CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 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 2011	31 December 2010	31 December 2009
Intangible assets	9	166 038	109 067	85 069
Goodwill	10	8 716	8 381	19 631
Property, plant and equipment	11	1 055 381	990 411	1 043 811
Investment property	12	534 222	441 014	346 552
Entities measured using the equity method		-	-	-
Financial assets				
Financial instruments held to maturity	13.1	21 659 505	20 305 758	23 327 568
Financial instruments available for sale	13.2	7 851 903	8 623 082	10 027 845
Financial instruments measured at fair value through profit or loss	13.3	10 814 619	12 118 252	10 213 631
Loans	13.4	6 449 332	4 297 940	4 668 549
Receivables, including receivables from insurance contracts	14	1 734 636	1 734 274	1 495 207
Reinsurers' share in technical provisions	15	700 713	771 850	748 313
Estimated recoveries and recourses	17	83 117	77 812	82 330
Deferred tax assets	18	8 600	16 645	24 913
Current income tax receivables	19	8 582	9 958	87 599
Deferred acquisition costs	20	569 843	540 729	518 279
Prepayments	21	125 890	194 226	215 804
Other assets	22	120 461	7 455	15 781
Cash and cash equivalents	23	237 724	423 703	366 556
Assets used in continuing operations		**52 129 282**	**50 670 557**	**53 287 438**
Non-current assets held for sale and disposal groups		-	-	-
Total assets		**52 129 282**	**50 670 557**	**53 287 438**

Warsaw, 14 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

(in PLN '000)

Equity and liabilities	Note	31 December 2011	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	86 352
Other capitals		7 948 386	6 649 782	5 802 568
Supplementary capital		7 711 818	6 296 313	5 485 014
Revaluation reserve	24.2	268 831	392 268	340 970
Exchange differences from translation of controlled entities	25	(32 263)	(38 799)	(23 416)
Undistributed profit / uncovered loss		4 748 424	6 063 666	5 377 826
Previous year profit (loss)		2 403 000	3 624 435	2 365 282
Net profit (loss)		2 345 424	2 439 231	3 762 945
Appropriations on net profit during the financial year		-	-	(750 401)
Minority interest		86 343	126	133
Total equity		**12 869 505**	**12 799 926**	**11 266 879**
Liabilities				
Technical provisions	26			
Provision for unearned premiums and for unexpired risks		4 521 396	4 315 675	4 189 849
Life insurance provision		14 595 112	14 570 725	14 582 590
Provisions for outstanding claims		5 429 481	5 157 080	4 456 464
Provision for capitalized value of annuity claims		5 088 626	4 862 552	4 874 653
Provisions for bonuses and rebates for the insured		7 192	6 177	5 071
Other technical provisions		581 155	614 692	698 918
Unit linked technical provisions		2 299 767	2 296 089	2 017 501
Investment contracts	27			
- with guaranteed and fixed terms and conditions		2 330 870	2 270 568	2 632 054
- for the client and at the client's risk		1 140 902	1 273 947	1 094 475
Provisions for employee benefits	28	255 576	257 916	260 946
Other provisions	29	322 063	212 559	314 595
Provision for deferred income tax	30	109 716	404 956	444 053
Current income tax liabilities	31	7 570	1 743	3 056
Derivatives		93 443	11 730	3 533
Other liabilities	32	1 789 951	1 132 079	5 974 052
Accruals and deferred income	33			
Cost accruals		669 048	474 272	464 126
Deferred income		17 909	7 871	4 623
Liabilities related to continuing operations		**39 259 777**	**37 870 631**	**42 020 559**
Liabilities directly related to non-current assets classified as held for sale		-	-	-
Total liabilities		**39 259 777**	**37 870 631**	**42 020 559**
Total equity and liabilities		**52 129 282**	**50 670 557**	**53 287 438**

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CONSOLIDATED INCOME STATEMENT

(in PLN '000)

Consolidated income statement	Note	1 January – 31 December 2011	1 January – 31 December 2010
Gross written premiums	34	15 279 262	14 541 022
Reinsurer's share in the written premium		(285 386)	(200 853)
Net written premium		**14 993 876**	**14 340 169**
Change in net provision for unearned premium		(103 348)	(127 156)
Net earned premiums		**14 890 528**	**14 213 013**
Revenue from commissions and fees	35	281 351	288 037
Net investment income	36	1 970 254	1 824 518
Net profit or loss on realization and impairment loss on investments	37	(187 247)	199 451
Net change in the fair value of assets and liabilities plus equity measured at fair value	38	(189 181)	753 805
Other operating revenue	39	485 481	89 297
Claims and change in technical provisions	40	(10 373 521)	(10 939 234)
Reinsurers' share in claims and change in technical provisions		152 399	555 172
Net insurance claims		**(10 221 122)**	**(10 384 062)**
Claims and change in measurement of investment contracts	41	32 512	(177 549)
Acquisition expense	42	(1 961 986)	(1 911 255)
Administrative expense	43	(1 383 897)	(1 505 784)
Other operating expense	45	(759 966)	(301 386)
Operating profit (loss)		**2 956 727**	**3 088 085**
Financial expense	46	(49 152)	(58 654)
Share in net profit (loss) of entities measured using the equity method		-	-
Gross profit (loss)		**2 907 575**	**3 029 431**
Income tax	48		
- current portion		(826 397)	(639 298)
- deferred portion		262 769	49 096
Net profit (loss) from continuing operations		2 343 947	2 439 229
Net profit (loss), including:		**2 343 947**	**2 439 229**
- profit (loss) attributable to equity holders of the parent		2 345 424	2 439 231
- minority profits (loss)		(1 477)	(2)
Net profit (loss) from continuing operations		2 345 424	2 439 231
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)		27,16	28,25
Basic and diluted profit (loss) on discontinued operations per ordinary share (in PLN)		-	-
Basic and diluted profit (loss) per ordinary share (in PLN)		27,16	28,25

Warsaw, 14 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN ‘000)

Consolidated statement of comprehensive income	Note	1 January – 31 December 2011	1 January – 31 December 2010
Net profit (loss)		2 343 947	2 439 229
Other comprehensive income:	18, 30	(116 887)	35 910
Financial assets available for sale		(162 649)	641
Exchange differences from translation of controlled entities		6 550	(15 388)
Real property reclassified from property, plant and equipment to investment property		39 212	50 657
Net comprehensive income total		**2 227 060**	**2 475 139**
- comprehensive income attributable to holders of the parent’s equity		2 228 523	2 475 146
- comprehensive income attributable to equity under discretionary participation features contracts		-	-
- comprehensive income attributable to non-controlling interests		(1 463)	(7)

Warsaw, 14 March 2012

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in PLN '000)

Statement of changes in consolidated Equity	Equity and provisions attributable to owners of the parent's share capital							Minority interest	Total equity
		Other capitals			Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Total		
Balance as at 1 January 2011	**86 352**	**6 296 313**	**392 268**	**(38 799)**	**6 063 666**	**-**	**12 799 800**	**126**	**12 799 926**
Change in measurement of AFS financial assets	-	-	(162 649)	-	-	-	(162 649)	-	(162 649)
Exchange differences from translation	-	-	-	6 536	-	-	6 536	14	6 550
Real property reclassified from property, plant and equipment to investment property	-	-	39 212	-	-	-	39 212	-	39 212
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**(123 437)**	**6 536**	**-**	**-**	**(116 901)**	**14**	**(116 887)**
Net profit (loss) for the financial year	-	-	-	-	-	2 345 424	2 345 424	(1 477)	2 343 947
Total increases (decreases)	**-**	**-**	**(123 437)**	**6 536**	**-**	**2 345 424**	**2 228 523**	**(1 463)**	**2 227 060**
Other changes, including:	**-**	**1 415 505**	**-**	**-**	**(3 660 666)**	**-**	**(2 245 161)**	**87 680**	**(2 157 481)**
Financial profit distribution/loss coverage	-	1 415 325	-	-	(3 660 485)	-	(2 245 160)	(2 830)	(2 247 990)
Consolidation of the Armatura Capital Group	-	-	-	-	-	-	-	88 679	88 679
Other	-	180	-	-	(181)	-	(1)	1 831	1 830
Balance as at 31 December 2011	**86 352**	**7 711 818**	**268 831**	**(32 263)**	**2 403 000**	**2 345 424**	**12 783 162**	**86 343**	**12 869 505**

Warsaw, 14 March 2012

(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)	Total		
Balance 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/loss reclassified to supplementary capital	-	811 115	-	-	(1 753 219)	-	(942 104)	-	(942 104)
Other	-	184	-	-	(172)	-	12	-	12
Balance 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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CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN '000)

Consolidated statement of cash flows	1 January – 31 December 2011	1 January – 31 December 2010
Cash flows from operating activities		
Inflows	19 725 868	18 470 571
- gross inflows from insurance premiums	14 929 349	14 521 524
- inflows from investment contracts	3 054 350	2 787 658
- inflows from reinsurance commissions and share in reinsurers' profits	20 513	10 779
- reinsurers' payments due to share in claims	385 775	466 219
- other inflows from operating activities	1 335 881	684 391
Outflows	(18 138 296)	(18 001 148)
- insurance premiums paid due to reinsurance	(174 369)	(154 254)
- paid commissions and profit sharing due to outward reinsurance	(4 679)	(4 152)
- gross claims paid	(9 026 567)	(9 295 988)
- claims paid due to investment contracts	(3 068 852)	(3 026 424)
- outflows due to acquisition	(1 483 488)	(1 450 351)
- administrative outflows	(2 073 279)	(2 135 292)
- interest payments	(146)	(225)
- income tax payments	(904 071)	(110 228)
- other operating outflows	(1 402 845)	(1 824 234)
Net cash flows generated by operating activities	**1 587 572**	**469 423**
Cash flows from investment activities		
Inflows	259 765 786	270 016 909
- disposal of investment property	13 282	-
- inflows from investment property	8 763	5 628
- disposal of intangible assets and property, plant and equipment	27 905	7 859
- disposal of shares	4 372 949	4 416 405
- redemption of debt securities	65 465 651	31 510 882
- withdrawal of term deposits at credit institutions	130 812 922	129 179 172
- cash from other investments	58 512 745	103 641 528
- interest received	450 899	1 191 346
- dividends received	98 101	64 089
- other inflows from investments	2 569	-
Outflows	(260 054 472)	(264 687 431)
- acquisition of investment property	-	(1 329)
- payments for maintenance of investment property	(11 581)	(8 152)
- acquisition of intangible assets and property, plant and equipment	(168 435)	(155 850)
- acquisition of shares	(4 561 634)	(4 561 101)
- decrease in cash balance due to discontinued investment funds consolidation	-	(201)
- acquisition of debt securities	(63 630 331)	(27 390 996)
- acquisition of term deposits at credit institutions	(132 934 922)	(127 601 087)
- acquisition of other investments	(58 733 953)	(104 929 875)
- other payments for investments	(13 616)	(38 840)
Net cash used in/generated by investment activities	**(288 686)**	**5 329 478**

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CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

(in PLN '000)

Consolidated cash flow statement	**1 January – 31 December 2011**	**1 January – 31 December 2010**
Cash flows from financing activities		
Inflows	39 242 376	578
- loans and borrowings and issues of debt securities	39 242 376	578
Outflows	(40 728 208)	(5 728 563)
- dividends paid to holders of the parent's equity	(2 163 206)	(921 239)
- dividends paid to non-controlling interest	(2 830)	-
- repayment of loans and borrowings and redemption of debt securities	(38 556 267)	(4 807 324)
- interest on credit facilities, loans and issued debt securities	(5 905)	-
Net cash used in financing activities	**(1 485 832)**	**(5 727 985)**
Total net cash flows	**(186 946)**	**70 916**
Cash and cash equivalents at the beginning of the financial year	423 703	366 556
Change in cash due to exchange differences	967	(13 769)
Cash and cash equivalents at the end of the financial year, including:	237 724	423 703
- of limited disposability	26 841	22 426

Warsaw, 14 March 2012

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 2011 to 31 December 2011.

These consolidated financial statements were signed and approved for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent) on 14 March 2012 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 2011, entities included in consolidation did not discontinue any activity.

ICH Center SA, non-consolidated subsidiary, discontinues its statutory activity (i.e. Green Card claim handling) starting from 16 March 2012 according to the resolution of the Shareholders Meeting dated 8 March 2012.

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).

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 2011	31 December 2010	31 December 2011	31 December 2010	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	nd.	nd.	nd.	nd.	nd.	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")	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	Armatura Kraków SA [1)]	Kraków	07.10.1999	63,83%	64,63%	63,83%	64,63%	Production of kitchen and bathroom mixing faucets.
10	Armatoora SA [1)]	Nisko	10.12.2008	63,83%	64,63%	63,83%	64,63%	Production of radiators and aluminium casts.
11	Armatoora SA i wspólnicy sp. k. [1)]	Kraków	10.02.2009	63,83%	64,63%	63,83%	64,63%	Use of free funds, development investments
12	Armagor SA (do 5 kwietnia 2011 roku: Armagor Sp. z o.o.) [1)]	Gorzów Śląski	06.09.2009	63,83%	64,37%	63,83%	64,37%	Production of valves, tooling services
13	PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny[2)]	Warsaw	15.12.2009	100,00%	100,00%	nd.	nd.	Investment of funds collected from members

	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 2011	31 December 2010	31 December 2011	31 December 2010	
Non-consolidated subsidiaries								
14	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU")	Warsaw	30.04.1999	100,00%	100,00%	100,00%	100,00%	Creation, representing and management of investment funds
15	PZU Asset Management SA („PZU AM")	Warsaw	12.07.2001	100,00%	100,00%	100,00%	100,00%	Management of securities portfolios for the account of third parties
16	PZU Pomoc SA	Warsaw	18.03.2009	100,00%	100,00%	100,00%	100,00%	Assistance services
17	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99,34%	99,34%	99,34%	99,34%	Life Insurance
18	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Life Insurance
19	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA")	Warsaw	13.08.2004	100,00%	100,00%	100,00%	100,00%	Management of employee pension fund
20	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100,00%	100,00%	100,00%	100,00%	Assistance and medical services
21	Ipsilon Bis SA	Warsaw	02.09.2011	100,00%	nd.	100,00%	nd.	The Company does not conduct activities.
22	Omicron SA	Warsaw	13.09.2011	100,00%	nd.	100,00%	nd.	The Company does not conduct activities.
23	Syta Development Sp. z o.o. w likwidacji	Warsaw	29.04.1996	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of real property, trade agency and administration of real property.
24	Sigma Investments Sp. z o.o.	Warsaw	28.12.1999	100,00%	100,00%	100,00%	100,00%	Investment activity Acquisition and disposal of shares in public companies, bonds and other listed securities
25	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Assistance services
26	Company with Additional Liability Inter-Risk Ukraine („Inter Risk")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Legal services
27	LLC Finansowa Kompania Idea-Kapitał	Kiev (Ukraine)	06.10.2011	100,00%	nd.	100,00%	nd.	Financial services
28	ICH Center SA	Warsaw	31.01.1996	90,00%	90,00%	90,00%	90,00%	Servicing motor claims adjustment under the Green Card (from the beginning of 2011 the Company does not engage in operations).

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 2011	31 December 2010	31 December 2011	31 December 2010	
Affiliates								
29	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37,53%	37,53%	36,71%	36,71%	Operation of ski hoists.
30	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30,00%	30,00%	30,00%	30,00%	Insurance activities.

1) Consolidated using the full method since 1 January 2011 (described in point 3.4.1)
2) Consolidated using the full method since 30 June 2011 (described in point **Error! Reference source not found.**)

The following table presents key financial data of PZU Group entities for the financial year ended 31 December 2011

No.	Entity's name	% of share capital directly or indirectly held by PZU as at 31 December 2011	Net profit (loss)	Sales and financial revenue	Total assets	Liabilities and provisions for liabilities	Equity
1	Towarzystwo Funduszy Inwestycyjnych PZU SA 1/6/	100,00%	13 581	49 295	54 115	11 339	42 776
2	PZU Asset Management SA 1/6/	100,00%	3 188	23 951	16 614	4 038	12 576
3	PZU Pomoc SA 1/6/	100,00%	(1 037)	6 275	19 871	3 429	16 442
4	UAB PZU Lietuva Gyvybes Draudimas 1/2 /3 /4/	99,34%	36	22 845	77 647	48 773	28 874
5	PrJSC IC PZU Ukraine Life Insurance 1/5/	100,00%	4 588	34 116	80 607	59 729	20 878
6	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA 6/	100,00%	532	1 751	1 387	188	1 199
7	Ipsilon Sp. z o.o. 1/6/	100,00%	(3)	2	41	1	40
8	Ipsilon Bis SA 1/6/	100,00%	(4)	1	99	3	96
9	Omicron SA 1/6/	100,00%	(1)	1	99	-	99
10	Syta Development Sp. z o.o. w likwidacji 1/6/	100,00%	(189)	1 650	6 463	11 714	(5 251)
11	Sigma Investments Sp. z o.o. 1/6/	100,00%	(5)	-	27	1	26
12	LLC SOS Services Ukraine 1 /5/	100,00%	185	4 176	1 107	237	870
13	Company with Additional Liability Inter-Risk Ukraine 1 /5/	100,00%	178	2 547	788	373	415
14	LLC Finansowa Kompania Idea-Kapitał 1 /5/	100,00%	(286)	32	1 419	1	1 418
15	ICH Center SA 6/	90,00%	(1 191)	226	5 053	460	4 593
16	Kolej Gondolowa Jaworzyna Krynicka SA 6/	37,53%	(4 056)	15 920	50 240	13 111	37 129
17	Nadwiślańska Agencja Ubezpieczeniowa SA 1/6/	30,00%	592	4 081	2 736	212	2 524

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 Polish Accounting Standards.

2.3 Changes in the organization of the PZU Group

2.3.1 Transfer of portion of financial investments to funds

On 30 June 2011 and 29 September 2011, a portion of bonds issued by the State Treasury owned by PZU Życie and classified to the portfolio of financial instruments measured at fair value through profit or loss - classified to the category at the initial recognition, with the fair value as at the transfer date of PLN 954,210 thousand and PLN 1.004.266 thousand, respectively - were transferred to PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny, with PZU Życie as the sole participant

The objective of the transfer was to improve the effectiveness of the management of financial investments inter alia by tax optimization (CIT on capital gains and VAT paid to other companies in the PZU Group for the management of the portfolio of securities and not deducted by PZU Życie).

The above transaction had not impact on the net assets and profit/loss of the PZU Group.

Presentation, classification and the method of measurement of the assets in these consolidated financial statements of the PZU Group did not change as well, and the PZU fund Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny has been consolidated using the full method since 30 June 2011.

2.3.2 Transfer of PZU CO, TFI PZU and PZU AM from PZU Życie to PZU

On 27 September 2011 (after receiving consent from KNF for the transaction in 26 September 2011) PZU acquired all the shares which had been held by PZU Życie in the following companies:

- 50,000 registered shares of PZU CO (100.0% of shares) for the price PLN 40.605 thousand corresponding to the value of shares of PZU CO recognized in the accounting records of PZU Życie as at the date of the share sale agreement (pursuant to PAS);
- 13,000 registered shares of TFI PZU (100.0% of shares) for the price PLN 238.364 thousand corresponding to the value of shares of TFI PZU recognized in the accounting records of PZU Życie as at the date of the share sale agreement (pursuant to PAS);
- 25,001 registered shares of PZU AM (50.002% of shares) for the price PLN 5.617 thousand being the equivalent of PZU AM net assets attributable to the acquired shares, resulting from the financial statements of the company prepared for the last reporting period (pursuant to PAS);

Currently PZU is the sole shareholder in those companies. The transaction was conducted in connection with, among other things, the expansion of the Tax Group, as described in item 55.5.

2.3.3 Transfer of Centrum Obsługi Ubezpieczeń in Warsaw and part of Telecentrum from PZU Życie to PZU CO

In October 2011, as a result of restructuring, Centrum Obsługi Ubezpieczeń in Warsaw ("COUW") and part of Telecentrum were transferred from PZU Życie to PZU CO. The number of employees transferred with COUW and Telecentrum amounted to 107 and 58 respectively. COUW is an organizational entity responsible for the comprehensive servicing of some of PZU Życie's insurance products.

The expected benefits for PZU Życie resulting from the transfer of COUW and part of Telecentrum to the external entity cover:

- a reduction in operating expenses by concentrating on basic business operations;
- the possibility of further optimizing activities related to the comprehensive servicing of insurance products by concentrating them in a specialized entity.

2.3.4 Sales of Inter-Risk

On 22 December 2011 PZU Ukraine and PZU Ukraine Life concluded an agreement with PKO BP SA for the sale of Inter-Risk for a total of PLN 2,500 thousand.

On 16 January 2012 the ownership rights to shares in Inter-Risk were transferred to the acquirer.

Realized gain on above transaction amounted to PLN 2,286 thousand.

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 2011

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
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 2011	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
Amendments to IFRS 7 - Financial Instruments: Disclosures	1 July 2011	1205/2011

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:

- Not approved by EC Commission:

Standard/Interpretation	Date of entry into force for periods beginning on (by IASB)
IFRS 9 – Financial Instruments	1 January 2015
IFRS 10 – Consolidated financial statements	1 January 2013 *
IFRS 11 – Joint Arrangements	1 January 2013 *
IFRS 12 – Disclosure of interests in other entities	1 January 2013 *
IFRS 13 – Fair value measurement	1 January 2013
Revised IAS 27 – Separate financial statements	1 January 2013
Revised IAS 28 - Investments in associates and joint ventures	1 January 2013
Amendments to IAS 12 – Income Taxes	1 January 2012
Severe hyperinflation and removal of fixed dates for first-time adopters (Amendments to IFRS 1)	1 July 2011
Amendments to IAS 1 - Presentation of items of other comprehensive income	1 July 2012
Amendments to IAS 19 - Amendments to the accounting treatment of post-employment benefits	1 January 2013
Amendments to IFRS 7 – offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32 - offsetting financial assets and financial liabilities	1 January 2014
IFRIC 20 – Stripping costs in the production phase of a surface mine	1 January 2013

* On 9 December 2011 European Financial Reporting Advisory Group („EFRAG") proposed postpone the date of entry into force of the later of two: 1 January 2014 or 12 months after publications two documents: amendments to IFRS 10 and standard concerning consolidation of investment funds.

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.
- IFRS 10 – if applied, the scope of consolidated entities may be wider, however, due to the late effective date (also due to EFRAG's proposition), the impact of application of IFRS 10 on the comprehensive income and equity of the PZU Group were not assessed.

3.2 Changes in Accounting Policy

In 2010 the foregoing changes were introduced to the Accounting Policy and are described in points below.

3.2.1 Change in the principles of recognition of the gross written premium at PZU

Since 1 January 2011, PZU has been recognizing revenue due to written premium on the day of the insurance contract, not on the first day of insurance cover resulting from the concluded insurance contracts (presented in liabilities as a provision for unearned premiums), In addition, the same change was made to the date of recognition of the costs of commissions for concluded contracts in the income statement (also without any effect on the change in profit or loss, through recognition of deferred costs in liabilities).

Compering to the previous accounting policy, currently applied policy for premium revenue recognition is more relevant, preserving the same level of reliability of accounting policies, due to:

- providing disclosure of full and complete revenue on gross premium and corresponding assets (e.g. receivables from policyholders) and liabilities (unearned premium reserve) arising from all insurance contracts issued before the balance sheet date apart from insurance policies coverage periods;
- compliance with requirements and recommendations of Polish insurance regulator - the Polish Financial Supervision Authority (KNF) - for obligatory regulatory reporting in reference to correct estimation of unearned premium reserve and surplus of assets to cover technical provisions;
- comparability with other insurance companies on Polish markets based on gross written premium.

