

**POWSZECHNY ZAKŁAD UBEZPIECZEŃ  
SPÓŁKA AKCYJNA  
WARSAW, AL. JANA PAWŁA II 24**

**FINANCIAL STATEMENTS  
FOR THE 2012 FINANCIAL YEAR**

**WITH  
AUDITOR'S OPINION  
AND  
AUDIT REPORT**

**TABLE OF CONTENTS**

<b>AUDITOR'S OPINION .....</b>	<b>3</b>
<b>REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2012 FINANCIAL YEAR .....</b>	<b>5</b>
<b>I. GENERAL INFORMATION.....</b>	<b>5</b>
1. Details of the audited Company .....	5
2. Information about the financial statements for the prior financial year .....	6
3. Details of the authorized entity and the key certified auditor acting on its behalf.....	7
4. Availability of data and management's representations.....	7
<b>II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY .....</b>	<b>8</b>
<b>III. DETAILED INFORMATION .....</b>	<b>11</b>
1. Evaluation of the accounting system .....	11
2. Information about the audited financial statements.....	11
3. Information about selected material items of the financial statements .....	12
4. Correctness of calculation of the solvency margin and guarantee fund and determination of own funds to cover the solvency margin .....	13
5. Completeness and correctness of drawing up the introduction to the financial statements, additional information and explanations and the report on the activities of the Company .....	13
<b>IV. CLOSING COMMENTS.....</b>	<b>14</b>

**FINANCIAL STATEMENTS OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ  
SPÓŁKA AKCYJNA FOR THE 2012 FINANCIAL YEAR**

1. Introduction to the financial statements	
2. Balance sheet and off-balance sheet items	
3. Technical insurance account – property and personal insurance	
4. General profit and loss account	
5. Statement of changes in equity	
6. Cash flow statement	
7. Technical accounts – total direct activities	
8. Technical insurance account – total inward reinsurance	
9. Actuary's opinion	
10. Additional information and explanations	

**REPORT ON THE ACTIVITIES OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ  
SPÓŁKA AKCYJNA FOR THE 2012 FINANCIAL YEAR**

## AUDITOR'S OPINION

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

We have audited the attached financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw, at al. Jana Pawła II 24, including introduction to the financial statements, balance sheet prepared as of 31 December 2012, technical insurance account-property and personal insurance, general profit and loss account, statement of changes in equity, cash flow statement for the financial year from 1 January 2012 to 31 December 2012 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Company. The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act" and in line with principles determined in the Minister of Finance's Ordinance of 28 December 2009 on special principles of insurance companies' accounting (Journal of Laws of 2009, No. 226, item 1825, as amended).

Our responsibility was to audit and express an opinion on compliance of the financial statements with the accounting principles (policy) adopted by the Company and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Company and on the correctness of the underlying accounting records.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Company, verification – largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the audited financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Company as of 31 December 2012 as well as its profit or loss in the financial year from 1 January 2012 to 31 December 2012,
- have been prepared in accordance with the Company's accounting policy determined by the Accounting Act, the Ordinance and based on properly kept accounting records,
- comply with the provisions of law and the articles of association of the Company, which affect the contents of the financial statements.

Without raising any qualifications to the correctness and fairness of the audited financial statements, we would like to emphasize that the presented financial statements are individual financial statements and should be used primarily for statutory purposes. These financial statements cannot constitute sole basis for the evaluation of the financial and economic position of the Company that is a holding company in the Capital Group. In addition to the individual financial statements, the Company also prepares consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group, in which it acts as the holding company.

The Report on the activities of the Company for the financial year 2012 is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2009, No. 33, item 259, as amended) and consistent with underlying information disclosed in the audited financial statements.

Jacek Marczak  
Key certified auditor  
conducting the audit  
No. 9750

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyty Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyty Sp. z o.o.)

Warsaw, 12 March 2013

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

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS  
OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA  
FOR THE 2012 FINANCIAL YEAR**

**I. GENERAL INFORMATION**

**1. Details of the audited Company**

The Company operates under the business name Powszechny Zakład Ubezpieczeń Spółka Akcyjna. The Company's registered office is located in Warsaw, at al. Jana Pawła II 24.

