 213
Total loss adjustment expenses in life insurance	137 797	127 036

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	106 391	-	106 391	71 870	-	71 870
Increases	105 305	-	105 305	106 391	-	106 391
Decreases	(106 391)	-	(106 391)	(71 870)	-	(71 870)
Closing balance	105 305	-	105 305	106 391	-	106 391

Change in provision in life insurance - insurance contracts with no DPF	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	11 856 020	-	11 856 020	12 258 501	-	12 258 501
Net premiums received	1 526 270	-	1 526 270	1 709 219	-	1 709 219
Technical interest rate for the provisions	370 735	-	370 735	392 055	-	392 055
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(3 260 880)	-	(3 260 880)	(3 086 917)	-	(3 086 917)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	466 282	-	466 282	583 162	-	583 162
Closing balance	10 958 427	-	10 958 427	11 856 020	-	11 856 020

Change in provisions in life insurance, provisions for low interest rates and provisions for revaluation and trials - insurance and investment contracts with DPF	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4 147 679	-	4 147 679	4 283 487	-	4 283 487
Net premiums received	296 700	-	296 700	204 309	-	204 309
Technical interest rate for the provisions	178 375	-	178 375	174 302	-	174 302
Increase in provisions for profit sharing	30 558	-	30 558	8 787	-	8 787
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(508 996)	-	(508 996)	(513 405)	-	(513 405)
Changes in assumptions	93 700	-	93 700	5 590	-	5 590
- technical interest rates	-	-	-	5 590	-	5 590
- other	93 700	-	93 700	-	-	-
- impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	65 489	-	65 489	2 883	-	2 883
- exclusion of the provision for unearned premiums from the mathematical provision	-	-	-	(18 274)	-	(18 274)
Closing balance	4 303 505	-	4 303 505	4 147 679	-	4 147 679

Change in provisions in life insurance - unit-linked contracts	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Net assets of the fund at the beginning of the period	1 765 289	-	1 765 289	1 964 985	-	1 964 985
Increases in the fund due to premiums	351 507	-	351 507	401 980	-	401 980
Payments deducted from the fund for risk, administration and other	(26 491)	-	(26 491)	(27 611)	-	(27 611)
Revenue from the fund's investments	216 389	-	216 389	(171 805)	-	(171 805)
Decreases in the fund due to claims, redemptions, etc.	(285 686)	-	(285 686)	(397 653)	-	(397 653)
Other decreases	(9 401)	-	(9 401)	(8 693)	-	(8 693)
Other increases	5 894	-	5 894	4 086	-	4 086
Net assets of the fund at the end of the period	2 017 501	-	2 017 501	1 765 289	-	1 765 289

Change in provisions in life insurance - other insurance contracts	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	20 871	-	20 871	17 738	-	17 738
Change in provisions during the period	(404)	-	(404)	3 133	-	3 133
Closing balance	20 467	-	20 467	20 871	-	20 871

Change in provisions for claims	1 January - 31 December 2009			1 January - 31 December 2008		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
RBNP at the beginning of the period	133 452	-	133 452	115 187	-	115 187
IBNR at the beginning of the period	412 805	-	412 805	349 874	-	349 874
Total RBNP and IBNR at the beginning of the period	546 257	-	546 257	465 061	-	465 061
Provisions for claims applied during the year	(546 257)	-	(546 257)	(465 061)	-	(465 061)
Provisions for claims created during the year	619 253	-	619 253	546 257	-	546 257
Total RBNP and IBNR at the end of the period	619 253	-	619 253	546 257	-	546 257
RBNP at the end of the period	160 720	-	160 720	133 452	-	133 452
IBNR at the end of the period	458 533	-	458 533	412 805	-	412 805

42. Claims and change in measurement of investment contracts

Claims and change in measurement of investment contracts	1 January – 31 December 2009	1 January – 31 December 2008
Resulting from investment contracts with discretionary participation features	-	-
Resulting from investment contracts with guaranteed and fixed terms and conditions	164 466	156 893
- interest expenses included in the effective interest rate	163 782	156 386
- embedded options	684	507
Resulting from unit-linked investment contracts	110 591	(402 398)
Total claims and change in measurement of investment contracts	275 057	(245 505)

43. Acquisition costs

Acquisition costs in property and personal insurance, by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	10 943	15 010
External services	12 858	8 487
Taxes and charges	1 282	893
Employee expenses	357 686	344 837
Depreciation of property, plant and equipment	833	2 240
Amortization of intangible assets	69	4
Other (by type), including:	983 125	897 431
- direct business commission	979 201	860 856
- advertisement	20 162	36 740
- change in capitalized acquisition costs	(42 973)	(8 014)
- indirect business commission	23 789	2 579
- other	2 946	5 270
Total acquisition costs in property and personal insurance	1 366 796	1 268 902