The change did not have any impact on the consolidated profit/loss or consolidated net assets of the PZU Group.

3.2.2 ABC model

3.2.2.1 Introduction of the ABC model at PZU

In 2011, PZU introduced a model for allocation of indirect expenses to individual insurance products using the activity based costing model.

The purpose of the cost allocation using the ABC model, introduced in 2011 is:

- a more precise determination of the actual costs of products offered by PZU;
- a more precise determination of the actual mark-ups of general expenses (and their allocation principles) charged to individual products.

The allocation of expenses using the ABC model assumes that indirect expenses are divided by products and that the following are excluded from the administrative expenses: costs of acquisition, loss adjustment and recourse collection expenses, investment activity expenses and other operating costs. The method is based on determination of the following:

- type and amount of allocated resources;
- activities that allow resources to be allocated;
- cost drivers that allow resources to be allocated to activities;
- cost objects to which resources are allocated;
- cost drivers that allow activities to be allocated to cost objects.

Only the following are subject to allocation: indirect acquisition costs, indirect loss adjustment expenses, indirect recourse collection expenses, part of administrative expenses (described above), costs of maintenance of investment real property, other expenses related to investment activities.

The model is updated on a quarterly basis taking into account the resources and activities; the financial and accounting system (general ledger and individual modules) is the source of cost data.

3.2.2.2 Change in the ABC model at PZU Życie

In 2011, PZU Życie introduced a new model for allocation of indirect expenses to individual insurance products using the activity based costing model.

The new model is based on the following assumptions: simplified structure compared to the earlier model, greater transparency of the model and the results of calculations, increased usefulness of the model for management purposes, greater flexibility of the model by easier adaptation to the organizational changes.

The key changes (compared to the earlier version of the model) included: limited list of resources and activities for the calculation (aggregation), specification of new division criteria for the resources and activities, lack of working time questionnaires previously filled in by all employees of individual business units and introduction of new working time questionnaires filled in by the heads of specific business units.

3.2.3 Impact of changes on comparative data

The tables below present the impact of the above changes on the financial data for comparable periods.

Assets	**Point**	**31 December 2010 historical data**	***Change***	**31 December 2010 comparative data**	**31 December 2009 historical data***	***Change***	**31 December 2009 comparative data**
Receivables, including receivables from insurance contracts	3.2.1	1 597 549	*136 725*	1 734 274	1 383 978	*111 229*	1 495 207
Deferred acquisition costs	3.2.1	502 815	*37 914*	540 729	481 139	*37 140*	518 279
Prepayments	3.2.1	232 140	*(37 914)*	194 226	252 944	*(37 140)*	215 804
Total assets		50 533 832	*136 725*	50 670 557	53 176 209	*111 229*	53 287 438

Equity and liabilities	**Point**	**31 December 2010 historical data**	***Change***	**31 December 2010 comparative data**	**31 December 2009 historical data**	***Change***	**31 December 2009 comparative data**
Provision for unearned premiums and for unexpired risk	3.2.1	3 975 861	*339 814*	4 315 675	3 846 600	*343 249*	4 189 849
Deferred income	3.2.1	210 960	*(203 089)*	7 871	236 643	*(232 020)*	4 623
Total equity and liabilities		50 533 832	*136 725*	50 670 557	53 176 209	*111 229*	53 287 438

* Data presented in consolidated financial statements for 2010 year.

Consolidated income statement	Point	1 January - 31 December 2010 historical data	Change	1 January - 31 December 2010 comparative data
Gross written premiums	3.2.1	14 544 457	*(3 435)*	14 541 022
Net written premium	3.2.1	14 343 604	*(3 435)*	14 340 169
Change in net provision for unearned premiums	3.2.1	(130 591)	*3 435*	(127 156)
Net earned premiums		14 213 013	-	14 213 013
Net investment income	3.2.2	1 828 584	*(4 066)*	1 824 518
Claims and change in technical provisions	3.2.2	(10 854 407)	*(84 827)*	(10 939 234)
Net insurance claims		(10 299 235)	*(84 827)*	(10 384 062)
Claims and change in measurement of investment contracts	3.2.2	(176 765)	*(784)*	(177 549)
Acquisition costs	3.2.2	(1 851 404)	*(59 851)*	(1 911 255)
Administrative expenses	3.2.2	(1 663 163)	*157 379*	(1 505 784)
Other operating expenses	3.2.2	(293 535)	*(7 851)*	(301 386)
Operating profit (loss)		3 088 085	-	3 088 085
Net profit (loss)		2 439 229	-	2 439 229

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

In 2011 no changes were introduced to the manner of preparing the consolidated financial statements compared to the ones prepared by the Group for 2010 with the reservation that, the PZU Group applied the exemption specified in point 25 of the revised IAS 24: “Related party disclosures”, whereby an entity can be exempt from the requirement of disclosure of certain information concerning related party transactions if the related party is under the control, joint control or significant influence of the same government, and can present only the amount of written premium and transaction volumes related to investment contracts with such entities. At the same time, in accordance with the definition in point 9 of the revised IAS 24, the disclosure requirement applies to transactions with subsidiaries, fellow subsidiaries and associates under the same government; before the requirement applied only to transactions with entities under joint control of the same government (i.e. only subsidiaries of the same government).

3.4 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".

3.4.1 Consolidation of the Armatura Capital Group

Since 1 January 2011, the consolidated financial data of the Armatura Capital Group ("Armatura Group"), including the financial data of Armatura Kraków SA, Armatoora SA, Armatoora i wspólnicy sp. k. and Armagora SA), have been consolidated using the full method in the consolidated financial statements of the PZU Group. The reason for the consolidation of the Armatura Group is the fact that its consolidated financial data have exceeded the materiality thresholds adopted by the PZU Group for the purposes of the consolidated financial reporting.

The table below presents key items from the consolidated statement of financial position of the Armatura Group with reconciliation to the consolidated net assets of Armatura Group as at 1 January 2011 (measured in line with the accounting principles of the PZU Group):

Reconciliation of net assets of the Armatura Group as at 1 January 2011	Value
Property, plant and equipment	159 199
Investment property	23 767
Receivables	102 419
Cash and cash equivalents	1 849
Assets held for sale (investment property)	76 000
Other assets	123 895
Total assets	**487 129**
Liabilities	(236 582)
Minority interest	(75)
Net assets	**250 472**

The difference between the carrying amount of shares of Armatura Kraków SA as at 1 January 2011 and the share of the PZU Group in the net assets of the Armatura Group of PLN 118,916 thousand was charged to the profit/loss for 2011 and presented under "Other operating revenue" of the consolidated income statement.

Impact of the consolidation of the Armatura Group on the consolidated profit/loss of the PZU Group	Value
Carrying amount of shares of Armatura Kraków SA (measured at historical cost including impairment loss)	42 952
Value of consolidated net assets of the Armatura Group as at 1 January 2011	250 472
Share of the PZU Group in the consolidated net assets of the Armatura Group as at 1 January 2011 (64.6250%)	161 868
Impact on consolidated profit/loss of the PZU Group	**118 916**

3.4.2 Transfer of portion of financial investments to funds

The issue has been described in point 2.3.1

3.5 Currency exchange rates

The following currency exchange rates have been adopted herein:

Currency exchange rates adopted to translate financial data of foreign controlled entities	1 January - 31 December 2011	31 December 2011	1 January - 31 December 2010	31 December 2010	31 December 2009
LTL	1,1990	1,2792	1,1597	1,1469	1,1898
UAH	0,3716	0,4255	0,3830	0,3722	0,3558

The rates are:

- average rates of the National Bank of Poland ruling as at the balance sheet date – for the statement of financial position;

- rates determined as the arithmetic mean of the rates published by the National Bank of Poland, ruling as at the last day of each month of a given period - for the income statement, statement of comprehensive income and statement of cash flows.

3.6 Intangible assets

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

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

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

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

3.7 Goodwill

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

3.8 Property, plant and equipment

Property, plant and equipment are recognized at acquisition price, 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.

3.9 Impairment of property, plant and equipment and intangible assets

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

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

When such premises have been indicated, an impairment test for a given asset is carried out to 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.

3.10 Investment property

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

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

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

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

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

3.11 Financial instruments

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

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

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

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

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

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

3.11.1 Financial instruments held to maturity

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

3.11.2 Loans and receivables

Loans and receivables include in particular:

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

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

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

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

3.11.3 Financial instruments available for sale

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

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

3.11.4 Financial instruments measured at fair value through profit or loss

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

- financial instruments held for trading - assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments classified at the time of acquisition as those measured at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include some instruments that pursuant to the Act of 22 May 2003 on insurance activity (Dz. U. No. 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.

3.11.5 Derivatives

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

The fair value of derivatives, such as forwards and interest rate swaps (IRS) not quoted in an active market is determined using the discounted cash flows and the information used in the measurement of the instruments comes from the money market.

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

The companies in the PZU Group do not apply hedge accountingChanges in the fair value of derivatives which are not hedging instruments are recognized in profit or loss of the reporting period of revaluation in the "Net change in the fair value of assets and liabilities measured at fair value".

PZU Group companies do not apply hedge accounting.

3.11.6 Financial liabilities other than ones measured at fair value

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

Other financial liabilities are measured at adjusted acquisition price.

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

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

3.11.7 Impairment of financial assets

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

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

Objective evidence for impairment includes information concerning the following events:

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

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

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

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

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

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

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

3.12 Recoveries and recourses in property and personal insurance

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

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

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

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

3.13 Costs of acquisition and deferred costs of acquisition

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

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

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

3.13.1 Property and personal insurance

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

3.13.2 Life insurance

In the case of life insurance products, 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).

3.13.3 Pension insurance

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

3.14 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and at bank.
Cash is recognized at face value.

3.15 Equity

3.15.1 Share capital

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

3.15.2 Supplementary capital

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

3.15.3 Revaluation reserve

Revaluation reserve includes the effects of:

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

3.15.4 Undistributed profit/uncovered loss

Undistributed profit/uncovered loss includes:

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

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

3.16 Classification of insurance products

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

3.16.1 Property and personal insurance

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

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

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

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

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

3.16.2 Life insurance

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

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

3.16.2.1 Insurance contracts and DPF investment contracts

Both insurance contracts and investment contracts may contain discretionary participation features (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.

3.16.2.2 Unit-linked products

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

3.16.2.3 Investment contracts with no DPF

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

3.17 Insurance contracts

3.17.1 Written premium and provision for unearned premiums

3.17.1.1 Property and personal insurance

PZU, PZU Latvia 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 by date of underwriting the policy.

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

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.

3.17.1.2 Life insurance

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

3.17.2 Costs of claims paid and technical provisions

3.17.2.1 Property and personal insurance

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

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

The provision for claims outstanding includes:

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

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

The provision 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 triangles: generalized Chain Ladder method, eventually Bornhuetter-Ferguson method for the year of the claim. Basis for calculation are annual triangles for claims paid and claims reported.

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

Rezerwa na bezpośrednie koszty likwidacji dla szkód zgłoszonych ustalana jest przez jednostki operacyjne, zaś dla szkód zaistniałych i niezgłoszonych jest ustalana przy wykorzystaniu uogólnionej metody Chain Ladder, na podstawie analizy trójkątów kosztów, w podziale na lata, w których powstały szkody.

The provision for indirect claim handling cost is calculated as a percentage of sum of provision for claims reported but not settled, provision for claims incurred but not reported and provision for direct claim handling costs.

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

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

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

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

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

3.17.2.2 Life insurance

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

Costs of claims paid

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

The value of claims is recognized at the actually paid amount, following deduction of 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.

3.17.3 Provision adequacy tests

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

3.18 Employee benefits

3.18.1 Defined contribution plans

Social security contributions

PZU Group companies are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland they include some of the contribution to pension and disability insurance and all contribution to accident insurance, labor fund and guaranteed employment benefit 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.

3.18.2 Defined benefit plans

3.18.2.1 Provision for retirement benefits

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

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

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

3.18.2.2 Survivor benefits

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

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

3.18.3 Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Dz. U. No. 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.

3.18.4 Provisions for jubilee benefits

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

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

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

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

3.18.5 Costs of paid vacation

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

3.19 Revenue recognition

Recognition of revenue due to insurance contracts has been described in point 3.17.1

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 PZU OPF is recognized in the periods when the services were rendered. The revenue includes in particular:

- fees on premiums transferred by the Social Insurance Institution (“ZUS”) to PZU OPF in the amount specified in the Articles of Association of PZU OPF and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Dz.U. no.34 of 2010, item 189 with subsequent amendments; “Pension Funds Act),
- fees specified in the Articles of Association of PZU OPF for managing PZU OPF, in accordance with the limits specified in the Pension Funds Act,
- other fees determined in the Articles of Association of PZU OPF.

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

3.20 Taxes

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

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

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

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

3.21 Recognition of foreign currency transactions and balances

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

4. Key assumptions underlying accounting estimations

4.1 Receivables from policyholders

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

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

4.1.1 Property and personal insurance

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

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

4.1.2 Life insurance

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

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

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

The final estimated value of claims paid has been presented in the provision development triangles in point 7.4.1.1. 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 2011 and 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. At the same time, based on projections of inflation and pay rise, both for 31 December 2011 and 31 December 2010, 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 2010 (31 December 2010: PLET for 2009), published by the Central Statistical Office. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

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

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

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

Type P 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 26.2.2.

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 Latvia 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 3.10, 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. Till 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 interest of the State Treasury in the share capital of PZU dropped below 50%. Additionally, on 10 June 2011, the State Treasury sold a ten-percent block of shares in PZU, thus lowering its interest in the share capital and the total number of votes to 35.19%.

In spite of the above issue, considering the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing Supervisory Board of PZU), for the purposes of presentation of the trial balance of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury and is still obliged to present in its financial statements transactions with related parties of the State Treasury.

As part of their statutory business, the entities in the PZU Group concluded transactions with the State Treasury subsidiaries, co-subsidiaries and associates, other than commercial companies listed 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.

In 2011 and 2010 the PZU Group did not conclude transactions with external clients which would generate revenue in excess of 10% of revenue on one of the segments.

(in PLN '000)

Income statement for 1 January – 31 December 2011	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	8 527 492	6 751 770	-	-	15 279 262
Gross written premiums - cross-segment	1 664	-	-	(1 664)	-
Reinsurer's share in gross written premium	(282 247)	(3 139)	-	-	(285 386)
Net written premium including:	**8 246 909**	**6 748 631**	**-**	**(1 664)**	**14 993 876**
Net written premium - external	8 245 245	6 748 631	-	-	14 993 876
Net written premium - cross-segment	1 664	-	-	(1 664)	-
Change in net provision for unearned premium	(107 920)	4 298	-	274	(103 348)
Net earned premiums	**8 138 989**	**6 752 929**	**-**	**(1 390)**	**14 890 528**
Revenue from commissions and fees	-	-	231 638	49 713	281 351
Net investment income (external transactions)	946 940	851 702	12 473	159 139	1 970 254
Net investment income (cross-segment transactions)	1 988 852*	105 171**	-	(2 094 023)	-
Net profit or loss on realization and impairment loss on investments	(150 006)	(60 736)	90	23 405	(187 247)
Net change in the fair value of assets and liabilities measured at fair value	(135 036)	(19 737)	-	(34 408)	(189 181)
Other operating revenue	80 533	90 280	2 091	312 577	485 481
Claims and change in technical provisions	(5 659 857)	(4 719 299)	-	5 635	(10 373 521)
Reinsurers' share in claims and change in technical provisions	152 285	114	-	-	152 399
Net insurance claims	**(5 507 572)**	**(4 719 185)**	**-**	**5 635**	**(10 221 122)**
Claims and change in measurement of investment contracts	-	-	-	32 512	32 512
Acquisition expense	(1 539 194)	(333 984)	(81 559)	(7 249)	(1 961 986)
Administrative expense	(696 851)	(609 106)	(73 091)	(4 849)	(1 383 897)
Other operating expense	(400 137)	(177 075)	(1 195)	(181 559)	(759 966)
Operating profit (loss)	**2 726 518***	**1 880 259****	**90 447**	**(1 740 497)**	**2 956 727**
Financial expense	(27 050)	(13 124)	-	(8 978)	(49 152)
Gross profit (loss)	**2 699 468***	**1 867 135****	**90 447**	**(1 749 475)**	**2 907 575**
Income tax	(187 737)	(339 581)	(16 712)	(19 598)	(563 628)
Net profit (loss)	**2 511 731***	**1 527 554****	**73 735**	**(1 769 073)**	**2 343 947**

* including dividend paid by PZU Życie to PZU in the amount of PLN 1.987.282 thousand
** including dividend paid by PTE PZU to PZU Życie in the amount of PLN 99.571 thousand

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	8 028 481	6 512 541	-	-	14 541 022
Gross written premiums - cross-segment	846	-	-	(846)	-
Reinsurer's share in gross written premium	(197 762)	(3 091)	-	-	(200 853)
Net written premium including:	**7 831 565**	**6 509 450**	**-**	**(846)**	**14 340 169**
Net written premium - external	7 830 719	6 509 450	-	-	14 340 169
Net written premium - cross-segment	846	-	-	(846)	-
Change in net provision for unearned premium	(131 276)	4 674	-	(554)	(127 156)
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)	851 914	881 237	14 976	76 391	1 824 518
Net investment income (cross-segment transactions)	3 121 182*	116 565**	-	(3 237 747)	-
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	(6 335 106)	(4 603 969)	-	(159)	(10 939 234)
Reinsurers' share in claims and change in technical provisions	555 138	34	-	-	555 172
Net insurance claims	**(5 779 968)**	**(4 603 935)**	**-**	**(159)**	**(10 384 062)**
Claims and change in measurement of investment contracts	-	-	-	(177 549)	(177 549)
Acquisition expense	(1 510 903)	(295 695)	(48 738)	(55 919)	(1 911 255)
Administrative expense	(748 725)	(653 399)	(93 119)	(10 541)	(1 505 784)
Other operating expense	(217 572)	(131 280)	(614)	48 080	(301 386)
Operating profit (loss)	**3 613 184***	**2 591 639****	**122 446**	**(3 239 184)**	**3 088 085**
Financial expense	(58 654)	-	-	-	(58 654)
Gross profit (loss)	**3 554 530***	**2 591 639****	**122 446**	**(3 239 184)**	**3 029 431**
Income tax	(99 464)	(466 606)	(22 875)	(1 257)	(590 202)
Net profit (loss)	**3 455 066***	**2 125 033****	**99 571**	**(3 240 441)**	**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

1 January – 31 December 2011	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Segment assets, including:	**22 732 748**	**25 945 681**	**357 158**	**3 093 695**	**52 129 282**
Deferred tax assets	1 311	-	2 886	4 403	8 600
Entities measured using the equity method	-	-	-	-	-
Liabilities	**16 051 066**	**19 629 357**	**79 968**	**3 499 386**	**39 259 777**
Investment outlays in the period*	100 997	64 773	118	17 868	183 756
Depreciation for the period*	(82 791)	(57 863)	(410)	(23 127)	(164 191)
Impairment loss on assets*	(1 180)	(16)	-	-	(1 196)
Reversal of impairment loss on assets *	13 909	169	-	-	14 078

* Include intangible assets and property, plant and equipment

1 January – 31 December 2010	Property and personal insurance	Life insurance	Pension insurance	Unallocated (consolidation eliminations and other)	Consolidated value
Segment assets, including:	**21 333 554**	**26 191 364**	**347 159**	**2 798 480**	**50 670 557**
Deferred tax assets	940	-	3 320	12 385	16 645
Entities measured using the equity method	-	-	-	-	-
Liabilities	**14 963 924**	**19 385 748**	**43 443**	**3 477 516**	**37 870 631**
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

(in PLN ‘000)

2011	**Poland**	**Lithuania**	**Ukraine**	**Unallocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premiums - external	14 994 071	164 299	120 892	-	15 279 262
Gross written premiums - cross-segment	3 277	-	-	(3 277)	-
Revenue from commissions and fees	281 351	-	-	-	281 351
Net investment income (external transactions)	1 956 166	6 065	8 023	-	1 970 254
Net profit or loss on realization and impairment loss on investments (external transactions)	(177 914)	(9 066)	(267)	-	(187 247)
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	(186 011)	(3 170)	-	-	(189 181)
Non-current assets other than financial instruments*	1 205 179	10 410	7 752	(1 922)	1 221 419
Deferred tax assets	7 289	-	1 311	-	8 600
Assets	**52 017 213**	**279 246**	**147 909**	**(315 086)**	**52 129 282**

* Include intangible assets and property, plant and equipment

2010	**Poland**	**Lithuania**	**Ukraine**	**Unallocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premiums - external	14 289 689	144 864	106 469	-	14 541 022
Gross written premiums - cross-segment	2 507	-	-	(2 507)	-
Revenue from commissions and fees	288 037	-	-	-	288 037
Net investment income (external transactions)	1 807 881	8 845	7 792	-	1 824 518
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	**50 726 758**	**228 924**	**187 409**	**(472 534)**	**50 670 557**

* 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 performer

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 2010 in line with KNF guidelines and submitted their results by 31 July 2011.

Additionally, the PZU Group participated in the European Stress Tests for the insurance sector carried out by EIOPA (European Insurance and Occupational Pensions Authority, „EIOPA"), the results of which were submitted to the PFSA. The stress tests showed that the PZU Group has sufficient capital to be able to safely continue its operations after the strong turbulence in the business environment has abated.

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

The structures of PZU and PZU Życie include the position of a Risk Managing Director and Risk Office

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 Committees.

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.

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.