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

The terms and procedures of transformation and assumption of liabilities of Państwowy Zakład Ubezpieczeń are governed by the Ordinance of the Minister of Finance of 18 December 1991 (Journal of Law from 1991, no. 119, item 522). Formal and actual transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company took place on 23 December 1991 pursuant to a notarized deed (Repertory A No. III-21516/91). Currently, the Company is recorded in the register of entrepreneurs kept by the District Court for the capital city of Warsaw, XII Business-Registry Division in Warsaw under number KRS 0000009831.

The Company's tax identification number NIP assigned by the Second Tax Office Warszawa-Śródmieście on 4 June 1993 is: 526-025-10-49.

The REGON number assigned by the Statistical Office on 5 July 1993 is: 010001345.

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

According to the Statistical Classification of Economic Activities in the Polish Community the Company's core business involves other property and personal insurance (PKD 65.12) and according to European Community, the Company's core business involves property insurance (code 6603).

As of 31 December 2012, the Company's share capital equaled PLN 86,352,300 and was divided into 86,352,300 ordinary shares with nominal value of PLN 1 each.

A series bearer shares and B series shares are publicly traded and listed on the Warsaw Stock Exchange. As of 31 December 2012 the Company's shareholders holding over 5% shares included:

– State Treasury	– 35.1875% of shares.
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During the financial year there were no changes in the share capital of the Company.

As of 31 December 2012, the Company's equity amounted to PLN 13,452,581 thousand.

The Company's financial year is the calendar year.

PZU SA has presented investments in subsidiaries and transactions with related parties in financial statement notes No. 2.4 and 32 respectively.

Composition of the Management Board as of the date of the opinion:

- Andrzej Klesyk – Chairman of the Management Board,
- Przemysław Dąbrowski – Member of the Management Board,
- Bogusław Skuza – Member of the Management Board,
- Tomasz Tarkowski – Member of the Management Board,
- Ryszard Trepczyński – Member of the Management Board.

Changes in the composition of the Management Board during the audited period:

- on 27 December 2012 Witold Jaworski has resigned and his mandate expired on the same day.

The above changes have been reported and registered at a relevant court register.

## **2. Information about the financial statements for the prior financial year**

The activities of the Company in 2011 resulted in a net profit of PLN 2,582,303 thousand. The financial statements of the Company for 2011 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On 14 March 2012 the certified auditor issued an emphasis of matter opinion on those financial statements, stating as follows:

“Without further qualifications as to the true and fair nature of the audited financial statements, we would like to point out that the presented financial statements are individual financial statements and should be used primarily for statutory purposes. These financial statements cannot constitute sole basis for the evaluation of the financial and economic position of the Company that is a holding company in the Capital Group. In addition to the individual financial statements, the Company also prepares consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group in which it acts as the holding company.”

The General Shareholders' Meeting which approved the financial statements for the 2011 financial year was held on 30 May 2012. The General Shareholders' Meeting decided on the following distribution of the net profit for 2011:

- |                             |   |                       |
|-----------------------------|---|-----------------------|
| – dividends to shareholders | – | PLN 1,936,882,089.00, |
| – supplementary capital     | – | PLN 635,420,638.40,   |
| – employee benefit fund     | – | PLN 10,000,000.00.    |

In accordance with applicable laws, the financial statements for the 2011 financial year were submitted to the National Court Register (KRS) on 4 June 2012 and filed for publication in Monitor Polski B on 6 June 2012. Financial statements were published in Monitor Polski B No. 2890/2012 on 14 November 2012.