Acquisition costs in life insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	3 070	4 628
External services	21 359	11 107
Taxes and charges	612	444
Employee expenses	142 926	137 539
Depreciation of property, plant and equipment	7 629	8 797
Amortization of intangible assets	275	2 319
Other (by type), including:	239 656	190 333
- direct business commission	206 252	164 568
- advertisement	16 112	10 668
- change in capitalized acquisition costs	8 909	8 106
- other	8 383	6 991
Total acquisition costs in life insurance	415 527	355 167

Acquisition costs in pension insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	-	-
External services	949	767
Taxes and charges	-	-
Employee expenses	48 103	38 998
Depreciation of property, plant and equipment	-	-
Amortization of intangible assets	-	-
Other	8 230	4 189
Total acquisition costs in pension insurance	57 282	43 954

44. Administrative expenses

Administrative expenses in property and personal insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	51 962	43 942
External services	286 918	281 675
Taxes and charges	17 950	17 226
Employee expenses	519 109	537 070
Depreciation of property, plant and equipment	80 020	94 464
Amortization of intangible assets	17 163	10 375
Other (by type), including:	92 015	50 791
- advertisement	38 599	21 727
- other	53 416	29 064
Total administrative expenses in property and personal insurance	1 065 137	1 035 543

Administrative expenses in life insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	18 695	23 711
External services	116 061	143 331
Taxes and charges	4 325	4 855
Employee expenses	195 208	191 632
Depreciation of property, plant and equipment	25 576	26 152
Amortization of intangible assets	23 696	26 346
Remuneration of persons servicing group insurance at companies	210 967	200 901
Other (by type), including:	42 008	27 014
- advertisement	23 167	17 390
- other	18 841	9 624
Total administrative expenses in life insurance	636 536	643 942

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

Administrative expenses in pension insurance by type	1 January – 31 December 2009	1 January – 31 December 2008
Consumption of materials and energy	1 504	2 082
External services	9 200	8 524
Taxes and charges	53 297	39 594
Employee expenses	27 391	27 542
Depreciation of property, plant and equipment	2 486	3 709
Amortization of intangible assets	555	52
Other	12 775	13 858
Total administrative expenses in pension insurance	107 208	95 361

“Taxes and charges” in administrative expenses of pension insurance include:

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

45. Employee expenses

Employee expenses	1 January – 31 December 2009	1 January – 31 December 2008
Payroll	1 351 134	1 322 993
Defined contributions plans; including	265 249	261 570
- overheads	195 196	189 259
- third pillar pension insurance, including costs of premium to PPE incurred in the period	70 053	69 022
- other	-	3 289
Benefits related to termination of employment	1 190	272
Company's Social Benefits Fund	-	21 000
Other	27 854	27 779
Total employee expenses	1 645 427	1 633 614

As at 31 December 2009, PZU, PZU Życie and PZU CO had pillar-three pension plans for their employees - defined contribution plans - paid by the employer in addition to the salary defined in the employment contract, accounting for 7% of the gross salary. In the case of PZU and PZU CO, the plans are managed by MPTE. PZU Życie manages the plan itself.

46. Other operating expenses

Other operating expenses	1 January – 31 December 2009	1 January – 31 December 2008
Costs related to loss adjusting services	192	192
Provisions created	18 636	4 693
Write-downs on non-financial assets	12 264	56 802
Net value of sold property, plant and equipment and property, plant and equipment under construction	878	1 266
Default interest, penalties and damages	6 407	6 302
Donations	10 166	1 038
IT Services	7 912	11 887
Insurance Guarantee Fund	18 362	20 171
National Headquarters of the State Fire Service and Volunteer Fire Service Association	30 533	27 964
Compulsory payments to the insurance market institutions	52 955	57 067
Rechargeable expenses	4 628	3 223
Expenses due to prevention activities	46 383	54 170
TFI expenses	11 543	12 175
Employment restructuring expenses	17 139	-
Payments to the National Health Fund	119 381	238 556
Operating expenses of investment funds	2 568	16 354
Provision for potential GraphTalk project exit costs	31 292	17 340
Provisions for return of undue premium to the Social Security Institution created by PTE	577	13 399
Revaluation write-downs on the value of IT systems	1 874	59 444
Financed premium	23 870	28 028
Provision for restructuring and reorganization expenses	158 763	-
Other	17 259	45 248
Total other operating expenses	593 582	675 319

“Payments to the National Health Fund” includes the costs of the lump-sum fee to the National Health Fund (NFZ) described in point 21.