7.4.1.1 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 2011**	**1 January - 31 December 2010**
Expense ratio	27,74%	29,63%
Claims ratio net of reinsurance	67,57%	75,08%
Reinsurer’s retention ratio	3,31%	2,46%
Mixed ratio	95,31%	104,71%

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)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Provision at the end of the reporting year	6 939	7 295	7 247	7 458	7 541	7 898	8 293	8 699	9 381	9 870
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	6 656	6 471	6 868	6 916	7 300	7 698	8 382	8 561	9 681	
- calculated two years later	6 010	6 534	6 387	6 815	7 287	7 833	8 410	8 856		
- calculated three years later	6 162	6 097	6 355	7 014	7 437	7 852	8 758			
- calculated four years later	5 797	6 083	6 560	7 113	7 443	8 141				
- calculated five years later	5 805	6 272	6 659	7 120	7 661					
- calculated six years later	6 014	6 361	6 700	7 307						
- calculated seven years later	6 111	6 422	6 868							
- calculated eight years later	6 183	6 577								
- calculated nine years later	6 324									
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	6 324	6 577	6 868	7 307	7 661	8 141	8 758	8 856	9 681	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	3 218	3 179	3 165	3 251	3 181	3 095	2 976	2 275	1 986	
Provision recognized in the statement of financial position	3 106	3 398	3 703	4 056	4 480	5 046	5 782	6 581	7 695	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	615	718	379	151	(120)	(243)	(465)	(157)	(300)	
The above difference as a percentage of the originally estimated provision	9%	10%	5%	2%	-2%	-3%	-6%	-2%	-3%	

Claims development in direct property and personal insurance net of reinsurance (by reporting year)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Provision at the end of the reporting year	5 212	5 750	5 980	6 246	6 356	6 916	7 433	7 973	8 639	9 305
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
- calculated a year later	5 092	5 134	5 630	5 651	6 146	6 791	7 568	7 844	8 827	
- calculated four years later	4 651	5 251	5 175	5 605	6 202	6 969	7 598	8 092		
- calculated four years later	4 824	4 839	5 200	5 839	6 396	6 991	7 910			
- calculated four years later	4 485	4 874	5 405	5 979	6 405	7 246				
- calculated eight years later	4 533	5 063	5 529	5 984	6 589					
- calculated eight years later	4 729	5 173	5 568	6 146						
- calculated eight years later	4 840	5 233	5 712							
- calculated eight years later	4 913	5 364								
- calculated nine years later	5 033									
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)	5 033	5 364	5 712	6 146	6 589	7 246	7 910	8 092	8 827	
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)	2 245	2 299	2 354	2 451	2 494	2 594	2 527	1 925	1 666	
Provision recognized in the statement of financial position	2 788	3 065	3 358	3 695	4 095	4 652	5 383	6 167	7 161	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	179	386	268	100	(233)	(330)	(477)	(119)	(188)	
The above difference as a percentage of the originally estimated provision	3%	7%	4%	2%	-4%	-5%	-6%	-1%	-2%	

Motor insurance products (MTPL and comprehensive car insurance) account for the major part of PZU portfolio. Both types of policies are usually concluded for a year, during which a claim must occur to be covered. The comprehensive car insurance policy is based on claim-made principle, so there is no uncertainty, unlike MTPL, which is an occurrence policy (up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which add 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 2011		**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	3,4%	3,7%	1,7%	1,1%	12,9%	**22,8%**
	Number of policies	19,2%	3,8%	0,8%	0,3%	0,3%	**24,4%**
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	2,6%	2,9%	1,3%	0,9%	6,2%	**13,9%**
	Number of policies	13,6%	3,0%	0,6%	0,2%	0,3%	**17,7%**
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	8,3%	10,7%	4,0%	2,2%	38,1%	**63,3%**
	Number of policies	43,7%	11,2%	1,9%	0,5%	0,6%	**57,9%**
Total	**Sum insured**	**14,3%**	**17,3%**	**7,0%**	**4,2%**	**57,2%**	**100,0%**
	Number of policies	**76,5%**	**18,0%**	**3,3%**	**1,0%**	**1,2%**	**100,0%**

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: hurricane claims exposure

Risk concentration in property and personal insurance: hurricane claims exposure by level as at 31 December 2011		**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	4,4%	5,7%	2,9%	1,8%	30,1%	**44,9%**
	Number of policies	27,8%	5,9%	1,4%	0,4%	0,6%	**36,1%**
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	5,4%	7,7%	3,0%	1,6%	22,0%	**39,7%**
	Number of policies	26,7%	8,0%	1,4%	0,4%	0,4%	**36,9%**
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	4,5%	3,8%	1,1%	0,8%	5,2%	**15,4%**
	Number of policies	22,0%	4,1%	0,5%	0,2%	0,2%	**27,0%**
Total	**Sum insured**	**14,3%**	**17,2%**	**7,0%**	**4,2%**	**57,3%**	**100,0%**
	Number of policies	**76,5%**	**18,0%**	**3,3%**	**1,0%**	**1,2%**	**100,0%**

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**	**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: 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 2011	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	17,2%	4,5%	3,3%	4,0%	15,7%	**44,7%**
Medical TPL	2,1%	3,1%	2,4%	2,6%	3,6%	**13,8%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	25,8%	2,7%	1,3%	1,5%	3,0%	**34,3%**
TPL of farmers and their movable property	0,0%	6,7%	0,0%	0,0%	0,0%	**6,7%**
Product TPL	0,0%	0,0%	0,1%	0,0%	0,4%	**0,5%**
Total	**45,1%**	**17,0%**	**7,1%**	**8,1%**	**22,7%**	**100,0%**

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%**

7.4.1.2 Exposure to insurance risk in life products

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

In group products, concentration risk occurrence is limited by the contract portfolio size, 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 insured have the same sum insured and coverage, is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In case of group insurance contracts, allowing adjusting of coverage on the level of each group contract, a simplified risk assessment is applied based on information about the industry of a given employer, having assumed relevant participation limits for the insured compared to the total employment. In such cases, premium and charges are based on statistical analyses carried out by PZU Życie in relation to frequency of claims on the level of defined homogenous risk classes, including 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 2011	31 December 2010	31 December 2011	31 December 2010
Technical interest rate – rise by 0.5 p.p.	366	348	366	348
Technical interest rate – drop by 1.0 p.p.	(947)	(899)	(947)	(899)
Mortality – 110% of the currently assumed level	110	106	110	106
Mortality – 90% of the currently assumed level	(123)	(119)	(123)	(119)

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 2011	31 December 2010	31 December 2011	31 December 2010
Technical interest rate – rise by 0.5 p.p.	348	321	348	321
Technical interest rate – drop by 1.0 p.p.	(900)	(829)	(900)	(829)
Mortality – 110% of the currently assumed level	104	98	104	98
Mortality – 90% of the currently assumed level	(116)	(110)	(116)	(110)

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 2011	31 December 2010	31 December 2011	31 December 2010
Technical interest rate – drop by 1 p.p.	(36)	(37)	(36)	(37)
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 2011	31 December 2010	31 December 2011	31 December 2010
Technical interest rate – drop by 1 p.p.	(2 168)	(2 278)	(2 168)	(2 278)
Mortality – 110% of the currently assumed level	(961)	(992)	(961)	(992)
110% of incidence proportion	(205)	(222)	(205)	(222)

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 2011	31 December 2010
Change in technical provisions	1 741	1 743
Claims paid	(567)	(572)
Change in deferred acquisition costs	(7)	(7)
Gross financial profit/loss	1 167	1 164
Net financial profit/loss	945	943
Equity	945	943

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 and PZU Życie) are the basis for all investment activities. Detailed standards and principles of market risk management are defined in *Internal investment regulations, Market risk management policy, Market risk management strategy and 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.

Apart from the portfolios managed by PZU AM, the market risk at PZU and PZU Życie is also managed at the Treasurer's Office and the Structured Investment Office. The former manages the portfolios of debt securities (ALM portfolio) in order to match the maturity and amount of liabilities.

The latter manages the market risk, e.g. long-term stake in quoted shares, and makes alternative investments to the investments of PZU AM.

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.

Operations of PZU AM regarding management of SAA portfolios in PZU and PZU Życie SA has been presented in *Investment objectives and guidelines*. The document contains the structure of the SAA portfolio as well as the structure of limits for individual types of risk (BPV limit and the share concentration limits), determined by ALCO. The portfolio management and risk control is divided at the operating level at PZU AM: risk control is exercised by the Investment Monitoring Team.

Market risk exposure

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

Balance sheet value as at 31 December 2011 (PLN million)	Property and personal insurance	Life insurance	Unit-linked investment and insurance contracts
Financial assets exposed to interest rate risk	**16 923**	**22 500**	**1 562**
- Fixed interest debt securities	13 178	17 623	1 369
- Floating interest debt securities	1 602	945	20
- Term deposits with credit institutions	1 118	3 150	173
- Loans	453	421	-
- Cash	93	140	-
- Reverse repo transactions	442	186	-
- Derivatives	37	35	-
Financial assets exposed to other price risk	**1 300**	**1 832**	**1 903**
- Shares listed on a regulated market	828	1 237	441
- Participation units and certificates in investment funds	470	584	1 462
- Derivatives	2	11	-
Total	**18 223**	**24 332**	**3 465**

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**

Interest rate derivatives	Base amount by maturity At 31 December 2011					Assets at fair value as at	Liabilities at fair value as at
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	31 December 2011	31 December 2011
Instruments recognized as HFT including:	**416 891**	**14 811 503**	**9 099 211**	**488 568**	**24 816 173**	**71 894**	**(74 767)**
OTC including:	416 891	14 811 503	9 099 211	488 568	24 816 173	71 894	(74 767)
- FRA transactions	-	13 644 612	-	-	13 644 612	8 993	(15 047)
- SWAP transactions	416 891	1 166 891	9 099 211	488 568	11 171 561	62 901	(59 720)
Interest rate derivatives total	**416 891**	**14 811 503**	**9 099 211**	**488 568**	**24 816 173**	**71 894**	**(74 767)**

Interest rate derivatives	Base amount by maturity At 31 December 2010					Assets at fair value as at	Liabilities at fair value as at
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	31 December 2010	31 December 2010
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)**

Derivatives linked to currency exchange rates	Base amount by maturity At 31 December 2011					Assets at fair value as at	Liabilities at fair value as at
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	31 December 2011	31 December 2011
OTC instruments including:	**347 566**	**618 981**	**21 220**	**-**	**987 767**	**4 482**	**(18 652)**
- forward transactions	138 147	185 307	-	-	323 454	2 068	(13 088)
- SWAP transactions	209 419	433 674	21 220	-	664 313	2 414	(5 564)
Total derivatives linked to currency exchange rates	**347 566**	**618 981**	**21 220**	**-**	**987 767**	**4 482**	**(18 652)**

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**	**-**

Security price derivatives	Base amount by maturity At 31 December 2011					Assets at fair value as at 31 December 2011	Liabilities at fair value as at 31 December 2011
	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:	9 195	-	-	-	9 195	-	(24)
- Futures	9 195	-	-	-	9 195	-	(24)
OTC including:	-	74 857	171 384	-	246 241	8 412	-
- Call options	-	74 857	171 384	-	246 241	8 412	-
Security price derivatives total	**9 195**	**74 857**	**171 384**	**-**	**255 436**	**8 412**	**(24)**

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)**

Risk concentration

Exposure to treasury securities issued by Polish Ministry of Finance – as at 31 December 2011, exposure of PZU Group to treasury securities issued by Polish Ministry of Finance along with contingent transactions on those securities amounted to 32,857 PLN million (PLN 35,350 million as at 31 December 2010), accounting for 70.2% of the total financial assets (78.0% as at 31 December 2010).

PZU Group's exposure to WSE-listed stock - as at 31 December 2011, the Group's exposure to stock listed at WSE amounted to PLN 2,468 million (PLN 3,034 million as at 31 December 2010), which accounted for 65.3% of the financial assets value (6.7% as at 31 December 2010) and 98.4% of exposure in listed equity instruments (98.4% as at 31 December 2010).

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 2011 total exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,885 million (PLN 2,114 million as at 31 December 2010).

General exposure to bank deposits, debt securities issued by banks, their shares, IRS transactions and options amounted to PLN 7,734 million (PLN 4,794 million as at 31 December 2010), which accounted for 106.5% of financial deposits value (10.6% as at 31 December 2010).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 96.6% of total financial assets as 31 December 2011 (97.4% as at 31 December 2010).

Unit-linked insurance and investment contract portfolio, amounted to 7.4% of the total financial assets of the PZU Group as at the end of 2011 (7.8% in 2010).

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 2011	**PLN**	**USD**	**EUR**	**LTL**	**UAH**
Financial assets					
1. Debt instruments. including:					
- held to maturity	6,1%	nd.	4,1%	10,8%	nd.
- available for sale	5,3%	5,9%	3,1%	nd.	nd.
2. Loans	4,3%	1,1%	0,5%	1,1%	13,7%
Liabilities					
Investment contracts	4,1%	nd.	nd.	nd.	nd.
Financial assets	3,6%	nd.	1,0%	nd.	nd.

Average effective interest rate weighted by asset measurement at the adjusted acquisition price as at 31 December 2010	**PLN**	**USD**	**EUR**	**LTL**	**UAH**
Financial assets					
1. Debt instruments, including:					
- held to maturity	6,1%	nd.	3,8%	12,7%	nd.
- available for sale	5,0%	nd.	2,5%	nd.	25,3%
2. Loans	3,9%	4,3%	0,7%	5,8%	9,4%
Liabilities					
Investment contracts	4,1%	nd.	nd.	nd.	nd.
Liabilities to credit institutions	nd.	nd.	nd.	nd.	nd.

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 2011**		**31 December 2010**	
	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.	135	281	156	299
Market interest rate increase by 100 b.p.	(126)	(264)	(149)	(283)

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.

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 2011**		**31 December 2010**	
	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	232	232	167	167
20% decrease in FX to PLN rates	(232)	(232)	(167)	(167)

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.

7.4.2.3 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 2011**		**31 December 2010**	
	Effect on net financial profit/loss	**Effect on equity**		**Effect on net financial profit/loss**
Increase in measurement of listed equity instruments by 20%	254	336	283	416
Decrease in measurement of listed equity instruments by 20%	(254)	(336)	(283)	(416)

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, Credit risk management policy and Credit risk management strategy as well as Methods of assigning internal ratings to banks, Methods of assigning internal ratings to the issuers of corporate bonds, Methods of assigning internal ratings to the issuers of municipal bonds.*

Credit and concentration risk limits are set by 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 are concentration limits with respect to a single bank and/or capital group (both credit limits and concentration limits). The limits are determined considering, e.g. the macroeconomic condition, current portfolio profitability, lending margin and the capital surplus of PZU or PZU Życie. The utilization of limits both with respect to the credit risk limits and the concentration risk limits is controlled by BRY on a daily basis, except for the Bancassurance Office limits which are monitored on a weekly basis. An entity or the Management Board of the company is informed about any excess. Following such information, the entity is obliged to prepare and present a plan to lower the stake.

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. 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 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 2011 (PLN million)	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating**	**Total**
Debt securities	480	-	32 883	321	58	63	**33 805**
Bank deposits and repo transactions involving treasury securities	-	-	4 705	492	14	73	**5 284**
Mortgage loans	-	-	-	-	-	32	**32**
Other loans	-	-	-	-	-	842	**842**
Derivatives	-	34	51	-	-	-	**85**
Reinsurers' share in net claims provisions	2	329	123	18	11	54	**537**
Receivables from reinsurance	-	19	7	3	2	3	**34**
Total assets exposed to credit risk	**482**	**382**	**37 769**	**834**	**85**	**1 067**	**40 619**

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**
Mortgage 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**

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 2011	0,79	0,82	1,84	5,22	16,54	39,94
Ratio (%) for 2010	0,82	0,74	1,97	5,60	17,45	30,82

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

The credit risk as at 31 December 2011 amounted to PLN 1,070 million (PLN 876 million as at 31 December 2010; had ratios of 31 December 2010 been used, the risk would amount to PLN 823 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 2011, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 3,114 million (PLN 2,858 million as at 31 December 2010).

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 2011	Rating assigned by Standard&Poor's as at 31 December 2011	Reinsurers' share in (net) technical provisions as at 31 December 2010	Rating assigned by Standard&Poor's as at 31 December 2010
AXA France IARD - AAI Reasurance	194 601	AA-	202 663	AA-
Swiss Reinsurance Company	53 129	AA-	73 499	A+
Hannover Ruckversicherung AG	25 316	AA-	23 759	AA-
Swiss RE Europe S.A., Niederlassung Deutschland	22 141	AA-	3 141	A+
STU Ergo Hestia SA	18 093	BB	3 210	BBB
Everest Reinsurance Company	17 331	A+	16 883	A+
Lloyd's Syndicate 2987 BRT	16 029	A+	2 788	A+
Scor Global P&C SE	16 194	A	21 717	A
Polskie Towarzystwo Reasekuracji SA	19 435	BBB+	19 150	BBB+
TUiR Allianz Polska SA	13 803	no rating	8 020	no rating
Scor Switzerland Ltd	13 296	A	27 966	A
Scor Global P&C SE Zurich Branch	12 696	A	-	A
Munich Reinsurance Company	11 102	AA-	25 083	AA-
Chubb Insurance Company of Europe	9 996	AA	10 016	AA
Compagnie Generale Reassurance Monte-Carlo	9 961	no rating	5 687	no rating
The Toa Reinsurance Company Ltd	9 227	A+	7 633	A+
Endurance Speciality Insurance Ltd	8 882	A	7 017	A
Hannover RE Bermuda Ltd	8 849	AA-	25 534	AA-
General Reinsurance AG, Vienna Branch	8 251	AA+	8 160	AA+
Aviva Towarzystwo Ubezpieczeń Ogólnych SA	7 167	no rating	11 879	no rating
Mutuelle Centrale de Reassurance	6 683	no rating	6 606	no rating
XL RE Europe Ltd	6 151	A	1 986	A
MTPL Bureau	12 270	no rating	7 181	no rating
Others	180 110		252 272	
Total	**700 713**		**771 850**	

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. 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 and strategy* and *the Rules for matching PZU SA assets and liabilities* and *Rules for matching PZU Życie assets and liabilities*. ALCO determines the limits for the risk related to the matching of assets and liabilities and the Treasurer's Office chooses financial instruments for the ALM portfolio based on such criteria as: asset security, maturity match, type of investments, diversification, 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 2011 the aforementioned limit was PLN 141 million for PZU and PLN 144 million for PZU Życie (PLN 149 million for PZU and PLN 126 million for PZU Życie as at 31 December 2010).

Degree of risk exposure

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.

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)	(1 290)	(1 011)	(1 555)	(3 992)	(8 202)
I. Outflows	(1 298)	(1 016)	(1 561)	(4 009)	(8 250)
II. Inflows	8	5	6	17	48
B. Inflows from assets covering technical provisions	2 363	1 360	1 982	10 239	6 002
I. Future inflows whose value is known as at the end of reporting year	2 218	1 215	1 649	9 001	5 312
- Treasury bonds	483	1 045	1 532	8 739	5 109
- Treasury bills	-	-	-	-	-
- Other debt securities	3	5	3	106	169
- Term deposits with credit institutions	1 095	24	3	-	-
- Receivables	634	57	25	6	-
- Other, including:	3	84	86	150	34
- reinsurer's share in technical provisions	3	84	86	150	34
II Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	145	145	333	1 238	621
- Treasury bonds	-	-	40	1 021	578
- Other debt securities	-	-	3	17	5
- Shares listed on a regulated market	145	145	290	200	38
- Other	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	69
C. Balance of projected cash flows (A + B)	1 073	349	427	6 247	(2 200)
D. Balance of accumulated cash flows	1 073	1 422	1 849	8 096	5 896

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.

The balance of accumulated cash flows in property insurance increased from PLN 4,954 million as at the end of 2010 to PLN 5,896 million as at the end of 2011, which resulted from an increase of the projected inflows from assets covering technical provisions by PLN 1,802 million and an increase in the projected net cash flows resulting from insurance contracts by PLN 860 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 3.8 (3.1 in 2010), whereas the duration of technical provisions was 4.2 (4.0 in 2010).

Life insurance

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

Item	Projected cash flows (in PLN million)					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(2 040)	(843)	(1 112)	(1 342)	(3 393)	(6 223)
I. Outflows	(2 905)	(1 684)	(7 007)	(7 055)	(10 896)	(11 604)
II. Inflows	865	841	5 895	5 713	7 503	5 381
B. Inflows from assets covering technical provisions	2 241	1 708	12 049	4 065	4 520	1 984
I. Future inflows whose value is known as at the end of reporting year	2 136	1 698	9 808	4 056	4 480	1 984
- Treasury bonds	736	1 133	9 658	3 991	4 456	1 984
- Treasury bills	-	-	-	-	-	-
- Other debt securities	4	2	53	65	24	-
- Term deposits with credit institutions	1 354	563	97	-	-	-
- Receivables	42	-	-	-	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	105	10	2 241	9	40	-
- Treasury bonds	-	8	241	5	40	-
- Other debt securities	-	2	7	4	-	-
- Investment fund units	105	-	1 993	-	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	201	865	10 937	2 723	1 127	(4 239)
D. Balance of accumulated cash flows	201	1 066	12 003	14 726	15 853	11 614

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.

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 11.272 million as at the end of 2010 to PLN 11.614 million as at the end of 2011, due to reduction of the projected net cash flows from insurance and investment contracts by PLN 740 million and a decrease in the projected inflows from assets covering technical provisions by PLN 398 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 5.0 (4.1 in 2010), whereas the duration of technical provisions was 19.5 (17.6 in 2010).

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 2011	31 December 2010
PZU equity	**11 745 410**	**11 902 186**
Intangible assets	(107 004)	(63 526)
Value of shares in insurance companies operating within the insurance capital group of PZU	(6 063 902)	(6 599 272)
Deferred tax asset	(363 384)	(276 036)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**3 980 944**	**4 630 089**
PZU Życie (100.00%)	3 988 423	4 534 446
Own funds	5 703 608	6 232 554
Required solvency margin	1 715 185	1 698 108
Surplus of own funds to cover the required solvency margin	3 988 423	4 534 446
UAB DK PZU Lietuva (99.76%)	4 229	12 313
Own funds	34 918	40 117
Required solvency margin	30 679	27 774
Surplus of own funds to cover the required solvency margin	4 239	12 343
OJSC IC PZU Ukraine (100.00%)	(14 206)	76 701
Own funds	6 715	93 131
Required solvency margin	20 921	16 430
Surplus of own funds to cover the required solvency margin	(14 206)	76 701
Other insurance companies	2 498	6 629
Own funds of PZU	**9 192 064**	**9 593 441**
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	**7 853 266**	**8 254 643**
Surplus of own funds to cover the guarantee fund	**8 745 798**	**9 147 175**

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.

As at the date of submission of this report, PZU and PZU Życie SA had an A long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) and a stable rating outlook. Every year, Standard & Poor's Ratings Services confirmed the above rating and Outlook (on 22 July 2011 and 5 July 2010, respectively).

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.

Company name	Rating and outlook	Assignment date	Rating and outlook	Assignment date
PZU				
Financial strength rating	A /stable/	22 July 2011	A /stable/	5 July 2010
Credit rating	A /stable/	22 July 2011	A /stable/	5 July 2010
PZU Życie				
Financial strength rating	A /stable/	22 July 2011	A /stable/	5 July 2010
Credit rating	A /stable/	22 July 2011	A /stable/	5 July 2010

9. Intangible assets

As at 31 December 2011 and 31 December 2010 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	1 January – 31 December 2011	1 January – 31 December 2010
Claims and change in technical provisions – property and personal insurance	5 520	3 858
Claims and change in technical provisions – life insurance	7 063	3 830
Claims and change in measurement of investment contracts	50	38
Acquisition costs	8 041	7 534
Administrative expenses	35 657	35 061
Other operating expenses	260	137
Costs of investing activities	354	436
Total amortization	**56 945**	**50 894**

Changes in intangible assets in the year ended 31 December 2011

	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	423 452	301 950	179 312	492	603 256
Increases (due to):	69 159	53 114	97 376	404	166 939
- purchase	16 361	14 546	97 376	34	113 771
- change in the consolidation scope	1 736	1 736	-	33	1 769
- reclassification from intangible assets under construction	51 062	36 832	-	-	51 062
- other	-	-	-	337	337
Decreases (due to):	(3 166)	(88)	(52 430)	-	(55 596)
- liquidation	(2 947)	(108)	-	-	(2 947)
- reclassification from intangible assets under construction	-	-	(51 062)	-	(51 062)
- other	(219)	20	(1 368)	-	(1 587)
Exchange differences	1 514	1 516	-	107	1 621
Gross value of intangible assets – closing balance	**490 959**	**356 492**	**224 258**	**1 003**	**716 220**
Accumulated amortization – opening balance	(330 990)	(250 473)	-	(100)	(331 090)
Changes (due to):	(57 022)	(50 891)	-	(122)	(57 144)
- amortization for the period	(56 883)	(47 878)	-	(62)	(56 945)
- liquidation	2 947	107	-	-	2 947
- change in the consolidation scope	(1 438)	(1 438)	-	(6)	(1 444)
- exchange differences	(872)	(877)	-	(24)	(896)
- other	(776)	(805)	-	(30)	(806)
Accumulated amortization – closing balance	**(388 012)**	**(301 364)**	**-**	**(222)**	**(388 234)**
Impairment losses – opening balance	(34 950)	(785)	(128 149)	-	(163 099)
Changes charged to other operating expenses	785	785	366	-	1 151
Impairment losses – closing balance	**(34 165)**	**-**	**(127 783)**	**-**	**(161 948)**
Net value of intangible assets – closing balance	**68 782**	**55 128**	**96 475**	**781**	**166 038**

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)
- 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**

"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 2010);
- 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 2010);
- the "Central Customer Database" project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2010).