**3. Details of the authorized entity and the key certified auditor acting on its behalf**

The audit of the financial statements was performed based on the agreement of 16 July 2012 concluded between Powszechny Zakład Ubezpieczeń Spółka Akcyjna and Deloitte Audyt Sp. z o.o. (currently: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.) with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Jacek Marczak, key certified auditor, (No. 9750), in the registered office of the Company and in its branches from 12 to 30 November 2012 and from 21 January 2013 until the date of this opinion.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 8 May 2012, based on authorization included in Article 25, clause 2, point 10 of the Company's By-Laws.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and Jacek Marczak, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649 as amended) to express an unbiased and independent opinion on the financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

**4. Availability of data and management's representations**

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 12 March 2013.

**II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY**

Presented below are the main items from the balance sheet, technical insurance account-property and personal insurance and general income statement as well as financial ratios describing the financial performance of the Company and its economic and financial position compared to the prior year.

<u>Main balance sheet items (in PLN '000)</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
Intangible assets	129,729	107,004
Investments	27,591,485	24,882,946
Receivables	1,473,952	1,487,399
Other assets	140,580	208,545
Prepayments	577,470	711,963
Total assets	29,913,216	27,397,857
Equity	13,452,581	11,745,410
Technical provisions	15,771,187	14,653,008
Reinsurer's share in provisions	(721,301)	(679,274)
Expected recoveries and recourses	(116,776)	(78,387)
Other provisions	218,355	412,906
Other liabilities and special funds	810,652	826,280
Accruals	498,518	517,914
Total liabilities	29,913,216	27,397,857
<u>Main items from the technical account of property and personal insurance (PLN '000)</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
Premiums	8,277,136	7,906,271
Net investment income including costs, reclassified from the general profit and loss account	287,299	265,986
Other technical revenues net of reinsurance	94,125	87,034
Claims	5,473,011	5,386,563
Bonuses and rebates combined with the change in provisions net of reinsurance	(2,647)	3,970
Costs of insurance activity	2,170,992	2,118,773
Other technical charges – net of reinsurance	382,126	363,609
Technical result on property and personal insurance	640,118	332,297
<u>Main items from the general profit and loss account (in PLN '000)</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
Technical result on property and personal insurance	640,118	332,297
Investment income	2,731,360	3,343,298
Unrealized gains on investments	134,605	57,135
Costs of investment activity	321,344	390,129
Unrealized losses on investments	67,224	171,647
Net investment income, including costs, reclassified to the technical account for property and personal insurance	287,299	265,986
Other operating revenue	215,391	73,637
Other operating expenses	121,226	236,999
Income tax	338,924	164,609
Share in net profits (losses) of controlled entities measured using the equity method	(4,737)	5,306
Net profit (loss)	2,580,720	2,582,303



**POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA**

<u>Profitability ratios</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
– profit ratio on the basis of gross premium written (net profit/gross written premium)	30.5%	32.0%
– profit ratio net of reinsurers' share (net profit/written premium net of reinsurance)	31.2%	32.7%
<u>Claims ratios</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
– Claims ratio on the basis of gross premium written ((Gross claims paid +/- Change in provisions for claims outstanding (gross)/ gross earned premium)	66.4%	68.2%
– claim ratio net of reinsurance (Claims paid net of reinsurance +/- change in the gross provisions for claims net of reinsurance)/premium earned net of reinsurance	66.1%	68.1%
<u>Operating costs ratio</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
– total operating costs ratio (Insurance activity costs/gross written premium) <sup>1</sup>	25.4%	26.0%
– administrative expenses ratio (administrative expenses/gross written premium)	8.0%	7.9%
– acquisition costs ratio (acquisition costs/gross written premium)	17.4%	18.2%
<u>Return on investment and equity ratios:</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
– level of investment (average investment amount/average equity plus technical provisions net of reinsurance)	96.8%	96.7%
– return on investment (net investment income/average investment amount in the reporting period) <sup>2</sup>	9.4%	11.7%
– return on equity (net profit/average equity) <sup>3</sup>	20.5%	21.8%
<u>Solvency and funds security ratios</u>	<u>31.12.2012</u>	<u>31.12.2011</u>
– invested reserves ratio (investments/technical provisions net of reinsurance)	183.3%	178.1%
– solvency margin (in PLN '000)	1,343,831	1,338,798
– own funds to cover the solvency margin	10,956,132	9,192,064
– margin coverage ratio (own funds surplus)	9,612,301	7,853,266
– solvency margin coverage ratio (own funds/solvency margin)	815.3%	686.6%
– value of assets covering technical provisions	19,741,146	18,510,626
– surplus (shortage) of assets to cover technical provisions	4,089,265	3,938,598

<sup>1</sup> Costs of insurance activity without reinsurers' commissions and reinsurers' share in profit.

