CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 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 2010**	**31 December 2009**
Intangible assets	9	109 067	85 069
Goodwill	10	8 381	19 631
Property, plant and equipment	11	990 411	1 043 811
Investment property	12	441 014	346 552
Entities measured using the equity method		-	-
Financial assets			
Financial instruments held to maturity	13.1	20 305 758	23 327 568
Financial instruments available for sale	13.2	8 623 082	10 027 845
Financial instruments measured at fair value through profit or loss	13.3	12 118 252	10 213 631
Loans	13.4	4 297 940	4 668 549
Receivables, including receivables from insurance contracts	14	1 597 549	1 383 978
Reinsurers’ share in technical provisions	15	771 850	748 313
Estimated recoveries and recourses	17	77 812	82 330
Deferred tax assets	18	16 645	24 913
Current income tax receivables	19	9 958	87 599
Deferred acquisition costs	20	502 815	481 139
Prepayments	21	232 140	252 944
Other assets	22	7 455	15 781
Cash and cash equivalents	23	423 703	366 556
Assets used in continuing operations		**50 533 832**	**53 176 209**
Non-current assets held for sale and disposal groups		-	-
Total assets		**50 533 832**	**53 176 209**

Warsaw, 15 March 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

(in PLN '000)

Equity and liabilities	Note	31 December 2010	31 December 2009
Equity			
Issued share capital and other equity attributable to the shareholders of the parent			
Share capital	24.1	86 352	86 352
Other capitals		6 649 782	5 802 568
Supplementary capital		6 296 313	5 485 014
Revaluation reserve	24.2	392 268	340 970
Exchange differences from translation of controlled entities	25	(38 799)	(23 416)
Undistributed profit / uncovered loss		6 063 666	5 377 826
Previous year profit (loss)		3 624 435	2 365 282
Net profit (loss)		2 439 231	3 762 945
Appropriations on net profit during the financial year		-	(750 401)
Minority interest		126	133
Total equity		**12 799 926**	**11 266 879**

Liabilities			
Technical provisions	26		
Provision for unearned premiums and for unexpired risks		3 975 861	3 846 600
Life insurance provision		14 570 725	14 582 590
Provisions for outstanding claims		5 157 080	4 456 464
Provision for capitalized value of annuity claims		4 862 552	4 874 653
Provisions for bonuses and rebates for the insured		6 177	5 071
Other technical provisions		614 692	698 918
Unit linked technical provisions		2 296 089	2 017 501
Investment contracts	27		
- with guaranteed and fixed terms and conditions		2 270 568	2 632 054
- for the client and at the client's risk		1 273 947	1 094 475
Provisions for employee benefits	28	257 916	260 946
Other provisions	29	212 559	314 595
Provision for deferred income tax	30	404 956	444 053
Current income tax liabilities	31	1 743	3 056
Derivatives		11 730	3 533
Other liabilities	32	1 132 079	5 974 052
Accruals and deferred income	33		
Cost accruals		474 272	464 126
Deferred income		210 960	236 643
Liabilities related to continuing operations		**37 733 906**	**41 909 330**
Liabilities directly related to non-current assets classified as held for sale		-	**-**
Total liabilities		**37 733 906**	**41 909 330**
Total equity and liabilities		**50 533 832**	**53 176 209**

Warsaw, 15 March 2011

CONSOLIDATED INCOME STATEMENT

(in PLN '000)

Consolidated income statement	Note	1 January – 31 December 2010	1 January – 31 December 2009
Gross written premiums	34	14 544 457	14 362 717
Reinsurer's share in the written premium		(200 853)	(162 758)
Net written premium		**14 343 604**	**14 199 959**
Change in net provision for unearned premium		(130 591)	285 255
Net earned premiums		**14 213 013**	**14 485 214**
Revenue from commissions and fees	35	288 037	340 876
Net investment income	36	1 828 584	2 363 384
Net profit or loss on realization and impairment loss on investments	37	199 451	261 310
Net change in the fair value of assets and liabilities plus equity measured at fair value	38	753 805	844 307
Other operating revenue	39	89 297	260 066
Claims and change in technical provisions		(10 854 407)	(9 470 174)
Reinsurers' share in claims and change in technical provisions		555 172	33 893
Net insurance claims	40	**(10 299 235)**	**(9 436 281)**
Claims and change in measurement of investment contracts	41	(176 765)	(275 057)
Acquisition expense	42	(1 851 404)	(1 839 605)
Administrative expense	43	(1 663 163)	(1 808 881)
Other operating expense	45	(293 535)	(593 582)
Operating profit (loss)		**3 088 085**	**4 601 751**
Financial expense	46	(58 654)	(35 940)
Share in net profit (loss) of entities measured using the equity method		-	-
Gross profit (loss)		**3 029 431**	**4 565 811**
Income tax	48		
- current portion		(639 298)	(632 407)
- deferred portion		49 096	(170 493)
Net profit (loss), including:		**2 439 229**	**3 762 911**
- profit (loss) attributable to equity holders of the parent		2 439 231	3 762 945
- minority profits (loss)		(2)	(34)
Net profit (loss) from continuing operations		2 439 229	3 762 911
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)		28,25	43,58
Basic and diluted profit (loss) on discontinued operations per ordinary share (in PLN)		-	-
Basic and diluted profit (loss) per ordinary share (in PLN)		28,25	43,58

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN '000)

Consolidated statement of comprehensive income	1 January – 31 December 2010	1 January – 31 December 2009
Net profit (loss)	2 439 229	3 762 911
Other comprehensive income:	35 910	201 518
Financial assets available for sale	641	184 693
Exchange differences from translation of controlled entities	(15 388)	(138)
Real property reclassified from property, plant and equipment to investment property	50 657	16 963
Net comprehensive income total	**2 475 139**	**3 964 429**
- comprehensive income attributable to holders of the parent's equity	2 475 146	3 964 464
- comprehensive income attributable to equity under discretionary participation features contracts	-	-
- comprehensive income attributable to minority interest	(7)	(35)

Warsaw, 15 March 2011

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in PLN '000)

	Equity and provisions attributable to owners of the parent's share capital									
				Other capitals	Undistributed profit / uncovered loss					
Statement of changes in consolidated 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)**	**Total**	**Minority interest**	**Total equity**
Balance as at 1 January 2010	**86 352**	**5 485 014**	**340 970**	**(23 416)**	**5 377 826**	**-**	**-**	**11 266 746**	**133**	**11 266 879**
Change in measurement of AFS financial assets	-	-	641	-	-	-	-	641	-	641
Exchange differences from translation	-	-	-	(15 383)	-	-	-	(15 383)	(5)	(15 388)
Real property reclassified from property, plant and equipment to investment property	-	-	50 657	-	-	-	-	50 657	-	50 657
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**51 298**	**(15 383)**	**-**	**-**	**-**	**35 915**	**(5)**	**35 910**
Net profit (loss) for the financial year	-	-	-	-	-	2 439 231	-	2 439 231	(2)	2 439 229
Total increases (decreases)	**-**	**-**	**51 298**	**(15 383)**	**-**	**2 439 231**	**-**	**2 475 146**	**(7)**	**2 475 139**
Other changes, including:	**-**	**811 299**	**-**	**-**	**(1 753 391)**	**-**	**-**	**(942 092)**	**-**	**(942 092)**
Financial profit distribution/loss coverage	-	811 115	-	-	(1 753 219)	-	-	(942 104)	-	(942 104)
Other	-	184	-	-	(172)	-	-	12	-	12
Balance as at 31 December 2010	**86 352**	**6 296 313**	**392 268**	**(38 799)**	**3 624 435**	**2 439 231**	**-**	**12 799 800**	**126**	**12 799 926**

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(in PLN '000)

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's equity								Minority interest	Total equity
		Other capitals			Undistributed profit / uncovered loss					
	Share capital	**Supplementary capital**	**Revaluation reserve**	**Exchange differences from translation**	**Previous year profit (loss)**	**Net profit (loss)**	**Appropriations of net profit during the financial year (negative value)**	**Total**		
Balance at 1 January 2009	**86 352**	**14 478 547**	**139 314**	**(23 279)**	**5 371 288**	**-**	**-**	**20 052 222**	**168**	**20 052 390**
Change in measurement of AFS financial assets	-	-	184 693	-	-	-	-	184 693	-	184 693
Exchange differences from translation	-	-	-	(137)	-	-	-	(137)	(1)	(138)
Real property reclassified from property, plant and equipment to investment property	-	-	16 963	-	-	-	-	16 963	-	16 963
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**201 656**	**(137)**	**-**	**-**	**-**	**201 519**	**(1)**	**201 518**
Net profit (loss) for the financial year	-	-	-	-	-	3 762 945	-	3 762 945	(34)	3 762 911
Total increases (decreases)	**-**	**-**	**201 656**	**(137)**	**-**	**3 762 945**	**-**	**3 964 464**	**(35)**	**3 964 429**
Other changes, including:	**-**	**(8 993 533)**	**-**	**-**	**(3 006 006)**	**-**	**(750 401)**	**(12 749 940)**	**-**	**(12 749 940)**
Financial profit/loss reclassified to supplementary capital	-	3 005 798	-	-	(3 005 798)	-	-	-	-	-
Advance payment for dividend	-	(11 999 516)	-	-	-	-	(750 401)	(12 749 917)	-	(12 749 917)
Other	-	185	-	-	(208)	-	-	(23)	-	(23)
Balance at 31 December 2009	**86 352**	**5 485 014**	**340 970**	**(23 416)**	**2 365 282**	**3 762 945**	**(750 401)**	**11 266 746**	**133**	**11 266 879**

Warsaw, 15 March 2011

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN '000)

Consolidated statement of cash flows	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Cash flows from operating activities		
Inflows	18 470 571	19 181 014
- gross inflows from insurance premiums	14 521 524	14 526 646
- inflows from investment contracts	2 787 658	3 576 627
- inflows from reinsurance commissions and share in reinsurers' profits	10 779	11 781
- reinsurers' payments due to share in claims	466 219	173 025
- other inflows from operating activities	684 391	892 935
Outflows	(18 001 148)	(20 721 570)
- insurance premiums paid due to reinsurance	(154 254)	(143 575)
- paid commissions and profit sharing due to outward reinsurance	(4 152)	(24 413)
- gross claims paid	(9 295 988)	(8 871 634)
- claims paid due to investment contracts	(3 026 424)	(5 991 022)
- outflows due to acquisition	(1 450 351)	(1 322 888)
- administrative outflows	(2 135 292)	(2 142 752)
- interest payments	(225)	(170)
- income tax payments	(110 228)	(617 902)
- other operating outflows	(1 824 234)	(1 607 214)
Net cash flows generated by operating activities	**469 423**	**(1 540 556)**
Cash flows from investment activities		
Inflows	270 016 909	419 444 801
- inflows from investment property	5 628	6 546
- disposal of intangible assets and property, plant and equipment	7 859	2 712
- disposal of shares	4 416 405	3 430 935
- redemption of debt securities	31 510 882	34 672 090
- withdrawal of term deposits at credit institutions	129 179 172	182 406 133
- cash from other investments	103 641 528	197 472 475
- interest received	1 191 346	1 393 811
- dividends received	64 089	60 030
- other inflows from investments	-	69
Outflows	(264 687 431)	(410 040 675)
- acquisition of investment property	(1 329)	(283)
- payments for maintenance of investment property	(8 152)	(8 431)
- acquisition of intangible assets and property, plant and equipment	(155 850)	(155 781)
- acquisition of shares	(4 561 101)	(3 625 911)
- decrease in cash balance due to discontinued investment funds consolidation	(201)	(43 784)
- acquisition of debt securities	(27 390 996)	(30 645 717)
- acquisition of term deposits at credit institutions	(127 601 087)	(178 998 253)
- acquisition of other investments	(104 929 875)	(196 505 813)
- other payments for investments	(38 840)	(56 702)
Net cash used in/generated by investment activities	**5 329 478**	**9 404 126**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

(in PLN '000)

Consolidated cash flow statement	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Cash flows from financing activities		
Inflows	578	4 712 755
- loans and borrowings and issues of debt securities	578	4 712 755
Outflows	(5 728 563)	(12 742 730)
- dividends paid to holders of the parent's equity	(921 239)	(12 742 237)
- repayment of loans and borrowings and redemption of debt securities	(4 807 324)	(493)
Net cash used in financing activities	**(5 727 985)**	**(8 029 975)**
Total net cash flows	**70 916**	**(166 405)**
Cash and cash equivalents at the beginning of the financial year	366 556	533 206
Change in cash due to exchange differences	(13 769)	(245)
Cash and cash equivalents at the end of the financial year, including:	423 703	**366 556**
- of limited disposability	22 426	29 666

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 2010 to 31 December 2010.

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.

These consolidated financial statements were signed and approved for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent) on 15 March 2011 and shall be subject to approval of the General Shareholders Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

Functional and presentation currency

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

Going concern assumption

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

Discontinued activities

In 2010, 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 II24. It was established as a result of transforming Państwowy Zakład Ubezpieczeń into a joint stock company wholly owned by the State Treasury pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Dz.U. No. 11 of 1996 item 62 with subsequent amendments).

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

According to Polish NACE (PKD), the core business of PZU includes other personal and property insurance (PKD 65.12) and according to NACE, non-life insurance (EKD 6603). Warsaw Stock Exchange (WSE) classifies the Company in the insurance sector.

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 2010	31 December 2009	31 December 2010	31 December 2009	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and personal insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie")	Warsaw	18.12.1991	100,00%	100,00%	100,00%	100,00%	Life insurance
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU")	Warsaw	08.12.1998	100,00%	100,00%	100,00%	100,00%	Pension fund management
4	PZU Centrum Operacji SA („PZU CO")	Warsaw	30.11.2001	100,00%	100,00%	100,00%	100,00%	Auxiliary activity related to insurance and pension funds
5	Tower-Inwestycje Sp. z o.o. („Tower-Inwestycje") - former PZU Tower Sp. z o.o.	Warsaw	27.08.1998	100,00%	100,00%	100,00%	100,00%	Acquisition, operation, lease and disposal of real property
6	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99,76%	99,76%	99,76%	99,76%	Property insurance
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100,00%	100,00%	100,00%	100,00%	Acquisition, operation, lease and disposal of real property
9	PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych Polonez	Warsaw	11.10.1999	45,37%*	50,71%	n/a.	n/a.	Investing funds collected from members of the fund

* Since 1 April 2010 eliminated from consolidation due to loss of control, defined in 5.2.

Since 1 January 2010, the consolidation of the fund has been discontinued following loss of control as defined in point 5.2.

The following table presents key financial data of PZU Group entities for the financial year ended 31 December 2010

No.	Entity's name	% of share capital directly or indirectly held by PZU as at 31 December 2010	Net profit (loss)	Sales and financial revenue	Total assets	Liabilities and provisions for liabilities	Equity
1	PZU Pomoc SA 6/	100,00%	(303)	2 721	18 475	245	18 230
2	Ipsilon Sp. z o.o. 1/ 6/	100,00%	(3)	1	44	2	42
3	SYTA Development Sp. z o.o. in liquidation 1/ 6/	100,00%	549	1 650	7 177	12 239	(5 062)
4	TFI PZU SA 6/	100,00%	12 423	44 190	50 072	8 042	42 030
5	Sigma Investments Sp. z o.o. 1/ 6/	100,00%	(8)	1	33	2	31
6	PZU Asset Management SA 6/	100,00%	214	20 702	14 244	3 959	10 285
7	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA")	100,00%	356	1 499	1 170	201	969
8	PrJSC IC PZU Ukraine Life Insurance 1/ 5/	100,00%	(6 972)	7 807	49 077	36 597	12 480
9	LLC SOS Services Ukraine 1/ 5/	100,00%	65	3 625	783	208	575
10	Company with Additional Liability Inter-Risk Ukraine 1/ 5/	99,34%	820	24 935	68 997	43 135	25 862
11	UAB PZU Lietuva Gyvybes Draudimas 1/ 2/ 3/ 4/	100,00%	144	2 089	431	247	184
12	Grupa Krakowskiej Fabryki Armatur 1/ 7/	64,63%	10 481	206 591	467 261	211 564	255 697
13	ICH Center SA 1/ 6/	90,00%	444	3 415	6 349	691	5 658
14	Kolej Gondolowa Jaworzyna Krynicka SA 1/ 6/	37,53%	2 657	16 538	57 210	16 026	41 184
15	Nadwiślańska Agencja Ubezpieczeniowa SA 1/ 6/	30,00%	512	3 474	2 623	178	2 445

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 2010.

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 2010 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 2010

The following Standards and Interpretations, as well as amended Standards effective from 1 January 2010 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
Revised IFRS 2 – Group cash-settled share-based payments	1 January 2010	244/2010
Revised IFRS 1 - First-time adoption of International Financial Reporting Standards additional exemptions for first-time adopters	1 January 2010	550/2010
Improvements to IFRS resulting from the 2009 annual review	1 July 2009/ January 2010	243/2010
IFRIC 18 - Transfer of Assets from Customers	1 July 2009	1164/2009
IFRIC 17 – Distributions of non-cash assets to owners	1 July 2009	1142/2009
Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards	1 July 2009	1136/2009
Amendments to IAS 39 – Financial Instruments: Recognition and Measurement	1 July 2009	839/2009
Amendments to IFRS 3 – Business combinations	1 July 2009	495/2009
Amendments to IAS 27 – Consolidated and Separate Financial Statements	1 July 2009	494/2009

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 32 - Classification of rights issues	1 February 2010	1293/2009
Revised IFRS 1 - First-time adoption of International Financial Reporting Standards limited exemption from presentation of comparative data as required by IFRS 7	1 July 2010	574/2010
Amendments to IFRIC 14 – Minimum funding requirements - prepayments	1 January 2011	633/2010
Revised IAS 24 – Related Party Disclosures	1 January 2010	632/2010
IFRIC 19 - Extinguishing financial liabilities with equity instruments	1 July 2010	662/2010
Amendments to IFRS (published by IASB on 6 May 2010)	Various dates of which 1 July 2010 is the earliest	149/2011

The PZU Group decided not to exercise the possibility of earlier application of the above standards, interpretations and amendments to standards.

- 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 IFRS 7 – Financial Instruments: Disclosures	1 July2011
Amendments to IAS 12 – Income Taxes	1 January 2012
Amendments to IFRS 1 – First-time Adoption of IFRS	1 July 20011

According to the Company's estimates, the abovementioned standards, interpretations and amendments to standards would not have had a significant effect on

It is expected that application of the above standards, interpretations and revised standards will not have a material effect on the comprehensive income and equity of the PZU Group, except for IFRS 9, for which, considering a remote effective date, expected further revisions regarding financial instruments, related among others to the current work aimed at replacement of IAS 39 with new regulations, the effects of application of IFRS 9 on the comprehensive income and equity of the PZU Group have not been estimated.

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

In 2010 no changes were introduced to the manner of preparing the consolidated financial statements compared to the ones prepared by the Group for 2009.

3.3 Consolidation principles

In the financial year ended 31 December 2010 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".

3.4 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 2010	31 December 2010	1 January - 31 December 2009	31 December 2009
LTL	1,1597	1,1469	1.2571	1.1898
UAH	0,3830	0,3722	0.3897	0.3558

3.5 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.

3.6 Goodwill

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

3.7 Property, plant and equipment

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

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

Depreciation follows the straight line method over the estimated useful life of the assets, using the annual depreciation rates presented below and starts on the first day of the month following the month of commissioning.

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

Asset class	Rate
Perpetual usufruct of land	10%
Ownership right of cooperative residential or commercial space	2,5%
Buildings and structures	1,5% - 4,5%
Machines and technical devices	10% - 40%
Vehicles	18% - 33%
IT hardware	18% - 30%
Other non-current assets	7% - 20%

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

3.8 Impairment of property, plant and equipment and intangible assets

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

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

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

3.9 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.

3.10 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.

3.10.1. 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”.

3.10.2. 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”.

3.10.3. 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.