10. Goodwill

Goodwill	31 December 2011	31 December 2010	31 December 2009
Goodwill – subsidiaries	8 716	8 381	19 631
- PZU CO	5 415	5 415	5 415
- PZU Życie	60	60	60
- PZU Lietuva	3 241	2 906	3 015
- PZU Ukraine	-	-	11 141
Total goodwill	**8 716**	**8 381**	**19 631**

Changes in goodwill	**1 January – 31 December 2011**	**1 January – 31 December 2010**
Gross value of goodwill – opening balance	20 035	19 631
Changes due to exchange differences	2 004	404
Gross value of goodwill – closing balance	22 039	20 035
Impairment losses opening balance	(11 654)	-
Changes in impairment losses	(1 669)	(11 654)
- in the current period	-	(11 654)
- exchange differences	(1 669)	-
Impairment losses closing balance	(13 323)	(11 654)
Net value of goodwill – closing balance	**8 716**	**8 381**

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 – 4.99% for PZU CO and 8.44% for PZU Lietuva;
- 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 64.9% for PZU CO, 12.28% for PZU Lietuva.

11. Property, plant and equipment

Changes in property, plant and equipment in the year ended 31 December 2011	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	676 535	95 119	29 388	1 163 786	143 985	2 108 813
Increases (due to):	78 674	16 979	48 708	151 370	16 268	311 999
- purchase	9 364	3 725	39 258	9 229	2 885	64 461
- modernization and improvements	293	-	-	5 186	45	5 524
- change in the consolidation scope	50 765	4 453	9 450	111 836	10 193	186 697
- reclassification from investment property	-	-	-	16 669	-	16 669
- reclassification from assets under construction	18 252	8 801	-	8 450	3 145	38 648
Decreases (due to):	(86 739)	(11 318)	(38 648)	(103 816)	(13 608)	(254 129)
- sale	(6 558)	(11 164)	-	(22 602)	(2 807)	(43 131)
- liquidation	(73 697)	(154)	-	(3 116)	(9 286)	(86 253)
- reclassification to investment property	-	-	-	(73 660)	-	(73 660)
- reclassification from assets under construction	-	-	(38 648)	-	-	(38 648)
- other	(6 484)	-	-	(4 438)	(1 515)	(12 437)
Exchange differences	1 111	238	-	1 077	465	2 891
Gross value of property, plant and equipment – closing balance	**669 581**	**101 018**	**39 448**	**1 212 417**	**147 110**	**2 169 574**
Accumulated depreciation – opening balance	(600 335)	(53 399)	-	(289 907)	(109 224)	(1 052 865)
Changes (due to):	26 904	(5 478)	-	(32 742)	18	(11 298)
- depreciation for the period	(44 218)	(14 397)	-	(37 796)	(10 835)	(107 246)
- sale	3 277	9 904	-	5 084	2 638	20 903
- liquidation	73 565	150	-	830	8 799	83 344
- change in the consolidation scope	(9 628)	(992)	-	(15 145)	(1 733)	(27 498)
- reclassification to investment property	-	-	-	13 066	-	13 066
- exchange differences	(800)	(143)	-	(147)	(346)	(1 436)
- other	4 708	-	-	1 366	1 495	7 569
Accumulated depreciation – closing balance	**(573 431)**	**(58 877)**	**-**	**(322 649)**	**(109 206)**	**(1 064 163)**
Impairment losses – opening balance	(1 746)	-	(9 944)	(53 847)	-	(65 537)
Changes recognized in the financial profit/loss, including in:	-	-	(1 196)	14 078	-	12 882
- other operating expenses	-	-	(1 196)	-	-	(1 196)
- other operating revenue	-	-	-	14 078	-	14 078
Other changes	996	-	-	1 629	-	2 625
- reclassification to investment property	-	-	-	1 721	-	1 721
- exchange differences	-	-	-	(92)	-	(92)
- other	996	-	-	-	-	996
Impairment losses – closing balance	**(750)**	**-**	**(11 140)**	**(38 140)**	**-**	**(50 030)**
Net value of property, plant and equipment – closing balance	**95 400**	**42 141**	**28 308**	**851 628**	**37 904**	**1 055 381**

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 differences	-	-	-	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**

12. Investment property

Investment property (by type)	31 December 2011	31 December 2010	31 December 2009
Own land	190 308	196 666	171 748
Land perpetual usufruct right	59 270	32 878	31 611
Buildings and structures	267 985	206 015	142 996
Cooperative ownership of premises	16 659	5 455	197
Total investment property	**534 222**	**441 014**	**346 552**

Changes in investment property	1 January – 31 December 2011	1 January – 31 December 2010
Net book value – opening balance	441 014	346 552
Increases (due to)	83 017	68 542
- purchase	173	1 329
- change in the consolidation scope	23 767	-
- reclassification from real property used for internal purposes	58 873	67 208
- reclassification from construction investments	-	5
- other	204	-
Decreases (due to)	(36 108)	(36 275)
- sale and liquidation	(15 457)	(792)
- reclassification to real property used for internal purposes	(16 669)	(30 185)
- other	(3 982)	(5 298)
Net gain (loss) on remeasurement at fair value	46 115	62 233
- recognized in the financial profit/loss	(2 353)	(573)
- recognized directly in equity	48 468	62 806
Exchange differences	184	(38)
Net book value – closing balance	**534 222**	**441 014**

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

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 between 2008-2011 (valuation of 51% of the carrying amount of investment property as at 31 December 2011 was performed in January 2012).

13. Financial assets

In 2011 and in 2010, 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 2011			31 December 2010			31 December 2009		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**21 659 505**	**21 659 505**	**21 793 906**	**20 305 758**	**20 305 758**	**20 418 147**	**23 327 568**	**23 327 568**	**23 109 959**
Debt securities	21 659 505	21 659 505	21 793 906	20 305 758	20 305 758	20 418 147	23 327 568	23 327 568	23 109 959
Government securities	21 467 316	21 467 316	21 600 961	19 687 560	19 687 560	19 786 803	22 724 017	22 724 017	22 469 200
Fixed rate	21 128 913	21 128 913	21 262 439	19 687 560	19 687 560	19 786 803	22 407 507	22 407 507	22 152 596
Floating rate	338 403	338 403	338 522	-	-	-	316 510	316 510	316 604
Other securities	192 189	192 189	192 945	618 198	618 198	631 344	603 551	603 551	640 759
- listed on a regulated market	66 566	66 566	67 322	445 700	445 700	460 631	428 328	428 328	452 914
Fixed rate	66 566	66 566	67 322	445 700	445 700	460 631	428 328	428 328	452 914
- not listed on a regulated market	125 623	125 623	125 623	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	125 623	125 623	125 623	117 780	117 780	115 995	95 225	95 225	106 834
Total financial instruments held to maturity	**21 659 505**	**21 659 505**	**21 793 906**	**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 2011	31 December 2010	31 December 2009
Short-term	1 639 229	1 858 674	4 353 068
Long-term	20 020 276	18 447 084	18 974 500
Total financial instruments held to maturity	**21 659 505**	**20 305 758**	**23 327 568**

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2011	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	**1 639 229**	**6 904 920**	**1 036 281**	**2 395 537**	**146 833**	**9 536 705**	**21 659 505**
Government securities	1 639 229	6 904 920	1 036 281	2 391 432	136 874	9 358 580	21 467 316
- fixed rate	1 639 229	6 904 920	1 036 281	2 391 432	74 043	9 083 008	21 128 913
- floating rate	-	-	-	-	62 831	275 572	338 403
Other	-	-	-	4 105	9 959	178 125	192 189
- listed on a regulated market	-	-	-	4 105	9 959	52 502	66 566
- fixed rate	-	-	-	4 105	9 959	52 502	66 566
- unlisted	-	-	-	-	-	125 623	125 623
- floating rate	-	-	-	-	-	125 623	125 623
Total	**1 639 229**	**6 904 920**	**1 036 281**	**2 395 537**	**146 833**	**9 536 705**	**21 659 505**

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
Other	495 625	-	-	-	-	122 573	618 198
- listed on a regulated market	440 907	-	-	-	-	4 793	445 700
- fixed rate	440 907	-	-	-	-	4 793	445 700
- unlisted	54 718	-	-	-	-	117 780	172 498
- fixed rate	54 718	-	-	-	-	-	54 718
- floating 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 2011**				**31 December 2010**				**31 December 2009**			
	PLN	**EUR**	**LTL**	**Razem**	**PLN**	**EUR**	**LTL**	**Razem**	**PLN**	**EUR**	**LTL**	**Razem**
Debt securities	**21 362 293**	**210 867**	**86 345**	**21 659 505**	**20 034 449**	**206 835**	**64 474**	**20 305 758**	**23 129 298**	**165 129**	**33 141**	**23 327 568**
Government securities	21 259 181	121 790	86 345	21 467 316	19 488 282	134 804	64 474	19 687 560	22 616 168	81 548	26 301	22 724 017
- fixed rate	20 920 778	121 790	86 345	21 128 913	19 488 282	134 804	64 474	19 687 560	22 299 658	81 548	26 301	22 407 507
- floating rate	338 403	-	-	338 403	-	-	-	-	316 510	-	-	316 510
Other	103 112	89 077	-	192 189	546 167	72 031	-	618 198	513 130	83 581	6 840	603 551
- listed on a regulated	52 502	14 064	-	66 566	440 907	4 793	-	445 700	407 849	13 639	6 840	428 328
- fixed rate	52 502	14 064	-	66 566	440 907	4 793	-	445 700	407 849	13 639	6 840	428 328
- unlisted	50 610	75 013	-	125 623	105 260	67 238	-	172 498	105 281	69 942	-	175 223
- fixed rate	-	-	-	-	54 718	-	-	54 718	79 998	-	-	79 998
- floating rate	50 610	75 013	-	125 623	50 542	67 238	-	117 780	25 283	69 942	-	95 225
Total	**21 362 293**	**210 867**	**86 345**	**21 659 505**	**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 2011			31 December 2010			31 December 2009		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**7 723 676**	**nd.**	**7 723 676**	**8 492 528**	**nd.**	**8 597 955**	**9 926 704**	**nd.**	**10 025 927**
Equity instruments	1 189 903	nd.	1 189 903	1 309 060	nd.	1 414 487	1 324 807	nd.	1 424 030
- listed on a regulated market*	506 886	nd.	506 886	868 899	nd.	974 326	909 525	nd.	1 008 748
- not listed on a regulated market	683 017	nd.	683 017	440 161	nd.	440 161	415 282	nd.	415 282
Debt securities	6 533 773	6 529 487	6 533 773	7 183 468	7 197 769	7 183 468	8 601 897	7 137 188	8 601 897
Government securities	6 467 372	6 462 609	6 467 372	7 052 769	7 064 542	7 052 769	8 537 465	7 071 598	8 537 465
- fixed rate	5 764 231	5 760 579	5 764 231	7 027 713	7 039 399	7 027 713	8 208 297	6 741 438	8 208 297
- floating rate	703 141	702 030	703 141	25 056	25 143	25 056	329 168	330 160	329 168
Other securities	66 401	66 878	66 401	130 699	133 227	130 699	64 432	65 590	64 432
- listed on a regulated market	66 401	66 878	66 401	39 425	39 014	39 425	15 067	15 137	15 067
- Fixed rate	23 745	23 059	23 745	24 346	23 885	24 346	-	-	-
- Floating rate	42 656	43 819	42 656	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	**128 227**	**nd.**	**nd.**	**130 554**	**nd.**	**nd.**	**101 141**	**nd.**	**nd.**
Equity instruments	128 227	nd.	nd.	130 554	nd.	nd.	101 141	nd.	nd.
- not listed on a regulated market*	128 227	nd.	nd.	130 554	nd.	nd.	101 141	nd.	nd.
Total	**7 851 903**	**nd.**	**nd.**	**8 623 082**	**nd.**	**nd.**	**10 027 845**	**nd.**	**nd.**

* This item includes shares in controlled entities not included under consolidation, whose carrying amount as at 1 December 2011 was PLN 125.140 thousand (as at 31 December 2010: PLN 127.313 thousand).

As at 31 December 2011 and 31 December 2010 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 2011	31 December 2010	31 December 2009
Short-term	1 844 004	1 586 329	1 973 688
Long-term	6 007 899	7 036 753	8 054 157
Total financial instruments available for sale	**7 851 903**	**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 2011	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	**1 384 426**	**1 158 730**	**1 084 865**	**815 845**	**1 000 697**	**1 089 210**	**6 533 773**
Government securities	1 384 426	1 116 074	1 084 865	815 845	1 000 697	1 065 465	6 467 372
- fixed rate	1 384 426	1 116 074	1 084 865	815 845	434 330	928 691	5 764 231
- floating rate	-	-	-	-	566 367	136 774	703 141
Other	-	42 656	-	-	-	23 745	66 401
- listed on a regulated market	-	42 656	-	-	-	23 745	66 401
- fixed rate	-	-	-	-	-	23 745	23 745
- floating rate	-	42 656	-	-	-	-	42 656
Total	**1 384 426**	**1 158 730**	**1 084 865**	**815 845**	**1 000 697**	**1 089 210**	**6 533 773**

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
- fixed rate	-	-	-	-	-	24 346	24 346
- floating rate	15 079	-	-	-	-	-	15 079
- unlisted	-	-	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 2011						31 December 2010						31 December 2009					
	PLN	**USD**	**EUR**	**LTL**	**UAH**	**Razem**	**PLN**	**USD**	**EUR**	**LTL**	**UAH**	**Razem**	**PLN**	**USD**	**EUR**	**LTL**	**UAH**	**Razem**
Equity instruments	**1 248 132**	**69**	**79**	**40 235**	**29 615**	**1 318 130**	**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	506 195	-	-	-	691	506 886	868 899	-	-	-	-	868 899	909 525	-	-	-	-	909 525
- not listed on a regulated market	741 937	69	79	40 235	28 924	811 244	499 013	80	90	40 235	31 297	570 715	466 540	70	79	40 235	9 499	516 423
Debt securities	**6 054 060**	**-**	**479 713**	**-**	**-**	**6 533 773**	**6 816 505**	**-**	**365 015**	**-**	**1 948**	**7 183 468**	**8 159 497**	**-**	**440 550**	**-**	**1 850**	**8 601 897**
Government securities	5 987 659	-	479 713	-	-	6 467 372	6 685 806	-	365 015	-	1 948	7 052 769	8 095 065	-	440 550	-	1 850	8 537 465
- fixed rate	5 284 518	-	479 713	-	-	5 764 231	6 660 750	-	365 015	-	1 948	7 027 713	7 765 897	-	440 550	-	1 850	8 208 297
- floating rate	703 141	-	-	-	-	703 141	25 056	-	-	-	-	25 056	329 168	-	-	-	-	329 168
Other	66 401	-	-	-	-	66 401	130 699	-	-	-	-	130 699	64 432	-	-	-	-	64 432
- listed on a regulated market	66 401	-	-	-	-	66 401	39 425	-	-	-	-	39 425	15 067	-	-	-	-	15 067
- fixed rate	23 745	-	-	-	-	23 745	24 346	-	-	-	-	24 346	-	-	-	-	-	-
- floating rate	42 656	-	-	-	-	42 656	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	**7 302 192**	**69**	**479 792**	**40 235**	**29 615**	**7 851 903**	**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 2011 and 31 December 2010, 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 2011	31 December 2010	31 December 2009
Instruments for which fair value may be determined	**4 363 764**	**6 373 065**	**5 498 886**
Equity instruments	118 727	456 181	340 009
- listed on a regulated market	11 240	19 060	6 887
- not listed on a regulated market	107 487	437 121	333 122
Debt instruments	4 245 037	5 916 884	5 158 877
Government instruments	4 178 520	5 786 065	5 094 085
- Fixed rate	3 719 321	5 677 640	4 852 891
- Floating rate	459 199	108 425	241 194
Other instruments	66 517	130 819	64 792
- listed on a regulated market	66 517	39 545	15 427
- Fixed rate	23 861	24 466	288
- Floating rate	42 656	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	**4 363 764**	**6 373 065**	**5 498 886**

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2011	31 December 2010	31 December 2009
Instruments for which fair value may be determined	**6 450 855**	**5 745 187**	**4 714 745**
Equity instruments	3 723 493	3 845 937	3 001 885
- listed on a regulated market	1 989 010	2 195 887	1 795 234
- not listed on a regulated market	1 734 483	1 650 050	1 206 651
Debt securities	2 642 574	1 794 049	1 699 137
- Government securities	2 597 771	1 765 125	1 649 374
- Fixed rate	1 870 647	1 622 191	1 641 849
- Floating rate	727 124	142 934	7 525
- Other securities	44 803	28 924	49 763
- listed on a regulated market	-	5 131	7 683
- Fixed rate	-	5 131	7 683
- not listed on a regulated market	44 803	23 793	42 080
- Fixed rate	24 402	-	2 952
- Floating rate	20 401	23 793	39 128
Other, including:	84 788	105 201	13 723
- derivatives	84 788	105 201	13 723
Total financial instruments measured at fair value through profit or loss – held for trading	**6 450 855**	**5 745 187**	**4 714 745**

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	31 December 2011	31 December 2010	31 December 2009
Short-term	914 798	1 476 181	1 205 862
Long-term	3 448 966	4 896 884	4 293 024
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**4 363 764**	**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 2011	**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	**809 818**	**751 562**	**802 953**	**578 899**	**574 445**	**727 360**	**4 245 037**
Government securities	809 818	708 906	802 953	578 899	574 329	703 615	4 178 520
- fixed rate	809 818	708 906	802 953	568 732	204 311	624 601	3 719 321
- floating rate	-	-	-	10 167	370 018	79 014	459 199
Other	-	42 656	-	-	116	23 745	66 517
- listed on a regulated market	-	42 656	-	-	116	23 745	66 517
- fixed rate	-	-	-	-	116	23 745	23 861
- floating rate	-	42 656	-	-	-	-	42 656
Total	**809 818**	**751 562**	**802 953**	**578 899**	**574 445**	**727 360**	**4 245 037**

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 2011	**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	**43 503**	**595 440**	**287 731**	**416 326**	**717 117**	**582 457**	**2 642 574**
Government securities	19 101	595 440	287 731	416 326	717 117	562 056	2 597 771
- fixed rate	19 101	595 440	287 731	416 326	213 427	338 622	1 870 647
- floating rate	-	-	-	-	503 690	223 434	727 124
Other	24 402	-	-	-	-	20 401	44 803
- unlisted	24 402	-	-	-	-	20 401	44 803
- fixed rate	24 402	-	-	-	-	-	24 402
- floating rate	-	-	-	-	-	20 401	20 401
Total	**43 503**	**595 440**	**287 731**	**416 326**	**717 117**	**582 457**	**2 642 574**

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
- unlisted	1 500	6 952	5 946	700	1 000	25 982	42 080
- fixed rate	-	2 952	-	-	-	-	2 952
- floating rate	1 500	4 000	5 946	700	1 000	25 982	39 128
Total	**356 354**	**225 492**	**456 590**	**193 958**	**124 418**	**342 325**	**1 699 137**

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	**31 December 2011**					**31 December 2010**				**31 December 2009**				
	PLN	**EUR**	**LTL**	**Other**	**Total**	**PLN**	**EUR**	**Other**	**Total**	**PLN**	**EUR**	**LTL**	**Other**	**Total**
Equity instruments	**109 317**	**8 324**	**316**	**770**	**118 727**	**437 121**	**17 818**	**1 242**	**456 181**	**333 122**	**3 686**	**3 049**	**152**	**340 009**
- listed on a regulated market	1 830	8 324	316	770	11 240	-	17 818	1 242	19 060	-	3 686	3 049	152	6 887
- not listed on a regulated market	107 487	-	-	-	107 487	437 121	-	-	437 121	333 122	-	-	-	333 122
Debt securities	**4 244 921**	**116**	**-**	**-**	**4 245 037**	**5 916 449**	**435**	**-**	**5 916 884**	**5 157 999**	**878**	**-**	**-**	**5 158 877**
Government securities	4 178 520	-	-	-	4 178 520	5 785 750	315	-	5 786 065	5 093 495	590	-	-	5 094 085
- fixed rate	3 719 321	-	-	-	3 719 321	5 677 325	315	-	5 677 640	4 852 301	590	-	-	4 852 891
- floating rate	459 199	-	-	-	459 199	108 425	-	-	108 425	241 194	-	-	-	241 194
Other	66 401	116	-	-	66 517	130 699	120	-	130 819	64 504	288	-	-	64 792
- listed on a regulated market	66 401	116	-	-	66 517	39 425	120	-	39 545	15 139	288	-	-	15 427
- fixed rate	23 745	116	-	-	23 861	24 346	120	-	24 466	-	288	-	-	288
- floating rate	42 656	-	-	-	42 656	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	**4 354 238**	**8 440**	**316**	**770**	**4 363 764**	**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 2011**					**31 December 2010**					**31 December 2009**			
	PLN	**USD**	**EUR**	**Other**	**Total**	**PLN**	**USD**	**EUR**	**Other**	**Total**	**PLN**	**USD**	**EUR**	**Total**
Equity instruments	**3 611 499**	**68 371**	**43 623**	**-**	**3 723 493**	**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	1 959 982	29 028	-	-	1 989 010	2 165 455	30 432	-	-	2 195 887	1 789 350	4 903	981	1 795 234
- not listed on a regulated market	1 651 517	39 343	43 623	-	1 734 483	1 546 109	43 871	60 070	-	1 650 050	1 111 556	48 068	47 027	1 206 651
Debt securities	**2 253 906**	**136 472**	**252 196**	**-**	**2 642 574**	**1 794 049**	**-**	**-**	**-**	**1 794 049**	**1 699 137**	**-**	**-**	**1 699 137**
Government securities	2 209 103	136 472	252 196	-	2 597 771	1 765 125	-	-	-	1 765 125	1 649 374	-	-	1 649 374
- fixed rate	1 481 979	136 472	252 196	-	1 870 647	1 622 191	-	-	-	1 622 191	1 641 849	-	-	1 641 849
- floating rate	727 124	-	-	-	727 124	142 934	-	-	-	142 934	7 525	-	-	7 525
Other	44 803	-	-	-	44 803	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	44 803	-	-	-	44 803	23 793	-	-	-	23 793	42 080	-	-	42 080
- fixed rate	24 402	-	-	-	24 402	-	-	-	-	-	2 952	-	-	2 952
- floating rate	20 401	-	-	-	20 401	23 793	-	-	-	23 793	39 128	-	-	39 128
Other, including:	**52 006**	**2 068**	**2 414**	**28 300**	**84 788**	**31 869**	**-**	**1 066**	**72 266**	**105 201**	**11 665**	**-**	**2 058**	**13 723**
- derivatives	52 006	2 068	2 414	28 300	84 788	31 869	-	1 066	72 266	105 201	11 665	-	2 058	13 723
Total	**5 917 411**	**206 911**	**298 233**	**28 300**	**6 450 855**	**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 2011	31 December 2010	31 December 2009
Short-term	5 133 705	4 006 814	4 406 323
Long-term	1 315 627	291 126	262 226
Total	**6 449 332**	**4 297 940**	**4 668 549**

Loans as at 31 December 2011	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	**10 954**	**-**	**50 762**	**5 329**	**47 098**	**-**	**114 143**
Government securities	-	-	-	5 329	-	-	5 329
- fixed rate	-	-	-	5 329	-	-	5 329
Other	10 954	-	50 762	-	47 098	-	108 814
- listed on a regulated market	860	-	50 762	-	-	-	51 622
- fixed rate	860	-	-	-	-	-	860
- floating rate	-	-	50 762	-	-	-	50 762
- unlisted	10 094	-	-	-	47 098	-	57 192
- floating rate	10 094	-	-	-	47 098	-	57 192
Other, including:	**5 122 751**	**286 660**	**43 998**	**4 006**	**32 264**	**845 510**	**6 335 189**
- reverse repo transactions	628 497	-	-	-	-	-	628 497
- term deposits with credit institutions	4 493 847	286 660	43 998	4 006	-	-	4 828 511
- deposits with ceding	407	-	-	-	-	-	407
- loans	-	-	-	-	32 264	845 510	877 774
Total	**5 133 705**	**286 660**	**94 760**	**9 335**	**79 362**	**845 510**	**6 449 332**

Loans as at 31 December 2010	Carrying amount by maturity date			
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	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 2 years and up to 3 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 2011 and 31 December 2010 the fair value of loans did not differ substantially from their carrying amount

Loans as at 31 December 2011	PLN	USD	EURO	LTL	UAH	Total
Debt securities	**107 954**	**-**	**-**	**-**	**6 189**	**114 143**
Government securities	-	-	-	-	5 329	5 329
- fixed rate	-	-	-	-	5 329	5 329
Other	107 954	-	-	-	860	108 814
- listed on a regulated market	50 762	-	-	-	860	51 622
- fixed rate	-	-	-	-	860	860
- floating rate	50 762	-	-	-	-	50 762
- unlisted	57 192	-	-	-	-	57 192
- floating rate	57 192	-	-	-	-	57 192
Other, including:	**6 129 292**	**24 449**	**96 764**	**8 954**	**75 730**	**6 335 189**
- reverse repo transactions	628 497	-	-	-	-	628 497
- term deposits with credit institutions	4 626 241	24 339	96 467	8 954	72 510	4 828 511
- deposits with ceding undertakings	-	110	297	-	-	407
- loans	874 554	-	-	-	3 220	877 774
Total	**6 237 246**	**24 449**	**96 764**	**8 954**	**81 919**	**6 449 332**

Loans as at 31 December 2010	PLN	USD	EURO	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	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**

Other loans

Type of loans	31 December 2011	31 December 2010	31 December 2009
Mortgage loans	32 264	17 032	-
Loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral	842 290	-	21 496
Not collateralized loans	3 220	2 782	2 538
Total	**877 774**	**19 814**	**24 034**

13.5 Zaangażowanie w dłużne papiery emitowane przez rządy

The table below presents the exposure of the PZU Group companies to bonds issued by treasuries other than the Polish treasury, as at 31 December 2011.

