INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP FOR Q1 2014

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INTRODUCTION

These interim consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group ("PZU Group") have been prepared in line with International Financial Reporting Standards as endorsed by the Commission of European Communities as at 31 March 2014 ("IFRS"), including the requirements of International Accounting Standard 34 "Interim Financial Reporting" and the requirements of the Finance Minister's Regulation of 19 February 2009 on current and periodic information transmitted by securities issuers and conditions for acknowledgment of equivalence of information required by legal regulations of a non-member state (consolidated wording in Journal of Laws of 2014, Item 133 – "Regulation on current and periodic information").

Pursuant to Article 83 section 1 of the Regulation on current and periodic information, separate quarterly financial information of the PZU Group's parent company, i.e. Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "Company", "parent company") forms part of these interim consolidated financial statements.

According to Article 45 section 1a of the Accountancy Act of 29 September 1994 (Journal of Laws of 2013, Item 330, "Accountancy Act"), financial statements of issuers of securities admitted into trading on one of the regulated markets of European Economic Area states may be prepared in accordance with IFRS.

As the PZU Shareholder Meeting has not made the decision referred to in art. 45 par. 1c of the Accountancy Act in the matter of preparation of financial statements pursuant to IFRS, PZU's separate statements are prepared in accordance with the Polish Accounting Standards ("PAS"), defined in the Accountancy Act, and in the executive regulations issued on its basis, inter alia:

- Finance Minister's Regulation of 28 December 2009 on the special accounting principles for insurance and reinsurance companies (Journal of Laws of 2009, No. 226, Item 1825);
- Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments (Journal of Laws of 2001 No. 149, Item 1674, as later amended).

In matters not regulated by the Accountancy Act and secondary legislation issued on its basis, Polish Accounting Standards and/or IFRS are applied accordingly.

(in thousands of PLN)

FINANCIAL HIGHLIGHTS

1. Selected consolidated financial data of the PZU Group

Data from the consolidated statement of financial position	thous. PLN 31 March 2014	thous. PLN 31 March 2013	thous. PLN 31 March 2013	thous. EUR 31 March 2014	thous. EUR 31 December 2013	thous. EUR 31 March 2013
Assets	65,044,581	62,787,304	58,760,432	15,593,360	15,139,686	14,066,269
Share capital	86,352	86,352	86,352	20,701	20,822	20,671
Capital and reserves attributed to holders of the parent's equity	13,887,303	13,111,290	14,873,401	3,329,251	3,161,480	3,560,445
Non-controlling interest	357	16,341	78,537	86	3,940	18,800
Total equity	13,887,660	13,127,631	14,951,938	3,329,336	3,165,420	3,579,245
Basic and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300
Book value per common share (in PLN/EUR)	160.82	151.83	172.24	38.55	36.61	41.23

Data from the consolidated profit and loss account	thous. PLN 1 January - 31 March 2014	thous. PLN 1 January - 31 March 2013	thous. EUR 1 January - 31 March 2014	thous. EUR 1 January - 31 March 2013
Gross written insurance premium	4,353,979	4,425,923	1,039,285	1,060,406
Net earned premium	3,989,741	4,107,727	952,342	984,170
Revenue from commissions and fees	69,053	70,524	16,483	16,897
Net investment profit	535,180	428,867	127,746	102,752
Net insurance claims	(2,664,166)	(2,730,697)	(635,930)	(654,247)
Gross profit (loss)	979,569	1,054,341	233,821	252,609
Net profit (loss) attributed to holders of parent's equity	760,446	837,908	181,517	200,754
Profit (loss) attributed to holders of non-controlling interest	(3)	(791)	(1)	(190)
Basic and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted earnings per common share (in PLN/EUR)	8.81	9.70	2.10	2.32

(in thousands of PLN)

Data from the consolidated cash flow statement	thous. PLN 1 January - 31 March 2014	thous. PLN 1 January - 31 March 2013	thous. EUR 1 January - 31 March 2014	thous. EUR 1 January - 31 March 2013
Net cash flow on operating activity	722,749	1,002,000	172,518	240,069
Net cash flow on investing activity	(597,762)	(874,331)	(142,684)	(209,481)
Net cash flow from financing activities	(117,227)	52,822	(27,982)	12,656
Total net cash flow	7,760	180,491	1,852	43,244