3.10.4. 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 tem and derivatives;
- financial instruments classified at the time of acquisition as those measured at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include some instruments that pursuant to the Act of 22 May 2003 on insurance activity (Dz. U. No. 11 of 2010, item 66 with subsequent amendments, henceforth "Act on insurance activity") are aimed at covering technical provisions and investment contracts in life insurance products. Adopted classification of those instruments eliminates or significantly limits mismatch between measurement and recognition of assets and liabilities covered by those assets.
- 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.

3.10.5. 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.

3.10.5.1. 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".

3.10.6. 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.

3.10.7. 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.

3.11 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.

3.12 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.

3.12.1. 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.

3.12.2. Life insurance

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

3.12.3. 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”.

3.13 Cash and cash equivalents

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

Cash is recognized at face value.

3.14 Equity

3.14.1. Share capital

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

3.14.2. 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.

3.14.3. 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.

3.14.4. Undistributed profit / uncovered loss

Undistributed profit/uncovered loss includes:

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

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

3.15 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.

3.15.1. 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.

3.15.2. 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.

3.15.2.1. Insurance contracts and DPF investment contracts

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

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

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

3.15.2.2. Unit-linked products

Unit-linked insurance contracts are concluded both as group and individual products.

3.15.2.3. 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”.

3.16 Insurance contracts

3.16.1. Written premium and provision for unearned premiums

3.16.1.1. 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.

Short-term policies account for vast majority of concluded property and personal insurance contracts. Some insurance types sold in cooperation with banks and insurance with financial guarantee features are examples of long-term contracts.

Written premiums are recognized 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 IRFS 4.

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

3.16.1.2. 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.

3.16.2. Costs of claims paid and technical provisions

3.16.2.1. 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.

3.16.2.2. Life insurance

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

Costs of claims paid

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

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

Life insurance provision

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

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

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

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

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

Provision for 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.

3.16.3. 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.

3.17 Employee benefits

3.17.1. Defined contribution plans

Social security contributions

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

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

3.17.2. Defined benefit plans

3.17.2.1. 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.

3.17.2.2. 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.

3.17.3. Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Dz. U. No. 70 of 1996, item 335 with subsequent amendments) and internal regulations of the PZU Group companies with their registered offices in Poland which create Company Social Benefit Funds, the benefits and financial services of the fund may be used by pensioners (former employees of the company) and their families. Liabilities due to post-employment benefits recognized in the statement of financial position are measured at the current value of discounted cash flows. The costs of post-employment benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

3.17.4. 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.

3.17.5. 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”.

3.18 Revenue recognition

Recognition of revenue due to insurance contracts has been described in point 3.16.

Interest

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

Dividends

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

Revenue from pension fund management services

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

- fees on premiums transferred by the Social Insurance Institution (“ZUS”) to 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”.

3.19 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.

3.20 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 collectibility data and
- With regard to non-mature receivables, based on historical analysis of the share of overdue receivables combined with historical analysis of collectibility, 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 2010, for annuities arising from accidents included in insurance contracts concluded by 30 April 2006 the technical rate of 3.7% was applied, while for the other annuities, the maximum technical rate as published by the Financial Supervisory Authority (FSA) was applied. As at 31 December 2009, the technical interest rate applied to all annuities was 3.7%. At the same time, based on projections of inflation and pay rise, both for 31 December 2010 and 31 December 2009, the annuity increase rate of 3.7% was applied.

As regards life annuities, the period during which annuity claims are paid is determined based on the Polish Life Expectancy Tables for 2009 (31 December 2009: PLET 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 3.16.2.

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 employee group insurance, type P individually continued insurance and D death coverage 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 our 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

Some 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.

Between 1 January and 11 May 2010 the interest of the State Treasury in the share capital of PZU exceeded 50%. On 11 May 2010, as part of the IPO, the shares sold by the State Treasury were transferred and registered on the accounts of buyers and thus the interest of the State Treasury in the share capital of PZU dropped below 50%.

Apart from the above issue, for the purpose of presentation of turnovers and balances for related party transactions, it is assumed that after 11 May 2010 the State Treasury maintained control over PZU as understood by IAS 27 and thus PZU remains an entity controlled by the State Treasury and is still obliged to present in its financial statements transactions with related parties of the State Treasury.

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.

Income statement for 1 January – 31 December 2010	**Property and personal insurance**	**Life insurance**	**Pension insurance**	**Unallocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premiums - external	8 031 916	6 512 541	-	-	14 544 457
Gross written premiums - cross-segment	846	-	-	(846)	**-**
Reinsurer's share in gross written premium	(197 762)	(3 091)	-	-	(200 853)
Net written premium including:	**7 835 000**	**6 509 450**	**-**	**(846)**	**14 343 604**
Net written premium - external	7 834 154	6 509 450	-	-	14 343 604
Net written premium - cross-segment	846	**-**	**-**	(846)	-
Change in net provision for unearned premium	(134 711)	4 674	-	(554)	(130 591)
Net earned premiums	**7 700 289**	**6 514 124**	**-**	**(1 400)**	**14 213 013**
Revenue from commissions and fees	-	-	246 915	41 122	288 037
Net investment income (external transactions)	855 978	881 019	14 976	76 611	1 828 584
Net investment income (cross-segment transactions)	3 121 182*	116 572**	-	(3 237 754)	-
Net profit or loss on realization and impairment loss on investments	(9 370)	134 441	1 145	73 235	199 451
Net change in the fair value of assets and liabilities measured at fair value	122 968	556 783	-	74 054	753 805
Other operating revenue	83 369	72 798	1 881	(68 751)	89 297
Claims and change in technical provisions	(6 245 984)	(4 607 173)	-	(1 250)	(10 854 407)
Reinsurers' share in claims and change in technical provisions	555 138	34	-	-	555 172
Net insurance claims	**(5 690 846)**	**(4 607 139)**	**-**	**(1 250)**	**(10 299 235)**
Claims and change in measurement of investment contracts	-	-	-	(176 765)	(176 765)
Acquisition expense	(1 385 570)	(360 488)	(48 738)	(56 608)	(1 851 404)
Administrative expense	(967 244)	(601 314)	(93 119)	(1 486)	(1 663 163)
Other operating expense	(217 572)	(125 121)	(614)	49 772	(293 535)
Operating profit (loss)	**3 613 184***	**2 581 675****	**122 446**	**(3 229 220)**	**3 088 085**
Financial expense	(58 654)	-	-	-	(58 654)
Gross profit (loss)	**3 554 530***	**2 581 675****	**122 446**	**(3 229 220)**	**3 029 431**
Income tax	(99 464)	(466 606)	(22 875)	(1 257)	(590 202)
Net profit (loss)	**3 455 066***	**2 115 069****	**99 571**	**(3 230 477)**	**2 439 229**

* including dividend paid by PZU Życie to PZU in the amount of PLN 3,120,000 thousand
** including dividend paid by PTE PZU to PZU Życie in the amount of PLN 116,882 thousand

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)
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**

* including dividend paid by PZU Życie to PZU in the amount of PLN 1,419,146 thousand
** including dividend paid by PTE PZU to PZU Życie in the amount of PLN 107,661 thousand

2010	**Property and personal insurance**	**Life insurance**	**Pension insurance**	**Unallocated (consolidation eliminations and other)**	**Consolidated value**
Segment assets, including:	**21 196 829**	**26 191 364**	**347 159**	**2 798 480**	**50 533 832**
Deferred tax assets	940	-	3 320	12 385	16 645
Entities measured using the equity method	-	-	-	-	-
Liabilities	**14 827 199**	**19 385 748**	**43 443**	**3 477 516**	**37 733 906**
Investment outlays in the period*	102 566	97 788	326	10 156	210 836
Depreciation for the period*	(90 114)	(61 118)	(532)	(18 607)	(170 371)
Impairment loss on assets*	(2 137)	(915)	-	-	(3 052)
Reversal of impairment loss on assets *	3 623	8 073	-	-	11 696

* Include intangible assets and property, plant and equipment

2009	**Property and personal insurance**	**Life insurance**	**Pension insurance**	**Unallocated (consolidation eliminations and other)**	**Consolidated value**
Segment assets, including:	**22 920 818**	**26 816 242**	**363 404**	**3 075 745**	**53 176 209**
Deferred tax assets	734	-	4 811	19 368	24 913
Entities measured using the equity method	-	-	-	-	-
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

(in PLN ‘000)

2010	Poland	Lithuania	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	14 293 124	144 864	106 469	-	14 544 457
Gross written premiums - cross-segment	2 507	-	-	(2 507)	-
Revenue from commissions and fees	288 037	-	-	-	288 037
Net investment income (external transactions)	1 811 947	8 845	7 792	-	1 828 584
Net profit or loss on realization and impairment loss on investments (external transactions)	200 256	188	(993)	-	199 451
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	748 750	5 055	-	-	753 805
Non-current assets other than financial instruments*	1 143 291	9 533	7 043	(60 389)	1 099 478
Deferred tax assets	18 593	-	940	(2 888)	16 645
Assets	**50 590 033**	**228 924**	**187 409**	**(472 534)**	**50 533 832**

* Include intangible assets and property, plant and equipment

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

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.

Stress tests performed

To comply with the requirement imposed by the Polish Financial Supervision Authority (KNF) on insurance companies, PZU and PZU Życie conducted stress tests relating to financial data reported as of 31 December 2009 in line with KNF guidelines and submitted their results by the end of July 2010. The stress tests showed that the largest PZU Group companies have sufficient capitals to safely continue as a going concern if adverse events with considerable financial implications occur in their business environment.

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.
- Investment Committee of PZU and PZU Życie (IC),
- Committee on Risk of Financial Insurance and Guarantees of PZU (CRFIG).

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

On 4 March 2010 the position of a Risk Managing Director was established within the structure of PZU and PZU Życie and the Risk Office was established in those entities on 1 August 2010.

The scope of responsibilities of the Risk Office includes:

- development of the risk management system;
- identification of investment, insurance and operational risks, their measurement as well as development and implementation of an effective risk reporting system;
- development and implementation of an internal model for investment, insurance and operational risks;
- development of an effective system of reporting profitability of operations, taking into account the cost of capital;
- ensuring the PZU Group’s compliance with the requirements of the Solvency II Directive as well as other external acts regarding the insurance and operational risk management system.

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
- IC
- CRFIG
- 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 makes decisions regarding balance sheet structure management in order to ensure the appropriate level of security, liquidity and profitability for PZU and PZU Życie; approves the acceptable levels of financial risk and investment guidelines for PZU, PZU Życie and PZU AM (a subsidiary of PZU whose tasks include among others management of selected portfolios of PZU and PZU Życie).

CFIGR issues recommendations for Management Boards regarding maximum capital allocation to credit and concentration risks, determines the maximum capital allocation to credit and concentration risk among organizational structures and investment managing entities, as well as approves the systems of limits and restrictions for credit and concentration risks.

IC determines exposure limits to a single entity (with subsidiaries) not being a financial institution and issuing debt securities or obtaining a similar type of funding up to PLN 100 million inclusive for PZU and PZU Życie. The Committee decides on acquisition of shares in companies traded on an organized market resulting in obtaining more than 10% of votes at GSM of a given issuer jointly by 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.

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. 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 corporate customers and SME, a separate underwriting process independent from the sales function is carried out.

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

Reinsurance (as an insurance risk mitigating tool)

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

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

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

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

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 2010**	**1 January - 31 December 2009**
Expense ratio	30,84%	29.27%
Claims ratio net of reinsurance	73,94%	69.28%
Reinsurer's retention ratio	2,46%	2.00%
Mixed ratio	104,78%	98.55%

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**	**2010**
Provision at the end of the reporting year	6 312	6 939	7 295	7 247	7 458	7 541	7 898	8 293	8 699	9380
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	8 556	
- calculated two years later	5 872	6 010	6 534	6 387	6 815	7 287	7 833	8 407		
- calculated three years later	5 505	6 162	6 097	6 355	7 014	7 437	7 852			
- calculated four years later	5 667	5 797	6 083	6 560	7 113	7 443				
- calculated five years later	5 395	5 805	6 272	6 659	7 120					
- calculated six years later	5 423	6 014	6 361	6 700						
- calculated seven years later	5 657	6 111	6 422							
- calculated eight years later	5 749	6 183								
- calculated nine years later	5 838									
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)	5 838	6 183	6 422	6 700	7 120	7 443	7 852	8 407	8 556	
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)	2 979	3 042	2 985	2 945	2 998	2 873	2 712	2 462	1 584	
Provision recognized in the statement of financial position	2 859	3 141	3 437	3 755	4 122	4 570	5 140	5 945	6 972	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	474	756	873	547	338	98	46	(114)	143	
The above difference as a percentage of the originally estimated provision	8%	11%	12%	8%	5%	1%	1%	-1%	2%	

Claims development in direct property and personal insurance net of reinsurance (by reporting year)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Provision at the end of the reporting year	4 640	5 212	5 750	5 980	6 246	6 356	6 916	7 433	7 973	8 640
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	7 840	
- calculated four years later	4 113	4 651	5 251	5 175	5 605	6 202	6 969	7 596		
- calculated four years later	3 917	4 824	4 839	5 200	5 839	6 396	6 991			
- calculated four years later	4 084	4 485	4 874	5 405	5 979	6 405				
- calculated eight years later	3 836	4 533	5 063	5 529	5 984					
- calculated eight years later	3 904	4 729	5 173	5 568						
- calculated eight years later	4 102	4 840	5 233							
- calculated eight years later	4 201	4 913								
- calculated nine years later	4 286									
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)	4 286	4 913	5 233	5 568	5 984	6 405	6 991	7 596	7 840	
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)	1 835	2 212	2 251	2 281	2 349	2 343	2 363	2 173	1 402	
Provision recognized in the statement of financial position	2 451	2 701	2 982	3 287	3 635	4 062	4 628	5 423	6 438	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	354	299	517	412	262	(49)	(75)	(163)	133	
The above difference as a percentage of the originally estimated provision	8%	6%	9%	7%	4%	-1%	-1%	-2%	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 branch, a percentage share of flood and hurricane claims paid was calculation in the accumulated amount of claims paid in the years when catastrophes (floor or hurricane) occurred, based on individual data for each property group. Depending upon the share size, 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 2010		**Sum insured**					
		0-200 PLN '000	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	8,6%	8,4%	3,3%	2,4%	31,3%	54,0%
	Number of policies	47,6%	7,3%	1,3%	0,4%	0,5%	57,1%
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	0,2%	0,1%	0,0%	0,0%	0,7%	1,0%
	Number of policies	1,0%	0,1%	0,0%	0,0%	0,0%	1,1%
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	5,7%	6,4%	2,5%	1,4%	29,0%	45,0%
	Number of policies	34,7%	5,5%	1,0%	0,3%	0,3%	41,8%
Total	Sum insured	14,5%	14,9%	5,8%	3,8%	61,0%	100,0%
	Number of policies	83,3%	12,9%	2,3%	0,7%	0,8%	100,0%

Risk concentration in property and personal insurance: flood claims exposure by level as at 31 December 2009		**Sum insured**					
		0-200 PLN '000	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	13,3%	13,7%	5,6%	3,5%	59,3%	95,4%
	Number of policies	76,7%	11,9%	2,1%	0,7%	0,8%	92,2%
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	0,4%	0,4%	0,2%	0,1%	0,9%	2,0%
	Number of policies	2,3%	0,4%	0,1%	0,0%	0,0%	2,8%
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	0,8%	0,8%	0,2%	0,1%	0,7%	2,6%
	Number of policies	4,2%	0,7%	0,1%	0,0%	0,0%	5,0%
Total	Sum insured	14,5%	14,9%	6,0%	3,7%	60,9%	100,0%
	Number of policies	83,2%	13,0%	2,3%	0,7%	0,8%	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 2010		**Sum insured**					
		0-200 PLN '000	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	13,3%	13,7%	5,6%	3,5%	59,3%	95,4%
	Number of policies	76,7%	11,9%	2,1%	0,7%	0,8%	92,2%
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	0,4%	0,4%	0,2%	0,1%	0,9%	2,0%
	Number of policies	2,3%	0,4%	0,1%	0,0%	0,0%	2,8%
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	0,8%	0,8%	0,2%	0,1%	0,7%	2,6%
	Number of policies	4,2%	0,7%	0,1%	0,0%	0,0%	5,0%
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: hurricane claims exposure by level as at 31 December 2009		**Sum insured**					
		0-200 PLN '000	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	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: branches 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: branches 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**					
		0-200 PLN '000	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	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: branches 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: branches 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 2010	**Sum insured**					
	0-200 PLN '000	**200-500 PLN '000**	**500-1000 PLN '000**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
General TPL in personal life and other	16,4%	4,4%	3,6%	4,0%	18,6%	47,0%
Medical TPL	1,6%	2,0%	2,2%	2,4%	2,9%	11,1%
Professional TPL except from medical and agricultural (legal, consulting, etc.)	24,7%	3,4%	0,9%	1,9%	3,2%	34,1%
TPL of farmers and their movable property	0,0%	7,5%	0,0%	0,0%	0,0%	7,5%
Product TPL	0,0%	0,0%	0,1%	0,0%	0,2%	0,3%
Total	42,7%	17,3%	6,8%	8,3%	24,9%	100,0%

Gross written premium in property and personal insurance – TPL as at 31 December 2009	Sum insured					
	0-200 PLN '000	200-500 PLN '000	500-1000 PLN '000	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
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%**

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.

<u>*Sensitivity analysis*</u>

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 2010	31 December 2009	31 December 2010	31 December 2009
Technical interest rate – rise by 0.5 p.p.	348	354	348	354
Technical interest rate – drop by 1.0 p.p.	(899)	(926)	(899)	(926)
Mortality – 110% of the currently assumed level	106	108	106	108
Mortality – 90% of the currently assumed level	(119)	(121)	(119)	(121)

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 2010	31 December 2009	31 December 2010	31 December 2009
Technical interest rate – rise by 0.5 p.p.	321	316	321	316
Technical interest rate – drop by 1.0 p.p.	(829)	(829)	(829)	(829)
Mortality – 110% of the currently assumed level	98	98	98	98
Mortality – 90% of the currently assumed level	(110)	(109)	(110)	(109)

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 2010	31 December 2009	31 December 2010	31 December 2009
Technical interest rate – drop by 1 p.p.	(37)	(38)	(37)	(38)
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 2010	31 December 2009	31 December 2010	31 December 2009
Technical interest rate – drop by 1 p.p.	(2 278)	(2 446)	(2 278)	(2 446)
Mortality – 110% of the currently assumed level	(992)	(1 045)	(992)	(1 045)
110% of incidence proportion	(222)	(247)	(222)	(247)

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 2010	31 December 2009
Change in technical provisions	1 743	1 722
Claims paid	(572)	(533)
Change in deferred acquisition costs	(7)	(8)
Gross financial profit/loss	1 164	1 181
Net financial profit/loss	943	957
Equity	943	957

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*, approved by ALCO, 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.

Tasks vested with TO includes determining proposed prudence limits regarding assets for PZU AM, which are subsequently accepted by ALCO.

Risk Office (RO) performs ongoing control of investment risk assessment.