Issuer	Currency	Classification	Purchase price	Carrying amount	Fair value	Amortized cost	impairment losses
Germany	EUR	available for sale	478 751	479 713	479 713	476 773	-
Iceland	USD	held for trading	47 567	50 044	50 044	49 454	-
Lithuania	LTL	held to maturity	67 269	86 344	87 168	86 344	-
Lithuania	EUR	held to maturity	41 354	43 375	44 265	43 375	-
Ukraine	UAH	loans	4 864	5 329	b.d.	5 329	-
Hungary	EUR	held to maturity	2 278	2 628	2 413	2 628	-
Total			**642 083**	**667 433**	**nd.**	**663 903**	**-**

13.6 Fair value

13.6.1 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 2011	**Level I**	**Level II**	**Level III**	**Total**
Assets				
Financial instruments available for sale	7 039 968	683 017	691	7 723 676
Equity instruments	506 195	683 017	691	1 189 903
Debt securities	6 533 773	-	-	6 533 773
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	4 256 277	107 487	-	4 363 764
Equity instruments	11 240	107 487	-	118 727
Debt securities	4 245 037	-	-	4 245 037
Financial instruments measured at fair value held for trading	4 586 781	1 864 074	-	6 450 855
Equity instruments	1 989 010	1 734 483	-	3 723 493
Debt securities	2 597 771	44 803	-	2 642 574
Derivatives	-	84 788	-	84 788
Financial liabilities				
Liabilities measured at fair value	24	93 419	-	93 443
Derivatives	24	93 419	-	93 443

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	7 919 720	570 860	1 948	8 492 528
Equity instruments	868 899	440 161	-	1 309 060
Debt securities	7 050 821	130 699	1 948	7 183 468
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	5 844 671	528 394	-	6 373 065
Equity instruments	19 060	437 121	-	456 181
Debt securities	5 825 611	91 273	-	5 916 884
Financial instruments measured at fair value held for trading	3 966 385	1 778 802	-	5 745 187
Equity instruments	2 195 887	1 650 050	-	3 845 937
Debt securities	1 770 256	23 793	-	1 794 049
Derivatives	242	104 959	-	105 201
Financial liabilities				
Liabilities measured at fair value	492	11 238	-	11 730
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				
Financial instruments available for sale	9 445 140	479 714	1 850	9 926 704
Equity instruments	909 525	415 282	-	1 324 807
Debt securities	8 535 615	64 432	1 850	8 601 897
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	5 116 399	382 487	-	5 498 886
Equity instruments	6 887	333 122	-	340 009
Debt securities	5 109 512	49 365	-	5 158 877
Financial instruments measured at fair value held for trading	3 453 613	1 261 132	-	4 714 745
Equity instruments	1 795 234	1 206 651	-	3 001 885
Debt securities	1 657 057	42 080	-	1 699 137
Derivatives	1 322	12 401	-	13 723
Financial liabilities				
Liabilities measured at fair value	351	3 669	-	4 020
Derivatives	351	3 182	-	3 533
Investment contracts	-	487	-	487
- with guaranteed and fixed terms and conditions	-	487	-	487

13.6.2 Reclassifications between Levels I and II

In the financial year ended 31 December 2011 no reclassifications between Levels I and II material from viewpoint of the financial profit/loss and total assets and liabilities took place.

14. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	31 December 2011	31 December 2010	31 December 2009
Receivables from direct insurance, including:	1 378 054	1 292 955	1 222 390
- receivables from policyholders	1 268 320	1 218 489	1 154 479
- receivables from insurance intermediaries	84 511	55 462	51 616
- other receivables	25 223	19 004	16 295
Receivables from reinsurance	33 987	122 215	26 334
Other receivables	322 595	319 104	246 483
Net receivables, including under insurance contracts	**1 734 636**	**1 734 274**	**1 495 207**

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

Receivables, including under insurance contracts – by contractual maturity	31 December 2011	31 December 2010	31 December 2009
Up to 1 year	1 696 626	1 692 975	1 435 285
Over 1 year and up to 5 years	35 360	35 028	48 309
Over 5 years	2 650	6 271	11 613
Receivables, including under insurance contracts – by contractual maturity	**1 734 636**	**1 734 274**	**1 495 207**

14.1 Other receivables

Other receivables	31 December 2011	31 December 2010	31 December 2009
Receivables from the State Budget, other than due to income tax	2 449	804	764
Receivables from Metro Projekt sp. z o.o. claimed at court	96 491	92 439	89 831
Receivables relating to prevention activities	43 057	36 155	24 593
Advance payments	3 116	1 402	2 959
Receivables from PZU OPF	2 756	4 872	8 320
Receivables from loss adjusting services	6 326	4 811	4 006
Receivables of life insurance capital funds	4 014	30 510	8 053
Receivables from disposal of securities	57 667	131 808	93 537
Trade receivables	89 426	767	644
Other	17 293	15 536	13 776
Other receivables	**322 595**	**319 104**	**246 483**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in point 0.

14.2 Receivables due to operating leases

Operating leases concern mainly property lease agreements.

Future minimum receivables from lease payments	31 December 2011	31 December 2010	31 December 2009
Up to 1 year	17 532	13 808	15 178
Over 1 year and up to 5 years	19 879	22 269	19 428
Over 5 years	301	1 188	118

Future minimum receivables from lease payments	**37 712**	**37 265**	**34 724**

15. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – property and personal insurance	**31 December 2011**	**31 December 2010**	**31 December 2009**
Provision for unearned premiums	163 937	75 230	75 096
Provision for unexpired risks	167	89	-
Provisions for claims outstanding, including:	283 085	336 023	191 210
- for claims reported	233 774	270 855	156 106
- for claims incurred but not reported (IBNR)	37 503	52 650	19 056
- for claims handling costs	11 808	12 518	16 048
Provision for capitalized value of annuity claims	253 524	360 508	482 007
Reinsurers' share in technical provisions (net)	**700 713**	**771 850**	**748 313**

Reinsurers' share in technical provisions - property and personal insurance	**31 December 2011**	**31 December 2010**	**31 December 2009**
Short-term	172 358	199 926	259 293
Long-term	528 355	571 924	489 020
Total	**700 713**	**771 850**	**748 313**

16. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2011	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	296 919	16 352	-	(60 147)	248	-	253 372
- equity instruments	296 919	16 352	-	(60 147)	248	-	253 372
Loans	18 321	9 780	-	-	669	-	28 770
Term deposits with credit institutions	-	9 780	-	-	654	-	10 434
Loans	18 321	-	-	-	15	-	18 336
Receivables, including under insurance contracts	507 659	147 596	(61 677)	(13 756)	1 400	(13)	581 209
Receivables from direct insurance	423 260	93 258	(3 089)	(1 705)	1 135	(4)	512 855
Receivables from reinsurance	18 544	51 801	(53 892)	(11 605)	-	-	4 848
Other receivables	65 855	2 537	(4 696)	(446)	265	(9)	63 506
Reinsurers' share in technical provisions	36 372	7 378	(25 137)	-	-	-	18 613
Total	**859 271**	**181 106**	**(86 814)**	**(73 903)**	**2 317**	**(13)**	**881 964**

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

Credit quality of financial assets as at 31 December 2011	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity	**-**	**21 659 505**	**-**	**-**	**-**	**21 659 505**	**-**	**-**	**21 659 505**
Debt securities	-	21 659 505	-	-	-	21 659 505	-	-	21 659 505
Financial assets available for sale	**-**	**6 533 773**	**-**	**-**	**-**	**6 533 773**	**-**	**-**	**6 533 773**
Debt securities	-	6 533 773	-	-	-	6 533 773	-	-	6 533 773
Loans	**-**	**6 449 332**	**-**	**-**	**-**	**6 449 332**	**28 770**	**-**	**6 478 102**
Debt securities	-	114 143	-	-	-	114 143	-	-	114 143
Reverse repo transactions	-	628 497	-	-	-	628 497	-	-	628 497
Term deposits with credit institutions	-	4 828 511	-	-	-	4 828 511	10 434	-	4 838 945
Deposits with ceding undertakings	-	407	-	-	-	407	-	-	407
Loans	-	877 774	-	-	-	877 774	18 336	-	896 110
Receivables, including under insurance contracts	**37 269**	**1 417 262**	**72 893**	**32 656**	**174 556**	**1 734 636**	**91 932**	**489 277**	**2 315 845**
Receivables from direct insurance	32 148	1 178 223	64 277	29 940	73 466	1 378 054	25 257	487 598	1 890 909
Receivables from reinsurance	5 121	28 852	-	-	14	33 987	4 848	-	38 835
Other receivables	-	210 187	8 616	2 716	101 076*	322 595	61 827	1 679	386 101
Reinsurers' share in technical provisions	**60 202**	**640 511**	**-**	**-**	**-**	**700 713**	**18 613**	**-**	**719 326**
Total	**97 471**	**36 700 383**	**72 893**	**32 656**	**174 556**	**37 077 959**	**139 315**	**489 277**	**37 706 551**

* including PLN 96.491 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o.

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	**-**	**7 183 468**	**-**	**-**	**-**	**7 183 468**	**-**	**-**	**7 183 468**
Debt securities	-	7 183 468	-	-	-	7 183 468	-	-	7 183 468
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**	**1 462 615**	**56 839**	**19 290**	**137 260**	**1 734 274**	**114 208**	**393 451**	**2 241 933**
Receivables from direct insurance	35 852	1 144 876	51 825	18 468	41 934	1 292 955	31 276	391 984	1 716 215
Receivables from reinsurance	10 218	111 997	-	-	-	122 215	18 544	-	140 759
Other receivables	12 200	205 742	5 014	822	95 326*	319 104	64 388	1 467	384 959
Reinsurers' share in technical provisions	**90 221**	**681 629**	**-**	**-**	**-**	**771 850**	**36 372**	**-**	**808 222**
Total	**148 491**	**33 931 410**	**56 839**	**19 290**	**137 260**	**34 293 290**	**168 901**	**393 451**	**34 855 642**

* 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	**-**	**8 601 897**	**-**	**-**	**-**	**8 601 897**	**-**	**-**	**8 601 897**
Debt securities	-	8 601 897	-	-	-	8 601 897	-	-	8 601 897
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**	**1 270 488**	**48 248**	**21 210**	**130 044**	**1 495 207**	**113 779**	**318 728**	**1 927 714**
Receivables from direct insurance	12 984	1 104 105	46 968	20 825	37 508	1 222 390	29 257	317 822	1 569 469
Receivables from reinsurance	7 441	18 893	-	-	-	26 334	17 824	-	44 158
Other receivables	4 792	147 490	1 280	385	92 536*	246 483	66 698	906	314 087
Reinsurers' share in technical provisions	**38 993**	**709 320**	**-**	**-**	**-**	**748 313**	**30 370**	**-**	**778 683**
Total	**64 210**	**38 577 822**	**48 248**	**21 210**	**130 044**	**38 841 534**	**163 273**	**318 728**	**39 323 535**

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

17. Estimated recoveries and recourses

Estimated recoveries and recourses	**31 December 2011**	**31 December 2010**	**31 December 2009**
Estimated recourses	82 032	76 965	79 934
Estimated recoveries	657	847	2 396
Estimated subsidies	428	-	-
Total	**83 117**	**77 812**	**82 330**

Estimated recoveries and recourses	**31 December 2011**	**31 December 2010**	**31 December 2009**
Short-term	48 460	47 638	50 929
Long-term	34 657	30 174	31 401
Total	**83 117**	**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 2011	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Change in the consolidation scope	Exchange differences	Closing balance
Financial Instruments	(1 247)	137	123	-	(82)	(1 069)
Receivables	-	3	-	420	(1)	422
Properties	(2 607)	(5 554)	(195)	372	-	(7 984)
Provisions for jubilee bonuses, retirement severance pay etc.	314	145	-	-	-	459
Provision for bonuses and appropriation to the bonus fund	502	269	-	-	-	771
Provision for paid vacation	-	51	-	-	7	58
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	38	276	-	-	-	314
Other provisions and accruals	2 075	856	-	478	175	3 584
Tax losses to be used in future periods	15 759	(5 283)	-	-	-	10 476
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 811	(242)	-	-	-	1 569
Total deferred tax asset	**16 645**	**(9 342)**	**(72)**	**1 270**	**99**	**8 600**

Zmiana stanu aktywa z tytułu podatku odroczonego w roku zakończonym 31 grudnia 2010	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Exchange differences	Closing balance
Financial Instruments	(1 940)	625	65	3	(1 247)
Properties	(1 569)	(904)	(134)	-	(2 607)
Provisions for jubilee bonuses, retirement severance pay etc.	349	(35)	-	-	314
Provision for bonuses and appropriation to the bonus fund	528	(26)	-	-	502
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	63	(25)	-	-	38
Other provisions and accruals	2 532	(485)	-	28	2 075
Tax losses to be used in future periods	22 524	(6 765)	-	-	15 759
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	2 443	(632)	-	-	1 811
Other differences	(17)	19	-	(2)	-
Total deferred tax asset	**24 913**	**(8 228)**	**(69)**	**29**	**16 645**

The investments in shares in the PZU Group entities that are not consolidated will not be redeemed and thus the deferred tax asset and liability resulting from temporary differences on the assets are not recognized.

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 36,276 thousand as at 31 December 2011 (PLN 44,240 thousand as at 31 December 2010).

Unrecognized deferred tax asset (not disclosed in the statement of financial position)	**31 December 2011**	**31 December 2010**	**31 December 2009**
Resulting from a tax loss in line with the use period specified in applicable regulations (including):	81 901	62 561	55 499
- period not specified in the applicable regulations	81 901	62 561	55 499
Total	**81 901**	**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 2011**	**31 December 2010**	**31 December 2009**
Short-term	8 582	9 958	87 599
Long-term	-	-	-
Total current income tax receivables	**8 582**	**9 958**	**87 599**

20. Deferred acquisition costs

Deferred acquisition costs	**31 December 2011**	**31 December 2010**	**31 December 2009**
Short-term	504 458	470 497	441 595
Long-term	65 385	70 232	76 684
Total	**569 843**	**540 729**	**518 279**

20.1 Deferred acquisition costs – property and personal insurance

Changes in deferred acquisition costs in property and personal insurance	**1 January – 31 December 2011**	**1 January – 31 December 2010**
Net value – opening balance	470 497	441 595
Deferred acquisition costs	524 323	452 581
Amortization for the period, including:	(491 452)	(423 345)
- charged to the financial profit/loss	(491 452)	(423 345)
Other changes	1 090	(334)
- exchange differences	1 090	(334)
Net value – closing balance	**504 458**	**470 497**

20.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	**1 January – 31 December 2011**	**1 January – 31 December 2010**
Net value – opening balance	70 232	76 684
Deferred acquisition costs	-	-
Amortization for the period, including:	(4 847)	(6 452)
- charged to the financial profit/loss	(4 847)	(6 452)
Net value – closing balance	**65 385**	**70 232**

21. Prepayments

Prepayments	31 December 2011	31 December 2010	31 December 2009
IT expenses	6 217	4 536	3 338
Deferred acquisition costs relating to PZU OPF	23 400	45 829	38 154
Prepayments relating to reinsurance	85 366	132 776	164 228
Other	10 907	11 085	10 084
Total	125 890	194 226	215 804

Prepayments	**31 December 2011**	**31 December 2010**	**31 December 2009**
Short-term	121 486	186 600	206 244
Long-term	4 404	7 626	9 560
Total	**125 890**	**194 226**	**215 804**

22. Other assets

Other assets	**31 December 2011**	**31 December 2010**	**31 December 2009**
Inventories, including:	116 266	4 654	12 099
- materials	49 883	4 325	11 709
- products and goods	65 628	-	-
- claim recoveries	755	329	390
Other assets:	4 195	2 801	3 682
Total	**120 461**	**7 455**	**15 781**

Other assets	**31 December 2011**	**31 December 2010**	**31 December 2009**
Short-term	120 461	7 455	15 781
Long-term	-	-	-
Total	**120 461**	**7 455**	**15 781**

Inventories

Inventories (other information)	**31 December 2011**	**31 December 2010**	**31 December 2009**
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	755	329	390
Book value of inventories pledged as security for liabilities	39 600	-	-

In 2011 the companies in the PZU Group recognized an impairment loss on the inventories of PLN 537 thousand. In 2010 there were no recognized or reversed impairment losses on inventories.

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 2011**	**31 December 2010**	**31 December 2009**
Cash in hand and at bank	224 967	417 087	361 455
Other cash	12 757	6 616	5 101
Total	**237 724**	**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 2011

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	-	7 602	7 602	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	-	60 438 718	60 438 718	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 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**			

All shares all fully paid.

24.1.1 Shareholders of PZU

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

As at 31 December 2011

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	30 385 253	35,1875%
2	ING Otwarty Fundusz Emerytalny *	4 339 308	5,0251%
3	Other shareholders	51 627 739	59,7874%
Total		**86 352 300**	**100,0000%**

* Holding directly after transaction as of 22 July 2011, described in point 24.1.2.

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**	**100,0000%**

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%
2	Eureko B.V.*	19 856 968	22,9953%
3	Kappa SA	12 866 492	14,9000%
4	Other shareholders	10 290 742	11,9172%
Total		**86 352 300**	**100,0000%**

* 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

Between 1 January 2011 and the date of signing these consolidated financial statements, the ownership structure underwent the following changes with respect to material blocks of PZU shares:

- on 10 June 2011 the State Treasury sold in a block trade 8,635,230 shares of PZU accounting for 10.0000% of the interest in the share capital and the same interest in the total number of votes. Before the change, the State Treasury held 39,020,483 shares accounting for 45.1875% interest in the share capital and the same interest in the total number of votes;
- ING Open Pension Fund ("ING OPF"), managed by ING PTE SA, acquired shares in transactions settled on WSE on 22 July 2011. As a result of the transaction the five-percent vote threshold at the Shareholders' Meeting of PZU was exceeded. Before the acquisition of PZU shares, ING OPF held 4,309,423 shares accounting for 4.9905% of the share capital of PZU and the same interest in the total number of votes. After the change, the stake of ING OPF totalled 4,339,308 PZU shares, accounting for 5.0251% of interest in the share capital of PZU and the total number of votes.

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 35.1875% of PZU shares giving the right to 35.1875% 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 2011 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 2010

On 11 May 2011, the Management Board of PZU adopted resolution concerning the dividend policy of PZU. The assumptions include:

- the basis for the dividend paid by PZU for a given financial year will be the consolidated profit/loss of the PZU Group in accordance with IFRS;
- dividend amount:
  - cannot be lower than 50% and higher than 100% of the consolidated net profit disclosed in the consolidated financial statements prepared in line with IFRS;
  - cannot be higher than the separate net profit of PZU disclosed in the separate financial statements prepared in line with PAS;
  - cannot lead to a reduction of the equity of PZU below the amount corresponding to 250% of the solvency margin;
  - cannot lead to a reduction in the financial strength of the PZU Group below the level corresponding to the AA rating of Standard & Poor's;
  - should consider additional capital needs of PZU in the twelve months following approval of the consolidated financial statements of the PZU Group for a given year by the Management Board of PZU.
- the equity and the solvency margin are calculated in line with the prudential standards established for the Polish insurance market.

Also on 11 March 2011, the Management Board of PZU adopted a resolution concerning the proposed distribution of net profit for 2010 of PLN 3,516,709 thousand:

- PLN 2,245,160 thousand for dividends for shareholders;
- PLN 1,271,549 thousand for supplementary capital.

On 30 June 2011 the General Shareholders' Meeting of PZU adopted a resolution concerning distribution of net profit for 2010 compliant with the above suggestion assuming payment of dividend of PLN 26.00 per share and setting the record date at 30 September 2011 and the day of payment at 21 October 2011. Dividend was paid.

24.1.4.2 Distribution of profit for 2011

By the date of signing these consolidated financial statements, the Management Board of PZU had not adopted a resolution on the distribution of profit for 2011.