<sup>2</sup> Average calculated as the arithmetic average of opening and closing investment balance.

<sup>3</sup> Average calculated as the arithmetic average of opening and closing equity balance.

An analysis of the above figures and ratios indicated the following trends in 2012:

- a decrease in profitability ratio on the basis of gross premium from 32.0% in 2011 to 30.5% in 2012,
- a decrease in profitability ratio net of reinsurance from 32.7% in 2011 to 31.2% in 2012,
- a decrease in claims ratio on the basis of gross premium from 68.2% in 2011 to 66.4% in 2012,
- a decrease in claims ratio net of reinsurance from 68.1% in 2011 to 66.1% in 2012,
- a decrease in operating costs ratio from 26.0% in 2011 to 25.4% in 2012,
- an increase in investment level ratio from 96.7% at the end of 2011 to 96.8% at the end of 2012,
- a decrease in return on equity from 21.8% in 2011 to 20.5% in 2012,
- an increase in provision allocation ratio from 178.1% at the end of 2011 to 183.3% at the end of 2012,
- an increase in solvency margin coverage from 686.6% at the end of 2011 to 815.3% at the end of 2012.

### **III. DETAILED INFORMATION**

#### **1. Evaluation of the accounting system**

The Company has valid documentation required by Article 10 of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act", referring in particular to: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities and determining the financial result, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and approved for use by a resolution of the Management Board No. UZ/319/2012 of 23 October 2012. Changes in the accounting policy arising from amended accounting and tax regulations have been introduced by separate resolutions of the Company's Management Board.

Accounting principles accepted by the Company comply with the Accounting Act. The introduction gives a description of valuation principles regarding assets and liabilities, as well as principles of measuring the financial result.

Accounting principles selected at the Company's discretion pursuant to section 4 of the Accounting Act have been selected in a manner that correctly reflects specifics of its business operations, its financial standing and performance. The accounting principles, apart from changes described in point 4 of introduction to financial statement, have been applied in a continuous manner and unchanged compared to those applied to the accounting records and financial statements in the preceding financial year.

The Company uses computerized accounting systems, Oracle Financials and FKX, in which all business transactions are recorded. The systems are password protected against unauthorized access and have functional access controls. The description of the IT system complies with the requirements of Article 10.1.3c of the Accounting Act.

The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

In the part we have audited, documentation of business transactions, accounting records and the relationships between accounting entries, documents and financial statements complied with the requirements of section 2 of the Accounting Act.

The accounting records and evidence, the documentation of the accounting system and the approved financial statements of the Company are stored in compliance with section 8 of the Accounting Act.

The Company performed a physical count of assets and liabilities within the scope, timing and frequency required by the Accounting Act. Identified differences have been recorded and settled in the accounting records for the audited period.

#### **2. Information about the audited financial statements**

The audited financial statements were prepared as of 31 December 2012 and include:

- introduction to the financial statements;
- balance sheet prepared as of 31 December 2012, with total assets and liabilities plus equity of PLN 29,913,216 thousand;

- technical insurance account-property and personal insurance for the financial year from 1 January 2012 to 31 December 2012, showing a positive technical result on property and personal insurance to be transferred to the general profit and loss account in the amount of PLN 640,118 thousand;
- general profit and loss account for the period from 1 January 2012 to 31 December 2012, disclosing a net profit of PLN 2,580,720 thousand;
- statement of changes in equity for the period from 1 January 2012 to 31 December 2012, disclosing an increase in equity of PLN 1,707,171 thousand;
- cash flow statement for the period from 1 January 2012 to 31 December 2012, showing a net cash outflow of PLN 66,256 thousand;
- additional information and explanations.