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

RO 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 RO. 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. 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 2010 (PLN million)	**Property and personal insurance**	**Life insurance**	**Unit-linked investment and insurance contracts**
Financial assets exposed to interest rate risk	15 471	22 274	1 454
- Fixed interest debt securities	14 198	18 627	1 235
- Floating interest debt securities	224	378	29
- Term deposits with credit institutions	304	2 181	131
- Loans	17	-	-
- Cash	186	225	-
- Reverse repo transactions	498	817	59
- Derivatives	44	46	-
Financial assets exposed to other price risk	1 328	2 212	2 079
- Shares listed on a regulated market	1 111	1 522	443
- Participation units and certificates in investment funds	217	675	1 636
- Derivatives	-	15	-
Total	16 799	24 486	3 533

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

Interest rate derivatives	**Base amount by maturity At 31 December 2010**					**Assets at fair value as at 31 December 2010**	**Liabilities at fair value as at 31 December 2010**
	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:	**300 000**	**63 773**	**4 534 384**	**163 648**	**5 061 805**	**89 717**	**(11 238)**
OTC including:	300 000	63 773	4 534 384	163 648	5 061 805	89 717	(11 238)
- FRA transactions	300 000	-	-	-	300 000	45	-
- SWAP transactions	-	63 773	4 534 384	163 648	4 761 805	89 672	(11 238)
Interest rate derivatives total	**300 000**	**63 773**	**4 534 384**	**163 648**	**5 061 805**	**89 717**	**(11 238)**

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)
- FRA transactions	-	-	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)**

Derivatives linked to currency exchange rates	**Base amount by maturity At 31 December 2010**					**Assets at fair value as at 31 December 2010**	**Liabilities at fair value as at 31 December 2010**
	Up to 3 months	**Over 3 months and up to 1 year**	**Over 1 year and up to 5 years**	**Over 5 years**	**Total**		
OTC instruments including:	-	413	-	-	413	10	-
- forward transactions	-	413	-	-	413	10	-
Total derivatives linked to currency exchange rates	**-**	**413**	**-**	**-**	**413**	**10**	**-**
Derivatives linked to currency exchange rates	-	413	-	-	413	10	-

As at 31 December 2009, the PZU Group did not hold derivatives linked to currency exchange rates.

Security price derivatives	**Base amount by maturity At 31 December 2010**					**Assets at fair value as at 31 December 2010**	**Liabilities at fair value as at 31 December 2010**
	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:	96 211	-	-	-	96 211	242	(492)
- Futures	96 211	-	-	-	96 211	242	(492)
OTC including:	-	67 493	152 753	-	220 246	15 232	-
- Call options	-	67 493	152 753	-	220 246	15 232	-
Security price derivatives total	**96 211**	**67 493**	**152 753**	**-**	**316 457**	**15 474**	**(492)**

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)**

Risk concentration

Exposure to treasury securities issued by Polish Ministry of Finance – as at 31 December 2010, exposure of PZU Group to treasury securities issued by Polish Ministry of Finance along with contingent transactions on those securities amounted to 35,350 PLN million (PLN 37,803 million as at 31 December 2009), accounting for 78.0% of the total financial assets (78.4% as at 31 December 2009).

PZU Group's exposure to WSE-listed stock - as at 31 December 2010, the Group's exposure to stock listed at WSE amounted to PLN 3,034 million (PLN 2,693 million as at 31 December 2009), which accounted for 6.7% of the financial assets value (5.6% as at 31 December 2009) and 98.4% of exposure in listed equity instruments (99.3% as at 31 December 2009).

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 2010, total exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,114 million (PLN 1,660 million as at 31 December 2009).

General exposure to bank deposits, debt securities issued by banks, their shares, IRS transactions and options amounted to PLN 4,794 million (PLN 6,191 million as at 31 December 2009), which accounted for 10.6% of financial deposits value (12.8% as at 31 December 2009).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 97.4% of total financial assets as 31 December 2010 (98.1% as at 31 December 2009).

Unit-linked insurance and investment contract portfolio, amounted to 7.8% of the total financial assets of the PZU Group as at the end of 2010 (6.5% in 2009).

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:	6.1%	n/a	3.8%	12.7%	n/a
- held to maturity	5.0%	n/a	2.5%	n/a	25.3%
- available for sale	3.9%	4.3%	0.7%	5.8%	9.4%
2. Loans					
Liabilities	4.1%	n/a	n/a	n/a	n/a
Investment contracts	n/a	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 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

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 2010		31 December 2009	
	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.	156	299	88	238
Market interest rate increase by 100 b.p.	(149)	(283)	(83)	(227)

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.

An increase in sensitivity to interest rate risk at the end of 2010 compared to the end of 2009 resulted from an increased duration of debt securities portfolio and higher exposure to derivatives exposed to interest rate risk.

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 2010		31 December 2009	
	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	167	167	152	152
20% decrease in FX to PLN rates	(167)	(167)	(152)	(152)

Financial assets exposed to FX risk include deposit transactions and debt securities that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE and to derivatives denominated in foreign currencies, as well as financial assets of Lithuanian and Ukrainian companies included in consolidation. Increased sensitivity to FX risk as at the end of 2019 compared to 2009 resulted mainly from an increase in deposit exposure (derivatives, listed shares) denominated in foreign currencies and not designated as coverage 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 2010		31 December 2009	
	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%	283	416	231	371
Decrease in measurement of listed equity instruments by 20%	(283)	(416)	(239)	(379)

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 2010 compared to 2009 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 CFIGR.

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. RO 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 CFIGR meeting.

IC is responsible for exposure limits for entities other than financial institutions up to PLN 100 million jointly for PZU and PZU Życie. For limits in excess of PLN 100 million, consent of Management Boards is required.

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). RO 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

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 2010 (PLN million)	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating**	**Total**
Debt securities	679	-	32 951	304	-	2	**33 936**
Bank deposits and repo transactions involving treasury securities	-	53	3 198	575	8	254	**4 088**
Loans	-	-	-	-	-	17	**17**
Derivatives	-	94	11	-	-	-	**105**
Reinsurers' share in net claims provisions	4	329	299	20	-	45	**697**
Receivables from reinsurance	1	68	43	2	-	8	**122**
Total assets exposed to credit risk	**684**	**544**	**36 502**	**901**	**8**	**326**	**38 965**

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**

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	0,82	0,74	1,97	5,60	17,45	30,82
Ratio (%) for 2008	0,70	0,70	1,70	4,40	14,60	30,40

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

The credit risk as at 31 December 2010 amounted to PLN 876 million (PLN 826 million as at 31 December 2009; had ratios of 31 December 2009 been used, the risk would amount to PLN 965 million).

Financial insurance and guarantees

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees in accordance with the Civil Code) results from the risk that a 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 Regional 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 2010, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,157 million (PLN 2,214 million as at 31 December 2009).

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.

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

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2010	Rating assigned by Standard&Poor's as at 31 December 2010	Reinsurers' share in (net) technical provisions as at 31 December 2009	Rating assigned by Standard&Poor's as at 31 December 2009
Axa France Iard - Aai Reasurance	202 663	AA-	241 311	AA
Swiss Reinsurance Company	73 499	A+	141 053	A+
Scor Switzerland Ltd	27 966	A	7 213	A
Hannover Re Bermuda Ltd	25 534	AA-	-	AA-
Munich Reinsurance Company	25 083	AA-	24 352	AA-
Hannover Ruckversicherung Ag	23 759	AA-	16 436	AA-
Scor Global P&C SE	21 717	A	22 233	A
Polskie Towarzystwo Reasekuracji SA	19 150	BBB+	15 850	BBB
Everest Reinsurance Company	16 883	A+	17 789	A+
Scor Ruckversicherung (Deutschland) AG	15 794	A	16 530	A
Transatlantic Reinsurance Company	12 659	A+	10 218	A+
Scor Global P&C (Ex Sorema)	12 244	A	18 145	A
Aviva Towarzystwo Ubezpieczeń Ogólnych SA	11 879	no rating	69	no rating
Chubb Insurance Company Of Europe	10 016	AA	-	AA
Partner Reinsurance Europe Limited, Zurich Branch	9 179	AA-	32 483	AA-
Mapfre Re Compania De Reaseguros SA, Munich Branch	9 168	AA	1 511	AA
Munich Reinsurance Company (Ex Victoria Ruck)	8 699	AA-	9 051	AA-
General Reinsurance Ag, Vienna Branch	8 160	AA+	7 404	AAA
Tuir Allianz Polska SA	8 020	no rating	1 889	no rating
The Toa Reinsurance Company Limited	7 633	A+	48	A+
Endurance Speciality Insurance Ltd	7 017	A	204	A
Financial Insurance Company Limited (Genworth Financial)	6 952	A-	12 570	A-
Gothaer Finanzholding Ag	6 892	no rating	57	no rating
Compagnie Generale Reassurance Monte-Carlo	5 687	no rating	10 025	no rating
Pozostali	195 596	n/a	141 872	n/a
Total	771 850		748 313	

7.4.4. Liquidity risk

Liquidity risk is the risk of encountering difficulties in fulfillment of obligations arising from financial liabilities settled by delivery of cash or other type of financial assets.

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 AML 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 2010the aforementioned limit was PLN 149 million for PZU and PLN 126 million for PZU Życie (PLN 170 million for PZU and PLN 131 million for PZU Życie as at 31 December 2009).

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)	(1 371)	(1 008)	(1 446)	(3 587)	(7 778)
I. Outflows	(1 379)	(1 014)	(1 452)	(3 603)	(7 823)
II. Inflows	8	6	6	16	45
B. Inflows from assets covering technical provisions	1 559	1 511	1 784	11 280	4 010
I. Future inflows whose value is known as at the end of reporting year	1 382	1 334	1 414	10 895	3 253
- Treasury bonds	549	1 152	1 047	10 707	3 093
- Treasury bills	-	-	-	-	-
- Other debt securities	-	17	240	12	110
- Term deposits with credit institutions	268	17	15	-	-
- Receivables	563	52	17	7	11
- Other, including:	2	96	95	169	39
- reinsurer's share in technical provisions	2	96	95	169	39
II Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	177	177	370	385	704
- Treasury bonds	-	-	16	67	626
- Other debt securities	-	-	-	3	2
- Shares listed on a regulated market	177	177	354	315	76
- Other	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	53
C. Balance of projected cash flows (A + B)	188	503	338	7 693	(3 768)
D. Balance of accumulated cash flows	188	691	1 029	8 722	4 954

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 increased from PLN 1,975 million as at the end of 2009 to PLN 4,954 million as at the end of 2010, which resulted from an increase of the projected inflows from assets covering technical provisions by PLN 3,712 million and a reduction in the projected net cash flows resulting from insurance contracts by PLN 733 million.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in property and personal insurance was 3.1 (2.8 in 2009), whereas the duration of technical provisions was 4.0 (4.1 in 2009).

Life insurance

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

Item	Projected cash flows (in PLN million)					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(1 069)	(1 910)	(916)	(1 426)	(3 435)	(6 937)
I. Outflows	(1 963)	(2 782)	(7 077)	(7 466)	(11 512)	(13 408)
II. Inflows	894	872	6 161	6 040	8 077	6 471
B. Inflows from assets covering technical provisions	2 049	3 467	12 852	4 108	3 949	540
I. Future inflows whose value is known as at the end of reporting year	1 612	3 464	12 838	4 062	3 897	540
- Treasury bonds	1 112	1 501	12 833	4 055	3 871	540
- Treasury bills	-	-	-	-	-	-
- Other debt securities	71	240	5	7	26	-
- Term deposits with credit institutions	375	1 723	-	-	-	-
- 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	437	3	14	46	52	-
- Treasury bonds	-	3	14	46	52	-
- Other debt securities	-	-	-	-	-	-
- Investment fund units	437	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	980	1 557	11 936	2 682	514	(6 397)
D. Balance of accumulated cash flows	980	2 537	14 473	17 155	17 669	11 272

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 increased from PLN 10,925 million as at the end of 2009 to PLN 11,272 million as at the end of 2010, due to reduction of the projected net cash flows from insurance and investment contracts by PLN 839 million and a decrease in the projected inflows from assets covering technical provisions by PLN 492 million.

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 4.1 (4.0 in 2009), whereas the duration of technical provisions was 17.6 (18.4 in 2009).

8. Equity management

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

8.1 External capital requirements

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

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

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

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

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

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 2010	31 December 2009
PZU equity	**11 902 186**	**10 411 542**
Intangible assets	(63 526)	(49 560)
Value of shares in insurance companies operating within the insurance capital group of PZU	(6 599 272)	(7 463 664)
Deferred tax asset	(276 036)	(213 126)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**4 630 089**	**5 576 452**
PZU Życie (100.00%)	4 534 446	5 584 807
Own funds	6 232 554	7 223 775
Required solvency margin	1 698 108	1 638 968
Surplus of own funds to cover the required solvency margin	4 534 446	5 584 807
UAB DK PZU Lietuva (99.76%)	12 313	6 792
Own funds	40 117	39 638
Required solvency margin	27 774	32 830
Surplus of own funds to cover the required solvency margin	12 343	6 808
OJSC IC PZU Ukraine (100.00%)	76 701	(11 654)
Own funds	93 131	1 697
Required solvency margin	16 430	13 351
Surplus of own funds to cover the required solvency margin	76 701	(11 654)
Other insurance companies	6 629	(3 493)
Own funds of PZU	**9 593 441**	**8 261 644**
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	**8 254 643**	**6 922 846**
Surplus of own funds to cover the guarantee fund	**9 147 175**	**7 815 378**

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/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009
PZU Życie		5 July 2010		16 July 2009
Financial strength rating	A /stable/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009

9. Intangible assets

As at 31 December 2010 and 31 December 2009 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Claims and change in technical provisions – property and personal insurance	480	268
Claims and change in technical provisions – life insurance	1 186	266
Claims and change in measurement of investment contracts	543	283
Acquisition costs	4 671	344
Administrative expenses	43 373	41 414
Other operating expenses	552	276
Costs of investing activities	89	1
Total amortization	**50 894**	**42 852**

Changes in intangible assets in the year ended 31 December 2010	**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	357 229	243 151	189 543	506	547 278
Increases (due to):	67 933	59 037	49 798	2	117 733
- purchase	24 676	22 573	49 785	2	74 463
- reclassification from intangible assets under construction	42 848	36 055	-	-	42 848
- other	409	409	13	-	422
Decreases (due to):	(1 603)	(124)	(60 034)	-	(61 637)
- sale	-	-	-	-	-
- liquidation	(1 603)	(124)	(15 807)	-	(17 410)
- reclassification from intangible assets under construction	-	-	(42 848)	-	(42 848)
- other	-	-	(1 379)	-	(1 379)
Exchange differences	(107)	(114)	5	(16)	(118)
Gross value of intangible assets – closing balance	**423 452**	**301 950**	**179 312**	**492**	**603 256**
Accumulated amortization – opening balance	(281 896)	(212 376)	-	(28)	(281 924)
Changes (due to):	(49 094)	(38 097)	-	(72)	(49 166)
- amortization for the period	(50 820)	(38 345)	-	(74)	(50 894)
- liquidation	1 548	70	-	-	1 548
- exchange differences	178	178	-	2	180
Accumulated amortization – closing balance	**(330 990)**	**(250 473)**	**-**	**(100)**	**(331 090)**
Impairment losses – opening balance	(34 950)	(785)	(145 335)	-	(180 285)
Changes charged to other operating expenses	-	-	17 186	-	17 186
Impairment losses – closing balance	**(34 950)**	**(785)**	**(128 149)**	**-**	**(163 099)**
Net value of intangible assets – closing balance	**57 512**	**50 692**	**51 163**	**392**	**109 067**

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
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 116,309 thousand as at 31 December 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 2009);
- the project entitled “Implementation of a corporate customer insurance management system (CORPO)” in the amount of PLN 45 thousand (PLN 15,852 as at 31 December 2009) - in 2010 the asset was liquidated and charged to the previously recognized impairment loss;
- the “Central Customer Database” project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2009).

10. Goodwill

Goodwill	31 December 2010	31 December 2009
Goodwill – subsidiaries	8 381	19 631
- PZU CO	5 415	5 415
- PZU Życie	60	60
- PZU Lietuva	2 906	3 015
- PZU Ukraine	-	11 141
Total goodwill	**8 381**	**19 631**

Changes in goodwill	1 January – 31 December 2010	1 January – 31 December 2009
Gross value of goodwill – opening balance	19 631	20 216
Changes due to exchange differences	404	(585)
Gross value of goodwill – closing balance	20 035	19 631
Impairment losses opening balance	-	-
Changes in impairment losses	(11 654)	-
- in the current period	(11 654)	-
Impairment losses closing balance	(11 654)	-
Net value of goodwill – closing balance	**8 381**	**19 631**

Potential impairment of goodwill

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

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

- discount rate – 4.5% for PZU CO and 4.4% for PZU Lietuva, 15.4% for PZU Ukraine;
- period for which financial forecasts were prepared by the Company's management – 1 year for PZU CO, 3 years for PZU Lietuva and 4 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;

The maximum discount rates which do not result in a surplus of the carrying amount of investments over their recoverable amount are 9.4% for PZU CO, 24% for PZU Lietuva and 13.8% for PZU Ukraine.

For PZU Ukraine, the impairment value test carried out for the purpose of these financial statements identified evidence of impairment necessitating recognition of an impairment loss for the full goodwill of PZU Ukraine.

11. Property, plant and equipment

Changes in property, plant and equipment in the year ended 31 December 2010

	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	674 078	110 698	39 544	1 178 465	131 039	2 133 824
Increases (due to):	43 196	6 570	66 930	105 291	23 912	245 899
- purchase	15 738	2 194	66 930	23 578	1 355	109 795
- modernization and improvements	1 011	16	-	25 550	1	26 578
- reclassification from investment property	-	-	-	30 185	-	30 185
- reclassification from assets under construction	24 692	4 360	-	25 831	20 506	75 389
- other	1 755	-	-	147	2 050	3 952
Decreases (due to):	(40 716)	(22 233)	(77 086)	(119 858)	(10 986)	(270 879)
- sale	(685)	(22 177)	(20)	(804)	(313)	(23 999)
- liquidation	(38 669)	(56)	(10)	(7 886)	(9 616)	(56 237)
- reclassification to investment property	-	-	(5)	(87 296)	-	(87 301)
- reclassification from assets under construction	-	-	(75 389)	-	-	(75 389)
- other	(1 362)	-	(1 662)	(23 872)	(1 057)	(27 953)
Exchange differences	(23)	84	-	(112)	20	(31)
Gross value of property, plant and equipment – closing balance	**676 535**	**95 119**	**29 388**	**1 163 786**	**143 985**	**2 108 813**
Accumulated depreciation – opening balance	(588 818)	(58 109)	-	(258 482)	(110 414)	(1 015 823)
Changes (due to):	(11 517)	4 710	-	(31 425)	1 190	(37 042)
- depreciation for the period	(51 734)	(16 444)	-	(42 320)	(8 979)	(119 477)
- sale	671	21 151	-	403	312	22 537
- liquidation	38 463	33	-	2 990	8 835	50 321
- reclassification to investment property	-	-	-	12 015	-	12 015
- exchange differences	40	(30)	-	5	8	23
- other	1 043	-	-	(4 518)	1 014	(2 461)
Accumulated depreciation – closing balance	**(600 335)**	**(53 399)**	**-**	**(289 907)**	**(109 224)**	**(1 052 865)**
Impairment losses – opening balance	(1 746)	-	(8 625)	(63 819)	-	(74 190)
Changes recognized in the financial profit/loss, including in:	-	-	(1 319)	1 890	-	571
- other operating expenses	-	-	(1 319)	(1 733)	-	(3 052)
- other operating revenue	-	-	-	3 623	-	3 623
Other changes	-	-	-	8 082	-	8 082
- exchange difference	-	-	-	9	-	9
- reclassification to investment property	-	-	-	8 073	-	8 073
Impairment losses – closing balance	**(1 746)**	**-**	**(9 944)**	**(53 847)**	**-**	**(65 537)**
Net value of property, plant and equipment – closing balance	**74 454**	**41 720**	**19 444**	**820 032**	**34 761**	**990 411**

Changes in property, plant and equipment in the year ended 31 December 2009

	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**

12. Investment property

Investment property (by type)	**31 December 2010**	**31 December 2009**
Own land	196 666	171 748
Land perpetual usufruct right	32 878	31 611
Buildings and structures	206 015	142 996
Cooperative ownership of premises	5 455	197
Total investment property	**441 014**	**346 552**

Changes in investment property	1 January – 31 December 2009	1 January – 31 December 2009
Net book value – opening balance	346 552	282 678
Increases (due to)	68 542	14 223
- purchase	1 329	-
- capitalized modernization and improvements	-	2 753
- reclassification from real property used for internal purposes	67 208	5 661
- reclassification from construction investments	5	5 443
- other	-	366
Decreases (due to)	(36 275)	(372)
- sale and liquidation	(792)	(372)
- reclassification to real property used for internal purposes	(30 185)	-
Net gain (loss) on remeasurement at fair value	(5 298)	50 023
- recognized in the financial profit/loss	62 233	30 512
- recognized directly in equity	(573)	19 511
Net book value – closing balance	62 806	**346 552**

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 (valuation of 44% of the carrying amount of investment property as at 31 December 2009 was performed in January 2010).