“Employment restructuring expenses” concern the process of improving the structure of employment at the PZU and PZU Życie Head Offices carried out between 20 August and 18 September 2009, pursuant to the agreement of 5 August 2009 concluded between the Management Boards of PZU and PZU Życie and the trade unions operating in the company. The restructuring involved 217 employees at the PZU Head Office and 189 employees at the PZU Życie Head Office. Termination conditions offered to the dismissed employees were more favorable than those provided for by the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees (Dz. U. No. 90 of 2003, item 844).

Information about the provision for restructuring and reorganization expenses may be found in point 30.

47. Financial expenses

Financial expenses concern costs incurred in relation to the transaction specified in point 33 concluded to finance the advance payment against dividend, described in 25.1.4.2, incurred against Bank Gospodarstwa Krajowego and Bank Handlowy w Warszawie SA, in the amount of PLN 28,373 thousand and PLN 7,567 thousand, respectively.

48. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January – 31 December 2009	1 January – 31 December 2008
Financial assets	26 501	45 777
- loans	26 501	45 777
Receivables, including under insurance contracts	(11 781)	8 081
Reinsurers' share in technical provisions	3 314	(55 262)
Cash and cash equivalents	(111)	(41)
Technical provisions	(1)	-
Other liabilities	295	185
Total exchange differences recognized in the consolidated income statement	18 217	(1 260)

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

49. Income tax

Income tax	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Gross profit (loss) (consolidated)	4 565 811	2 931 058
CIT rate (or range of rates) for the country of the registered office of the parent (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country of the registered office of the parent	867 504	556 901
Differences between the income tax calculated above and the income tax recognized in the income statement:	(64 604)	44 439
- tax losses	(17 275)	(2 929)
- fines, contractual penalties	6 480	8 353
- interest	160	26
- dividends	(12 846)	(13 298)
- measurement of financial assets	34 262	2 713
- measurement of investment property	(3 445)	500
- created/released write-downs on receivables not classified as tax deductible expenses	(19 865)	9 857
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	20 949	21 991
- unrealized gains and losses on outward reinsurance	(49 589)	2 405
- tax on insurance activities in Ukraine	7 436	12 167
- amortization/depreciation	(5 427)	(8 245)
- adjustment of the premium at PZU Życie	(285)	2 462
- other tax increase, cancellation, exemption, deduction and reduction	(25 159)	8 437
Income tax recognized in the profit or loss	802 900	601 340

Deferred income tax disclosed in the profit or loss	1 January – 31 December 2009	1 January – 31 December 2008
Decrease (increase) due to occurrence and reversal of temporary differences	188 797	(168 354)
Decrease (increase) due to change of tax rates	-	-
Decrease (increase) due to previously not recognized tax loss, tax exemption or temporary difference of the previous period	(18 304)	(4 226)
Decrease (increase) due to write-off of deferred tax assets or lack of the possibility to use the deferred tax liability	-	-
Total deferred income tax	170 493	(172 580)

Total current and deferred tax	1 January – 31 December 2009	1 January – 31 December 2008
1. Recognized in profit or loss, including:	802 900	601 340
- current tax	632 407	773 920
- deferred tax	170 493	(172 580)
2. Recognized in equity, including:	81 253	26 949
- current tax	-	-
- deferred tax	81 253	26 949

On 5 September 2008, the Management Board of PZU adopted a resolution concerning establishment of a capital tax group (PGK) comprising PZU and PZU Życie. PZU is the parent and represents the Group. The Group has been established for a three-year period, from 1 January 2009 to 31 December 2011. Pursuant to Article 25.1 of the Corporate Income Tax Act of 15 February 1992 (Dz.U. No. 54 of 2000 item 654 with subsequent amendments), the Group pays taxes on a monthly basis.

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

50. Revenue from the exchange of goods and services

In 2009 and 2008, the PZU Group did not recognize any revenue from the exchange of goods and services.

51. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2009	31 December 2008
Contingent assets, including:	3 699	3 699
Guarantees and sureties received	3 699	3 699
Contingent liabilities	1 000 074 157	77 289
Guarantees and sureties issued	7 714	6 599
Disputable claims related to insurance	1 000 045 496	37 663
Other disputable claims	19 865	32 458
Other	1 082	569

PZU and PZU Życie include disputable claims when creating technical provisions for reported damages, considering the probability of an unfavorable decision of the court and estimating the value of probable settlement. In the case of such claims concerning revaluation of annuities, PZU Życie recognizes the claims under other technical provisions as the annual value of annuities exceeding the corresponding value of the provision determined as mathematical reserves with respect to life insurance. As at 31 December 2009 the value of disputable claims at PZU Życie, for the majority of revalued annuities and insurance benefits due to the old policy portfolio, was PLN 24,477 thousand (31 December 2008: PLN 27,764 thousand). As regards all the above claims, it is not possible to determine the extent to which they are covered by the technical provisions. As at 31 December 2009, there were 8,461 of disputable claims against PZU related to statutory insurance activity (at the end of 2008: 8,613 claims).

A claim in the suit for indemnification for unpaid claim under additional accident insurance contract of PLN 1 trillion concerns one natural person. In 2005, a final judgment in the case was issued by courts of two instances and the claim was dismissed. In 2008 the claim against PZU Życie was filed again and on 23 March 2009 the court of first instance dismissed the case. The plaintiff appealed against the decision. On 9 July 2009 the appeal was dismissed by the Court of Appeal in Kraków. On 2 November 2009, a cassation appeal was filed. The date of the Supreme Court's sitting as regards the acceptance or refusal to accept the cassation appeal for examination has been fixed for 9 March 2010. According to the Management Board of PZU Życie the claim is groundless as a final judgment has already been issued.

51.1 Potential litigation relating to the continued family insurance portfolio

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

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

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

51.2 Dispute with Universale International GmbH

On 1 June 1998 in Warsaw, Universale International GmbH with its registered office in Vienna ("Universale") and BRC Holding SA with its registered office in Warsaw concluded an agreement, subsequently changed by an annex of 15 June 1999, for construction of the Head Office on PZU ("Agreement").

PZU Tower is a party to court proceedings brought by Universale concerning an abuse of a bank guarantee.

On 17 September 2003, PZU Tower filed a counterclaim to the Court of Arbitration against Universale demanding indemnification for improper performance of the Agreement. The value of the subject of the dispute is PLN 18,587 thousand.

On 17 January 2008 the Court of Arbitration awarded PZU Tower with PLN 440 thousand as the costs of removal of defects in the building and demanded that the defects be removed. The Court dismissed the claim that the bank guarantee was abused and ordered that PZU Tower return to Universale any surplus of the amount received from the bank guarantee above the costs of removal of the defects.

Universale appealed against the decision to the Court of Arbitration and requested that the decision be reversed.

On 27 March 2008, PZU Tower filed a request to the Regional Court in Warsaw for the appeal of Universale to be dismissed. On 18 May 2009 the Regional Court in Warsaw dismissed the appeal. Universale appealed against the decision on 2 July 2009 and demanded that the appeal to the Court of Arbitration be considered. On 3 August 2009 PZU Tower responded to the appeal and requested that it be dismissed in whole.

The Court of Appeal set the date of a court sitting at 24 March 2010.

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

52.1 Financial assets used as security of liabilities

As at 31 December 2009 Treasury bonds, whose fair value amounted to PLN 5,331,611 thousand constituted collateral of the sell-buy-back transaction described in point 33. As at 31 December 2008 financial assets of the PZU Group companies did not constitute collateral of any liabilities.

52.2 Financial assets used as collateral for originated loans

As at 31 December 2009 and 31 December 2008, PZU and PZU Życie were parties to the buy-sell-back transactions. Detailed information about the amounts in the transactions may be found in point 13.4.

52.3 Property, plant and equipment

As at 31 December 2009 and 31 December 2008, the consolidated companies of the PZU Group had no property, plant and equipment used as security of liabilities.

53. Related parties

53.1 Transactions concerning PZU

PZU, as part of its insurance activities, concludes insurance contracts with related parties and pays claims. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Receivables from and liabilities to related parties due to insurance contracts are short-term.

As at 31 December 2009 and 31 December 2008, PZU was not a party to any material agreements concluded with other members of the PZU Group.

53.2 Remuneration of Management Boards and members of supervisory boards of the consolidated companies of the PZU Group with profit sharing and information about advance payments, loans and borrowings and guarantees granted to members of Management Boards and Supervisory Boards.