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	thous. PLN 31 March 2014	thous. PLN 31 March 2013	thous. PLN 31 March 2013	thous. EUR 31 March 2014	thous. EUR 31 December 2013	thous. EUR 31 March 2013
Assets	31,881,959	30,136,572	31,312,907	7,643,171	7,266,727	7,495,789
Share capital	86,352	86,352	86,352	20,702	20,822	20,671
Total equity	13,058,372	12,259,761	14,164,492	3,130,528	2,956,154	3,390,744
Basic and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300
Book value per common share (in PLN/EUR)	151.22	141.97	164.03	36.25	34.23	39.27

Data from technical account of non-life insurance and non-technical profit and loss account	thous. PLN 1 January - 31 March 2014	thous. PLN 1 January - 31 March 2013	thous. EUR 1 January - 31 March 2014	thous. EUR 1 January - 31 March 2013
Gross written insurance premium	2,282,005	2,320,428	544,709	555,951
Technical result of non-life insurance	366,064	471,162	87,379	112,886
Net investment profit (*)	86,488	206,862	20,644	49,562
Net profit (loss)	300,596	495,106	71,752	118,622
Basic and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted earnings per common share (in PLN/EUR)	3.48	5.73	0.83	1.37

* Including the item "Share of the net profit (loss) of subordinated entities measured by the equity method"

(in thousands of PLN)

3. Selected standalone financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna

Data from the balance sheet	thous. PLN 31 March 2014	thous. PLN 31 March 2013	thous. PLN 31 March 2013	thous. EUR 31 March 2014	thous. EUR 31 December 2013	thous. EUR 31 March 2013
Assets	28,658,797	29,020,410	30,786,988	6,870,471	6,997,591	7,369,892
Total equity	4,808,763	4,446,746	7,044,940	1,152,821	1,072,228	1,686,441

Data from the technical life insurance account and the non-technical profit and loss account	thous. PLN 1 January - 31 March 2014	thous. PLN 1 January - 31 March 2013	thous. EUR 1 January - 31 March 2014	thous. EUR 1 January - 31 March 2013
Gross written insurance premium	2,122,812	2,737,456	506,710	655,867
Technical life insurance result	444,348	342,260	106,065	82,002
Net investment profit	277,673	215,479	66,280	51,627
Net profit (loss)	340,654	326,410	81,313	78,205

4. Summary of consolidated financial results

The net financial result of the PZU Group for the period of 3 months ended 31 March 2014 was PLN 760.443 thousand, declining by 9.2% from the net result in the corresponding period of the previous year. The net result net of one-off events[1] rose by 18.9% compared to last year.

ROE for the period from 1 January to 31 March 2014 was 22.5%, down 0.4 p.p. from the same period of the previous year.

The following factors also affected PZU Group's activity after 3 months ended 31 March 2014, as compared to the corresponding period of the previous year:

- decline in the gross written premium caused by lower sales of single premium insurance in the bancassurance channel and of motor insurance partially offset by expansion of group protection business;
- improved profitability in group and individually continued insurance, chiefly driven by portfolio growth and the decline in the loss ratio of protection products;
- maintenance of cost discipline in the major lines of business making it possible to pursue growth programs while reducing recurring administrative expenses;
- slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance;
- appreciation of equity instruments driven by better market conditions on the Warsaw Stock Exchange ("WSE") and appreciation of debt instruments due to lower 10Y bond yields;

In addition, one-off events in 2013 exerted a material impact on the comparability of results:

- one-time income on the consolidation of mutual funds;
- one-time income on the settlement with the reinsurer regarding the Green Card insurance (partial reversal of the adjustment to estimates with the reinsurer, which reduced the 2011 result).

[1] One-off events include commencing the consolidation of mutual funds, the settlement with the Green Card reinsurer and the effect of converting long-term policies into yearly-renewable term insurance in type P group business.