13. Financial assets

In 2010 and in 2009, 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 2010			31 December 2009		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**20 305 758**	**20 305 758**	**20 418 147**	**23 327 568**	**23 327 568**	**23 109 959**
Debt securities	20 305 758	20 305 758	20 418 147	23 327 568	23 327 568	23 109 959
Government securities	19 687 560	19 687 560	19 786 803	22 724 017	22 724 017	22 469 200
Fixed rate	19 687 560	19 687 560	19 786 803	22 407 507	22 407 507	22 152 596
Floating rate	-	-	-	316 510	316 510	316 604
Other securities	618 198	618 198	631 344	603 551	603 551	640 759
- listed on a regulated market	445 700	445 700	460 631	428 328	428 328	452 914
Fixed rate	445 700	445 700	460 631	428 328	428 328	452 914
- not listed on a regulated market	172 498	172 498	170 713	175 223	175 223	187 845
Fixed rate	54 718	54 718	54 718	79 998	79 998	81 011
Floating rate	117 780	117 780	115 995	95 225	95 225	106 834
Total financial instruments held to maturity	**20 305 758**	**20 305 758**	**20 418 147**	**23 327 568**	**23 327 568**	**23 109 959**

Financial instruments held to maturity	31 December 2010	31 December 2009
Short-term	1 858 674	4 353 068
Long-term	18 447 084	18 974 500
Total financial instruments held to maturity	**20 305 758**	**23 327 568**

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2010	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	**1 858 674**	**1 538 384**	**6 199 454**	**970 944**	**2 388 035**	**7 350 267**	**20 305 758**
Government securities	1 363 049	1 538 384	6 199 454	970 944	2 388 035	7 227 694	19 687 560
- fixed rate	1 363 049	1 538 384	6 199 454	970 944	2 388 035	7 227 694	19 687 560
- floating rate	495 625	-	-	-	-	122 573	618 198
Other	440 907	-	-	-	-	4 793	445 700
- listed on a regulated market	440 907	-	-	-	-	4 793	445 700
- fixed rate	54 718	-	-	-	-	117 780	172 498
- unlisted	54 718	-	-	-	-	-	54 718
- fixed rate	-	-	-	-	-	117 780	117 780
Total	**1 858 674**	**1 538 384**	**6 199 454**	**970 944**	**2 388 035**	**7 350 267**	**20 305 758**

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**

Financial instruments held to maturity	31 December 2010				31 December 2009			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Debt securities	**20 034 449**	**206 835**	**64 474**	**20 305 758**	**23 129 298**	**165 129**	**33 141**	**23 327 568**
Government securities	19 488 282	134 804	64 474	19 687 560	22 616 168	81 548	26 301	22 724 017
- fixed rate	19 488 282	134 804	64 474	19 687 560	22 299 658	81 548	26 301	22 407 507
- floating rate	-	-	-	-	316 510	-	-	316 510
Other	546 167	72 031	-	618 198	513 130	83 581	6 840	603 551
- listed on a regulated market	440 907	4 793	-	445 700	407 849	13 639	6 840	428 328
- fixed rate	440 907	4 793	-	445 700	407 849	13 639	6 840	428 328
- unlisted	105 260	67 238	-	172 498	105 281	69 942	-	175 223
- fixed rate	54 718	-	-	54 718	79 998	-	-	79 998
- floating rate	50 542	67 238	-	117 780	25 283	69 942	-	95 225
Total	**20 034 449**	**206 835**	**64 474**	**20 305 758**	**23 129 298**	**165 129**	**33 141**	**23 327 568**

13.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2010 Carrying amount	Amortized cost	Fair value	31 December 2009 Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**8 492 528**	**n/a**	**8 597 955**	**9 926 704**	**n/a**	**10 025 927**
Equity instruments	1 309 060	n/a	1 414 487	1 324 807	n/a	1 424 030
- listed on a regulated market*	868 899	n/a	974 326	909 525	n/a	1 008 748
- not listed on a regulated market	440 161	n/a	440 161	415 282	n/a	415 282
Debt securities	7 183 468	7 197 769	7 183 468	8 601 897	7 137 188	8 601 897
Government securities	7 052 769	7 064 542	7 052 769	8 537 465	7 071 598	8 537 465
- fixed rate	7 027 713	7 039 399	7 027 713	8 208 297	6 741 438	8 208 297
- floating rate	25 056	25 143	25 056	329 168	330 160	329 168
Other securities	130 699	133 227	130 699	64 432	65 590	64 432
- listed on a regulated market	39 425	39 014	39 425	15 067	15 137	15 067
- Fixed rate	24 346	23 885	24 346	-	-	-
- Floating rate	15 079	15 129	15 079	15 067	15 137	15 067
- not listed on a regulated market	91 274	94 213	91 274	49 365	50 453	49 365
- floating rate	91 274	94 213	91 274	49 365	50 453	49 365
Instruments for which fair value may not be determined	**130 554**	**n/a**	**n/a**	**101 141**	**n/a**	**n/a**
Equity instruments	130 554	n/a	n/a	101 141	n/a	n/a
- not listed on a regulated market**	130 554	n/a	n/a	101 141	n/a	n/a
Total	**8 623 082**	**n/a**	**n/a**	**10 027 845**	**n/a**	**n/a**

* the item includes shares in a subsidiary not included in consolidation, whose carrying amount equaled PLN 42,952 thousand as at 31 December 2010 and 31 December 2009, and the fair value was PLN 148,379 thousand and PLN 142,175 thousand, respectively, as at 31 December 2010 and 31 December 2009.

**the item includes shares in controlled entities not included in consolidation, presented (along with key financial data) in point 2.2., whose carrying amount equaled PLN 127,313 thousand as at 31 December 2010 (PLN 98,001 thousand as at 31 December 2009).

As at 31 December 2010 and 31 December 2009 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 2008	31 December 2009
Short-term	1 586 329	1 973 688
Long-term	7 036 753	8 054 157
Total financial instruments available for sale	**8 623 082**	**10 027 845**

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 2010	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	**1 081 098**	**2 123 478**	**1 364 239**	**426 540**	**1 098 851**	**1 089 262**	**7 183 468**
Government securities	1 066 019	2 123 478	1 320 551	426 540	1 098 851	1 017 330	7 052 769
- fixed rate	1 066 019	2 123 478	1 320 551	426 540	1 098 851	992 274	7 027 713
- floating rate	-	-	-	-	-	25 056	25 056
Other	15 079	-	43 688	-	-	71 932	130 699
- listed on a regulated market	15 079	-	-	-	-	24 346	39 425
- floating rate	-	-	-	-	-	24 346	24 346
- unlisted	15 079	-	-	-	-	-	15 079
- fixed rate	-	-	43 688	-	-	47 586	91 274
- floating rate	-	-	43 688	-	-	47 586	91 274
Total	**1 081 098**	**2 123 478**	**1 364 239**	**426 540**	**1 098 851**	**1 089 262**	**7 183 468**

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**

Financial instruments available for sale	**31 December 2010**						**31 December 2009**					
	PLN	**USD**	**EUR**	**LTL**	**UAH**	**Total**	**PLN**	**USD**	**EUR**	**LTL**	**UAH**	**Total**
Equity instruments	**1 367 912**	**80**	**90**	**40 235**	**31 297**	**1 439 614**	**1 376 065**	**70**	**79**	**40 235**	**9 499**	**1 425 948**
- listed on a regulated market	868 899	-	-	-	-	868 899	909 525	-	-	-	-	909 525
- not listed on a regulated market	499 013	80	90	40 235	31 297	570 715	466 540	70	79	40 235	9 499	516 423
Debt securities	**6 816 505**	**-**	**365 015**	**-**	**1 948**	**7 183 468**	**8 159 497**	**-**	**440 550**	**-**	**1 850**	**8 601 897**
Government securities	6 685 806	-	365 015	-	1 948	7 052 769	8 095 065	-	440 550	-	1 850	8 537 465
- fixed rate	6 660 750	-	365 015	-	1 948	7 027 713	7 765 897	-	440 550	-	1 850	8 208 297
- floating rate	25 056	-	-	-	-	25 056	329 168	-	-	-	-	329 168
Other	130 699	-	-	-	-	130 699	64 432	-	-	-	-	64 432
- listed on a regulated market	39 425	-	-	-	-	39 425	15 067	-	-	-	-	15 067
- fixed rate	24 346	-	-	-	-	24 346	-	-	-	-	-	-
- floating rate	15 079	-	-	-	-	15 079	15 067	-	-	-	-	15 067
- unlisted	91 274	-	-	-	-	91 274	49 365	-	-	-	-	49 365
- floating rate	91 274	-	-	-	-	91 274	49 365	-	-	-	-	49 365
Total	**8 184 417**	**80**	**365 105**	**40 235**	**33 245**	**8 623 082**	**9 535 562**	**70**	**440 629**	**40 235**	**11 349**	**10 027 845**

13.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2010 and 31 December 2009, 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 2010**	**31 December 2009**
Instruments for which fair value may be determined	**6 373 065**	**5 498 886**
Equity instruments	456 181	340 009
- listed on a regulated market	19 060	6 887
- not listed on a regulated market	437 121	333 122
Debt instruments	5 916 884	5 158 877
Government instruments	5 786 065	5 094 085
- Fixed rate	5 677 640	4 852 891
- Floating rate	108 425	241 194
Other instruments	130 819	64 792
- listed on a regulated market	39 545	15 427
- Fixed rate	24 466	288
- Floating rate	15 079	15 139
- not listed on a regulated market	91 274	49 365
- Floating rate	91 274	49 365
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**6 373 065**	**5 498 886**

Financial instruments measured at fair value through profit or loss – held for trading	**31 December 2010**	**31 December 2009**
Instruments for which fair value may be determined	**5 745 187**	**4 714 745**
Equity instruments	3 845 937	3 001 885
- listed on a regulated market	2 195 887	1 795 234
- not listed on a regulated market	1 650 050	1 206 651
Debt securities	1 794 049	1 699 137
- Government securities	1 765 125	1 649 374
- Fixed rate	1 622 191	1 641 849
- Floating rate	142 934	7 525
- Other securities	28 924	49 763
- listed on a regulated market	5 131	7 683
- Fixed rate	5 131	7 683
- Floating rate	23 793	42 080
- not listed on a regulated market	-	2 952
- Floating rate	23 793	39 128
Other, including:	105 201	13 723
- derivatives	105 201	13 723
Total financial instruments measured at fair value through profit or loss – held for trading	**5 745 187**	**4 714 745**

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**31 December 2010**	**31 December 2009**
Short-term	1 476 181	1 205 862
Long-term	4 896 884	4 293 024
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**6 373 065**	**5 498 886**

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.

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 2010	**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	**1 039 060**	**1 790 780**	**1 054 884**	**430 556**	**717 830**	**883 774**	**5 916 884**
Government securities	1 023 981	1 790 780	1 011 196	430 556	717 830	811 722	5 786 065
- fixed rate	1 023 981	1 790 780	1 011 196	430 556	717 830	703 297	5 677 640
- floating rate	-	-	-	-	-	108 425	108 425
Other	15 079	-	43 688	-	-	72 052	130 819
- listed on a regulated market	15 079	-	-	-	-	24 466	39 545
- fixed rate	-	-	-	-	-	24 466	24 466
- floating rate	15 079	-	-	-	-	-	15 079
- unlisted	-	-	43 688	-	-	47 586	91 274
- floating rate	-	-	43 688	-	-	47 586	91 274
Total	**1 039 060**	**1 790 780**	**1 054 884**	**430 556**	**717 830**	**883 774**	**5 916 884**

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 – held for trading – by redemption date as at 31 December 2010	**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	**218 993**	**437 396**	**349 889**	**133 760**	**150 337**	**503 674**	**1 794 049**
Government securities	218 993	437 396	349 889	128 629	150 337	479 881	1 765 125
- fixed rate	213 932	437 396	349 889	128 629	150 337	342 008	1 622 191
- floating rate	5 061	-	-	-	-	137 873	142 934
Other	-	-	-	5 131	-	23 793	28 924
- listed on a regulated market	-	-	-	5 131	-	-	5 131
- fixed rate	-	-	-	5 131	-	-	5 131
- unlisted	-	-	-	-	-	23 793	23 793
- floating rate	-	-	-	-	-	23 793	23 793
Total	**218 993**	**437 396**	**349 889**	**133 760**	**150 337**	**503 674**	**1 794 049**

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
- floating rate	1 500	6 952	5 946	700	1 000	25 982	42 080
- unlisted	-	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**

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2010				December 2009				
	PLN	EUR	Other	Total	PLN	EUR	LTL	Other	Total
Equity instruments	**437 121**	**17 818**	**1 242**	**456 181**	**333 122**	**3 686**	**3 049**	**152**	**340 009**
- listed on a regulated market	-	17 818	1 242	19 060	-	3 686	3 049	152	6 887
- not listed on a regulated market	437 121	-	-	437 121	333 122	-	-	-	333 122
Debt securities	**5 916 449**	**435**	**-**	**5 916 884**	**5 157 999**	**878**	**-**	**-**	**5 158 877**
Government securities	5 785 750	315	-	5 786 065	5 093 495	590	-	-	5 094 085
- fixed rate	5 677 325	315	-	5 677 640	4 852 301	590	-	-	4 852 891
- floating rate	108 425	-	-	108 425	241 194	-	-	-	241 194
Other	130 699	120	-	130 819	64 504	288	-	-	64 792
- listed on a regulated market	39 425	120	-	39 545	15 139	288	-	-	15 427
- fixed rate	24 346	120	-	24 466	-	288	-	-	288
- floating rate	15 079	-	-	15 079	15 139	-	-	-	15 139
- unlisted	91 274	-	-	91 274	49 365	-	-	-	49 365
- floating rate	91 274	-	-	91 274	49 365	-	-	-	49 365
Total	**6 353 570**	**18 253**	**1 242**	**6 373 065**	**5 491 121**	**4 564**	**3 049**	**152**	**5 498 886**

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2010					31 December 2009			
	PLN	USD	EUR	Other	Total	PLN	USD	EUR	Other
Equity instruments	**3 711 564**	**74 303**	**60 070**	**-**	**3 845 937**	**2 900 906**	**52 971**	**48 008**	**3 001 885**
- listed on a regulated market	2 165 455	30 432	-	-	2 195 887	1 789 350	4 903	981	1 795 234
- not listed on a regulated market	1 546 109	43 871	60 070	-	1 650 050	1 111 556	48 068	47 027	1 206 651
Debt securities	**1 794 049**	**-**	**-**	**-**	**1 794 049**	**1 699 137**	**-**	**-**	**1 699 137**
Government securities	1 765 125	-	-	-	1 765 125	1 649 374	-	-	1 649 374
- fixed rate	1 622 191	-	-	-	1 622 191	1 641 849	-	-	1 641 849
- floating rate	142 934	-	-	-	142 934	7 525	-	-	7 525
Other	28 924	-	-	-	28 924	49 763	-	-	49 763
- listed on a regulated market	5 131	-	-	-	5 131	7 683	-	-	7 683
- fixed rate	5 131	-	-	-	5 131	7 683	-	-	7 683
- unlisted	23 793	-	-	-	23 793	42 080	-	-	42 080
- fixed rate	-	-	-	-	-	2 952	-	-	2 952
- floating rate	23 793	-	-	-	23 793	39 128	-	-	39 128
Other, including:	**31 869**	**-**	**1 066**	**72 266**	**105 201**	**11 665**	**-**	**2 058**	**13 723**
- derivatives	31 869	-	1 066	72 266	105 201	11 665	-	2 058	13 723
Total	**5 537 482**	**74 303**	**61 136**	**72 266**	**5 745 187**	**4 611 708**	**52 971**	**50 066**	**4 714 745**

13.4 Loans

Loans	31 December 2010	31 December 2009
Short-term	4 006 814	4 406 323
Long-term	291 126	262 226
Total	**4 297 940**	**4 668 549**

Loans as at 31 December 2010	Carrying amount by maturity date			
	up to 1 year	over 1 year and up to 2 years	over 3 years and up to 4 years	Total
Debt securities	**-**	**-**	**-**	**-**
Other, including:	**4 006 814**	**55 267**	**235 859**	**4 297 940**
- reverse repo transactions	1 374 939	-	-	1 374 939
- term deposits with credit institutions	2 610 291	55 267	235 859	2 901 417
- deposits with ceding undertakings	1 770	-	-	1 770
- loans	19 814	-	-	19 814
Total	**4 006 814**	**55 267**	**235 859**	**4 297 940**

Loans as at 31 December 2009	Carrying amount by maturity date			
	up to 1 year	over 1 year and up to 2 years	over 4 years and up to 5 years	Total
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**

Both as at 31 December 2010 and 31 December 2009 the fair value of loans did not differ substantially from their carrying amount.

Loans as at 31 December 2010	PLN	USD	EUR	LTL	UAH	Total
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
Other, including:	**4 075 707**	**68 348**	**94 204**	**37 301**	**22 380**	**4 297 940**
- reverse repo transactions	1 374 939	-	-	-	-	1 374 939
- term deposits with credit institutions	2 683 736	67 314	93 468	37 301	19 598	2 901 417
- deposits with ceding undertakings	-	1 034	736	-	-	1 770
- loans	17 032	-	-	-	2 782	19 814
Total	**4 075 707**	**68 348**	**94 204**	**37 301**	**22 380**	**4 297 940**

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**

13.5. Fair value

13.5.1. Fair value classification

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

- Level I – Financial instruments measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
  - listed liquid debt securities;
  - listed shares;
  - listed derivatives.
- Level II – financial instruments measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market. The level includes:
  - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);
  - other than listed derivatives;
  - investment fund units.
- Level III – financial instruments measured based on input data unobserved on the existing markets (unobservable input data). The level comprises among others shares and stock of unlisted subsidiaries and associates not included in consolidation and all assets held by PZU Ukraine.

Assets and Financial liabilities measured at fair value as at 31 December 2010	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale				
Equity instruments	7 919 721	570 859	132 502	8 623 082
Debt securities	868 899	440 161	130 554	1 439 614
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	7 050 822	130 698	1 948	7 183 468
Equity instruments	5 844 671	528 394	-	6 373 065
Debt securities	19 060	437 121	-	456 181
Financial instruments measured at fair value held for trading	5 825 611	91 273	-	5 916 884
Equity instruments	3 966 385	1 778 802	-	5 745 187
Debt securities	2 195 887	1 650 050	-	3 845 937
Derivatives	1 770 256	23 793	-	1 794 049
Financial liabilities	242	104 959	-	105 201
Liabilities measured at fair value				
Derivatives	492	11 238	-	11 730

Assets and Financial liabilities measured at fair value as at 31 December 2009	**Level I**	**Level II**	**Level III**	**Total**
Assets	9 445 140	479 714	102 991	10 027 845
Financial instruments available for sale	909 525	415 282	101 141	1 425 948
Equity instruments	8 535 615	64 432	1 850	8 601 897
Debt securities	5 116 399	382 487	-	5 498 886
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	6 887	333 122	-	340 009
Equity instruments	5 109 512	49 365	-	5 158 877
Debt securities	3 453 613	1 261 132	-	4 714 745
Financial instruments measured at fair value held for trading	1 795 234	1 206 651	-	3 001 885
Equity instruments	1 657 057	42 080	-	1 699 137
Debt securities	1 322	12 401	-	13 723
Derivatives				
Financial liabilities	351	3 669	-	4 020
Liabilities measured at fair value	351	3 182	-	3 533
Derivatives	-	487	-	487

13.5.2. Reclassifications between Levels I and II

In the financial year ended 31 December 2010 no reclassifications between Levels I and II material from viewpoint of the financial profit/loss and total assets and liabilities took place.