24.1.4.3 Cancellation of the resolution of the General Meeting of PZU on the distribution of the profit of PZU for the 2006 financial year

Following a statement of claim of 30 July 2007, Manchester Securities Corporation initiated proceedings against PZU to cancel resolution No. 8/2007 of the General Meeting of PZU of 30 June 2007 on the distribution of the profit of PZU for the 2006 financial year on the grounds that the resolution was in breach of good practice and its objective was to harm the petitioner, a shareholder of PZU.

The contested resolution of the General Meeting of PZU divided the net profit for 2006 of PLN 3,280,883 thousand as follows:

- PLN 3,260,883 thousand to the supplementary capital;
- PLN 20,000 thousand to the Company's Social Benefits Fund.

In a ruling of 22 January 2010 a Regional Court in Warsaw cancelled the entire resolution of the General Meeting of PZU. On 17 February 2010 PZU appealed against the ruling of the Regional Court in Warsaw.

On 6 December 2011 the Court of Appeals in Warsaw dismissed the appeal of PZU against the decision of the Regional Court in Warsaw of 22 January 2010. As a result of the ruling of the Court of Appeals of 6 December 2011, the ruling of the Regional Court in Warsaw of 22 January 2010, which cancelled the resolution of the General Meeting of PZU, became valid.

At the time of signing these consolidated financial statements, the ruling of the Regional Court remained in force.

On 7 December 2011 PZU applied for a written statement of reasons for the ruling of the Court of Appeals in Warsaw of 6 December 2011. Once the Management Board of PZU receives and analyzes the statement of reasons, it will consider taking legal action in accordance with the Code of civil procedure and Code of commercial companies. By the date of signing these financial statements, PZU had not received the statement of reasons.

In a preliminary assessment of the Management Board of PZU, the cancellation of the resolution of the General Meeting of PZU will not lead to a claim for the payment of dividend by PZU.

As at 31 December 2011 there had been no changes in the presentation of equity of PZU which could result from the cancellation of the resolution of the General Meeting of PZU, including “Supplementary capital” and “Prior year profit (loss)”, the resources of the Company’s Social Benefits Fund had not been adjusted and there had been no provisions for any additional claims resulting from the cancellation of the resolution.

24.2 Revaluation reserve

Revaluation reserve	31 December 2011	31 December 2010	31 December 2009
Revaluation of financial instruments available for sale	161 307	323 956	323 315
Reclassification of real property from property, plant and equipment to investment property	107 524	68 312	17 655
Total	**268 831**	**392 268**	**340 970**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January - 31 December 2011	1 January - 31 December 2010
Opening balance	323 956	323 315
Changes	(162 649)	641
- change in fair value	(108 699)	58 586
- impairment losses	67 680	69 671
- sale	(121 630)	(127 620)
- exchange differences	-	4
Closing balance	**161 307**	**323 956**

25. Exchange differences from translation

Exchange differences from translation – controlled entities	1 January - 31 December 2011	1 January - 31 December 2010
Opening balance	(38 799)	(23 416)
Changes relating to subsidiaries	6 536	(15 383)
Closing balance	**(32 263)**	**(38 799)**

26. Technical provisions

26.1 Technical provisions – property and personal insurance

Technical provisions - property and personal insurance	31 December 2011	31 December 2010	31 December 2009
Provision for unearned premiums	4 411 652	4 183 127	4 047 377
Provision for unexpired risks	13 411	31 917	37 167
Provisions for claims outstanding	4 817 359	4 548 445	3 837 211
Provision for capitalized value of annuity claims	5 088 626	4 862 552	4 874 653
Provisions for bonuses and rebates for the insured	6 232	4 731	4 180
Total	**14 337 280**	**13 630 772**	**12 800 588**

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2011	31 December 2010	31 December 2009
Accident and sickness insurance (class 1 and 2)	347 348	344 757	333 858
TPL motor insurance (class 10)	9 169 307	8 558 131	8 165 663
Other motor insurance (class 3)	1 741 208	1 743 126	1 649 359
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	64 944	96 465	64 444
Insurance against fire and other damage to property (classes 8 and 9)	1 154 692	1 151 522	948 148
TPL insurance (classes 11, 12, 13)	1 457 244	1 303 691	1 302 721
Credit insurance and suretyship (classes 14, 15)	135 225	130 318	121 484
Assistance (class 18)	127 853	99 408	72 635
Legal protection (class 17)	2 314	2 175	2 002
Other (class 16)	137 145	201 179	140 274
Total	**14 337 280**	**13 630 772**	**12 800 588**

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2011	31 December 2010	31 December 2009
Accident and sickness insurance (class 1 and 2)	347 165	345 672	335 301
TPL motor insurance (class 10)	8 774 938	8 062 855	7 498 610
Other motor insurance (class 3)	1 717 747	1 757 860	1 667 471
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	52 271	68 909	54 683
Insurance against fire and other damage to property (classes 8 and 9)	1 019 492	1 016 057	927 769
TPL insurance (classes 11, 12, 13)	1 439 116	1 294 355	1 282 530
Credit insurance and suretyship (classes 14, 15)	91 139	90 905	85 838
Assistance (class 18)	126 825	99 253	72 525
Legal protection (class 17)	2 314	2 175	2 002
Other (class 16)	65 560	120 881	125 546
Total	**13 636 567**	**12 858 922**	**12 052 275**

Technical provisions - property and personal insurance	31 December 2011	31 December 2010	31 December 2009
Short-term	3 230 831	3 641 330	4 528 915
Long-term	11 106 449	9 989 442	8 271 673
Total	**14 337 280**	**13 630 772**	**12 800 588**

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 2011	31 December 2010	31 December 2009
Provision for unearned premiums	96 333	100 631	105 305
Life insurance provision	14 595 112	14 570 725	14 582 590
Provisions for claims outstanding	612 122	608 635	619 253
Provisions for bonuses and rebates for the insured	960	1 446	891
Other technical provisions	581 155	614 692	698 918
Unit-linked reserve	2 299 767	2 296 089	2 017 501
Total	**18 185 449**	**18 192 218**	**18 024 458**

Technical provisions – life insurance	31 December 2011	31 December 2010	31 December 2009
Short-term	4 368 662	4 319 641	3 871 532
Long-term	13 816 787	13 872 577	14 152 926
Total	**18 185 449**	**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 2011	31 December 2010
Life insurance provisions	486 539	500 161
Other technical provisions	222 814	212 325
IBNR and RBNP* provision	6 365	10 796
Total provisions for the old portfolio	**715 718**	**723 282**

* - 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 2011**	**31 December 2010**	**31 December 2009**
Investment contracts with guaranteed and fixed terms and conditions	2 330 870	2 270 568	2 632 054
- measured at amortized cost	2 330 870	2 270 568	2 631 567
- measured at fair value	-	-	487
Unit linked investment contracts	1 140 902	1 273 947	1 094 475
Total	**3 471 772**	**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 2011	31 December 2010	31 December 2009
Investment contracts with guaranteed and fixed terms and conditions	2 330 870	2 053 913	2 506 707
Unit-linked investment contracts	1 140 902	1 273 947	1 094 475
Total	**3 471 772**	**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.

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 2011	31 December 2010	31 December 2009
Post-employment benefits	**108 661**	**108 057**	**105 253**
- defined benefit plans	108 661	108 057	105 253
- provisions for retirement severance pay	93 832	93 252	89 998
- provisions for death benefits	14 829	14 805	15 255
Other long-term employee benefits	**146 915**	**149 859**	**155 693**
- provisions for jubilee bonuses	115 393	119 928	118 443
- other	31 522	29 931	37 250
Total	**255 576**	**257 916**	**260 946**

Provisions for employee benefits	31 December 2011	31 December 2010	31 December 2009
Short-term	13 448	13 424	17 353
Long-term	242 128	244 492	243 593
Total	**255 576**	**257 916**	**260 946**

Revenue (expenses) recognized in the income statement and related to provisions for employee benefits	1 January - 31 December 2011	1 January - 31 December 2010
Post-employment benefits	(12 397)	(7 997)
- defined benefit plans	(12 397)	(7 997)
- provisions for retirement severance pay	(12 284)	(8 209)
- provisions for death benefits	(113)	212
Other long-term employee benefits	3 509	(9 243)
- provisions for jubilee bonuses	3 231	(8 761)
- other	278	(482)
Total	**(8 888)**	**(17 240)**

28.1 Provisions for retirement severance pay

Change in the balance of provision for retirement severance pay	1 January - 31 December 2011	1 January - 31 December 2010
Opening balance	93 252	89 998
Cost disclosed in the income statement	12 284	8 209
Change in provisions due to unit reorganization	290	-
Benefits paid	(11 994)	(4 913)
Other	-	(42)
Closing balance	**93 832**	**93 252**

Revenue and expenses recognized in the income statement and related to provision for retirement severance pay	**1 January - 31 December 2011**	**1 January - 31 December 2010**
Current service cost	(8 436)	(16 033)
Interest expenses	(2 657)	(2 837)
Actuarial (gains) and losses recognized in the current period	(1 191)	10 661
Total revenue and expenses recognized in the income statement and related to provision for retirement severance pay, including in the following items:	**(12 284)**	**(8 209)**
Claims	(3 186)	(587)
Claims and change in measurement of investment contracts	7	(33)
Acquisition costs	(3 890)	(544)
Administrative expenses	(5 132)	(6 486)
Other operating expenses	(83)	(559)

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 2011**	**1 January - 31 December 2010**
Opening balance	14 805	15 255
Cost disclosed in the income statement	113	(212)
Benefits paid	(89)	(234)
Other	-	(4)
Closing balance	**14 829**	**14 805**

Revenue and expenses recognized in the income statement and related to provision for death benefits	**1 January - 31 December 2011**	**1 January - 31 December 2010**
Current service cost	(1 345)	(2 717)
Interest expenses	(390)	(439)
Actuarial (gains) and losses recognized in the current period	1 622	3 368
Total revenue and expenses recognized in the income statement and related to provision for death benefits, including in the following items:	**(113)**	**212**
Claims	(90)	(664)
Claims and change in measurement of investment contracts	1	(4)
Acquisition costs	-	(265)
Administrative expenses	71	1 243
Other operating expenses	(95)	(98)

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 2011	31 December 2010
Discount rates /1	1,5% - 5,86%	1,5% - 6,21%
Forecast pay rise rates /1	0,0% - 4,5%	0,0% - 4,5%
Mortality rate /2	PTTŻ	PTTŻ
Employee turnover ratio /3	właściwy dla spółki	właściwy dla spółki
Disability rate (entitlement to disability pension) /4	30% - 60% PTTŻ	30% - 60% PTTŻ

/1 For certain PZU Group companies, discount rates at the level of 1.5% are adopted (1% as at 31 December 2010). 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 2011	Opening balance	Increases	Application	Release	Change in the consolidation scope	Closing balance
Provision for restructuring and reorganization expenses	75 253	96 842	(58 169)	(970)	-	112 956
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	4 461	3 881	(1 820)	(2 503)	-	4 019
Provision for the Office of Competition and Consumer Protection	69 143	67 892	-	-	-	137 035
Provision for exit costs of the GraphTalk project	49 396	953	-	-	-	50 349
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	9 532	766	(1 372)	(831)	-	8 095
Other	3 858	4 835	-	(2 046)	2 046	8 693
Total other provisions	**212 559**	**175 169**	**(61 361)**	**(6 350)**	**2 046**	**322 063**

Changes in other provisions in the year ended 31 December 2010	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring and reorganization expenses	158 763	64 240	(147 750)	-	75 253
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	24 936	137	(2 400)	(18 212)	4 461
Provision for the Office of Competition and Consumer Protection	65 176	3 967	-	-	69 143
Provision for exit costs of the GraphTalk project	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**

Other provisions	31 December 2011	31 December 2010	31 December 2009
Short-term	228 918	181 119	275 887
Long-term	93 145	31 440	38 708
Total other provisions	**322 063**	**212 559**	**314 595**

Position „Provision for the Office of Competition and Consumer Protection" are described in point 52.1 i **Error! Reference source not found.**.

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.

The employment restructuring process in 2011 are a continuation of the activities begun in 2010 and consisted of – among other things – further integration of particular teams which carry out similar tasks in PZU and PZU Życie, implementing IT tools and optimizing processes enabling the achievement of higher work effectiveness standards (ratios), and further centralization of some functions in central entities. The employment restructuring processes in 2011 mainly covered the following areas: transactions, finance, administration, HR and payroll, loss adjustment and benefits, and the network, in all areas, both in local entities and in central entities, including PZU's and PZU Życie's Head Office.

Due to the anticipated scale of the lay-offs in the subsequent months of 2011, on 11 May 2011, the Management Boards of PZU and PZU Życie announced their intention to conduct further group lay-offs.

It was estimated on that date that the change would affect up to 3,316 people, i.e. that a decrease in the number of employees in PZU and PZU Życie would amount to 1,212 employees in 2011.

In accordance with the provisions of 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, item 844 as amended, the "Act on special principles applicable to termination of employment"), the level and execution of group lay-offs were consulted with the trade unions operating at PZU and PZU Życie, they concluded with an agreement regarding the wording of an arrangement setting forth the terms and conditions of the 2011 staff restructuring, reached on 26 May 2011 and signed on 30 May 2011 (the "Arrangement").

The Arrangement included information about the number of employees affected by the restructuring, criteria for redundancy selection, financial package, principles of protection of selected employee groups and the group lay-offs implementation schedule.

Pursuant to the provisions of the Arrangement:

- the group lay-offs process as part of the restructuring process began on 13 June and will end on 10 October 2011;
- staff restructuring at PZU, consisting in changes in the employment terms and conditions or – in the absence of employees' acceptance – dismissals, will affect 1,706 employees and 1,041 employees will definitely receive employment termination notices;
- staff restructuring at PZU Życie, consisting in changes in the employment terms and conditions or – in the absence of employees acceptance – dismissals, will affect 1,317 employees and 637 employees will definitely receive employment termination notices;
- considering that some of the employees are employed at PZU and PZU Życie on a part-time basis, the total number of employees affected by the changes (in the terms and conditions of employment) will not exceed 3,303. Both companies will lay off up to 1,199 people.

Termination terms and conditions offered to the dismissed employees or employees who did not accept the terms and conditions of employment offered to them in the previous (2010 and Q1 2011) and current stages of the restructuring process were and are better than those provided for by the applicable laws (the "Act on special principles applicable to termination of employment"). The amount of additional redundancy pay was and is contingent on the salary of each employee and their time of employment at the PZU Group.

In 2011, 1,943 employees were covered by the layoff procedures, of which termination of contracts was initiated with 1,276 employees as a result of a termination agreement or handing them declarations about terminating the contracts or as a result of the employees not accepting the new terms and conditions of employment, not due to the fault of the employer.

Moreover, employment contracts with 75 employees were terminated under individual layoff procedures, for reasons not relating to the employees, and the costs of the layoffs were also charged to the restructuring provision.

Total restructuring expenses amounted to PLN 58.169 thousand in 2011 (in 2010: PLN 147.750 thousand).

As at 31 December 2011, the restructuring provision costs amounted to PLN 112.956 thousand (as at 31 December 2010: PLN 75.253 thousand), which meant a change in the balance of the provision of PLN 37.703 thousand in 2011 (in 2010: PLN 83.510 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 50,349 thousand (PLN 49,396 thousand as at 31 December 2010).

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 PZU OPF members.

30. Deferred income tax liability

Changes in deferred tax liability in the year ended 31 December 2011	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in the revaluation reserve	Change in the consolidation scope	Closing balance
Financial instruments	319 118	(216 529)	(36 043)	-	66 546
Recourse receivables	(8 319)	1 337	-	-	(6 982)
Real property	6 040	(5 951)	6 218	6 253	12 560
Deferred acquisition costs	97 014	8 985	-	-	105 999
Deferred acquisition costs relating to PZU OPF	(8 823)	7 906	-	-	(917)
Accrued revenue and reinsurance costs	17 786	(28 557)	-	-	(10 771)
Provisions for jubilee bonuses, retirement severance pay etc.	(50 956)	787	-	-	(50 169)
Provision for bonuses and appropriation to the bonus fund	(30 347)	(10 512)	-	-	(40 859)
Provisions for employee vacation	(4 783)	(217)	-	-	(5 000)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(35 399)	(403)	-	-	(35 802)
Other provisions and accruals	(76 342)	(19 569)	-	443	(95 468)
Prevention Fund	19 450	(6 347)	-	-	13 103
Equalization and catastrophe provision	101 597	10 275	-	-	111 872
Technical provisions	80 026	(3 592)	-	-	76 434
Provision for restructuring and reorganization expenses	(14 299)	(7 163)	-	-	(21 462)
- other differences	(6 807)	(2 561)	-	-	(9 368)
Total deferred tax liability	**404 956**	**(272 111)**	**(29 825)**	**6 696**	**109 716**

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 PZU OPF	(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)
Prevention Fund	8 923	10 527	-	19 450
Equalization and catastrophe provision	101 198	399	-	101 597
Technical provisions	85 813	(5 787)	-	80 026
Provision for restructuring and reorganization expenses	(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**

31. Current income tax liabilities

As at 31 December 2011 and 31 December 2010 all current income tax liabilities were short-term.

32. Other liabilities

Liabilities - carrying amount	31 December 2011	31 December 2010	31 December 2009
Liabilities due to direct insurance	528 648	484 004	402 139
Liabilities due to reinsurance	49 450	39 674	26 959
Liabilities to credit institutions	758 951	122	4 780 108
Other liabilities	452 902	608 279	764 846
Total liabilities	**1 789 951**	**1 132 079**	**5 974 052**

As at 31 December 2011 and 31 December 2010 the fair value of other liabilities did not differ substantially from their carrying amount.

Liabilities by contractual maturity	31 December 2011	31 December 2010	31 December 2009
Up to 3 months	1 682 005	1 101 799	1 188 139
Over 3 months and up to 1 year	100 971	20 572	4 776 374
Over 1 year and up to 5 years	4 626	4 538	4 826
Over 5 years	2 349	5 170	4 713
Total liabilities by contractual maturity	**1 789 951**	**1 132 079**	**5 974 052**

32.1 Liabilities due to direct insurance

Liabilities due to direct insurance	31 December 2011	31 December 2010	31 December 2009
Liabilities to policyholders	300 933	287 517	263 797
Liabilities to insurance intermediaries	86 886	92 443	77 987
Other insurance liabilities	140 829	104 044	60 355
Total liabilities due to direct insurance	**528 648**	**484 004**	**402 139**

32.2 Liabilities due to reinsurance

Liabilities due to reinsurance	31 December 2011	31 December 2010	31 December 2009
Liabilities due to inward reinsurance	1 896	1 147	365
Liabilities due to outward reinsurance	47 554	37 815	26 594
Liabilities due to retrocession	-	712	-
Total liabilities due to reinsurance	**49 450**	**39 674**	**26 959**

32.3 Liabilities due to credit institutions

The major element of liabilities towards credit institutions are liabilities due to contingent sell-buy-back transactions of PLN 758,929 thousand.

The transactions were secured with treasury bonds with the carrying amount as at 31 December 2011 totalling PLN 758,560 thousand.

All sell-buy-back transactions were settled on 2 and 5 January 2012.

32.4 Other liabilities

Other liabilities	31 December 2011	31 December 2010	31 December 2009
Liabilities to the State Budget, other than corporate income tax (CIT)	18 016	18 234	23 288
Regulatory liabilities – to the Social Insurance Institution, PFRON, the Company's Social Benefits Fund etc.	23 564	23 895	45 200
To employees	6 195	2 206	2 789
Insurance Guarantee Fund	7 541	6 389	4 118
Due to acquired securities	139 292	396 604	436 533
Liabilities to the Shareholders	3 650	4 002	8 581
Trade payables to suppliers	124 529	10 050	9 470
Estimated non-insurance liabilities	80 551	90 509	145 321
Other	49 564	56 390	89 546
Other total liabilities	**452 902**	**608 279**	**764 846**

32.5 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 2011	31 December 2010	31 December 2009
Up to 1 year	75 014	44 999	36 966
Over 1 year and up to 5 years	106 725	89 465	84 257
Over 5 years	18 562	16 054	13 052
Total liabilities due to minimum operating lease payments	**200 301**	**150 518**	**134 275**

Operating lease payments disclosed in the income statement for the period	1 January - 31 December 2011	1 January - 31 December 2010
Minimum operating lease payments	64 236	66 866
Sublease payments	-	-
Total	**64 236**	**66 866**

33. Accruals and deferred income

Accruals and deferred income	31 December 2011	31 December 2010	31 December 2009
Accrued expenses, including:	**669 048**	**474 272**	**464 126**
- long-term	**-**	**-**	**-**
- short-term	669 048	474 272	464 126
- accrued costs of agency commissions	176 181	164 331	174 814
- accrued payroll costs	121 803	115 410	94 916
- accrued costs and revenue from reinsurance	153 618	64 917	74 847
- remuneration of intermediaries in companies	19 731	19 507	19 523
- provision for paid vacation	40 301	39 386	38 633
- accrued employee bonuses	134 836	58 075	50 966
- other	22 578	12 646	10 427
Deferred income, including:	**17 909**	**7 871**	**4 623**
- long-term	7 001	174	168
- short-term	10 908	7 697	4 455
- deferred reinsurance commission	9 688	6 543	4 061
- other	1 220	1 154	394
Total accruals and deferred income	**686 957**	**482 143**	**468 749**

As of 31 December 2011 bonuses for the results achieved in 2011 were presented in the position „accrued bonuses for employees" in the amount PLN 94.875 thousand.