(in thousands of PLN)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Consolidated Statement of Financial Position

Assets	Note	31 March 2014	31 December 2013 *(restated)*	31 March 2013 *(restated)*	1 January 2013 *(restated)*
Intangible assets		294,524	308,726	177,587	183,238
Goodwill		8,557	8,519	8,475	8,474
Property, plant and equipment		947,973	927,281	972,651	992,317
Investment property		1,438,875	1,474,770	1,599,060	564,404
Entities measured by the equity method	9.1	68,141	48,595	692	-
Financial assets					
Financial instruments held to maturity	9.2.1	19,914,955	18,859,902	21,622,916	21,117,559
Financial instruments available for sale	9.2.2	1,989,491	1,920,112	2,983,917	3,824,409
Financial instruments measured at fair value through profit or loss	9.2.3	20,492,161	19,904,176	15,197,100	15,694,482
Borrowings	9.2.4	14,145,118	14,401,538	11,861,365	9,752,615
Receivables, including receivables under insurance contracts	9.4	3,392,458	2,671,964	2,247,154	1,840,873
Reinsurers' share in technical provisions	9.5	532,493	526,605	567,962	749,334
Estimated recoveries and recourses		122,698	129,950	108,555	121,632
Deferred tax assets		21,199	16,949	16,814	13,963
Current income tax receivables		35,513	34,895	83,991	80,646
Deferred acquisition expenses		638,379	609,819	592,093	574,489
Other assets	9.7	230,556	195,449	188,264	178,646
Cash and cash equivalents		577,933	569,157	443,914	262,063
Assets related to continuing operations		**64,851,024**	**62,608,407**	**58,672,510**	**55,959,144**
Assets held for sale	9.8	193,557	178,897	87,922	46,962
Total assets		**65,044,581**	**62,787,304**	**58,760,432**	**56,006,106**

(in thousands of PLN)

Interim Consolidated Statement of Financial Position (cont.)

Liabilities and equity	Note	31 March 2014	31 December 2013 *(restated)*	31 March 2013 *(restated)*	1 January 2013 *(restated)*
Equity					
Issued share capital and other capital attributable to parent's shareholders					
Share capital		86,352	86,352	86,352	86,352
Other capital		9,076,939	9,061,351	8,951,339	9,105,375
Treasury shares		(110)	(110)	(110)	-
Supplementary capital		8,866,385	8,855,999	8,782,487	8,780,212
Revaluation reserve		253,035	242,297	204,136	363,167
Actuarial gains and losses related to provisions for employee benefits		902	902	-	-
Exchange differences from translation		(43,273)	(37,737)	(35,174)	(38,004)
Retained earnings		4,724,012	3,963,587	5,835,710	4,998,404
Retained earnings (losses)		3,963,566	2,397,137	4,997,802	1,743,223
Net profit (loss)		760,446	3,293,496	837,908	3,255,181
Charges to net profit during the financial year		-	(1,727,046)	-	-
Non-controlling interest		357	16,341	78,537	79,138
Total equity		**13,887,660**	**13,127,631**	**14,951,938**	**14,269,269**
Liabilities					
Technical provisions	9.9				
Provision for unearned premiums and for unexpired risks		4,824,745	4,540,011	4,818,611	4,537,167
Provision for life insurance		16,136,550	16,048,191	15,930,287	15,675,243
Provisions for outstanding claims		6,549,807	6,586,781	5,912,807	5,878,445
Provision for capitalized value of annuities		5,826,199	5,761,332	5,654,496	5,660,281
Provisions for bonuses and discounts for the insureds		3,223	2,893	5,093	4,227
Other technical provisions		463,809	477,987	516,853	531,617
Technical provisions for life insurance if the policyholder bears the investment risk		4,110,329	3,907,221	3,274,588	3,113,798
Investment contracts	9.10				
- with guaranteed and set conditions		677,104	1,250,492	1,303,778	1,297,224
- for the client's account and risk		791,014	870,545	963,554	1,001,923
Provisions for employee benefits		133,056	123,380	118,565	107,307
Other provisions	9.11	192,663	192,906	259,159	267,456
Deferred tax provision		356,668	255,399	320,641	357,557
Current income tax liabilities		19,919	53,372	67,300	21,658
Derivatives		281,136	237,749	178,089	130,147
Other liabilities	9.12	10,790,699	9,351,414	4,484,673	3,152,787
Liabilities related to continuing operations		**51,156,921**	**49,659,673**	**43,808,494**	**41,736,837**
Total Liabilities		**51,156,921**	**49,659,673**	**43,808,494**	**41,736,837**
Total liabilities and equity		**65,044,581**	**62,787,304**	**58,760,432**	**56,006,106**