In 2009 and 2008 the consolidated companies in the PZU Group did not grant any loans or any other similar benefits to members of the Management Boards and Supervisory Boards

53.2.1. Parent

Remuneration paid to members of the Management Board and Supervisory Board of PZU:

Item	1 January - 31 December 2009	1 January - 31 December 2008
Members of the Management Board	1 183	827
Members of the Supervisory Board	343	333

53.2.2. Other consolidated companies in the PZU Group

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

Item	1 January - 31 December 2009	1 January - 31 December 2008
Members of the Management Board	9 655	11 352
Members of the Supervisory Board	2 771	1 778

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53.3 Related party transactions

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2009	Gross written premium			Receivables					Contingent assets	Contingent liabilities
	property and personal insurance	life insurance	Other revenue	Expenses	write-downs on receivables created in the current period	gross value	revaluation write-downs	net	Liabilities	
Major investor (Eureko B.V.) 1/	-	-	91	-	-	75	-	75	-	-
Key members of the management of consolidated entities 2/	-	-	-	-	-	-	-	-	-	-
Other subsidiaries of the State Treasury 3/4/	176 198	2 191 837	4 423	160 449	76	13 799	(365)	13 434	4 530	1 623
Other related parties	1 132	-	23 009	30 692	815	13 569	(12 319)	1 250	2 274	-

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2008	Gross written premium			Receivables					Contingent assets	Contingent liabilities
	property and personal insurance	life insurance	Other revenue	Expenses	write-downs on receivables created in the current period	gross value	revaluation write-downs	net	Liabilities	
Major investor (Eureko B.V.) 1/	-	-	1	-	-	-	-	-	-	-
Key members of the management of consolidated entities 2/	-	-	-	-	-	-	-	-	-	-
Other subsidiaries of the State Treasury 3/	99 021	1 785 153	9 284	106 830	-	41 671	(326)	41 345	9 477	1 339
Other related parties	403	-	31 244	29 200	213	14 637	(11 504)	3 133	2 123	-

1/ The revenue from transaction with Eureko is the fee payable to PZU related to providing selected financial reports and data to Eureko.

2/ Members of the management boards of consolidated companies in the PZU Group, in line with declarations.

3/ Defined in 5.7.

4/ Does not include transactions presented in 53.3.1.

As at 31 December 2009 and 31 December 2008, the key item in receivables from other related parties were receivables from Syta Development Sp. z o. o. in liquidation ("Syta Development") due to agreements relating to investments of the Loss Adjustment and Underwriting Centre of PLN 11,291 thousand (31 December 2008: PLN 11,291 thousand), which - because the agreements were not performed as of that dates - were covered with a revaluation write-down up to the full amount.

53.3.1. Establishing a subsidiary Kappa SA, the sale of the entity to the State Treasury and a borrowing granted to the company

Kappa SA (Kappa) was established on 12 August 2009. The share capital of the entity amounted to PLN 100 thousand and was divided into 10,000 ordinary registered shares with the nominal value of PLN 10 each. All shares in Kappa were taken by PZU and appropriate payments were made on 19 August 2009.

On 17 September 2009 PZU sold 9,999 shares in Kappa to the State Treasury for the total amount of PLN 110.5 thousand. The remaining share was sold to the State Treasury for PLN 10 on 22 December 2009.

On 1 October 2009 PZU concluded a borrowing agreement with Kappa for the amount PLN 25,000 thousand. The purpose of the borrowing was to finance Kappa's share in the Settlement Agreement, including tax on civil-law transactions due to contributions in kind made to Kappa, costs of auditing contributions in kind and the process of contributing assets to Kappa and financing current operations of Kappa.

On 31 December 2009 PZU disbursed a borrowing of 21,145 thousand to Kappa. On 1 October 2009 the State Treasury, Kappa and PZU concluded an agreement specifying conditions on which PZU and Kappa may request the State Treasury to increase the share capital of Kappa if the entity defaults under repayment of the borrowing or its portion.

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

Transactions with 10 largest counterparties of the PZU Group (by gross written premium) whose shares are held by the State Treasury, in 2009				
Counterparty	Gross written premium	Receivables	Liabilities	
Counterparty 1*	2 293 698	-	-	-
Counterparty 2	14 092	-	-	1
Counterparty 3	12 615	11 707	-	1
Counterparty 4	9 215	20	-	209
Counterparty 5	7 741	5	-	-
Counterparty 6	7 664	-	-	-
Counterparty 7	1 582	-	-	-
Counterparty 8	1 305	6	-	-
Counterparty 9	1 246	-	-	-
Counterparty 10	684	-	-	-

* Transactions with Counterparty 1 are mainly the bancassurance transactions which PZU and PZU Życie carry out for the benefit of their clients. Since 2009 Counterparty 1 has no longer been a State Treasury controlled entity. Consequently, the status of receivables and liabilities as at 31 December 2009 was not presented in the table.