34. Gross written premiums

Gross written premiums	1 January - 31 December 2011	1 January - 31 December 2010
Gross written premiums – property and personal insurance	8 527 492	8 028 481
In direct insurance	8 491 093	7 991 069
In indirect insurance	36 399	37 412
Gross written premiums – life insurance	6 751 770	6 512 541
Individual premiums	2 401 961	2 342 210
In direct insurance	2 401 961	2 342 210
In indirect insurance	-	-
Group insurance premiums	4 349 809	4 170 331
In direct insurance	4 349 809	4 170 331
In indirect insurance	-	-
Gross written premiums	**15 279 262**	**14 541 022**

In 2011 and 2010, 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 2011	1 January - 31 December 2010
Accident and sickness insurance (class 1 and 2)	502 733	503 423
TPL motor insurance (class 10)	2 968 375	2 673 779
Other motor insurance (class 3)	2 358 893	2 305 370
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	48 629	49 320
Insurance against fire and other damage to property (classes 8, 9)	1 742 023	1 637 156
TPL insurance (classes 11, 12, 13)	532 538	506 060
Credit insurance and surety ship (classes 14, 15)	63 003	68 291
Assistance (class 18)	191 288	176 212
Legal protection (class 17)	822	777
Other (class 16)	82 789	70 681
Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**8 491 093**	**7 991 069**

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 2011	1 January - 31 December 2010
Accident and sickness insurance (class 1 and 2)	75	89
TPL motor insurance (class 10)	-	(14)
Other motor insurance (class 3)	952	-
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	2 005	2 400
Insurance against fire and other damage to property (classes 8, 9)	28 173	28 285
TPL insurance (classes 11, 12, 13)	4 549	4 251
Credit insurance and surety ship (classes 14, 15)	-	-
Assistance (class 18)	-	-
Legal protection (class 17)	-	-
Other (class 16)	645	2 401
Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**36 399**	**37 412**

35. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2011	1 January - 31 December 2010
Pension insurance	**231 638**	**246 915**
Commission on handling fees	74 381	107 342
Commission on asset management for open pension fund	157 208	139 521
Commission on transfer payments	49	52
Investment contracts	**25 007**	**19 719**
Revenue from unit-linked investment contract fees	25 007	19 719
Other	**24 706**	**21 403**
Revenue and payments received from funds and investment fund management companies	24 706	21 403
Total revenue from commissions and fees	**281 351**	**288 037**

36. Net investment income

Net investment income	1 January - 31 December 2011	1 January - 31 December 2010
Interest income, including:	1 835 917	1 772 869
- financial assets available for sale	348 081	375 369
- financial assets held to maturity	1 231 247	1 278 122
- loans	253 022	117 711
- cash and cash equivalents	3 567	1 667
Dividend income, including:	122 148	77 655
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	263	218
- financial assets held for trading	79 742	50 931
- financial assets available for sale	42 143	26 506
Income from property investments	27 256	19 940
Exchange differences, including:	28 610	(17 178)
- financial assets held to maturity	20 722	(6 248)
- loans	4 013	(2 749)
- receivables, including under insurance contracts	3 954	(8 108)
- cash and cash equivalents	(79)	(73)
Other, including:	(43 677)	(28 768)
- costs of investing activities	(23 824)	(16 295)
- investment property maintenance costs	(19 853)	(12 473)
Total net investment income	**1 970 254**	**1 824 518**

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 2011	1 January - 31 December 2010
Net profit/loss on realization of investments	**(75 196)**	**303 152**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	36 166	19 218
- equity instruments	1 233	625
- debt securities	34 933	18 593
Financial assets held for trading, including:	(195 677)	104 979
- equity instruments	(216 333)	187 781
- debt securities	5 041	6 871
- derivatives	15 615	(89 673)
Financial assets available for sale, including:	143 122	193 848
- equity instruments	70 900	86 910
- debt securities	72 222	106 938
Financial assets held to maturity, including:	1 595	22 685
- debt securities held to maturity	1 595	22 685
Loans	-	20 471
Receivables, including under insurance contracts	(60 601)	(58 049)
Investment property	199	-
Impairment losses	**(112 051)**	**(103 701)**
Financial assets available for sale, including:	(16 352)	(17 737)
- equity instruments	(16 352)	(17 737)
Loans	(9 780)	375
Receivables, including under insurance contracts	(85 919)	(74 685)
Impairment loss on goodwill of PZU Ukraine	**-**	(11 654)
Total net profit/loss on realization and impairment loss on investments	**(187 247)**	**199 451**

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 2011	1 January - 31 December 2010
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	213 273	273 663
- equity instruments	(37 945)	48 002
- debt securities	251 218	225 690
- derivatives	-	(29)
Financial instruments held for trading, including:	(400 101)	480 715
- equity instruments	(476 248)	302 568
- debt securities	102 494	98 808
- derivatives	(26 347)	79 339
Investment property	(2 353)	(573)
Net change in the fair value of assets and liabilities measured to fair value	**(189 181)**	**753 805**

39. Other operating revenue

Other operating revenue	1 January - 31 December 2011	1 January - 31 December 2010
Commission on loss adjusting services	7 503	6 762
Provisions released	6 350	19 483
Released impairment losses on non-financial assets	14 078	6 267
Disposal of property, plant and equipment and property, plant and equipment under construction	1 994	4 940
Recharged expenses	1 106	4 737
Reinsurers’ commissions and share in reinsurers’ profit	(15 408)	(16 537)
Non insurance companies’ revenues from sales of products, goods and services	281 109	6 315
Consolidation of the Armatura Group	118 916	-
Other	69 833	57 330
Total other operating revenue	**485 481**	**89 297**

40. Insurance claims

Insurance claims	1 January - 31 December 2011	1 January - 31 December 2010
Claims and change in technical provisions - property and personal insurance	5 651 114	6 335 360
Reinsurers’ share in claims and change in technical provisions - property and personal insurance	(152 285)	(555 138)
Claims and change in technical provisions - life insurance	4 722 407	4 603 874
Reinsurers’ share in claims and change in technical provisions - life insurance	(114)	(34)
Total insurance claims	**10 221 122**	**10 384 062**

40.1 Property and personal insurance

Claims and change in provisions in property and personal insurance	1 January - 31 December 2011	1 January - 31 December 2010
Gross claims and change in provisions in property and personal insurance	**5 651 114**	**6 335 360**
Claims and loss adjustment expenses for the current period	3 278 826	4 059 068
Claims and loss adjustment expenses for previous periods	1 895 661	1 567 820
Change in provision for claims outstanding	476 627	708 472
Reinsurers’ share in claims and change in provisions in property and personal insurance	**(152 285)**	**(555 138)**
Claims and loss adjustment expenses for the current period	(4 254)	(350 029)
Claims and loss adjustment expenses for previous periods	(310 594)	(181 522)
Change in provision for claims outstanding	162 563	(23 587)
Net claims and change in provisions in property and personal insurance	**5 498 829**	**5 780 222**
Claims and loss adjustment expenses for the current period	3 274 572	3 709 039
Claims and loss adjustment expenses for previous periods	1 585 067	1 386 298
Change in provision for claims outstanding	639 190	684 885

Loss adjustment expenses in property and personal insurance, by type	1 January - 31 December 2011	1 January - 31 December 2010
Consumption of materials and energy	12 940	13 156
External services	173 505	160 001
Taxes and charges	9 257	7 614
Employee expenses	264 139	306 512
Depreciation of property, plant and equipment	12 718	7 785
Amortization of intangible assets	5 520	3 858
Other (by type), including:	54 147	40 152
- awarded costs, interest and fines indemnification claims	41 148	37 095
- other	12 999	3 057
Total loss adjustment expenses in property and personal insurance	**532 226**	**539 078**

Change in technical provisions in property and personal insurance

Change in provision for unearned premium in property and personal insurance	1 January - 31 December 2011			1 January - 31 December 2010		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4 183 127	(75 230)	4 107 897	4 047 377	(75 096)	3 972 281
Increase (decrease) in provisions for policies concluded in the current year	4 133 193	(130 081)	4 003 112	3 636 797	(40 980)	3 595 817
Increase (decrease) in provisions for policies concluded in previous years	(3 917 700)	42 059	(3 875 641)	(3 499 700)	40 834	(3 458 866)
Exchange differences during the period	13 032	(685)	12 347	(1 347)	12	(1 335)
Closing balance	**4 411 652**	**(163 937)**	**4 247 715**	**4 183 127**	**(75 230)**	**4 107 897**

Change in provision for unexpired risk in property and personal insurance	1 January - 31 December 2011			1 January - 31 December 2010		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	31 917	(89)	31 828	37 167	-	37 167
Increase (decrease) in provisions for policies concluded in the current year	4 064	89	4 153	24 813	-	24 813
Increase (decrease) in provisions for policies concluded in previous years	(24 044)	(146)	(24 190)	(29 848)	(92)	(29 940)
Exchange differences during the period	1 474	(21)	1 453	(215)	3	(212)
Closing balance	**13 411**	**(167)**	**13 244**	**31 917**	**(89)**	**31 828**

Change in provisions for claims outstanding in property and personal insurance	1 January - 31 December 2011			1 January - 31 December 2010		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	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
Paid claims concerning losses incurred in previous years, including	(1 836 072)	305 640	(1 530 432)	(1 434 847)	167 866	(1 266 981)
- claims paid	(1 616 984)	303 487	(1 313 497)	(1 276 151)	164 468	(1 111 683)
- loss adjustment expenses	(219 088)	2 153	(216 935)	(158 696)	3 398	(155 298)
Increase (decrease) in provisions, including:	2 088 420	(242 031)	1 846 389	2 148 927	(322 567)	1 826 360
- losses incurred in the current year	1 927 247	(31 017)	1 896 230	2 196 216	(224 952)	1 971 264
- losses incurred in the previous years	161 173	(211 014)	(49 841)	(47 289)	(97 615)	(144 904)
Other changes	-	(6 861)	(6 861)	-	9 121	9 121
Exchange differences during the period	16 566	(3 810)	12 756	(2 846)	767	(2 079)
Closing balance	**4 817 359**	**(283 085)**	**4 534 274**	**4 548 445**	**(336 023)**	**4 212 422**
- for claims reported	1 824 201	(233 774)	1 590 427	1 919 232	(270 855)	1 648 377
- for claims incurred but not reported (IBNR)	2 171 324	(37 503)	2 133 821	1 921 859	(52 650)	1 869 209
- for loss adjustment expenses	821 834	(11 808)	810 026	707 354	(12 518)	694 836

Change in provision for capitalized value of annuity claims – property and personal insurance	1 January - 31 December 2011			1 January - 31 December 2010		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4 862 552	(360 508)	4 502 044	4 874 653	(482 007)	4 392 646
Paid claims concerning losses incurred in previous years	(161 033)	9 309	(151 724)	(158 433)	14 766	(143 667)
Increase (decrease) in provisions for losses incurred in the previous years	169 897	106 606	276 503	(96 222)	109 853	13 631
Increase in provisions for losses incurred in the current year	234 642	-	234 642	242 554	-	242 554
Other changes	(17 432)	(8 931)	(26 363)	-	(3 120)	(3 120)
Closing balance	**5 088 626**	**(253 524)**	**4 835 102**	**4 862 552**	**(360 508)**	**4 502 044**

40.2 Life insurance

Insurance claims in life insurance	1 January - 31 December 2011	1 January - 31 December 2010
Resulting from maturity	481 028	309 337
Resulting from claims paid in case of death	2 513 446	2 442 801
Resulting from morbidity	665 586	673 067
Resulting from resignation from the insurance contract	214 505	225 018
Resulting from disability and entitlement to a disability pension	6 217	4 668
Resulting from annuity claims	42 589	42 350
Resulting from childbirth	308 326	309 033
Resulting from hospital treatment	256 791	236 000
Resulting from a refund of accumulated cash and transfer payments	114 227	100 625
Other	117 704	88 091
Total insurance claims in life insurance	**4 720 419**	**4 430 990**

All claims for 2011 and 2010 related to direct insurance.

Loss adjustment expenses in life insurance by type	1 January - 31 December 2011	1 January - 31 December 2010
Consumption of materials and energy	3 490	5 518
External services	68 946	60 125
Taxes and charges	4 667	7 673
Employee expenses	71 466	72 054
Depreciation of property, plant and equipment	3 177	4 557
Amortization of intangible assets	7 063	3 830
Other	982	1 977
Total loss adjustment expenses in life insurance	**159 791**	**155 734**

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2011			1 January - 31 December 2010		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	100 631	-	100 631	105 305	-	105 305
Increases	96 333	1 490	97 823	100 631	-	100 631
Decreases	(100 631)	(1 490)	(102 121)	(105 305)	-	(105 305)
Closing balance	**96 333**	**-**	**96 333**	**100 631**	**-**	**100 631**

Change in provision in life insurance - insurance contacts with no DPF	**1 January - 31 December 2011**			**1 January - 31 December 2010**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance	10 848 252	-	10 848 252	10 958 427	-	10 958 427
Net premiums received	1 463 774	-	1 463 774	559 687	-	559 687
Technical interest rate for the provisions	362 217	-	362 217	363 909	-	363 909
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(2 350 096)	-	(2 350 096)	(1 493 366)	-	(1 493 366)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	599 079	-	599 079	459 595	-	459 595
Closing balance	**10 923 226**	**-**	**10 923 226**	**10 848 252**	**-**	**10 848 252**

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 2011**			**1 January - 31 December 2010**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance	4 317 278	-	4 317 278	4 303 505	-	4 303 505
Net premiums received	365 329	-	365 329	321 111	-	321 111
Technical interest rate for the provisions	167 382	-	167 382	179 394	-	179 394
Increase in provisions for profit sharing	17 467	-	17 467	31 392	-	31 392
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(671 416)	-	(671 416)	(534 724)	-	(534 724)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	(7 797)	-	(7 797)	(3 193)	-	(3 193)
Changes in assumptions	44 205	-	44 205	19 793	-	19 793
Closing balance	**4 232 448**	**-**	**4 232 448**	**4 317 278**	**-**	**4 317 278**

Change in provisions in life insurance - unit-linked contracts	**1 January - 31 December 2011**			**1 January - 31 December 2010**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Net assets of the fund at the beginning of the period	2 296 089	-	2 296 089	2 017 501	-	2 017 501
Increases in the fund due to premiums	404 404	-	404 404	360 279	-	360 279
Payments deducted from the fund for risk, administration and other	(37 973)	-	(37 973)	(30 016)	-	(30 016)
Revenue from the fund's investments	(80 939)	-	(80 939)	188 690	-	188 690
Decreases in the fund due to claims, redemptions, etc.	(277 226)	-	(277 226)	(235 423)	-	(235 423)
Other decreases	(21 752)	-	(21 752)	(18 642)	-	(18 642)
Other increases	17 164	-	17 164	13 700	-	13 700
Net assets of the fund at the end of the period	**2 299 767**	**-**	**2 299 767**	**2 296 089**	**-**	**2 296 089**

Change in provisions in life insurance - other insurance contracts	**1 January - 31 December 2011**			**1 January - 31 December 2010**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
Opening balance	21 333	-	21 333	20 467	-	20 467
Increases	220	-	220	866	-	866
Decreases	-	-	-	-	-	-
Closing balance	**21 553**	**-**	**21 553**	**21 333**	**-**	**21 333**

Change in provisions for claims	**1 January - 31 December 2011**			**1 January - 31 December 2010**		
	gross	**reinsurers' share**	**own share**	**gross**	**reinsurers' share**	**own share**
RBNP at the beginning of the period	108 425	-	108 425	160 720	-	160 720
IBNR at the beginning of the period	500 210	-	500 210	458 533	-	458 533
Total RBNP and IBNR at the beginning of the period	**608 635**	**-**	**608 635**	**619 253**	**-**	**619 253**
Provisions for claims applied during the year	(608 635)	-	(608 635)	(619 253)	-	(619 253)
Provisions for claims created during the year	612 122	-	612 122	608 635	-	608 635
Total RBNP and IBNR at the end of the period	**612 122**	**-**	**612 122**	**608 635**	**-**	**608 635**
RBNP at the end of the period	125 937	-	125 937	108 425	-	108 425
IBNR at the end of the period	486 185	-	486 185	500 210	-	500 210

41. Claims and change in measurement of investment contracts

Claims and change in measurement of investment contracts	**1 January - 31 December 2011**	**1 January - 31 December 2010**
Resulting from investment contracts with guaranteed and fixed terms and conditions	112 087	63 774
- interest expenses included in the effective interest rate	112 087	63 774
Resulting from unit-linked investment contracts	(144 599)	113 775
Total claims and change in measurement of investment contracts	**(32 512)**	**177 549**

42. Acquisition costs

Acquisition costs in property and personal insurance, by type	**1 January - 31 December 2011**	**1 January - 31 December 2010**
Consumption of materials and energy	22 779	24 784
External services	91 486	100 706
Taxes and charges	4 354	3 916
Employee expenses	354 383	359 730
Depreciation of property, plant and equipment	14 461	13 896
Amortization of intangible assets	5 280	5 251
Other (by type), including:	1 045 074	1 003 078
- direct business commission	1 042 989	981 177
- advertisement	27 855	37 570
- change in capitalized acquisition costs	(32 870)	(28 447)
- indirect business commission	4 463	5 092
- other	2 637	7 686
Total acquisition costs in property and personal insurance	**1 537 817**	**1 511 361**

Acquisition costs in life insurance by type	1 January - 31 December 2011	1 January - 31 December 2010
Consumption of materials and energy	4 512	4 511
External services	18 377	22 430
Taxes and charges	531	449
Employee expenses	59 750	57 374
Depreciation of property, plant and equipment	3 548	3 981
Amortization of intangible assets	2 761	2 283
Other (by type), including:	278 140	248 473
- direct business commission	257 222	230 502
- advertisement	14 761	10 765
- change in capitalized acquisition costs	4 847	6 452
- other	1 310	754
Total acquisition costs in life insurance	**367 619**	**339 501**

Acquisition costs in pension insurance by type	1 January - 31 December 2011	1 January - 31 December 2010
External services	22	1 175
Employee expenses	55 312	56 293
Other	1 216	2 925
Total acquisition costs in pension insurance	**56 550**	**60 393**

43. Administrative expenses

Administrative expenses in property and personal insurance by type	1 January - 31 December 2011	1 January - 31 December 2010
Consumption of materials and energy	22 649	26 999
External services	134 359	186 359
Taxes and charges	15 389	13 539
Employee expenses	425 116	393 096
Depreciation of property, plant and equipment	40 060	48 181
Amortization of intangible assets	13 473	14 422
Other (by type), including:	52 345	70 647
- advertisement	43 437	36 446
- other	8 908	34 201
Total administrative expenses in property and personal insurance	**703 391**	**753 243**

Administrative expenses in life insurance by type	1 January - 31 December 2011	1 January - 31 December 2010
Consumption of materials and energy	13 991	17 076
External services	81 573	96 721
Taxes and charges	4 833	5 435
Employee expenses	244 396	269 275
Depreciation of property, plant and equipment	19 180	27 586
Amortization of intangible assets	20 689	19 671
Remuneration of persons servicing group insurance at companies	212 274	211 116
Other (by type), including:	22 778	20 759
- advertisement	17 475	16 336
- other	5 303	4 423
Total administrative expenses in life insurance	**619 714**	**667 639**

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 2011	1 January - 31 December 2010
Consumption of materials and energy	1 821	1 470
External services	4 507	6 012
Taxes and charges	31 879	51 645
Employee expenses	17 108	19 278
Depreciation of property, plant and equipment	2 135	2 734
Amortization of intangible assets	1 495	968
Other	1 847	2 795
Total administrative expenses in pension insurance	**60 792**	**84 902**

"Taxes and charges" in administrative expenses of pension insurance include:

- Payments for the main and additional part of the Guarantee Fund;
- 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 2011	1 January - 31 December 2010
Payroll	1 271 154	1 280 837
Defined contributions plans; including	261 391	247 815
- overheads	194 702	182 171
- third pillar pension insurance, including costs of premium to PPE incurred in the period	66 689	65 644
Other	14 184	22 466
Total employee expenses	**1 546 729**	**1 551 118**

As at 31 December 2011, 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.

Costs relates to restructuring process in PZU and PZU Życie were presented in other operating expenses, in point 45.

45. Other operating expenses

Other operating expenses	1 January - 31 December 2011	1 January - 31 December 2010
Costs of loss adjusting services	356	253
Provisions created	10 435	949
Impairment of non-finanial assets	1 196	3 052
Net value of sold property, plant and equipment and property, plant and equipment under construction	594	1 803
Default interest, penalties and damages	1 221	1 153
Donations	11 443	10 993
Insurance Guarantee Fund	28 939	21 920
National Headquarters of the State Fire Service and Volunteer Fire Service Association	30 593	30 530
Compulsory payments to the insurance market institutions	49 877	48 687
Rechargeable expenses	6 085	4 778
Expenses due to prevention activities	16 968	31 711
TFI expenses	7 031	11 236
Creating provision for the Office of Competition and Consumer Protection	67 892	3 967
Recognized provision for restructuring and reorganization expenses	96 842	64 240
Non insurance companies' operating costs	285 218	7 632
Other	145 276	58 482
Total other operating expenses	**759 966**	**301 386**

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	1 January - 31 December 2011	1 January - 31 December 2010
Interest, including:	46 067	58 654
- loans	40 162	58 654
- credit facilities	5 905	-
Other, including:	3 085	-
- exchange differences	2 536	-
- other	549	-
Total financial expenses	**49 152**	**58 654**

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

47. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January - 31 December 2011	1 January - 31 December 2010
Financial assets	24 735	(8 997)
- financial assets held to maturity	20 722	(6 248)
- loans	4 013	(2 749)
Receivables, including under insurance contracts	3 954	(8 108)
Cash and cash equivalents	(79)	(73)
Other liabilities	5	(32)
Total exchange differences recognized in the consolidated income statement	**28 615**	**(17 210)**

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 2011	1 January - 31 December 2010
Gross profit (loss) (consolidated)	2 907 575	3 029 431
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	552 439	575 592
Differences between the income tax calculated above and the income tax recognized in the income statement:	11 189	14 610
- tax losses	(101)	(142)
- fines, contractual penalties	564	1 618
- dividends	6 374	(13 968)
- measurement of financial assets	(11 715)	(11 034)
- created/released write-downs on receivables not classified as tax deductible expenses	(11 477)	(6 692)
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	59 605	30 355
- unrealized gains and losses on outward reinsurance	(19 437)	619
- tax on insurance activities in Ukraine	5 950	7 832
- amortization/depreciation	608	319
- other tax increase, cancellation, exemption, deduction and reduction	(19 182)	5 703
Income tax recognized in the profit or loss	**563 628**	**590 202**

Total current and deferred tax	**1 January - 31 December 2011**	**1 January - 31 December 2010**
1. Recognized in profit or loss, including:	**563 628**	**590 202**
- current tax	826 397	639 298
- deferred tax	(262 769)	(49 096)
2. Recognized in equity, including:	**(29 753)**	**18 296**
- current tax	-	-
- deferred tax	(29 753)	18 296

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 2011 and 2010, the PZU Group did not recognized any revenue from the exchange of goods and services.

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

50.1 Financial assets used as security of liabilities

As at 31 December 2011 the treasury bonds with the carrying amount of PLN 758,560 thousand held by the companies in the PZU Group were used as a collateral of the sell-buy-back transactions described in point 32.3.

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

50.2 Financial assets used as collateral for originated loans

As at 31 December 2011 and 31 December 2010, PZU and PZU Życie were party to buy-sell-back transactions.

Additionally, as at 31 December 2011 PZU and PZU Życie extended loans secured by financial assets.

Information about the values of the transactions has been provided in point 13.4.

50.3 Property, plant and equipment

As at 31 December 2011 and 31 December 2010, the consolidated companies of the PZU Group had no property, plant and equipment used as security of liabilities.

51. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2011	31 December 2010	31 December 2009
Contingent assets, including:	17 746	4 528	3 699
Guarantees and sureties received	17 746	4 528	3 699
Contingent liabilities	171 030	136 699	1 000 074 157
Guarantees and sureties issued	4 873	8 543	7 714
Disputable claims related to insurance	53 937	64 426	1 000 045 496
Other disputable claims	32 029	62 704	19 865
Other	80 191	1 026	1 082

*Including PLN 49.264 thousand of contingent liabilities arising from credit agreements concluded by Armatura Group and PLN 30.000 thousand contingent liabilities arisen from real property sale by Armatura Group

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

In 2011, neither PZU nor its subsidiaries gave credit facility/loan collateral or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

51.2 Potential litigation relating to the continued family insurance portfolio

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

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

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

52. Dispute

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

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

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

In 2011and by the date of submission of these consolidated financial statements, the PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU

As of 30 June 2011 the total value of all 22.357 cases held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group companies was PLN 1.643.448 thousand. The amount includes PLN 1.275.625 thousand of liabilities and PLN 367.823 thousand of receivables of the PZU Group companies, which constituted 10,86% and 3,13% of PZU equity calculated in line with PAS, respectively.

52.1 PZU Proceedings against PZU carried out by the Office of Competition and Consumer Protection

52.1.1 Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting in:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with the decision and its statement of reasons. On 18 January 2010 PZU appealed to the Court of Competition and Consumer Protection against the decision (this way the decision did not become valid). In a ruling of 14 November 2011 the Court of Competition and Consumer Protection dismissed the appeal of PZU. On 14 December 2011 PZU appealed to the Court of Appeals in Warsaw.