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

### **3. Information about selected material items of the financial statements**

#### Investments

The structure of investments was correctly presented in the respective explanatory note.

#### Technical provisions

The structure of technical provisions was correctly presented in the respective explanatory notes.

As at 31 December 2012, technical provisions were created pursuant to “Principles of creating technical provision in PZU SA”, approved for use by a resolution of the Management Board No. UZ/18/2013 of 18 January 2013 and principles determined in the Ordinance of the Minister of Finance of 28 December 2009 on special principles of insurance and reinsurance companies’ accounting (Journal of Law from 2008, no. 226, item 1825, “the ordinance on the insurance companies’ accounting”).

As of 31 December 2012, the Company created the following technical provisions:

- provision for unearned premiums,
- provision for claims outstanding,
- provision for bonuses and rebates for the insured,
- equalization provision.

Based on the work performed we came to the conclusion that the level of technical reserves net of insurers’ share presented in the balance sheet as of 31 December 2012 appears to be sufficient in light of the materiality concept, requirements of the Minister of Finance’s ordinance on special principles of insurance companies’ accounting and including limitations caused by natural uncertainty related to the necessity of estimating when determining the amount of provisions so that the Company is able to meet its future obligations resulting from insurance contracts concluded by 31 December 2012.

#### Structure of receivables

The ageing analysis of receivables and their structure by repayment date were correctly presented in the respective explanatory note.

#### Liabilities

The ageing analysis of receivables and their structure by repayment date were correctly presented in the respective explanatory note.

Prepayments and accruals

The structure of prepayments and accruals is correctly described in the respective notes. Expense and revenue recognized over time have been correctly classified in relation to the audited financial period.

These items are recognized completely and correctly in all material respects in relation to the financial statements as a whole.

**4. Correctness of calculation of the solvency margin and guarantee fund and determination of own funds to cover the solvency margin**

As of 31 December 2012, the Company created technical provisions in line with principles determined in the Ordinance of the Minister of Finance on special principles of insurance companies' accounting in the amount ensuring full meeting of its current and future obligations imposed by concluded insurance contracts. The provisions are secured with investments.

The Company calculated the solvency margin as of 31 December 2012 and determined the required guarantee fund in line with the Minister of Finance's ordinance of 28 November 2003 on calculation methods and amount of solvency margin and the minimum guarantee fund for insurance departments and groups (Journal of Laws from 2003, no. 211, item 2060, as amended).

The Company calculated the amount of own funds covering the solvency margin in line with principles defined in the Act on insurance activity. During audit, we did not detect any irregularities in calculation of the solvency margin, guarantee fund and own funds that cover them, which could significantly influence the above figures.

**5. Completeness and correctness of drawing up the introduction to the financial statements, additional information and explanations and the report on the activities of the Company**

The introduction to the financial statements includes all information required under the Ordinance of the Minister of Finance of 18 October 2005 on information disclosed in the financial statements and consolidated financial statements required in the prospectus for issuers headquartered in Poland bound by Polish accounting principles (Journal of Laws of 2005, No. 209, item 1743, as amended "Ordinance on financial statements").

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The introduction gives a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the financial statements. The Company prepared notes in the form of tables to individual balance sheet and profit and loss account items as well as narrative descriptions. Notes describing tangible fixed assets, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial year. Limitations imposed on individual assets disclosed in the balance sheet arising from security granted to creditors have been described.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under the Ordinance of financial statements, under the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2009, No. 33, item 259, as amended) and under the regulations of Ordinance on the insurance companies' accounting.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2012 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

#### **IV. CLOSING COMMENTS**

##### Management Board's Representation

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and the key certified auditor received a representation letter from the Company's Management Board, in which the Board stated that the Company complied with the laws in force.

Jacek Marczak  
Key certified auditor  
conducting the audit  
No. 9750

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 12 March 2013