Transactions with 10 largest counterparties of the PZU Group (by gross written premium) whose shares are held by the State Treasury, in 2008				
Counterparty	Gross written premium	Receivables	Liabilities	
Counterparty 1*	964 930	30 708	-	3 493
Counterparty 11*	846 277	-	-	-
Counterparty 12	12 637	323	-	2
Counterparty 6	6 673	-	-	-
Counterparty 4	6 353	8	-	103
Counterparty 2	6 267	1 962	-	21
Counterparty 13	5 296	1 182	-	145
Counterparty 5	5 039	604	-	-
Counterparty 7	1 934	693	-	2
Counterparty 9	1 474	684	-	-

* Transactions with Counterparties 1 and 11 are mainly the bancassurance transactions which PZU and PZU Życie carry out for the benefit of their clients.

54. Employment

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

Item	1 January - 31 December 2009	1 January - 31 December 2008
Management Boards (number of members at the end of the reporting period)	23	25
Management	820	880
Other employees	16 103	16 621
Total	16 946	17 526

55. Other information

55.1 Composition of the Parent's Management Board

Composition of the Management Board as at 1 January 2009:

- Andrzej Klesyk Chairman of the Board;
- Magdalena Nawłoka Vice-Chairman of the Board;
- Witold Jaworski Member of the Board;
- Rafał Stankiewicz Member of the Board.

On 1 October 2009, the consortium comprising Eureko B.V. and Bank Millenium SA dismissed Magdalena Nawłoka from the position of Vice-Chairman of the Board.

Consequently, since 1 October 2009 to the date of signing these financial statements, the Management Board of PZU comprised:

- Andrzej Klesyk - Chairman of the Board;
- Witold Jaworski - Member of the Board;
- Rafał Stankiewicz - Member of the Board.

55.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board of PZU as at 1 January 2009:

- Tomasz Gruszecki Chairman
- Ernst Jansen Vice-Chairman
- Marcin Majeranowski Vice-Chairman
- Joanna Karman Member
- Maciej Bednarkiewicz Member
- Alfred Bieć Member
- Michał Nastula Member
- Gerard van Olphen Member
- Tomasz Przesławski Member

On 31 August 2009, the Ministry of Treasury dismissed Joanna Karman from the Supervisory Board and appointed Marzena Piszczek.

On 28 September 2009 Ernst Jansen, Maciej Bednarkiewicz and Michał Nastula were dismissed from the Supervisory Board and Richard Ippela and Marco Veta were appointed to the Board.

On 1 October 2009 Richard Ippel resigned from the position of a Member of the Supervisory Board.

On 30 December 2009 Eureko B. V. dismissed Gerard van Olphen from the position of a Member of the Supervisory Board. Waldemar Maj was appointed a Member of the Supervisory Board – as an Independent Expert.

Composition of the Supervisory Board as at 31 December 2009:

- Tomasz Gruszecki Chairman;
- Marcin Majeranowski Vice-Chairman;
- Alfred Bieć Member;
- Tomasz Przesławski Member;
- Marzena Piszczek Member;
- Marco Vet Member;
- Waldemar Maj Member.

On 5 January 2010, the Ministry of Treasury dismissed Alfred Bieć and Tomasz Przesławski from the Supervisory Board and appointed Piotr Kamiński and Grażyna Piotrowska-Oliwa as Members of the Supervisory Board.

On 12 January 2010, the consortium comprising Eureko B.V. and Bank Millenium SA dismissed Marco Vet from the Supervisory Board and appointed Jurgen B. J. Stegmann.

Consequently, since 12 January 2010 to the date of signing these financial statements, the Supervisory Board of PZU comprised:

- Tomasz Gruszecki Chairman;
- Marcin Majeranowski Vice-Chairman;
- Marzena Piszczek Member;
- Waldemar Maj Member;
- Piotr Kamiński Member;
- Grażyna Piotrowska-Oliwa Member;
- Jurgen Stegmann Member.

55.3 End of dispute between the State Treasury and Eureko B.V. ("Eureko")

In October 2002, Eureko instituted arbitration proceedings based on the International Agreement between the Republic of Poland and the Kingdom of the Netherlands concerning the mutual promotion and protection of investments concluded on 7 September 1992 ("International Agreement"). Eureko – a Dutch investor - in its statement of claim indicated that Eureko had no protection of its investments in Poland which it was entitled to based on the provisions of the International Agreement. Eureko demanded that its right to acquire 21% shares in PZU, resulting from the provisions of the first additional agreement of 3 April 2001 be exercised and that it be compensated for losses.