(in thousands of PLN)

2. Interim Consolidated Profit And Loss Account

Consolidated profit and loss account	**Note**	**1 January - 31 March 2014**	**1 January - 31 March 2013** *(restated)*
Gross written insurance premium	1)	4,353,979	4,425,923
Reinsurers' share in gross written insurance premium		(60,974)	(33,597)
Net written premiums		**4,293,005**	**4,392,326**
Change in net provision for unearned premiums		(303,264)	(284,599)
Net earned premium		**3,989,741**	**4,107,727**
Revenue from commissions and fees	9.14	69,053	70,524
Net investment income	9.15	363,785	444,023
Net result on the realization of investments and impairment charges	9.16	(111,665)	(47,082)
Net change in the fair value of assets and liabilities carried at fair value	9.17	283,060	31,926
Other operating income	9.18	105,187	204,918
Claims and change in technical provisions	9.19 9.21	(2,695,268)	(2,720,388)
Claims and change in insurance liabilities ceded to re-insurers		31,102	(10,309)
Net insurance claims		**(2,664,166)**	**(2,730,697)**
Claims and changes in valuation of investment contracts	9.20	(4,917)	(11,224)
Acquisition expenses	9.21	(507,624)	(480,588)
Administrative expenses	9.21	(334,083)	(326,284)
Other operating expenses	9.22	(176,690)	(196,959)
Operating profit (loss)		**1,011,681**	**1,066,284**
Financial expenses	9.23	(32,198)	(14,400)
Share of the net profit (loss) of entities measured by the equity method		86	2,457
Gross profit (loss)		**979,569**	**1,054,341**
Income tax			
- current part		(125,616)	(196,985)
- deferred part		(93,510)	(20,239)
Net profit (loss) on continuing operations		760,443	837,117
Net profit (loss), including		**760,443**	**837,117**
- profit (loss) attributed to holders of parent's equity		760,446	837,908
- profit (loss) attributed to holders of non-controlling interest		(3)	(791)

Net profit (loss) on continuing operations	760,446	837,908
Net profit (loss) on discontinued operations	-	-
Basic and diluted weighted average number of common shares	86,352,300	86,352,300
Basic and diluted earnings (losses) on continuing operations per common share (in PLN)	8.81	9.70
Basic and diluted earnings (losses) per common share (in PLN)	8.81	9.70

(in thousands of PLN)

3. Interim Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income	**Note**	**1 January - 31 March 2014**	**1 January - 31 March 2013** *(restated)*
Net profit (loss)		760,443	837,117
Other comprehensive income	9.24	9,475	(153,919)
To be reclassified to profit or loss in the future		9,475	(153,919)
Measurement of financial instruments available for sale		13,871	(156,756)
Exchange differences from translation		(5,534)	2,837
Reclassification of real property from property, plant and equipment to investment property		1,138	-
Total net comprehensive income		**769,918**	**683,198**
- comprehensive income attributed to holders of parent's equity		769,919	683,982
- comprehensive income attributed to holders of non-controlling interest		(1)	(784)

(in thousands of PLN)

4. Interim Statement of Changes in Consolidated Equity

Statement of Changes in Consolidated Equity	Capital and reserves attributed to holders of the parent's equity									Non-controlling interest	Total Equity
			Other capital				Retained earnings				
	Share capital	Treasury shares	Supplementary capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Exchange differences from translation	Retained earnings (losses)	Net profit (loss)	Total		
Balance as at 1 January 2014	**86,352**	**(110)**	**8,855,999**	**242,297**	**902**	**(37,737)**	**3,963,587**	**-**	**13,111,290**	**16,341**	**13,127,631**
Measurement of financial instruments available for sale	-	-	-	13,871	-	-	-	-	13,871	-	13,871
Exchange differences from translation	-	-	-	-	-	(5,536)	-	-	(5,536)	2	(5,534)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	1,138	-	-	-	-	1,138	-	1,138
Total net other comprehensive income	**-**	**-**	**-**	**15,009**	**-**	**(5,536)**	**-**	**-**	**9,473**	**2**	**9,475**
Net profit (loss)	-	-	-	-	-	-	-	760,446	760,446	(3)	760,443
Total comprehensive income	**-**	**-**	**-**	**15,009**	**-**	**(5,536)**	**-**	**760,446**	**769,919**	**(1)**	**769,918**
Other changes, including:	**-**	**-**	**10,386**	**(4,271)**	**-**	**-**	**(21)**	**-**	**6,094**	**(15,983)**	**(9,889)**
Acquisition of Armatura Kraków shares	-	-	6,095	-	-	-	-	-	6,095	(15,983)	(9,888)
Sale of revalued real property	-	-	4,291	(4,271)	-	-	(21)	-	(1)	-	(1)
Balance as at 31 March 2014	**86,352**	**(110)**	**8,866,385**	**253,035**	**902**	**(43,273)**	**3,963,566**	**760,446**	**13,887,303**	**357**	**13,887,660**