13.5.3. Change in the balance of financial assets classified to Level III of the fair value hierarchy

Change in the balance of financial assets classified to Level III of the fair value hierarchy	**1 January - 31 December 2010**	**1 January - 31 December 2009**
Opening balance	102 991	108 001
Gains or losses recognized in the income statement for the period	103	110
- regarding assets held as at the end of the reporting period recognized in:	103	110
- net investment income	103	110
sales	(5)	(16 431)
Acquisition of newly issued assets	29 296	11 314
Exchange differences from translation	117	(3)
Closing balance	**132 502**	**102 991**

14. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	**31 December 2010**	**31 December 2009**
Receivables from direct insurance, including:	1 137 466	1 073 599
- receivables from policyholders	1 025 741	1 011 631
- receivables from insurance intermediaries	55 462	51 616
- other receivables	56 263	10 352
Receivables from reinsurance	122 215	26 334
Other receivables	337 868	284 045
Net receivables, including under insurance contracts	**1 597 549**	**1 383 978**

Both as at 31 December 2010 and 31 December 2009 the fair value of receivables did not differ substantially from their carrying amount.

Receivables, including under insurance contracts – by contractual maturity	**31 December 2010**	**31 December 2009**
Up to 1 year	1 556 250	1 324 056
Over 1 year and up to 5 years	35 028	48 309
Over 5 years	6 271	11 613
Receivables, including under insurance contracts – by contractual maturity	**1 597 549**	1 383 978

14.1 Other receivables

Other receivables	31 December 2010	31 December 2009
Receivables from the State Budget, other than due to income tax	804	764
Receivables from Metro Projekt sp. z o.o. claimed at court	92 439	89 831
Receivables relating to prevention activities	36 155	24 593
Advance payments	1 402	2 959
Receivables from OFE PZU	4 872	8 320
Receivables from loss adjusting services	23 575	41 568
Receivables of life insurance capital funds	30 510	8 053
Receivables of Open-Ended Investment Funds managed by TFI PZU	-	4 593
Receivables from disposal of securities	131 808	93 537
Other	16 303	9 827
Other receivables	**337 868**	**284 045**

14.2 Receivables due to operating leases

Operating leases concern mainly property lease agreements.

Future minimum receivables from lease payments	31 December 2010	31 December 2009
Up to 1 year	13 808	15 178
Over 1 year and up to 5 years	22 269	19 428
Over 5 years	1 188	118
Future minimum receivables from lease payments	**37 265**	**34 724**

15. Reinsurers’ share in technical provisions

Reinsurers’ share in technical provisions – property and personal insurance	31 December 2010	31 December 2009
Provision for unearned premiums	75 230	75 096
Provision for unexpired risks	89	-
Provisions for claims outstanding, including:	336 023	191 210
- for claims reported	270 855	156 106
- for claims incurred but not reported (IBNR)	52 650	19 056
- for claims handling costs	12 518	16 048
Provision for capitalized value of annuity claims	360 508	482 007
Reinsurers’ share in technical provisions (net)	**771 850**	**748 313**

Reinsurers’ share in technical provisions - property and personal insurance	31 December 2010	31 December 2009
Short-term	199 926	259 293
Long-term	571 924	489 020
Total	**771 850**	**748 313**

16. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2010	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (not recognized in the income statement)	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Financial assets available for sale	303 779	17 737	-	(24 674)	77	-	296 919
- equity instruments	303 779	17 737	-	(24 674)	77	-	296 919
Loans	19 124	-	(375)	(423)	(5)	-	18 321
Loans	19 124	-	(375)	(423)	(5)	-	18 321
Receivables, including under insurance contracts	432 507	102 998	(28 313)	(415)	177	705	507 659
Receivables from direct insurance	347 079	80 797	(5 722)	(78)	179	1 005	423 260
Receivables from reinsurance	17 824	18 543	(17 593)	(224)	(6)	-	18 544
Other receivables	67 604	3 658	(4 998)	(113)	4	(300)	65 855
Reinsurers' share in technical provisions	30 370	12 918	(6 916)	-	-	-	36 372
Total	**785 780**	**133 653**	**(35 604)**	**(25 512)**	**249**	**705**	**859 271**

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)	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**

Credit quality of financial assets as at 31 December 2010	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity	**-**	**20 305 758**	**-**	**-**	**-**	**20 305 758**	**-**	**-**	**20 305 758**
Debt securities	-	20 305 758	-	-	-	20 305 758	-	-	20 305 758
Financial assets available for sale	**110 195**	**7 959 874**	**-**	**-**	**-**	**8 070 069**	**26 566**	**-**	**8 096 635**
Debt securities	-	7 183 468	-	-	-	7 183 468	-	-	7 183 468
Investment fund units	110 195	776 406	-	-	-	886 601	26 566	-	913 167
Loans	**-**	**4 297 940**	**-**	**-**	**-**	**4 297 940**	**18 321**	**-**	**4 316 261**
Reverse repo transactions	-	1 374 939	-	-	-	1 374 939	-	-	1 374 939
Term deposits with credit institutions	-	2 901 417	-	-	-	2 901 417	-	-	2 901 417
Deposits with ceding undertakings	-	1 770	-	-	-	1 770	-	-	1 770
Loans	-	19 814	-	-	-	19 814	18 321	-	38 135
Receivables, including under insurance contracts	**58 270**	**1 325 890**	**56 839**	**19 290**	**137 260**	**1 597 549**	**114 208**	**393 451**	**2 105 208**
Receivables from direct insurance	35 852	989 387	51 825	18 468	41 934	1 137 466	31 276	391 984	1 560 726
Receivables from reinsurance	10 218	111 997	-	-	-	122 215	18 544	-	140 759
Other receivables	12 200	224 506	5 014	822	95 326*	337 868	64 388	1 467	403 723
Reinsurers' share in technical provisions	**90 221**	**681 629**	**-**	**-**	**-**	**771 850**	**36 372**	**-**	**808 222**
Total	**258 686**	**34 571 091**	**56 839**	**19 290**	**137 260**	**35 043 166**	**195 467**	**393 451**	**35 632 084**

* including PLN 92,439 thousand due to a mortgage loan extended to Metro-Projekt Sp. z o.o.

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	over 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity	**-**	**23 327 568**	**-**	**-**	**-**	**23 327 568**	**-**	**-**	**23 327 568**
Debt securities	-	23 327 568	-	-	-	23 327 568	-	-	23 327 568
Financial assets available for sale	**93 300**	**9 262 885**	**-**	**-**	**-**	**9 356 185**	**26 566**	**-**	**9 382 751**
Debt securities	-	8 601 897	-	-	-	8 601 897	-	-	8 601 897
Investment fund units	93 300	660 988	-	-	-	754 288	26 566	-	780 854
Loans	**-**	**4 668 549**	**-**	**-**	**-**	**4 668 549**	**19 124**	**-**	**4 687 673**
Reverse repo transactions	-	345 789	-	-	-	345 789	-	-	345 789
Term deposits with credit institutions	-	4 297 184	-	-	-	4 297 184	-	-	4 297 184
Deposits with ceding undertakings	-	1 542	-	-	-	1 542	-	-	1 542
Loans	-	24 034	-	-	-	24 034	19 124	-	43 158
Receivables, including under insurance contracts	**25 217**	**1 159 259**	**48 248**	**21 210**	**130 044**	**1 383 978**	**113 779**	**318 728**	**1 816 485**
Receivables from direct insurance	12 984	955 314	46 968	20 825	37 508	1 073 599	29 257	317 822	1 420 678
Receivables from reinsurance	7 441	18 893	-	-	-	26 334	17 824	-	44 158
Other receivables	4 792	185 052	1 280	385	92 536*	284 045	66 698	906	351 649
Reinsurers' share in technical provisions	**38 993**	**709 320**	**-**	**-**	**-**	**748 313**	**30 370**	**-**	**778 683**
Total	**157 510**	**39 127 581**	**48 248**	**21 210**	**130 044**	**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.

Impairment losses are not recognized for classes of equity instruments.

17. Estimated recoveries and recourses

Estimated recoveries and recourses	31 December 2010	31 December 2009
Estimated recourses	76 965	79 934
Estimated recoveries	847	2 396
Estimated subsidies	**77 812**	-
Total	76 965	**82 330**

Estimated recoveries and recourses	31 December 2010	31 December 2009
Short-term	47 638	50 929
Long-term	30 174	31 401
Total	**77 812**	**82 330**

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 2010	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Exchange differences	Total changes	Closing balance
Real property	(1 940)	625	65	3	693	(1 247)
Deferred acquisition costs relating to OFE PZU	(1 569)	(904)	(134)	-	(1 038)	(2 607)
Provisions for jubilee bonuses, retirement severance pay etc.	349	(35)	-	-	(35)	314
Provision for bonuses and appropriation to the bonus fund	528	(26)	-	-	(26)	502
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	63	(25)	-	-	(25)	38
Other provisions and accruals	2 532	(485)	-	28	(457)	2 075
Tax losses to be used in future periods	22 524	(6 765)	-	-	(6 765)	15 759
Provision for PTE’s reimbursement of undue handling fees to the Social Insurance Institution	2 443	(632)	-	-	(632)	1 811
Other differences	(17)	19	-	(2)	17	-
Total deferred tax asset	**24 913**	**(8 228)**	**(69)**	**29**	**(8 268)**	**16 645**

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)	-	(1 591)	(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**

Deductible temporary differences relating to measurement of shares in non-consolidated entities of the PZU Group for which no deferred tax asset was recognized amounted to PLN 44,240 thousand as at 31 December 2010 (PLN 11,469 thousand as at 31 December 2009).

Unrecognized deferred tax asset (not disclosed in the statement of financial position)	**31 December 2010**	**31 December 2009**
Resulting from a tax loss in line with the use period specified in applicable regulations (including):	62 561	55 499
b) over 1 year and up to 5 years	62 561	-
d) period not specified in the applicable regulations	**62 561**	55 499
Total	62 561	**55 499**

Unrecognized deferred tax assets are related to tax losses incurred by PZU Lietuva that can be realized in subsequent periods.

19. Current income tax receivables

Current income tax receivables	**31 December 2010**	**31 December 2009**
Short-term	9 958	87 599
Long-term	-	-
Total current income tax receivables	**9 958**	**87 599**

20. Deferred acquisition costs

Deferred acquisition costs	**31 December 2010**	**31 December 2009**
Short-term	432 583	404 455
Long-term	70 232	76 684
Total	**502 815**	**481 139**

20.1 Deferred acquisition costs – property and personal insurance

Changes in deferred acquisition costs in property and personal insurance	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Net value – opening balance	404 455	368 605
Deferred acquisition costs	451 807	439 503
Amortization for the period, including:	(423 345)	(403 838)
- charged to the financial profit/loss	(423 345)	(403 838)
Other changes	(334)	185
- exchange differences	(334)	185
Net value – closing balance	**432 583**	**404 455**

20.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Net value – opening balance	76 684	85 593
Deferred acquisition costs	-	-
Amortization for the period, including:	(6 452)	(8 909)
- charged to the financial profit/loss	(6 452)	(8 909)
Net value – closing balance	**70 232**	**76 684**

21. Prepayments

Prepayments	31 December 2010	31 December 2009
IT expenses	4 536	3 338
Deferred acquisition costs relating to OFE PZU	45 829	38 154
Prepayments relating to reinsurance	132 776	164 228
Settlements of payments to the National Health Fund	37 951	-
Commissions on prepaid premiums	11 048	37 140
Other	**232 140**	10 084
Total	4 536	**252 944**

Prepayments	31 December 2010	31 December 2009
Short-term	224 514	243 384
Long-term	7 626	9 560
Total	**232 140**	**252 944**

22. Other assets

Other assets	31 December 2010	31 December 2009
Inventories, including:	4 654	12 099
- materials	4 325	11 709
- claim recoveries	329	390
Other assets:	2 801	3 682
Total	**7 455**	**15 781**

Other assets	31 December 2010	31 December 2009
Short-term	7 455	15 781
Long-term	-	-
Total	**7 455**	**15 781**

Inventories

Inventories (other information)	31 December 2010	31 December 2009
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	329	390

In 2010 and 2009 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 2010	31 December 2009
Cash in hand and at bank	417 087	361 455
Other cash	6 616	5 101
Total	**423 703**	**366 556**

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

24.1 Share capital

As at 31 December 2010

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference		11 608	11 608	cash	23.01.1997	27.12.1991
A	bearer's	non-preference		60 434 712	60 434 712	cash	23.01.1997	27.12.1991
B	bearer's	non-preference		25 905 980	25 905 980	contribution in kind	31.03.1999	01.01.1999
Total number of shares				86 352 300				
Total share capital					**86 352 300**			

As at 31 December 2009

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

24.1.1. Shareholders of PZU

As at 31 December 2010

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	39 020 483	45,1875%
2	Other shareholders	47 331 817	54,8125%
Total		**86 352 300**	**86 352 300**

As at 31 December 2009

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	43 338 098	50,1875%
		19 856 968	22,9953%
2	Eureko B.V.*	12 866 492	14,9000%
3	Kappa SA	10 290 742	11,9172%
3	Other shareholders	**86 352 300**	**100,0000%**
Total		**86 352 300**	43 338 098

* without 4,060 shares not recorded in the PZU Book of Shares following objections of their former holders. If the number of protested shares is included, Eureko B.V. held 19,861,028 shares giving the title to 22.9999% of the share capital and the total number of votes at GSM.

24.1.2. Transactions involving significant packages of PZU shares

In the period from 1 January 2010 to the date of these financial statements, significant changes in the ownership structure of material share packages of PZU have occurred.

The changes resulting from the IPO involved:

- reduction of the number of PZU shares held by the State Treasury from 43,338,098 to 39,020,483 and decrease of the Treasury interest in the share capital and general number of votes at GSM from 50.1875%% to 45.1875%;

- reduction in the number of PZU shares held by Eureko BV from 19,861,028 to 11,225,798 (including 3,020 shares, with Eureko BV not recorded in the PZU book of shares due to objections of their former holders, the „protested shares") and reduction in the interest of Eureko BV in the share capital from 22.9999 % to 12.9999 % and in the general number of votes at GSM from 22.9953 % to 12.9965 % (not including the above 3,020 shares);
- reduction of the number of PZU shares held by Kappa SA from 12,866,492 to zero and decrease of its interest in the share capital and general number of votes at GSM from 14.8999% % to 0%.

Additionally, on 23 November 2010, following settlement of package transactions concluded after the accelerated construction of the demand book regarding 11,223,818 shares held by Eureko BV, its share in the total number of votes at the GSM neared zero.

Immediately after settlement of the transaction, Eureko BV held 1,980 protested shares not giving title to exercise of votes at GSM due to protests of former holders. Following withdrawal of the protests at the end of 2010, Eureko B.V. was entered to the PZU Book of Shares with 480 shares on 31 December 2010 and with 1,500 shares on 10 January 2011.

24.1.3. Highest-level parent company of PZU

As at 31 December 2010 the State Treasury of the Republic of Poland (the "State Treasury") held 45.1875% of PZU shares giving the right to 45.1875% of votes at the Shareholders' Meeting. Therefore, there was no higher-level parent company of PZU drawing up its consolidated financial statements.

24.1.4. Distribution of profit of the parent company

As regards the distributable profit for 2010 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.

24.1.4.1. Distribution of profit for 2009

On 26 March 2010, the Management Board of PZU adopted a resolution concerning the proposed distribution of profit for 2009 of PLN 2,510,380 thousand:

- PLN 1,692,505 thousand to dividends, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below;
- PLN 10,000 thousand to appropriations to the Company's Social Benefits Fund;
- PLN 807,875 thousand to reclassification to the supplementary capital.

Additionally, in the aforementioned resolution the Management Board recommended the amount of PLN 11,999,516 thousand from the reserve capital as payment of dividend, to finance advance payments against expected dividend at the disposal of the Management Board, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below.

As a result of the advance payment towards 2009 dividend on 26 November 2009 of PLN 12,749,917 thousand comprising:

- PLN 750,401 thousand from the net profit for the first half of 2009 recognized in the audited financial statements of PZU prepared as of 30 June 2009;
- PLN 11,999,516 thousand from the reserve capital to finance advance payments towards expected dividend at the disposal of the Management Board,

the dividend still to be paid for the year ended 31 December 2009 was PLN 942,104 thousand, i.e. PLN 10.91 per share.

On 10 June 2010 the General Meeting of Shareholders of PZU adopted a resolution on profit distribution and dividend payment for the year ended 31 December 2009, sanctioning the above recommendation of PZU's Management Board.

The General Shareholders' Meeting decided that the total amount of dividend for the year ended 31 December 2009 would be PLN 13,692,021 thousand, whereas its portion of PLN 12,749,917 thousand was paid on 26 November 2009 against dividend expected at the end of the 2009 financial year. The remaining dividend to be paid is PLN 942,104 thousand, i.e. PLN 10.91 per share. 25 August 2010 was set as the record date and dividend was paid on 9 September 2010.

24.1.4.2. Distribution of profit for 2010

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 2010.

24.2 Revaluation reserve

Revaluation reserve	31 December 2010	31 December 2009
Revaluation of financial instruments available for sale	323 956	323 315
Reclassification of real property from property, plant and equipment to investment property	68 312	17 655
Total	**392 268**	**340 970**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January – 31 December 2010	1 January – 31 December 2009
Opening balance	**323 315**	**138 622**
Changes	641	184 693
- change in fair value	58 586	224 324
- impairment losses	69 671	60 775
- sale	(127 620)	(100 402)
- exchange differences	4	(4)
Closing balance	**323 956**	**323 315**

25. Exchange differences from translation

Exchange differences from translation – controlled entities	1 January – 31 December 2010	1 January – 31 December 2009
Opening balance	(23 416)	(23 279)
Changes relating to subsidiaries	(15 383)	(137)
Closing balance	**(38 799)**	**(23 416)**

26. Technical provisions

26.1 Technical provisions – property and personal insurance

Technical provisions - property and personal insurance	31 December 2010	31 December 2009
Provision for unearned premiums	3 843 313	3 704 128
Provision for unexpired risks	31 917	37 167
Provisions for claims outstanding	4 548 445	3 837 211
Provision for capitalized value of annuity claims	4 862 552	4 874 653
Provisions for bonuses and rebates for the insured	4 731	4 180
Total	**13 290 958**	**12 457 339**

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2010	31 December 2009
Accident and sickness insurance (class 1 and 2)	330 205	317 113
TPL motor insurance (class 10)	8 455 696	8 068 194
Other motor insurance (class 3)	1 609 928	1 506 733
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	95 122	63 656
Insurance against fire and other damage to property (classes 8 and 9)	1 107 633	900 672
TPL insurance (classes 11, 12, 13)	1 261 752	1 266 605
Credit insurance and suretyship (classes 14, 15)	129 765	121 156
Assistance (class 18)	97 934	71 458
Legal protection (class 17)	2 175	2 002
Other (class 16)	200 748	139 750
Total	**13 290 958**	**12 457 339**

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2010	31 December 2009
Accident and sickness insurance (class 1 and 2)	331 120	318 556
TPL motor insurance (class 10)	7 960 420	7 401 141
Other motor insurance (class 3)	1 624 662	1 524 845
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	67 566	53 895
Insurance against fire and other damage to property (classes 8 and 9)	972 167	880 293
TPL insurance (classes 11, 12, 13)	1 252 417	1 246 414
Credit insurance and suretyship (classes 14, 15)	90 352	85 510
Assistance (class 18)	97 779	71 348
Legal protection (class 17)	2 175	2 002
Other (class 16)	120 450	125 022
Total	**12 519 108**	**11 709 026**

Technical provisions - property and personal insurance	31 December 2010	31 December 2009
Short-term	3 301 516	4 185 666
Long-term	9 989 442	8 271 673
Total	**13 290 958**	**12 457 339**

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

26.2 Technical provisions – life insurance

Technical provisions - life insurance	31 December 2010	31 December 2009
Provision for unearned premiums	100 631	105 305
Life insurance provision	14 570 725	14 582 590
Provisions for claims outstanding	608 635	619 253
Provisions for bonuses and rebates for the insured	1 446	891
Other technical provisions	614 692	698 918
Unit-linked reserve	2 296 089	2 017 501
Total	**18 192 218**	**18 024 458**

Technical provisions – life insurance	31 December 2010	31 December 2009
Short-term	4 319 641	3 871 532
Long-term	13 872 577	14 152 926
Total	**18 192 218**	**18 024 458**

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).