On 1 October 2009 the State Treasury, Eureko, PZU and Kappa SA. concluded a Settlement Agreement. The Agreement ended a long dispute between the main shareholders in PZU. Key conditions of the agreement:

- Eureko waives claims against the State Treasury and PZU, including arbitration claims;
- both parties agree to an Initial Public Offering of shares in PZU ("IPO") and floating of PZU shares;
- Eureko agrees to renounce its rights of a strategic investor at PZU;
- IPO, by admission of shares in PZU to trading on WSE
- Eureko agrees to immediately reduce its interest in PZU to 23%, to 18% after the IPO and finally to less than 13%;
- Eureko undertakes not to carry out any activities in competition with PZU for three years of the date when the interest of Eureko in PZU falls below 13%;
- Eureko undertakes not to increase its share capital in PZU for 15 years, until the interest in the share capital falls below 5%; additionally until that time, Eureko will not acquire shares in PZU in a number which would cause the 5% threshold to be reached or exceeded;
- Eureko waives its individual rights (to appoint 4 members of the Supervisory Board and 2 members of the Management Board, including the Vice-Chairman) at PZU, granted based on existing agreements and articles of association;
- Eureko agrees for the rights and obligations resulting from the Agreement for Sale of Shares and the First Additional Agreement, among other things, relating to the provisions which prevent the State Treasury from selling material block of PZU shares to other entities, to expire.

As part of payment Eureko received:

- the right to PLN 3,550,000 thousand of dividend for usufruct of 24,043,345 PZU shares owned by the State Treasury. The usufruct, established for a definite period of time, until 31 January 2010, was limited to benefits in the form of dividend; the right to the dividend was established during the usufruct and did not include any other corporate or property rights;
- the right to PLN 1,224,142 thousand as the amount guaranteed at the time of settlement of sale of 4.9% shares in PZU under IPO.

On 26 November 2009, PZU made the advance payment against dividend for 2009 of PLN 12,749,917 thousand, agreed in the Settlement Agreement, described in point 25.1.4.2.

On 2 December 2009, the International Court of Arbitration received documents which facilitated instigation of a procedure for effective completion of the arbitration proceedings. At the same time, Eureko requested that the institutions which were carrying out proceedings related to the long dispute end the proceedings. The institutions included the Polish Financial Supervision Authority, the Supreme Administrative Court, competent Regional Courts and the European Commission which investigated the case ex officio.

On 4 December 2009, the Chairman of the International Court of Arbitration ended the dispute instituted by Eureko B.V. against the Republic of Poland regarding the PZU privatization agreement as the terms and conditions specified in the Settlement Agreement had been met.

Along with steps taken to end the arbitration dispute, the Republic of Poland and the State Treasury represented by the Minister of Treasury as well as Eureko took steps to end all other disputes related to privatization of PZU.

55.4 Changes in the articles of association of PZU

Changes related to the reserve capital

On 28 August 2009 the Extraordinary Shareholders' Meeting of PZU changed the Articles of Association of PZU and provided for creation of:

- reserve capital to finance the advance payment against dividend;
- reserve capital to finance an increase in the share capital from the Company's funds.

New wording of the Articles of Association of PZU

The Extraordinary Shareholders' Meeting of PZU of 2 December 2009 adopted new Articles of Association of PZU.

The changes were introduced in line with the arrangements concluded in the Settlement Agreement specified in point 55.3 whose parties agreed on changes in the corporate governance at PZU aimed, among other things, at preparing PZU to carry out the IPO and floating PZU shares on WSE.

In view of the above, the Articles of Association were supplemented with provisions:

- resulting from the Code of Commercial Companies and relating to the corporate governance at public companies;
- resulting from the Code of Commercial Companies and other provisions of law;
- ensuring that PZU applies corporate governance specified in the Code of good practice for WSE-listed firms, with some limitations minimizing the possibility of a hostile takeover of PZU.

Changes to the Articles of Association of PZU were approved by the Polish Financial Supervision Authority on 5 February 2010 and registered in the National Court Register on 19 February 2010.

55.5 Project IPO 2010

On 1 December 2009, the Management Board of PZU adopted a resolution introducing Project IPO 2010 aimed at carrying out IPO by floating shares in PZU at WSE in the first half of 2010.