Regardless of the appeal measures, PZU recognized a provision for the fine totalling – as at 31 December 2011 and 31 December 2010 – PLN 14,792 thousand.

52.1.2 Fines imposed in 2011

52.1.2.1 Reimbursement of the costs of rental a replacement car

In a decision of 18 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe the collective interest of consumers as set out in Article 24.1 and 24.2 of the Act on competition and consumer protection (Journal of Laws No. 50 of 2007, item 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons.

On 5 December 2011 PZU appealed against the decision (thus the decision did not become valid) citing a number of objections.

Regardless of the appeal measures, PZU recognized a provision for the fine totalling – as at 31 December 2011 – PLN 11,287 thousand.

52.1.2.2 Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic group accident insurance for children, youth and staff of educational institutions by dividing the market between the entities – the clients of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those clients. The Office demanded that the practices be discontinued.
The Management Board of PZU does not agree with the facts and legal reasons presented in the decision. In the opinion of the Management Board of PZU the decision does not consider all the evidence and the legal classification was not correct.
On 18 January 2012 PZU appealed against the decision (thus the decision did not become valid) In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker.
- the majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

Regardless of the appeal measures, PZU recognized a provision for the fine totalling – as at 31 December 2011 – PLN 56,605 thousand.

52.2 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 UOKiK 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 proceedings, the President of UOKiK 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 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 UOKiK. On 31 May 2011 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 court of second instance cancelled the disputed decision.
In a ruling of 17 February 2011, the District Court in Warsaw – Consumer and Competition Protection Court – partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision. On 7 February 2012, a hearing was held in Court of Appeals during which examination of case was postponed without giving any date.
As of 31 December 2011 and 31 December 2010, PZU Życie disclosed in its financial statements a provision of PLN 50,384 thousand for the penalty imposed.

52.3 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 further amendments in claim, CSC is demanding the total of PLN 36,823 thousand.

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

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

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

On 31 January 2012 a hearing was held before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, and the next hearing date was set on 2 April 2012.

Additionally, on 21 December 2010, PZU Życie placed a motion for amicable settlement related to the amount of PLN 123,326 thousand claimed from CSC as damages arising from undue performance of an agreement or for a return of the contractual fee paid to CSC in the amount of PLN 71,890 thousand. During the court proceedings on 8 February 2011 the parties failed to reach a settlement. The court discontinued the case for amicable settlement. The decision is valid.

52.4 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999 PZU Życie granted a mortgage to Metro-Projekt Sp. z o. o. (henceforth “Metro-Projekt”) with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on real property, including the perpetual usufruct right and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

The loan had not been repaid and in November 2002 Metro-Projekt was declared bankrupt.

On 15 September 2004, the receiver of Universal SA in bankruptcy (“Universal”) brought an action to the District Court in Warsaw demanding exclusion of the property located in Warsaw at Al. Jerozolimskie 44 from the bankruptcy assets of Metro-Projekt due to an entry in section III of the land and mortgage register of a warning regarding the proceedings pending between Universal and BI Code SA (“BI Code”) for cancellation of a transaction involving sales of the property by Universal to BI Code from which Metro-Projekt acquired the property. In view of the above, on 21 September 2004 the District Court in Warsaw issued a decision suspending the liquidation of assets of Metro-Projekt until the lawsuit for exclusion of the aforementioned property from the bankruptcy assets is settled.

The action for cancellation of the agreement transferring the perpetual usufruct right and ownership title to the office building located in Warsaw at Al. Jerozolimskie 44 was settled on 7 March 2006 - the Court of Appeals in Warsaw dismissed the case of Universal against BI Code. However, in August 2006 the receiver of Universal made a final appeal to the Supreme Court with respect to the aforementioned decision.

After the judgment of the Court of Appeals of 7 March 2006 became final, Metro-Projekt applied for deletion of the warning entered in section III of the land and mortgage register about the pending court proceedings instituted by Universal against BI Code for cancellation of the aforementioned sales agreement. The decision to delete the above entry was issued on 3 November 2006.

On 14 March 2007 the Supreme Court reversed the judgment of the Court of Appeals and ordered that the case to be re-examined by that court. On 21 November 2007 the Court of Appeals reversed the judgment of the District Court and ordered that the case be re-examined by that court.

On 11 September 2009, the District Court issued a judgement in the lawsuit filed by the receiver of Universal against the receiver of BI Code for cancellation of the sales agreement for the land perpetual usufruct right and the ownership title to the building, entered into between Universal and BI Code, pursuant to which the aforementioned sales agreement was cancelled. The receiver of BI Code appealed against the judgement and on 29 July 2010 the appeal was dismissed. The receiver of BI Code SA appealed against the judgment which was dismissed in a decision of 29 July 2010. The receiver of BI Code made a final appeal to the District Court but it has not been accepted to consider. Therefore the proceeding was terminated.

In January 2011 the receiver of Metro-Projekt requested that the proceedings before the District Court brought by the receiver of Universal for exclusion of the land perpetual usufruct right and the separate title to the building on that land suspended in 2005 were resumed. On 30 May 2011, the Regional Court dismissed the claim of Universal. The judgement was favourable for the receiver of Metro-Projekt, however, it is not final - on 12 September 2011 the receiver of Universal lodged an appeal. According to the court decision dated 23 February 2012, District Court in Warsaw has rejected the appeal due to non-payment.

In the opinion of the Management Board of PZU, the mortgage established for the benefit of PZU Życie does exist and the Company has the right to pursue the related claims from any owner.

52.5 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 to construct the head office of PZU, later changed by an annex on 15 June 1999.

Since 17 September 2003 the Court of Arbitration has been hearing a case (cross action) for awarding damages to Tower-Inwestycje from Universale for undue performance of the agreement. On 19 November 2011 Tower-Inwestycje and Universale International Realitäten GmBH (legal successor of Universale) reached an agreement whereby Universale International Realitäten GmBH paid the total of PLN 6,000 thousand. The agreement permanently settled all disputes between the parties. It was concluded in the form of a notarized deed as an out-of-court settlement. The agreed amount is higher that the amount awarded by the Court of Arbitration on 17 January 2008 and the total cost of removing defects listed in the ruling based on a statement of an expert witness.

52.6 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 2011 and 2010 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.

52.6.1 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 2011	1 January - 31 December 2010
Management Board including:	**5 367**	**2 462**
Andrzej Klesyk	1 512	1 090
Witold Jaworski	1 072	789
Przemysław Dąbrowski**	840	-
Tomasz Tarkowski	578	-
Bogusław Skuza	415	-
Ryszard Trepczyński	420	-
Marcin Halbersztadt	530	-
Dariusz Filar	-	188
Magdalena Nawłoka	-	24

Remuneration and other short-term employee benefits paid by PZU	1 January - 31 December 2011	1 January - 31 December 2010
Rafał Stankiewicz	-	371
High level management (PZU Group Directors)* including:**	**3 151**	**3 411**
Dariusz Krzewina	570	760
Rafał Grodzicki	510	850
Przemysław Dąbrowski **	200	951
Tomasz Tarkowski	141	-
Mariusz J. Sarnowski	920	602
Krzysztof Dominik Branny	810	248
Supervisory Board including:	**984**	**677**
Marzena Piszczek	192	128
Zbigniew Ćwiąkalski	168	94
Krzysztof Dresler	132	68
Waldemar Maj	120	86
Dariusz Filar	120	41
Zbigniew Derdziuk	60	-
Dariusz Daniluk	60	-
Piotr Kamiński	60	85
Grażyna Piotrowska-Oliwa	72	99
Alferd Bieć	-	4
Tomasz Gruszecki	-	22
Marcin Majeranowski	-	21
Tomasz Przesławski	-	4
Gerard Van Olphen	-	3
Jurgen Stegmann	-	17
Marco Vet	-	5

Remuneration and other short-term employee benefits paid by other PZU Group entities	1 January - 31 December 2011	1 January - 31 December 2010
Management Board including:	**1 868**	**964**
Andrzej Klesyk	389	302
Witold Jaworski	451	387
Przemysław Dąbrowski**	489	-
Rafał Stankiewicz	-	275*
Tomasz Tarkowski	245	-
Bogusław Skuza	-	-
Ryszard Trepczyński	178	-
Marcin Halbersztadt	116	-
High level management (PZU Group Directors)* including:**	**2 127**	**2 027**
Dariusz Krzewina	877	755
Rafał Grodzicki	596	550
Przemysław Dąbrowski**	-	404
Tomasz Tarkowski	-	-
Mariusz J. Sarnowski	346	263
Krzysztof Dominik Branny	308	55

Total estimated amount of non-monetary performances granted by PZU and its subsidiaries	1 January - 31 December 2011	1 January - 31 December 2010
Management Board including:	**1 029**	**370**
Andrzej Klesyk	247	119
Witold Jaworski	216	147
Przemysław Dąbrowski **	198	-
Tomasz Tarkowski	149***	-
Bogusław Skuza	75	-
Ryszard Trepczyński	39	-
Marcin Halbersztadt	105	-
Magdalena Nawłoka	-	25
Rafał Stankiewicz	-	79
High level management (PZU Group Directors)* including:**	**455**	**525**
Dariusz Krzewina	172	153
Rafał Grodzicki	160	177
Przemysław Dąbrowski **	-	149
Tomasz Tarkowski	-	-
Mariusz J. Sarnowski	21	40
Krzysztof Dominik Branny	102	6
Supervisory Board including:	**-**	**42**
Tomasz Gruszecki	-	42

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

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

*** The indicated amount includes the equivalent of EUR 18,600 translated into PLN at the average currency rate of 31 December 2011 as published by the National Bank of Poland (NBP).

52.6.2 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 2011	1 January - 31 December 2010
Members of the Management Board	7 914	8 540
Members of the Supervisory Board	2 580	2 600

52.7 Related party transactions

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

For the purposes of this item:

- “entities controlled by, co-subsidiaries of and entities associated with the State Treasury” denote only commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury. 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.

In 2011 the PZU Group applied the exemption from the obligation to disclose certain related party transactions due to control, joint control or significant influence of the same government, referred to in point 25 of IAS 24, described in point 3.3.

Property and personal insurance contracts, life insurance contracts and investment contracts constituted an overwhelming majority of transactions with entities controlled by, co-subsidiaries of and entities associated with the State Treasury.

The table below shows the written premiums and investment contract volumes resulting from transactions with entities controlled by, co-subsidiaries of and entities associated with the State Treasury, concluded and settled on the terms and conditions which could be obtained in transactions with unrelated parties.

Entities controlled by, co-subsidiaries of and entities associated with the State Treasury	**1 January - 31 December 2011**	**1 January - 31 December 2010**
Gross written premium at property and personal insurance	118 824	107 501
Gross written premium at life insurance	13 096	26 887
PZU Życie investment contract volumes	1 484 415	1 587 189
Total	**1 616 335**	**1 721 577**

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2011	Gross written premium: property and personal insurance	Gross written premium: life insurance (including volumes from investment contracts)	Other revenue	Expenses	write-downs on receivables created in the current period	Receivables: gross value	Receivables: revaluation write-downs	Receivables: net	Liabilities	Contingent assets	Contingent liabilities
Key members of the management of consolidated entities 2/	-	-	-	-	-	-	-	-	-	-	-
Other related parties	387	-	35 840	17 192		11 398	(9 806)	1 592	1 868	-	-

Balances and turnovers of transactions between the PZU Group and related parties as at 31 December 2010	Gross written premium: property and personal insurance	Gross written premium: life insurance (including volumes from investment contracts)	Other revenue	Expenses	write-downs on receivables created in the current period	Receivables: gross value	Receivables: revaluation write-downs	Receivables: net	Liabilities	Contingent assets	Contingent liabilities
Major investor (Eureko B.V.) 1/	-	-	21	-	-	-	-	-	-	-	-
Key members of the management of consolidated entities 2/	-	-	-	-	-	-	-	-	-	-	-
Other related parties	784	-	31 377	25 012	-	11 575	(10 306)	1 269	3 498	-	-

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.

As at 31 December 2011 and 31 December 2010, 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 9,806 thousand (31 December 2010: PLN 10,306 thousand), which - because the agreements were not performed as of that dates - were covered with a revaluation write-down up to the full amount.

52.8 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 andassociated with the State Treasury.

Bank Powszechna Kasa Oszczędności BP SA	1 January - 31 December 2011	1 January - 31 December 2010
PZU Gross written premium	10 298	23 904
PZU Życie Gross written premium	13 096	26 887
Volumes from investment contracts of PZU Życie	1 484 415	1 587 189
Total	**1 507 809**	**1 637 980**

Bank Ochrony Środowiska SA	1 January - 31 December 2011	1 January - 31 December 2010
PZU Gross written premium	753	93
Total	**753**	**93**

Bank Gospodarstwa Krajowego SA	1 January - 31 December 2011	1 January - 31 December 2010
PZU Gross written premium	195	76
Total	**195**	**76**

Bank Gospodarki Żywnościowej SA	1 January - 31 December 2011	1 January - 31 December 2010
PZU Gross written premium	2 645	3 516
Total	**2 645**	**3 516**

52.9 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 2011

Counterparty	1 January - 31 December 2011	Counterparty	1 January - 31 December 2010
Counterparty 1	1 507 809	Counterparty 1	1 637 980
Counterparty 2	32 309	Counterparty 3	28 961
Counterparty 3	21 481	Counterparty 2	18 390
Counterparty 4	8 273	Counterparty 4	7 730
Counterparty 5	6 805	Counterparty 11	4 077
Counterparty 6	6 115	Counterparty 8	2 055
Counterparty 7	4 423	Counterparty 12	1 894
Counterparty 8	3 683	Counterparty 13	1 468
Counterparty 9	2 645	Counterparty 14	1 284
Counterparty 10	2 616	Counterparty 15	907

* 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 2011	1 January - 31 December 2010
Management Boards (number of members at the end of the reporting period)	29	24
Management	931	781
Advisors	2	-
Other employees	14 057	14 898
Total	**15 019***	**15 703**

* including 842 employees of Armatura Goup, consolidated starting from 1 January 2011.

54. Other information

54.1 Composition of the Parent's Management Board

Composition of the Management Board as at 31 December 2010:

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

On 27 June 2011, the three-year office term of the Management Board expires and therefore on 2 February 2011 the Supervisory Board resolved to open qualification procedure for the position of the Chairman of the Management Board and six Members of the Board for a new term. Selected Management Board members would be in charge of the following tasks: retail business, corporate business, investments, finance, operations and loss adjustment and IT.

On 15 March 2011, the Supervisory Board of PZU appointed Andrzej Klesyk to the new Management Board as the Chairman.

On 21 April 2011, the Supervisory Board of PZU made another decision concerning the composition of the new Management Board.

The Supervisory Board decided to appoint to the Management Board the following persons:

- Tomasz Tarkowski - as Member of the Management Board responsible for the supervision of loss adjustment (appointed also to the existing term as of 21 April 2011).
- Bogusław Skuza - as Member of the Management Board responsible for the supervision of the corporate business;
- Ryszard Trepczyński - as Member of the Management Board responsible for the supervision of investments;
- Marcin Halbersztadt - as Member of the Management Board responsible for the supervision of IT (appointed also to the existing term as of 15 May 2011).
- The Board also extended the term for two Members of the Management Board:
- Przemysław Dąbrowski - responsible for the supervision of finance;
- Witold Jaworski - responsible for the supervision or retail business.

Pursuant to the decision of the Supervisory Board of PZU, Bogusław Skuza and Ryszard Trepczyński were appointed to the new Management Board as of 1 July 2011.

Following a General Shareholders' Meeting of 30 June 2011 which approved the separate and consolidated financial statements of PZU for 2010, the new term of the Management Board started on the day following the Meeting, i.e. on 1 July 2011. The term is shared and lasts three consecutive full financial years. The first full financial year is 2012.

On 6 October 2011, Marcin Halbersztadt resigned and his term expired as a member of the Management Board of PZU. Since 6 October 2011 to the date of these consolidation financial statements the composition of the Management Board of PZU was as follow:

- Andrzej Klesyk - Chairman of the Board;
- Witold Jaworski - Member of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Tomasz Tarkowski - Member of the Board;
- Bogusław Skuza - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

54.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board as at 31 December 2010:

- Marzena Piszczek - Chairperson of the Board;
- Zbigniew Ćwiąkalski - Vice-Chairperson of the Board;
- Grażyna Piotrowska-Oliwa - Secretary of the Board;
- Waldemar Maj - Member of the Board;
- Piotr Kamiński - Member of the Board;
- Krzysztof Dresler - Member of the Board;
- Dariusz Filar - Member of the Board.

In accordance with the By-laws of PZU, the number of members of the Supervisory Board is specified by a resolution of the General Meeting of PZU. Members of the Supervisory Board are appointed for a shared term which lasts three consecutive full financial years. The Supervisory Board selects the Chairperson and Vice-Chairperson from among its members.

On 30 June 2011, the General Shareholders' Meeting of PZU adopted resolutions whereby the number of Members of the Supervisory Board of PZU was set at seven and such number of persons was appointed to the new Supervisory Board. The new Supervisory Board was formed on 30 June 2011 and comprised the following persons:

- Marzena Piszczek Chairperson of the Board;
- Zbigniew Ćwiąkalski Vice-Chairperson of the Board;
- Krzysztof Dresler Secretary of the Board;
- Waldemar Maj Member of the Board;
- Dariusz Filar Member of the Board;
- Zbigniew Derdziuk Member of the Board;
- Dariusz Daniluk Member of the Board.

The first full financial year of the new Supervisory Board is 2012. By the date of submission of these consolidated financial statements, the composition of the Supervisory Board of PZU had not undergone any changes.

54.3 Directors of PZU Capital Group

Directors at the PZU Group as at 31 December 2010:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Dąbrowski;
- Mariusz Sarnowski;

- Krzysztof Branny.

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.

Tomasz Tarkowski ceased to act as the PZU Group Director on 21 April 2011 following his appointment to the Management Board.

On 7 July 2011 following resignation from the position of Vice-Chairman of the Management Board of PZU Życie filed on 20 June 2011, the Management Board of PZU dismissed Mariusz Sarnowski from the position of the PZU Group Director.

On 16 August 2011, Krzysztof Branny resigned from the positions of the Member of the Management Board of PZU Życie and Director of the PZU Group.

On 7 February 2012 Management Board appointed, effective from 1 February 2012, Przemysław Henschke as the PZU Group Director.

Directors at the PZU Group from 1 February 2012 to the date of submission of these consolidated financial statements:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke.
- All the present Directors at the PZU Group are also members of PZU Życie Management Board.

54.4 The expansion of the PZU Tax Group

On 27 September 2011, a new Tax Group agreement was signed between the PZU Group companies, comprising 9 companies: PZU, PZU Życie, TFI PZU, PZU AM, PZU CO, PZU Pomoc SA, Ipsilon BIS SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o. The TG was formed for a period of 3 years from 1 January 2012 to 31 December 2014.

TG agreement binding in 2009-2011 covered only two main companies PZU Group i.e. PZU and PZU Życie.

PZU is the parent company and the company representing the TG in both the above-mentioned agreements. In accordance with art. 25 clause 1 of the CIT Act, the TG conducts settlements with the Tax Office in monthly cycles.

54.5 Capital shortage at PZU Ukraine Life

Due to a reduction of the share capital of PZU Ukraine Life and then a significant increase in the EUR/UAH exchange rate, the company ceased to meet the minimum share capital requirement, which the Ukrainian insurance act sets at EUR 1,500 thousand for life insurance companies (in accordance with the EUR/UAH exchange rate as at 31 March 2011 it was UAH 16,823 thousand which meant a capital shortage by UAH 622 thousand as at that date).

On 18 April 2011, the Supervisory Board of PZU Ukraine and PZU Ukraine Life were presented a plan for mutual capital injection of approx. UAH 8,000 thousand, i.e. the shares of PZU Ukraine Life will be assumed by PZU Ukraine and vice versa. Thanks to the transactions the licence requirements will be met without additional funds of PZU.

On 30 June 2011, based on recommendations of the Supervisory Boards, the Extraordinary Shareholders' Meetings of PZU Ukraine and PZU Ukraine Life, passed resolutions to:

- increase the share capital of PZU Ukraine Life by UAH 2,500 thousand and equity by UAH 7,872 thousand through an issue of 25,000 shares with the face value of UAH 100 per share and the issue price of UAH 314.88 per share,
- increase the share capital of PZU Ukraine by UAH 1,800 thousand and equity by UAH 7,517 thousand through an issue of 180,000 shares with the face value of UAH 10 per share and the issue price of UAH 41,76 per share.

On 16 September 2011 the Ukrainian companies concluded share purchase agreements in accordance with the terms and conditions described above. The respective Memorandums of Association accounting for the capital increases were registered on 26 September 2011, and on 13 October 2011 share registration certificates were issued. The increased share capital of PZU Ukraine is UAH 17,954 thousand, and of PZU Ukraine Life - UAH 18,701 thousand.

54.6 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 2011	1 January - 31 December 2010
Audit of financial statements	609	800
Other assurance services	486	927
Tax advisory services	115	-
Other services	32	37
Total	**1 242**	**1 764**

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 2011 and the agreement on the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the year ended 31 December 2010 was concluded and 30 June 2011.

54.7 Control of the Polish Financial Supervision Authority at PZU

On 12 January 2001, the Polish Financial Supervision Authority (FSA) commenced an inspection in PZU, which continued until 22 February 2011. Its scope included organisation, management and accounting. On 30 March 2011, PZU received an inspection protocol and submitted its reservations and explanations on the inspection protocol to the FSA on 13 April 2011. On 30 June 2011, PZU received an instruction to be carried out by 30 September 2011. On 1 July 2011, PZU informed the FSA that the instruction had been carried out.

On 8 April 2011, PZU received seven post-inspection instructions related to the inspection conducted by the FSA from June to August 2009, which covered technical provisions and loss adjustment. The FSA gave the deadline for realisation of the instructions of 30 September 2011. On 30 September 2011 PZU submitted to FSA information regarding implementation of FSA's recommendations.

54.8 Control of the Polish Financial Supervision Authority at PZU Życie

On 6 June 2011, the Polish Financial Supervision Authority started an control at PZU Życie, which lasted until 8 July 2011. Its scope included agency activities.

The Polish Financial Supervision Authority presented the control report on 1 September 2011. No post-control recommendations were issued.

54.9 Termination of Corporate Collective Labour Agreements

On 28 February 2012, the Management Boards of PZU and PZU Życie gave notice of termination of Corporate Collective Labour Agreements ("CCLA") for both companies. The CCLA was concluded in 2003 in PZU and in 2006 in PZU Życie for the purpose of introducing the new remuneration system is to further modernize the PZU Group and improve its competitiveness. Detailed solution will be negotiated with trade union. It is planned that new remuneration system will be effective from October 2012. Due to the uncertainty about the final shape of solutions adopted, the financial consequences of CCLA termination as of 31 December 2011 cannot be reliably estimate.

The financial impact of CCLA termination will be recognized in 2012 financial result.

Signature of the Members of Management Board of PZU:

Name	**Position**	
Andrzej Klesyk	Chairman	.... (signature)
Przemysław Dąbrowski	Member	.... (signature)
Witold Jaworski	Member	.... (signature)
Bogusław Skuza	Member	.... (signature)
Tomasz Tarkowski	Member	.... (signature)
Ryszard Trepczyński	Member	.... (signature)

Person in charge of preparing of the consolidated financial statements:

Piotr Marczyk	Director	.... (signature)

Warsaw, 14 March 2012