26.2.1. 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.

26.2.2. Old life insurance portfolio

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

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

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

	31 December 2010	31 December 2009
Life insurance provisions	500 161	515 442
Other technical provisions	212 325	248 135
IBNR and RBNP* provision	10 796	15 483
Total provisions for the old portfolio	**723 282**	**779 060**

* - 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.

27. Investment contracts

Investment contracts – carrying amount	31 December 2010	31 December 2009
Investment contracts with guaranteed and fixed terms and conditions	2 270 568	2 632 054
- measured at amortized cost	2 270 568	2 631 567
- measured at fair value	-	487
Unit linked investment contracts	1 273 947	1 094 475
Total	**3 544 515**	**3 726 529**

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 2010	31 December 2009
Investment contracts with guaranteed and fixed terms and conditions	2 053 913	2 506 707
Unit-linked investment contracts	1 273 947	1 094 475
Total	**3 327 860**	**3 601 182**

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.

28. Provisions for employee benefits

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

Provisions for employee benefits	31 December 2010	31 December 2009
Post-employment benefits	108 057	105 253
- defined benefit plans	108 057	105 253
- provisions for retirement severance pay	93 252	89 998
- provisions for death benefits	14 805	15 255
Other long-term employee benefits	149 859	155 693
- provisions for jubilee bonuses	119 928	118 443
- other	29 931	37 250
Total	**257 916**	**260 946**

Provisions for employee benefits (by currency)	**31 December 2010**	**31 December 2009**
In PLN	257 916	260 946
In foreign currencies	-	-
Total	**257 916**	**260 946**

Revenue (expenses) recognized in the income statement and related to provisions for employee benefits	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Post-employment benefits	(7 997)	9 509
- defined benefit plans	(7 997)	9 509
- provisions for retirement severance pay	(8 209)	7 577
- provisions for death benefits	212	1 932
Other long-term employee benefits	(9 243)	2 492
- provisions for jubilee bonuses	(8 761)	2 447
- other	(482)	45
Total	**(17 240)**	**12 001**

Provisions for employee benefits	**31 December 2010**	**31 December 2009**
Short-term	13 424	17 353
Long-term	244 492	243 593
Total	**257 916**	**260 946**

28.1 Provisions for retirement severance pay

Change in the balance of provision for retirement severance pay	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Opening balance	89 998	101 183
Cost disclosed in the income statement	8 209	(7 577)
Benefits paid	(4 913)	(3 608)
Other	(42)	-
Closing balance	**93 252**	**89 998**

Revenue and expenses recognized in the income statement and related to provision for retirement severance pay	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Current service cost	(16 033)	(11 536)
Interest expenses	(2 837)	(1 913)
Actuarial (gains) and losses recognized in the current period	10 661	21 026
Total revenue and expenses recognized in the income statement and related to provision for retirement severance pay, including in the following items:	**(8 209)**	**7 577**
Claims and change in measurement of investment contracts	(587)	74
Acquisition costs	(33)	(2 327)
Administrative expenses	(544)	8 399
Claims	(6 486)	1 483
Other operating expenses	(559)	(52)

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).

28.2 Provisions for death benefits

Change in the balance of provision for death benefits	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Opening balance	15 255	17 236
Cost disclosed in the income statement	(212)	(1 932)
Benefits paid	(234)	(49)
Other	(4)	-
Closing balance		**15 255**

Revenue and expenses recognized in the income statement and related to provision for death benefits	1 January – 31 December 2010	1 January – 31 December 2009
Current service cost	(2 717)	(1 801)
Interest expenses	(439)	(284)
Actuarial (gains) and losses recognized in the current period	3 368	4 017
Total revenue and expenses recognized in the income statement and related to provision for death benefits, including in the following items:	**212**	**1 932**
Claims and change in measurement of investment contracts	(664)	3
Acquisition costs	(4)	479
Administrative expenses	(265)	870
Claims	1 243	592
Other operating expenses	(98)	(12)

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.

28.3 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 2010	31 December 2009
Discount rates /1	1,5% - 6,21%	1.0% - 6.0%
Forecast pay rise rates /1	0,0% - 4,5%	0.0% - 4.5%
Mortality rate /2	PTTŻ	PLET
Employee turnover ratio /3	applicable for the company	applicable for the company
Disability rate (entitlement to disability pension) /4	30% - 60%PTTŻ	30% - 60% of PLET

/1 For certain PZU Group companies, discount rates at the level of 1.5% are adopted (1% as at 31 December 2009). 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.

29. Other provisions

Changes in other provisions in the year ended 31 December 2010	Opening balance	Increases	Application	Release	Closing balance
Provisions created for potential liabilities relating to CLSiOR investments	158 763	64 240	(147 750)	-	75 253
Provision for disputed claims and potential liabilities under insurance contracts	916	-	-	-	916
Provision for the Office of Competition and Consumer Protection	24 936	137	(2 400)	(18 212)	4 461
Provision for exit costs of the GraphTalk project	65 176	3 967	-	-	69 143
Provision for the Company's Social Benefits Fund	48 632	764	-	-	49 396
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	12 858	-	(2 773)	(553)	9 532
Other	3 314	672	-	(128)	3 858
Total other provisions	**314 595**	**69 780**	**(152 923)**	**(18 893)**	**212 559**

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**

Other provisions	31 December 2010	31 December 2009
Short-term	181 119	275 887
Long-term	31 440	38 708
Total other provisions	**212 559**	**314 595**

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

On 9 April 2010 the Court of Arbitration served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following an amendment in claim on 31 August 2010, CSC is demanding the total of PLN 38,433 thousand.

The amount sought by CSC includes the claims related to license fees, implementation works, maintenance of the computer system, service works, fee for computer systems, liquidated damages and capitalized interest.

On 31 May 2010 in response to the statement of claim, PZU Życie requested that the Court of Arbitration rule that the court temporarily refuses jurisdiction for some claims and dismissed the entire claims. In the opinion of PZU Życie, the claims of CSC are either unfounded or have not been proven.

PZU Życie also filed a counter claim against CSC, demanding payment of PLN 71,890 thousand as a return of remuneration collected by CSC under the concluded contract or as damages for undue performance of obligations under the concluded contract. In response to the counter claim, on 31 August 2010, CSC motioned dismissal of the entire claim of PZU Życie indicating absence of evidence to accept it.

Additionally, on 21 December 2010, PZU Życie placed a motion regarding amicable settlement related to the amount of PLN 123,326 thousand claimed from CSC as damages arising from non-diligent contractual performance and alternatively refund of the contractual fee paid to CSC in the amount of PLN 71,890 thousand. The court discontinued proceedings regarding call for amicable settlement. The ruling is final.

Provision for restructuring and reorganization expenses

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

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

On 11 March 2010 the Management Boards of PZU and PZU Życie and Trade Unions operating in the companies concluded a lay-off agreement. As agreed, from 26 March to 20 November 2010, the staff restructuring and optimization was carried out as a part of the lay-offs.

The staff restructuring is related among others to centralization of functions which so far have been dispersed throughout several centers located in large Polish cities and higher specialization of hired staff. It mostly affects operations, finance, loss adjustment and the PZU Group network.

In 2010, the change was expected to affect up to 6,655 employees of PZU SA and PZU Życie at the most and involved net reduction, i.e. cutting the number of staff in 2010 in both companies by 2,079 persons.

Termination conditions offered to the dismissed employees or employees who did not accept the offered terms of employment exceeded the scope provided for by the applicable laws (the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees – Journal of Laws No. 90 of 2003, item 844).

The amount of additional redundancy pay depends on the salary of each employee and their time of employment at the PZU Group.

In 2010 the changes affected 6,045 employees, out of which 2,439 were given termination documents.

Dismissed employees have been offered one of the largest outplacement schemes introduced in Poland in 2010.

The total 2010 restructuring costs charged to the provision amounted to PLN 147,750 thousand.

As of 31 December 2010 the provision for restructuring costs amounted to PLN 75,253 thousand (vs. PLN 158,763 thousand as of 31 December 2009), which implied a change in the provision of PLN 83,510 thousand in 2010.

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.

On 31 May 2010 the Court issued a ruling whereby it dismissed the appeal of PZU Życie on the grounds that the decision of the President of UOKiK of 25 October 2007 was not correctly served on PZU Życie and thus the period available to PZU Życie to appeal against the decision did not start. The ruling has been appealed against by both parties. Having considered the appeals placed by the plaintiff and the defendant, in a ruling of 26 October 2010, the second instance court canceled the disputed decision.

In a ruling of 17 February 2011, the District Court in Warsaw – Consumer and Competition Protection Court – partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. PZU Życie motioned fot justification of the ruling. The ruling is not final.

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 2010 and 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 49,396 thousand (PLN 49,396 thousand as at 31 December 2009).

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.

30. Deferred income tax liability

Changes in deferred tax liability in the year ended 31 December 2010	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Closing balance
Financial instruments	362 209	(53 042)	9 951	319 118
Recourse receivables	(9 320)	1 001	-	(8 319)
Real property	2 156	(4 392)	8 276	6 040
Deferred acquisition costs	94 350	2 664	-	97 014
Deferred acquisition costs relating to OFE PZU	(8 238)	(585)	-	(8 823)
Accrued revenue and reinsurance costs	20 273	(2 487)	-	17 786
Provisions for jubilee bonuses, retirement severance pay etc.	(49 108)	(1 848)	-	(50 956)
Provision for bonuses and appropriation to the bonus fund	(25 483)	(4 864)	-	(30 347)
Provisions for employee vacation	(6 816)	2 033	-	(4 783)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(35 081)	(318)	-	(35 399)
Other provisions and accruals	(4 113)	(72 229)	-	(76 342)
Payments to the National Health Fund	8 923	10 527	-	19 450
Prevention Fund	101 198	399	-	101 597
Equalization and catastrophe provision	85 813	(5 787)	-	80 026
Technical provisions	(30 165)	15 866	-	(14 299)
- other differences	(62 545)	55 738	-	(6 807)
Total deferred tax liability	**444 053**	**(57 324)**	**18 227**	**404 956**

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**

31. Current income tax liabilities

As at 31 December 2010 and 31 December 2009 all current income tax liabilities were short-term.

32. Other liabilities

Liabilities - carrying amount	**31 December 2010**	**31 December 2009**
Liabilities due to direct insurance	484 004	371 199
Liabilities due to reinsurance	39 674	26 959
Liabilities to credit institutions	122	4 780 108
Other liabilities	608 279	795 786
Total liabilities	**1 132 079**	**5 974 052**

As at 31 December 2010 and 31 December 2009 the fair value of other liabilities did not differ substantially from their carrying amount.

A decrease in liabilities to credit institutions results mainly from repayment (on 22 April 2010) of liabilities of PLN 4,806,821 thousand due to a *sell-buy-back* transaction entered into with the objective to finance PZU's advance dividend payment for 2009, presented in detail in point 24.1.4.1.**Error! Reference source not found.** 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 2010**	**31 December 2009**
Up to 3 months	1 101 799	1 188 139
Over 3 months and up to 1 year	20 572	4 776 374
Over 1 year and up to 5 years	4 538	4 826
Over 5 years	5 170	4 713
Total liabilities by contractual maturity	**1 132 079**	**5 974 052**

Liabilities due to direct insurance	**31 December 2010**	**31 December 2009**
Liabilities to policyholders	287 517	263 797
Liabilities to insurance intermediaries	92 443	77 987
Other insurance liabilities	104 044	29 415
Total liabilities due to direct insurance	**484 004**	**371 199**

Liabilities due to reinsurance	**31 December 2010**	**31 December 2009**
Liabilities due to inward reinsurance	1 147	365
Liabilities due to outward reinsurance	37 815	26 594
Liabilities due to retrocession	712	-
Total liabilities due to reinsurance	**39 674**	**26 959**

Other liabilities	**31 December 2010**	**31 December 2009**
Liabilities to the State Budget, other than corporate income tax (CIT)	18 234	23 288
Regulatory liabilities – to the Social Insurance Institution, PFRON, the Company's Social Benefits Fund etc.	23 895	45 200
Due to IT services and hardware supplies	6 278	6 836
To employees	2 206	2 789
Insurance Guarantee Fund	6 389	4 118
Due to acquired securities	396 604	436 533
Investment fund liabilities	-	40 719
Liabilities due to loss adjusting services	90 509	30 941
Liabilities to the National Health Fund	3 498	-
Liabilities due to CEPiK	60 666	1 815
Estimated non-insurance liabilities	**608 279**	145 321
Other	18 234	58 226
Other total liabilities	23 895	**795 786**

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 2010**	**31 December 2009**
Up to 1 year	44 999	36 966
Over 1 year and up to 5 years	89 465	84 257
Over 5 years	16 054	13 052
Total liabilities due to minimum operating lease payments	**150 518**	**134 275**

Operating lease payments disclosed in the income statement for the period	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Minimum operating lease payments	66 866	57 664
Sublease payments	-	-
Total	**66 866**	**57 664**

33. Accruals and deferred income

Accruals and deferred income	31 December 2010	31 December 2009
Accrued expenses, including:	474 272	464 126
- long-term	-	1 920
- accrued costs of agency commissions	-	1 920
- short-term	474 272	462 206
- accrued costs of agency commissions	164 331	172 894
- accrued payroll costs	115 410	94 916
- Bonus Fund	-	1 814
- accrued costs of consulting services	2 288	105
- accrued costs and revenue from reinsurance	64 917	74 847
- remuneration of intermediaries in companies	19 507	19 523
- provision for paid vacation	39 386	38 633
- accrued employee bonuses	58 075	50 966
- other	10 358	8 508
Deferred income, including:	210 960	236 643
- long-term	174	168
- commission fee relating to “Złota Jesień” insurance	73	79
- other	101	89
- short-term	210 786	236 475
- deferred reinsurance commission	6 543	4 061
- prepaid premiums	204 243	232 414
Total accruals and deferred income	**685 232**	**700 769**

34. Gross written premiums

Gross written premiums	1 January – 31 December 2010	1 January – 31 December 2009
Gross written premiums – property and personal insurance	8 031 916	8 021 895
In direct insurance	7 994 504	7 966 464
In indirect insurance	37 412	55 431
Gross written premiums – life insurance	6 512 541	6 340 822
Individual premiums	2 342 210	2 288 920
In direct insurance	2 342 210	2 288 920
In indirect insurance	-	-
Group insurance premiums	4 170 331	4 051 902
In direct insurance	4 170 331	4 051 902
In indirect insurance	-	-
Gross written premiums	**14 544 457**	**14 362 717**

In 2010 and 2009, 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 2010	1 January – 31 December 2009
Accident and sickness insurance (class 1 and 2)	505 616	503 242
TPL motor insurance (class 10)	2 668 813	2 699 655
Other motor insurance (class 3)	2 314 797	2 266 895
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	48 766	45 346
Insurance against fire and other damage to property (classes 8, 9)	1 640 743	1 597 276
TPL insurance (classes 11, 12, 13)	500 237	476 883
Credit insurance and surety ship (classes 14, 15)	68 066	67 959
Assistance (class 18)	175 915	148 783
Legal protection (class 17)	777	800
Other (class 16)	70 774	159 625
Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**7 994 504**	**7 966 464**

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 2010**	**1 January – 31 December 2009**
Accident and sickness insurance (class 1 and 2)	89	327
TPL motor insurance (class 10)	(14)	43
Other motor insurance (class 3)	-	-
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	2 400	2 665
Insurance against fire and other damage to property (classes 8, 9)	28 285	40 961
TPL insurance (classes 11, 12, 13)	4 251	4 946
Credit insurance and surety ship (classes 14, 15)	-	-
Assistance (class 18)	-	-
Legal protection (class 17)	-	-
Other (class 16)	2 401	6 489
Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**37 412**	**55 431**

35. Revenue from commissions and fees

Revenue from commissions and fees	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Pension insurance	**246 915**	**309 702**
Commission on handling fees	107 342	196 380
Commission on asset management for open pension fund	139 521	113 296
Commission on transfer payments	52	26
Investment contracts	**19 719**	10 374
Revenue from unit-linked investment contract fees	19 719	10 374
Other	**21 403**	**20 800**
Revenue and payments received from funds and investment fund management companies	21 403	20 800
Total revenue from commissions and fees	**288 037**	**340 876**

36. Net investment income

Net investment income	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Interest income, including:	1 772 869	2 273 225
- financial assets available for sale	375 369	622 816
- financial assets held to maturity	1 278 122	1 458 299
- loans	117 711	189 066
- receivables, including under insurance contracts	1 667	-
- cash and cash equivalents	77 655	3 044
Dividend income, including:	218	79 290
- financial assets held for trading	50 931	48 601
- financial assets available for sale	26 506	30 689
Income from property investments	26 523	22 678
Exchange differences, including:	(17 178)	14 609
- loans	(6 248)	26 501
- receivables, including under insurance contracts	(2 749)	(11 781)
- cash and cash equivalents	(8 108)	(111)
Other, including:	(73)	(26 418)
- costs of investing activities	(31 285)	(14 741)
- investment property maintenance costs	(16 283)	(11 677)
Total net investment income	**(15 002)**	**2 363 384**

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

Net profit/loss on realization and impairment loss on investments	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Net profit/loss on realization of investments	**303 152**	353 480
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	19 218	39 377
- equity instruments	625	348
- debt securities	18 593	39 029
Financial assets held for trading, including:	104 979	259 260
- equity instruments	187 781	254 007
- debt securities	6 871	8 042
- other	(89 673)	(2 789)
Financial assets available for sale, including:	193 848	74 987
- equity instruments	86 910	63 089
- debt securities	106 938	11 898
Financial assets held to maturity, including:	22 685	17 315
- debt securities held to maturity	22 685	17 315
Loans	20 471	17 862
Receivables, including under insurance contracts	(58 049)	(55 321)
Impairment losses	**(103 701)**	**(92 170)**
Financial assets available for sale, including:	(17 737)	(74 973)
- equity instruments	(17 737)	(74 973)
Loans	375	1
Receivables, including under insurance contracts	(74 685)	(17 198)
Impairment loss on goodwill of PZU Ukraine	(11 654)	-
Total net profit/loss on realization and impairment loss on investments	**199 451**	**261 310**

38. 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 2010**	**1 January – 31 December 2009**
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	273 663	306 925
- equity instruments	48 002	55 768
- debt securities	225 690	251 157
- derivatives	(29)	-
Financial instruments held for trading, including:	480 715	506 870
- equity instruments	302 568	433 254
- debt securities	98 808	73 887
- derivatives	84 199	1 494
- financial liabilities	(4 860)	(1 765)
Investment property	(573)	30 512
Net change in the fair value of assets and liabilities measured to fair value	**753 805**	**844 307**

39. Other operating revenue

Other operating revenue	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Commission on loss adjusting services	6 762	6 024
Provisions released	19 483	109 217
Released impairment losses on non-financial assets	6 267	13 561
Disposal of property, plant and equipment and property, plant and equipment under construction	4 940	2 583
Recharged expenses	4 737	4 657
Reinsurers' commissions and share in reinsurers' profit	(16 537)	50 213
Revenue from disposal of units managed by TFI PZU	2 073	1 826
Payments from funds (additional IKE benefits)	8 963	11 149
Other	52 609	60 836
Total other operating revenue	**89 297**	**260 066**

40. Insurance claims

Insurance claims	1 January – 31 December 2010	1 January – 31 December 2009
Claims and change in technical provisions - property and personal insurance	6 247 333	5 676 629
Reinsurers' share in claims and change in technical provisions - property and personal insurance	(555 138)	(33 893)
Claims and change in technical provisions - life insurance	4 607 074	3 793 545
Reinsurers' share in claims and change in technical provisions - life insurance	(34)	-
Total insurance claims	**10 299 235**	**9 436 281**