55.6 Dispute concerning the dividend for 2006

In 2007, PZU received a statement of claim of Eureko against PZU. The case was heard at the Regional Court in Warsaw. The plaintiff requested that the resolution of the General Meeting of PZU of 30 June 2007 concerning profit distribution for 2006 be revoked.

In a decision of 8 December 2009, the Regional Court in Warsaw dismissed the case. In the justification, the court indicated that the plaintiff withdrew its claim in a pleading of 1 December 2009 (resulting from the issue described in point 55.3) and waived all claims. The decision is valid.

55.7 Auditors' remuneration

The below table presents the amounts paid or payable to entities authorized to audit financial statements of PZU for a given period, increased by VAT and determined on the accrual basis.

Type of services	1 January - 31 December 2009	1 January - 31 December 2008
Audit of financial statements	1 054	700
Other assurance services	1 035	211
Tax advisory services	-	-
Other services	36	110
Total	2 125	1 021

55.8 Control of the Polish Financial Supervision Authority at PZU

Between 15 June and 13 April 2009, the Polish Financial Supervision Authority controlled the operations and the financial position of PZU as regards technical provisions and loss adjustment.

On 23 February 2010 the Polish Financial Supervision Authority issued a control protocol indicating a breach of Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Dz. U. No. 124 of 2003, item 1152), the Accounting Act and the Ordinance of the Minister of Finance concerning detailed accounting principles of insurance companies (Dz. U. No. 236 of 2008, item 1634) and the Civil Code with respect to determining the amount of claims paid and delinquencies in payments, updating petition data in internal documentation, using general definitions concerning calculation of technical provisions in internal documentation and determining the amount of technical provisions.

In particular, the Authority pointed out the discounting rate applied by PZU in calculation of the provision for capitalized value of annuity claims, which is based on expected return on assets covering provisions for capitalized value of annuity claims and on expected increase in currently paid annuities.

PZU introduced appropriate amendments to the Regulations concerning technical provisions in order to comply with the comments of the Polish Financial Supervision Authority in the process of calculating the provision of capitalized value of annuity claims. These changes had no significant impact on the net financial profit/loss in 2009.

The Management Board of PZU intends to analyze the comments and present additional explanations in line with the law in force, in cases where the Management Board considers the comments incompliant with the actual status or unjustified.

According to the Management Board of PZU, the results of the aforementioned control and the irregularities identified in other areas do not have a material impact on the financial performance of PZU and these financial statements.

55.9 Control of the Polish Financial Supervision Authority at PZU Życie

Between 19 February 2008 and 18 April 2008 PZU Życie underwent a control by the Polish Financial Supervision Authority. The control concerned organization and management, changes in the portfolio of life insurance contracts, technical provisions and applying earlier recommendations concerning changes in some group insurance contracts and expanding the scope of information contained in some insurance contracts.

In the course of the audit procedures, the audit team pointed out to instances of breaching the provisions of the Act on insurance activity, the Accounting Act as well as the Civil Code, providing six post-audit recommendations.

By 31 December 2008, four of the recommendations were applied and the two remaining, upon the consent of the Polish Financial Supervision Authority, could be applied until 31 December 2009.

In the letter of 29 December 2009 the Polish Financial Supervision Authority concluded that:

- it did not find justification for extending the deadline for implementation of changes with respect to the general terms and conditions of insurance as requested by PZU Życie. At the same time, the Polish Financial Supervision Authority recommended undertaking immediate actions in this respect and requested information on the manner of implementation of the aforementioned recommendation forthwith, no later than by 31 March 2010;

- the measures applied by PZU Życie in 2008 may not be regarded as a sufficient basis for assuming that the recommendation on ensuring compliance of its business activities with one of the provisions of the Accounting Act had been implemented by PZU Życie.

In the letter of 13 January 2010, PZU Życie informed the Polish Financial Supervision Authority that the recommendation concerning changes in the general terms and conditions of insurance was being implemented and relevant information on its implementation would be submitted by 31 March 2010; the letter also described the details of the approach applied for the recommendation concerning one of the provisions of the accounting act.

By the date of preparation of these consolidated financial statements, PZU Życie had not received a reply from the Polish Financial Supervision Authority.

Signatures of members of the Management Board of PZU SA:

Andrzej Klesyk	Chairman of the Board (signature)
Witold Jaworski	Member of the Management Board (signature)
Rafał Stankiewicz	Member of the Management Board (signature)

Person responsible for preparation of the consolidated financial statements:

Piotr Marczyk	Director (signature)
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Warsaw, 7 March 2010

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