40.1 Property and personal insurance

Claims and change in provisions in property and personal insurance	1 January – 31 December 2010	1 January – 31 December 2009
Gross claims and change in provisions in property and personal insurance	**6 247 333**	**5 676 629**
Claims and loss adjustment expenses for the current period	3 998 444	3 470 912
Claims and loss adjustment expenses for previous periods	1 540 417	1 823 480
Change in provision for claims outstanding	708 472	382 237
Reinsurers' share in claims and change in provisions in property and personal insurance	**(555 138)**	**(33 893)**
Claims and loss adjustment expenses for the current period	(350 029)	(57 334)
Claims and loss adjustment expenses for previous periods	(181 522)	(124 061)
Change in provision for claims outstanding	(23 587)	147 502
Net claims and change in provisions in property and personal insurance	**5 692 195**	**5 642 736**
Claims and loss adjustment expenses for the current period	3 648 415	3 413 578
Claims and loss adjustment expenses for previous periods	1 358 895	1 699 419
Change in provision for claims outstanding	684 885	529 739

Loss adjustment expenses in property and personal insurance, by type	1 January – 31 December 2010	1 January – 31 December 2009
Consumption of materials and energy	6 740	8 512
External services	102 347	124 153
Taxes and charges	7 034	6 385
Employee expenses	289 908	273 000
Depreciation of property, plant and equipment	5 322	6 574
Amortization of intangible assets	480	268
Other (by type), including:	39 220	66 014
- awarded costs, interest and fines indemnification claims	37 095	64 132
- other	2 125	1 882
Total loss adjustment expenses in property and personal insurance	**451 051**	**484 906**

Change in technical provisions in property and personal insurance

Change in provision for unearned premium in property and personal insurance	1 January - 31 December 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	3 704 128	(75 096)	3 629 032	3 945 694	(64 990)	3 880 704
Increase (decrease) in provisions for policies concluded in the current year	3 640 231	(40 980)	3 599 251	3 486 501	(35 415)	3 451 086
Increase (decrease) in provisions for policies concluded in previous years	(3 499 699)	40 834	(3 458 865)	(3 727 724)	26 325	(3 701 399)
Exchange differences during the period	(1 347)	12	(1 335)	(343)	(1 016)	(1 359)
Closing balance	**3 843 313**	**(75 230)**	**3 768 083**	**3 704 128**	**(75 096)**	**3 629 032**

Change in provision for unexpired risk in property and personal insurance	1 January - 31 December 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	37 167	-	37 167	74 498	(51)	74 447
Increase (decrease) in provisions for policies concluded in the current year	24 813	-	24 813	30 528	53	30 581
Increase (decrease) in provisions for policies concluded in previous years	(29 848)	(92)	(29 940)	(67 411)	-	(67 411)
Exchange differences during the period	(215)	3	(212)	(448)	(2)	(450)
Closing balance	**31 917**	**(89)**	**31 828**	**37 167**	**-**	**37 167**

Change in provisions for claims outstanding in property and personal insurance	**1 January - 31 December 2010**			**1 January - 31 December 2009**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance, including:	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
Paid claims concerning losses incurred in previous years, including	(1 434 847)	167 866	(1 266 981)	(1 714 897)	100 242	(1 614 655)
- claims paid	(1 276 151)	164 468	(1 111 683)	(1 508 472)	95 994	(1 412 478)
- loss adjustment expenses	(158 696)	3 398	(155 298)	(206 425)	4 248	(202 177)
Increase (decrease) in provisions, including:	2 148 927	(322 567)	1 826 360	1 779 982	(2 840)	1 777 142
- losses incurred in the current year	2 196 216	(224 952)	1 971 264	1 935 074	(27 601)	1 907 473
- losses incurred in the previous years	(47 289)	(97 615)	(144 904)	(155 092)	24 761	(130 331)
Other changes	-	9 121	9 121	-	1 155	1 155
Exchange differences during the period	(2 846)	767	(2 079)	(3 969)	895	(3 074)
Closing balance	**4 548 445**	**(336 023)**	**4 212 422**	**3 837 211**	**(191 210)**	**3 646 001**
- for claims reported	1 919 232	(270 855)	1 648 377	1 472 477	(156 106)	1 316 371
- for claims incurred but not reported (IBNR)	1 921 859	(52 650)	1 869 209	1 732 090	(19 056)	1 713 034
- for loss adjustment expenses	707 354	(12 518)	694 836	632 644	(16 048)	616 596

Change in provision for capitalized value of annuity claims – property and personal insurance	**1 January - 31 December 2010**			**1 January - 31 December 2009**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance	4 874 653	(482 007)	4 392 646	4 528 618	(529 149)	3 999 469
Paid claims concerning losses incurred in previous years	(158 433)	14 766	(143 667)	(146 337)	16 530	(129 807)
Increase (decrease) in provisions for losses incurred in the previous years	(96 222)	109 853	13 631	235 096	21 699	256 795
Increase in provisions for losses incurred in the current year	242 554	-	242 554	235 105	-	235 105
Other changes	-	(3 120)	(3 120)	-	8 913	8 913
Change in assumptions	-	-	-	22 171	-	22 171
Closing balance	**4 862 552**	**(360 508)**	**4 502 044**	**4 874 653**	**(482 007)**	**4 392 646**

40.2 Life insurance

Insurance claims in life insurance	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Resulting from maturity	304 374	289 633
Resulting from claims paid in case of death	3 119 095	2 945 540
Resulting from resignation from the insurance contract	271 294	303 957
Resulting from disability and entitlement to a disability pension	6 446	6 704
Resulting from annuity claims	42 110	41 820
Resulting from childbirth	299 707	289 101
Resulting from hospital treatment	198 222	170 419
Resulting from a refund of accumulated cash and transfer payments	103 187	100 057
Other	89 755	62 656
Total insurance claims in life insurance	**4 434 190**	**4 209 887**

All claims for 2010 and 2009 related to direct insurance.

Loss adjustment expenses in life insurance by type	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Consumption of materials and energy	2 746	984
External services	56 501	45 474
Taxes and charges	4 301	10 436
Employee expenses	83 611	71 837
Depreciation of property, plant and equipment	5 513	5 930
Amortization of intangible assets	1 186	266
Other	5 076	2 870
Total loss adjustment expenses in life insurance	**158 934**	**137 797**

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	105 305	-	105 305	106 391	-	106 391
Increases	100 631	-	100 631	105 305	-	105 305
Decreases	(105 305)	-	(105 305)	(106 391)	-	(106 391)
Closing balance	**100 631**	**-**	**100 631**	**105 305**	**-**	**105 305**

Change in provision in life insurance - insurance contacts with no DPF	1 January - 31 December 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	10 958 427	-	10 958 427	11 856 020	-	11 856 020
Net premiums received	559 687	-	559 687	1 526 270	-	1 526 270
Technical interest rate for the provisions	363 909	-	363 909	370 735	-	370 735
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(1 493 366)	-	(1 493 366)	(3 260 880)	-	(3 260 880)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	459 595	-	459 595	466 282	-	466 282
Closing balance	**10 848 252**	**-**	**10 848 252**	**10 958 427**	**-**	**10 958 427**

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 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4 303 505	-	4 303 505	4 147 679	-	4 147 679
Net premiums received	321 111	-	321 111	296 700	-	296 700
Technical interest rate for the provisions	179 394	-	179 394	178 375	-	178 375
Increase in provisions for profit sharing	31 392	-	31 392	30 558	-	30 558
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(534 724)	-	(534 724)	(508 996)	-	(508 996)
Changes in assumptions	19 793	-	19 793	93 700	-	93 700
- technical interest rates	-	-	-	93 700	-	93 700
- other	19 793	-	19 793	-	-	-
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	(3 193)	-	(3 193)	65 489	-	65 489
Closing balance	**4 317 278**	**-**	**4 317 278**	**4 303 505**	**-**	**4 303 505**

Change in provisions in life insurance - unit-linked contracts	1 January - 31 December 2010			1 January - 31 December 2009		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Net assets of the fund at the beginning of the period	2 017 501	-	2 017 501	1 765 289	-	1 765 289
Increases in the fund due to premiums	360 279	-	360 279	351 507	-	351 507
Payments deducted from the fund for risk, administration and other	(30 016)	-	(30 016)	(26 491)	-	(26 491)
Revenue from the fund's investments	188 690	-	188 690	216 389	-	216 389
Decreases in the fund due to claims, redemptions, etc.	(235 423)	-	(235 423)	(285 686)	-	(285 686)
Other decreases	(18 642)	-	(18 642)	(9 401)	-	(9 401)
Other increases	13 700	-	13 700	5 894	-	5 894
Net assets of the fund at the end of the period	**2 296 089**	**-**	**2 296 089**	**2 017 501**	**-**	**2 017 501**

Change in provisions in life insurance - other insurance contracts	**1 January - 31 December 2010**			**1 January - 31 December 2009**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance	20 467	-	20 467	20 871	-	20 871
Change in provisions during the period	866	-	866	(404)	-	(404)
Closing balance	**21 333**	**-**	**21 333**	**20 467**	**-**	**20 467**

Change in provisions for claims	**1 January - 31 December 2010**			**1 January - 31 December 2009**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
RBNP at the beginning of the period	160 720	-	160 720	133 452	-	133 452
IBNR at the beginning of the period	458 533	-	458 533	412 805	-	412 805
Total RBNP and IBNR at the beginning of the period	619 253	-	619 253	546 257	-	546 257
Provisions for claims applied during the year	(619 253)	-	(619 253)	(546 257)	-	(546 257)
Provisions for claims created during the year	608 635	-	608 635	619 253	-	619 253
Total RBNP and IBNR at the end of the period	**608 635**	**-**	**608 635**	**619 253**	**-**	**619 253**
RBNP at the end of the period	108 425	-	108 425	160 720	-	160 720
IBNR at the end of the period	500 210	-	500 210	458 533	-	458 533

41. Claims and change in measurement of investment contracts

Claims and change in measurement of investment contracts	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Resulting from investment contracts with guaranteed and fixed terms and conditions	63 285	164 466
- interest expenses included in the effective interest rate	63 285	163 782
- embedded options	-	684
Resulting from unit-linked investment contracts	113 480	110 591
Total claims and change in measurement of investment contracts	**176 765**	**275 057**

42. Acquisition costs

Acquisition costs in property and personal insurance, by type	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Consumption of materials and energy	7 468	10 943
External services	12 541	12 858
Taxes and charges	589	1 282
Employee expenses	378 016	357 686
Depreciation of property, plant and equipment	760	833
Amortization of intangible assets	119	69
Other (by type), including:	986 613	983 125
- direct business commission	981 183	979 201
- advertisement	24 996	20 162
- change in capitalized acquisition costs	(28 446)	(42 973)
- indirect business commission	5 092	23 789
- other	3 788	2 946
Total acquisition costs in property and personal insurance	**1 386 106**	**1 366 796**

Acquisition costs in life insurance by type	1 January – 31 December 2010	1 January – 31 December 2009
Consumption of materials and energy	3 397	3 070
External services	20 780	21 359
Taxes and charges	895	612
Employee expenses	122 978	142 926
Depreciation of property, plant and equipment	7 906	7 629
Amortization of intangible assets	4 552	275
Other (by type), including:	243 925	239 656
- direct business commission	221 386	206 252
- advertisement	9 648	16 112
- change in capitalized acquisition costs	6 452	8 909
- other	6 439	8 383
Total acquisition costs in life insurance	**404 433**	**415 527**

Acquisition costs in pension insurance by type	1 January – 31 December 2010	1 January – 31 December 2009
External services	1 175	949
Employee expenses	56 765	48 103
Other	2 925	8 230
Total acquisition costs in pension insurance	**60 865**	**57 282**

43. Administrative expenses

Administrative expenses in property and personal insurance by type	1 January – 31 December 2010	1 January – 31 December 2009
Consumption of materials and energy	51 538	51 962
External services	318 937	286 918
Taxes and charges	17 515	17 950
Employee expenses	397 988	519 109
Depreciation of property, plant and equipment	69 562	80 020
Amortization of intangible assets	22 461	17 163
Other (by type), including:	92 599	92 015
- advertisement	47 606	38 599
- other	44 993	53 416
Total administrative expenses in property and personal insurance	**970 600**	**1 065 137**

Administrative expenses in life insurance by type	1 January – 31 December 2010	1 January – 31 December 2009
Consumption of materials and energy	22 086	18 695
External services	103 403	116 061
Taxes and charges	4 883	4 325
Employee expenses	190 653	195 208
Depreciation of property, plant and equipment	25 526	25 576
Amortization of intangible assets	20 150	23 696
Remuneration of persons servicing group insurance at companies	211 142	210 967
Other (by type), including:	29 818	42 008
- advertisement	17 824	23 167
- other	11 994	18 841
Total administrative expenses in life insurance	**607 661**	**636 536**

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 2010	1 January – 31 December 2009
Consumption of materials and energy	1 505	1 504
External services	6 216	9 200
Taxes and charges	51 746	53 297
Employee expenses	19 717	27 391
Depreciation of property, plant and equipment	2 161	2 486
Amortization of intangible assets	762	555
Other	2 795	12 775
Total administrative expenses in pension insurance	**84 902**	**107 208**

“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 (KDPW) due to all expenses incurred in connection with processing of transfer payments;
- Payments to the Social Insurance Institution related to costs of premium collection and recovery.

44. Employee expenses

Employee expenses	1 January – 31 December 2010	1 January – 31 December 2009
Payroll	1 274 565	1 351 134
Defined contributions plans; including	246 903	265 249
- overheads	181 820	195 196
- third pillar pension insurance, including costs of premium to PPE incurred in the period	65 083	70 053
Benefits related to termination of employment	811	1 190
Other	27 487	27 854
Total employee expenses	**1 549 766**	**1 645 427**

Costs of employment restructuring in PZU and PZU Życie are presented in other operating expenses, point 45.

As at 31 December 2010, 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.

45. Other operating expenses

Other operating expenses	1 January – 31 December 2010	1 January – 31 December 2009
Costs related to loss adjusting services	253	192
Provisions created	4 916	18 636
Impairment losses on intangible assets and property, plant and equipment	3 052	14 138
Net value of sold property, plant and equipment and property, plant and equipment under construction	1 803	878
Default interest, penalties and damages	1 153	6 407
Donations	10 993	10 166
IT Services	7 632	7 912
Insurance Guarantee Fund	21 920	18 362
National Headquarters of the State Fire Service and Volunteer Fire Service Association	30 530	30 533
Compulsory payments to the insurance market institutions	48 687	52 955
Rechargeable expenses	4 778	4 628
Expenses due to prevention activities	31 711	46 383
TFI expenses	9 756	11 543
Payments to the National Health Fund	-	119 381
Operating expenses of investment funds	1 098	2 568
Provision for potential GraphTalk project exit costs	764	31 292
Provisions for return of undue premium to the Social Security Institution created by PTE	-	577
Financed premium	23 061	23 870
Employment restructuring costs in PZU and PZU Życie head offices	-	17 139
Recognized provision for restructuring and reorganization expenses	64 240	158 763
Other	27 188	17 259
Total other operating expenses	**293 535**	**593 582**

Item “Payments to National Health Fund" includes lump sum payment to the fund (NHF) made pursuant to 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 upon the gross premium on compulsory MTPL for vehicle owners. The obligation to make the payment expired as at 1 January 2009 following cancellation of the above regulation.

Item “Recognized provision for restructuring and reorganization expenses” regards the employment optimization in head offices of PZU and PZU Życie as described in point 29.

46. Financial expenses

Financial expenses concern costs incurred in relation to the transaction specified in point 32 concluded to finance the advance payment against dividend, described in section 24.1.4.1, incurred against Bank Gospodarstwa Krajowego and Bank Handlowy w Warszawie SA, in the amount of PLN 46,298 thousand and PLN 12,356 thousand, respectively.

47. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January – 31 December 2010	1 January – 31 December 2009
Financial assets	(8 997)	26 501
- loans	(6 248)	-
Receivables, including under insurance contracts	(2 749)	26 501
Reinsurers’ share in technical provisions	(8 108)	(11 781)
Cash and cash equivalents	-	3 314
Technical provisions	(73)	(111)
Other liabilities	(32)	294
Total exchange differences recognized in the consolidated income statement	**(17 210)**	**18 217**

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.

48. Income tax

Income tax	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Gross profit (loss) (consolidated)	3 029 431	4 565 811
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	575 592	867 504
Differences between the income tax calculated above and the income tax recognized in the income statement:	14 610	(64 604)
- tax losses	(142)	(17 275)
- fines, contractual penalties	1 618	6 480
- interest	-	160
- dividends	(13 968)	(12 846)
- measurement of financial assets	(11 034)	34 262
- measurement of investment property	-	(3 445)
- created/released write-downs on receivables not classified as tax deductible expenses	(6 692)	(19 865)
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	30 355	20 949
- unrealized gains and losses on outward reinsurance	619	(49 589)
- tax on insurance activities in Ukraine	7 832	7 436
- amortization/depreciation	319	(5 427)
- adjustment of the premium at PZU Życie	2 011	-
- other tax increase, cancellation, exemption, deduction and reduction	3 692	(25 444)
Income tax recognized in the profit or loss	**590 202**	**802 900**

Deferred income tax disclosed in the profit or loss	**1 January – 31 December 2010**	**1 January – 31 December 2009**
Decrease (increase) due to occurrence and reversal of temporary differences	(49 096)	188 797
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)
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	**(49 096)**	**170 493**

Total current and deferred tax	**1 January – 31 December 2010**	**1 January – 31 December 2009**
1. Recognized in profit or loss, including:	**590 202**	**802 900**
- current tax	639 298	632 407
- deferred tax	(49 096)	170 493
2. Recognized in equity, including:	**18 296**	**81 253**
- current tax	-	-
- deferred tax	18 296	81 253

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.

49. Revenue from the exchange of goods and services

In 2010 and 2009, the PZU Group did not recognized any revenue from the exchange of goods and services.

50. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2010	31 December 2009
Contingent assets, including:	4 528	3 699
Guarantees and sureties received	4 528	3 699
Contingent liabilities	136 699	1 000 074 157
Guarantees and sureties issued	8 543	7 714
Disputable claims related to insurance	64 426	1 000 045 496
Other disputable claims	62 704	19 865
Other	1 026	1 082

The entities in the PZU Group are parties to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are those held before the President of the Office of Competition and Consumer Protection (UOKiK), before the Polish Financial Supervision Authority and those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for the PZU Group. Most disputes the PZU Group companies are parties to pertain to two companies: PZU and PZU Życie.

PZU and PZU Życie include such 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. Disputable claims regarding revaluation of annuities in PZU Życie are recognized in other technical provisions in the amount of annual annuity amount in excess of the corresponding provision amount as determined under mathematical provisions for life insurance purposes.

In 2010 and by the date of signing of the financial statements, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct subsidiary whose value or the total value would amount to at least 10% of the equity of PZU except from the case (closed as at the date of signing of the financial statements) regarding PZU Życie and claim of PLN 1 trillion as described below.

As of 31 December 2010 the total value of all 21,361 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU was PLN 1,534,982 thousand. The amount includes PLN 982,894 thousand of liabilities and PLN 552,088 thousand of receivables of the PZU Group companies, which constituted 8.26% and 4.64% of PZU equity calculated in line with PAS, respectively.

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.

In its decision of 9 March 2010 the Supreme Court refused to accept the claimant's cassation appeal for examination. The decision is final.

50.1 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.

50.2 Motion summoning PZU to amicable settlement and discontinuance of the proceedings

On 19 April 2010 the Court served on PZU a motion of an individual summoning PZU to amicable settlement. The individual sought payment of PLN 228,226 thousand from PZU as compensation for severe health disorder caused by "civil and criminal actions" against them and the company (in which they are the sole owner and the President of the Management Board) instigated by PZU and for causing the company's falling out of the market.

Moreover, irrespective of claims specified therein, PZU is a party to disputes with the same company for the total amount exceeding PLN 21 million. The cases are heard at the Regional Court in Warsaw. PZU considers the underlying claims groundless. In a decision of 7 May 2010, the court discontinued the case for amicable settlement. The decision is final.

50.3 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").

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

On 17 September 2003, Tower-Inwestycje 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 Tower-Inwestycje 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 Tower-Inwestycje 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.

On 29 July 2010 the Court of Appeals dismissed the appeal of Universale in whole. The decision is final.

On 26 November 2010 the Universale lodged a cassation motion. The motion is aimed at canceling of the ruling of the Appellative Court as a whole and ordering re-examination by that court, which should result in including the complaint of Universale in the decision of the Arbitration Court. On 24 January 2011, Tower-Inwestycje responded to the motion.

By the date of signing these consolidated financial statements, The Supreme Court did not make a decision to approve the motion for examination.

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

51.1 Financial assets used as security of liabilities

As at 31 December 2010 no financial assets pledged as collateral of liabilities occurred in the PZU Group. 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 32..

51.2 Financial assets used as collateral for originated loans

As at 31 December 2010 and 31 December 2009, 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.

51.3 Property, plant and equipment

As at 31 December 2010 and 31 December 2009, the consolidated companies of the PZU Group had no property, plant and equipment used as security of liabilities.

52. Related parties

52.1 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.

52.2 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group companies included in consolidation including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2010 and 2009 the consolidated companies in the PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.

52.2.1. Parent

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below.

Remuneration and other short-term employee benefits paid by PZU	**1 January - 31 December 2010**	**1 January - 31 December 2009**
Management Board including:	**2 462**	**1 183**
Andrzej Klesyk	1 090	295
Witold Jaworski	789	295
Przemysław Dąbrowski	-	n/a
Dariusz Filar	188	n/a
Magdalena Nawłoka	24	298
Rafał Stankiewicz	371	295
High level management (PZU Group Directors)* including:**	**3 411**	**n/a**
Krzysztof Dominik Branny	248	n/a
Przemysław Dąbrowski	951	n/a
Rafał Grodzicki	850	n/a
Dariusz Krzewina	760	n/a
Mariusz J. Sarnowski	602	n/a
Supervisory Board including:	677	343
Zbigniew Ćwiąkalski	94	-
Krzysztof Dresler	68	-
Dariusz Filar	41	-
Piotr Kamiński	85	-
Waldemar Maj	86	-
Grażyna Piotrowska-Oliwa	99	-
Marzena Piszczek	128	10
Maciej Bednarkiewicz	-	32
Alferd Bieć	4	40
Tomasz Gruszecki	22	40
Ernst Jansen	-	32
Joanna Karman	-	30
Marcin Majeranowski	21	40
Michał Nastula	-	32
Tomasz Przesławski	4	40
Gerard Van Olphen	3	40
Jurgen Stegmann	17	-
Marco Vet	5	7

Remuneration and other short-term employee benefits paid by other PZU Group entities	**1 January - 31 December 2010**	**1 January - 31 December 2009**
Management Board including:	**964****	**950***
Andrzej Klesyk	302	239
Witold Jaworski	387	359
Przemysław Dąbrowski****	-	n/a
Rafał Stankiewicz	275**	352*
High level management (PZU Group Directors)* including:**	**2 027**	**n/a**
Krzysztof Dominik Branny	55	n/a
Przemysław Dąbrowski	404	n/a
Rafał Grodzicki	550	n/a
Dariusz Krzewina	755	n/a
Mariusz J. Sarnowski	263	n/a

Total estimated amount of non-monetary performances granted by PZU and its subsidiaries	1 January - 31 December 2010	1 January - 31 December 2009
Management Board including:	**370**	**491**
Andrzej Klesyk	119	107
Witold Jaworski	147	136
Przemysław Dąbrowski	-	n/a
Magdalena Nawłoka	25	105
Rafał Stankiewicz	79	143
High level management (PZU Group Directors)* including:**	**525**	**n/a**
Krzysztof Dominik Branny	6	n/a
Przemysław Dąbrowski	149	n/a
Rafał Grodzicki	177	n/a
Dariusz Krzewina	153	n/a
Mariusz J. Sarnowski	40	n/a
Supervisory Board including:	**42**	**14**
Tomasz Gruszecki	42	14

* The indicated amount includes the equivalent of UAH 429,766 translated into PLN at the average currency rate of 31 December 2009 as published by the National Bank of Poland (NBP).

** The indicated amount includes the equivalent of UAH 40,000 translated into PLN at the average currency rate of 31 December 2010 as published by the National Bank of Poland (NBP).

*** Positions of high level managers were established in 2010 and since then their holders are treated as related parties; therefore, the above table does not include their remuneration for 2009, when they held different positions in PZU Group companies.

**** Amounts paid to Przemysław Dąbrowski are presented in the section regarding high level management since he joined the Management Board on 21 December 2010.

52.2.2. 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 2010	1 January - 31 December 2009
Members of the Management Board	8 540	9 655
Members of the Supervisory Board	2 600	2 771

52.3 Related party transactions

For the purposes of this item:

- "entities controlled by the State Treasury" denote only commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury. Carrying out its statutory activities, the PZU Group entities entered into transactions with entities controlled by the State Treasury other than commercial companies and state entities, whose business names are published on the website of the Ministry of Treasury. Considering a substantial number of such entities and transactions concluded, limitations of the reporting system implemented by the PZU Group as well as immateriality of the impact of such transactions on the performance of the PZU Group, PZU believes that their disclosure is not important for ensuring a reliable presentation of the financial position of the Group;
- "other related parties" denote entities directly or indirectly controlled by PZU and associated companies, whose complete list is included in 2.2.

The following table presents information regarding balances turnovers of PZU Group companies and their related parties as defined in IAS 24. Consequently, the transactions with entities controlled by the State Treasury are mainly property and personal insurance contracts, life insurance contracts and investment contracts (items presented in the table are premiums written and investment contracts, other income - mainly recharged expenses, court fees, fees for certifications and other documents, revenue from reversing or adjusting revaluation write-downs on receivables, expenses – mainly costs of claims paid and receivables – mainly due to insurance premiums), concluded and settled on terms and conditions which could be obtained in transactions with unrelated parties.

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2010	Gross written premium		Other revenue	Expenses	write-downs on receivables created in the current period	Receivables			Liabilities	Contingent assets	Contingent liabilities
	property and personal insurance	life insurance (including volumes from investment contracts)				gross value	revaluation write-downs	net			
Major investor (Eureko B.V.) 1/	-	-	21	-	-	-	-	-	-	-	-
Key members of the management of consolidated entities 2/	-	-	-	-	-	-	-	-	-	-	-
Other subsidiaries of the State Treasury 3/4/	107 501	1 614 076	3 563	121 363	169	86 821	(383)	86 438	5 220	1 671	-
Other related parties	784	-	31 377	25 012	-	11 575	(10 306)	1 269	3 498	-	-

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2009	Gross written premium		Other revenue	Expenses	write-downs on receivables created in the current period	Receivables			Liabilities	Contingent assets	Contingent liabilities
	property and personal insurance	life insurance (including volumes from investment contracts)				gross value	revaluation write-downs	net			
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/	176 198	2 191 837	4 423	160 449	76	79 420	(365)	79 055	7 000	-	1 623
Other related parties	1 132	-	23 009	30 692	815	13 569	(12 319)	1 250	2 274	-	-

1/ Revenue from Eureko arises from fees due to PZU for provision of selected data and financial reports to Eureko.
2/ High level management, data as per statements.
3/ Without transactions described in 53.3.1.
4/ Without transaction described in 52.3.2.

As at 31 December 2010 and 31 December 2009, 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 10,309 thousand (31 December 2009: 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. Loan for Kappa S.A.

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.

Until 20 January 2010 PZU paid out to Kappa SA the total of PLN 21,889 thousand, out of which PLN 744 thousand was paid out in 2010. Interest income arising from the loan in 2010 amounted to PLN 560 thousand.

The loan was to be repaid not later than 3 business days after Kappa SA obtained funds from the sale of shares under IPO of PZU shares. On 10 May 2010 Kappa SA repaid the principal amount with accrued interest (totaling PLN 22,800 thousand, out of which interest constituted PLN 911 thousand).

53.3.2. Loan for Polskie Linie Lotnicze SA

On 17 February 2010, PZU originated a loan of PLN 16,900 thousand with initial interest rate 8.16 p.a. to Polskie Linie Lotnicze LOT SA ("LOT"). The repayment deadline was set at 31 May 2010. The loan tranches of PLN 10,600 thousand and PLN 6,300 thousand, respectively, were made available on 18 February 2010 and 11 March 2010.

The loan is collateralized on the contractual cap mortgage up to PLN 33,800 thousand on the perpetual usufruct of real property comprising a plot and a building with a separate ownership title, located in Warsaw, at 17 Stycznia 43.

The loan repayment deadline was further postponed to: 30 November 2010, 11 February 2011 and 16 May 2011, with modified interest, ranging from 9.16% to 12.16% p.a. The debtor repaid the interest within the above deadlines.

52.4 Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury

Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury are presented in the tables below.

	1 January – 31 December 2010	1 January – 31 December 2009
PZU Gross written premium	23 904	101 861
PZU Życie Gross written premium	26 887	72 425
Volumes from investment contracts of PZU Życie	1 587 189	2 119 412
Total	**1 637 980**	**2 293 698**

Bank Ochrony Środowiska SA	1 January – 31 December 2010	1 January – 31 December 2009
PZU Gross written premium	93	128
PZU Życie Gross written premium	-	-
Volumes from investment contracts of PZU Życie	-	-
Total	**93**	**128**

52.5 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 2010

Counterparty	Gross written premium*	Receivables	Liabilities
Counterparty 1*	1 637 980	44 877	4 140
Counterparty 11*	28 961	14 824	226
Counterparty 12	18 390	15 927	1
Counterparty 6	7 730	3 893	5
Counterparty 4	4 077	1 562	58
Counterparty 2	2 055	490	-
Counterparty 13	1 894	807	-
Counterparty 5	1 468	20	-
Counterparty 7	1 284	890	25
Counterparty 9	907	322	-

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

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 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*	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	-

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

53. Employment

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

Item	1 January - 31 December 2010	1 January - 31 December 2009
Management Boards (number of members at the end of the reporting period)	24	23
Management	781	820
Other employees	14 898	16 103
Total	**15 703**	**16 946**

54. Other information

54.1 Composition of the Parent's Management Board

Composition of the Management Board as at 1 January 2010:

- Andrzej Klesyk Chairman of the Board;
- Witold Jaworski Member of the Board;
- Rafał Stankiewicz Member of the Board.

On 27 September 2010, Rafał Stankiewicz resigned from the position having accepted a job offer made by another enterprise.

Therefore, on 30 September 2010, Supervisory Board of PZU, pursuant to Article 383.1 of the Code of Commercial Companies (Dz.U. No. 94 of 2000, item 1037 as amended), delegated its member, Dariusz Filar, to act as a member of the Management Board for the period from 1 October 2010 until appointing of a new member, no longer, though, than until 31 December 2010.

At the same time, the Supervisory Board, in liaison with the Management Board Chairman decided that the new member of the Management Board in charge of finance should be appointed by 31 December 2010 in an open contest.

On 21 December 2010, Supervisory Board of PZU appointed Przemysław Dąbrowski a member of the Management Board. At the same time, Dariusz Filar ceased to act as the Management Board Member.

In the period from 21 December 2010 to the date of these financial statements, the composition of the Management Board was as follows:

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

Since on 27 June 2011 the three-year office term of the Management Board shall expire, on 2 February 2011 the Supervisory Board resolved to open qualification proceedings regarding the position of the Management Board Chairman and six Members for the new office term. Selected Management Board members shall be in charge of the following tasks: retail client, corporate client, investment, finance, transactions and loss adjustment, IT.

The Supervisory Board appointed Spencer Stuart Poland Sp. z o.o. to provide HR services in the process of candidate selection and be in charge of organizing the contest, carrying out the qualification proceedings, selecting and introducing the candidates to the Supervisory Board.

On 11 February 2011, nationwide dailies – Rzeczpospolita, Gazeta Wyborcza and Parkiet published announcements regarding the contest.

54.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board as at 1 January 2010:

- 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.

On 9 June 2010 Marcin Majeranowski resigned from the position of Vice-Chairman and member of the Supervisory Board and Jurgen Stegmann resigned from the position of member of the Supervisory Board.

On 10 June 2010, the General Shareholders' Meeting of PZU dismissed Tomasz Gruszecki from the Supervisory Board and appointed Zbigniew Ćwiąkalski, Krzysztof Dresler and Dariusz Filar as members of the Supervisory Board.

Consequently, since 10 June 2010 to the date of signing these financial statements, the Supervisory Board of PZU comprised:

- Marzena Piszczek Chairman (position assumed on 16 June 2010);
- Zbigniew Ćwiąkalski Vice-Chairman (position assumed on 16 June 2010);
- Grażyna Piotrowska-Oliwa Secretary (position assumed on 16 June 2010);
- Waldemar Maj Member
- Piotr Kamiński Member
- Krzysztof Dresler Member;
- Dariusz Filar Member (from 1 October to 21 December 2010 delegated to the Management Board of PZU).

54.3 Directors of PZU Capital Group

In January 2010, as part of implementation of the new management model of the PZU Group the following positions have been established:

- Director in the PZU Group for Management of the Group Branches in PZU Head Office (appointment of Dariusz Krzewina on 1 February 2010);
- Director in the PZU Group for Development of the Group Offices in PZU Head Office (appointment of Rafał Grodzicki on 1 February 2010);
- Director in the PZU Group for Finance in PZU Head Office (appointment of Przemysław Dąbrowski on 30 January);
- Director in the PZU Group for Operations in PZU Head Office (appointment of Mariusz J. Sarnowski on 30 January 2010).

On 12 August 2010 the position of Director in the PZU Group for HR Management in Head Office was established and Krzysztof Branny appointed to the position on the same date (effective from 1 September 2010).

On 6 October 2010, names of the positions were altered from "Director in the PZU Group for" to "PZU Group Director".

On 2 January 2011 Przemysław Dąbrowski resigned from the position of the PZU Group Director, and on 24 January 2011 he was dismissed from the position by the Management Board and replaced by Tomasz Tarkowski on 1 February 2011.

Except from Tomasz Tarkowski, all the individuals referred to above are members of PZU Życie Management Board.

54.4 Key information regarding IPO

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.

On 13 April 2010, FSA approved the prospectus of PZU which was published on 16 April 2010.

Shares were subscribed for between: 20 and 26 April 2010 in the case of authorized persons, 20 and 28 April 2010 in the case of individual investors and 30 April and 5 May 2010 in the case of institutional investors.

The information including data required pursuant to Article 54.3 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws 185 of 2009, item. 1439) published on 29 April 2010 specified:

- the price of shares for individual investors, authorized persons and institutional investors at PLN 312.50 per share;
- the final number of shares sold during the offering at 25,819,337 shares (29.9% of the total number of issued shares); the final number of sold shares and their share in the total number of issued shares was: Kappa SA - 12,866,492 (14.9%), Eureko - 8,635,230 (10.0%) and the State Treasury - 4,317,615 (5.0%);

- the number of shares sold to individual investors at 7,058,582, authorized persons at 73,938 and institutional investors at 18,686,817.

The Management Board of the National Depository for Securities (KDPW) adopted Resolutions No. 212/2010 on 16 April 2010 and No. 252/2010, 253/2010 and 254/2010 on 6 May 2010 whereby it granted PZU the status of participant of KDPW (ISSUER) (Resolution No. 212/2010) and decided to register 86,324,317 PZU shares (60,418,337 A series shares and 25,905,980 B series shares) with a code PLPZU0000011. The shares traded in the public offering were registered in KDPW on 26 April 2010 and the other shares, on 10 May 2010.

On 6 May 2010 PZU applied to WSE for admission and introduction to trading on the primary market of WSE of 60,418,337 A series shares and 25,905,980 B series shares.

On 7 May 2010 the Management Board of WSE adopted Resolution 425/1020 whereby it decided to introduce 60,418,337 A series shares of PZU and 25,905,980 B series shares of PZU to trading on the primary market of WSE on 12 May 2010. The resolution was conditional and its requirements were met on 10 May 2010.

On 12 May 2010 PZU shares were first traded on WSE. The opening price on the first trading day was PLN 349.00 and the closing price, PLN 360.00 per share.

PZU shares are continuously traded under the abbreviated name “PZU” and designation “PZU”.

54.5 Auditors’ remuneration

The below table presents the amounts paid or payable to entities authorized to audit financial statements of PZU for a given period, increased by VAT and determined on the accrual basis.

Type of services	**1 January - 31 December 2010**	**1 January - 31 December 2009**
Audit of financial statements	800	1 054
Other assurance services	927	1 035
Tax advisory services	-	-
Other services	37	36
Total	**1 764**	**2 125**

The agreement on the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the year ended 31 December 2010 was concluded on 30 November 2010 and regarded only audit of the financial statements for 2010.

The agreement on the audit of condensed separate financial statements of PZU and condensed consolidated financial statements of the PZU Group for the period of six months ended 30 June 2010 was concluded on 9 July 2010.

54.6 Control of the Polish Financial Supervision Authority at PZU

On 12 January 2001 Financial Supervision Authority (FSA) commenced inspection in PZU, which lasted until 22 February 2011. Its scope included organization, management and accounting.

According to the Management Board, post-control recommendations should not materially impact the consolidated financial statements.

54.6.1. 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 as determined in the following correspondence:

- a letter of 25 January 2005, pertaining in particular to implementation of changes in the specified group insurance contracts so that the provisions of such contracts are unambiguous;
- a letter of 26 October 2005 pointing out to an insufficient scope of information presented in certain insurance contracts, requiring extension, including individual life insurance contracts, “Pogodna Jesień” individual pension insurance, individual life insurance linked to the IKE insurance capital fund as well as group life insurance linked to the “Pogodna Przyszłość” insurance capital fun/a

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.
- furthermore, the Polish Financial Supervision Authority indicated the necessity to ensure compliance of the Company's business activity with the provisions of Article 817 of the Civil Code.

In the letter of 13 January 2010, PZU Życie informed the Polish Financial Supervision Authority:

- that the recommendation on introducing changes to the general terms and conditions of insurance was being implemented and the relevant information on its implementation would be provided by 31 March 2010;
- of the detailed approach to implementation of the recommendation regarding one of the provisions of the Accounting Act;
- that the Company had ensured compliance of its business activities with the provisions of Article 817 of the Civil Code.

In a letter of 30 March 2010, PZU Życie informed FSA that in the course of implementing the recommendation regarding adjustment of operations carried out by PZU Życie to Article 245.2 of the Act on insurance activity with regard to J and JŻR type insurance (individual death and annuity insurance):

- provided all the insured with J and JŻR policies with additional provisions to the general insurance terms whose contents had been accepted by FSA, as well as submitted these provisions to interested clients prior to the deadline of mailing them to all the insured;
- placed the additional provisions with the related information at the website of PZU Życie;
- trained employees of PZU Życie call center and POS with regard to the contents of the additional provisions.

In a letter of 14 June 2010 FSA stated that PZU Życie had commenced activities aimed at achieving compliance with Article 817 of the Civil Code, but failed to present FSA with copies of documentation in the form of additional provisions introduced to contract templates, which would finally confirm that the recommendation had been met. In a letter of 24 June 2010, PZU Życie provided FSA with the copies of the additional provisions to the general insurance tem as indicated by FSA.

5.4.6.2. Inspection in 2010

In the period from 23 to 27 August 2010, FSA performed inspection in PZU Życie with regard to compliance with obligations imposed by Act on prevention of money laundering and funding of terrorism of 16 November 2000 (consolidated text Dz.U. No. 46 of 2010, item 276).

FSA presented the post-inspection protocol on 10 September 2010. Until the date of the report, FSA issued no post-inspection recommendations.

According to the Management Board of PZU Życie, the results of the aforementioned inspections and the irregularities identified do not have a material impact on the financial performance of the PZU Group and the consolidated financial statements.

Signature of the Members of Management Board of PZU:

Andrzej Klesyk
Chairman

Przemysław Dąbrowski
Member

Witold Jaworski
Member

Person in charge of preparing of the consolidated financial statements:

Piotr Marczyk
Director

Warszawa, 15 March 2011

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.