(in thousands of PLN)

Interim Statement of Changes in Consolidated Equity (cont.)

Statement of Changes in Consolidated Equity	Capital and reserves attributed to holders of the parent's equity										Non-controlling interest	Total Equity
			Other capital				Retained earnings					
	Share capital	Treasury shares	Supplementary capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Exchange differences from translation	Retained earnings (losses)	Net profit (loss)	Charges to net profit during the financial year (negative figure)	Total		
Balance as at 1 January 2013	**86,352**	**-**	**8,780,212**	**363,242**	**-**	**(38,004)**	**4,998,329**	**-**	**-**	**14,190,131**	**79,138**	**14,269,269**
Changes in accounting principles	-	-	-	(75)	-	-	75	-	-	-	-	-
As at 1 January 2013 after reconciling to comparable data	**86,352**	**-**	**8,780,212**	**363,167**	**-**	**(38,004)**	**4,998,404**	**-**	**-**	**14,190,131**	**79,138**	**14,269,269**
Measurement of financial instruments available for sale	-	-	-	(120,101)	-	-	-	-	-	(120,101)	-	(120,101)
Other comprehensive income of entities measured using the equity method	-	-	-	-	-	(20)	-	-	-	(20)	-	(20)
Exchange differences from translation	-	-	-	-	-	287	-	-	-	287	5	292
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	902	-	-	-	-	902	-	902
Reclassification of real property from property, plant and equipment to investment property	-	-	-	14,445	-	-	-	-	-	14,445	-	14,445
Total net other comprehensive income	**-**	**-**	**-**	**(105,656)**	**902**	**267**	**-**	**-**	**-**	**(104,487)**	**5**	**(104,482)**
Net profit (loss)	-	-	-	-	-	-	-	3,293,496	-	3,293,496	1,459	3,294,955
Total comprehensive income	**-**	**-**	**-**	**(105,656)**	**902**	**267**	**-**	**3,293,496**	**-**	**3,189,009**	**1,464**	**3,190,473**
Other changes, including:	**-**	**(110)**	**75,787**	**(15,214)**	**-**	**-**	**(2,601,267)**	**-**	**(1,727,046)**	**(4,267,850)**	**(64,261)**	**(4,332,111)**
Distribution of financial result	-	-	34,231	-	-	-	2,599,579	-	(1,727,046)	(4,292,394)	-	(4,292,394)
Recapitalization of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	30	30
Acquisition of Armatura Kraków shares	-	-	24,568	-	-	-	-	-	-	24,568	(64,474)	(39,906)
Sale of revalued real property	-	-	16,988	(15,214)	-	-	(1,772)	-	-	2	-	2
Change in the scope of consolidation	-	(110)	-	-	-	-	84	-	-	(26)	183	157

(in thousands of PLN)

Balance as at 31 December 2013	**86,352**	**(110)**	**8,855,999**	**242,297**	**902**	**(37,737)**	**2,397,137**	**3,293,496**	**(1,727,046)**	**13,111,290**	**16,341**	**13,127,631**

(in thousands of PLN)

Interim Statement of Changes in Consolidated Equity (cont.)

Statement of Changes in Consolidated Equity	Capital and reserves attributed to holders of the parent's equity								Non-controlling interest	Total Equity
			Other capital			Retained earnings				
	Share capital	Treasury shares	Supplementary capital	Revaluation reserve	Exchange differences from translation	Retained earnings (losses)	Net profit (loss)	Total		
Balance as at 1 January 2013	**86,352**	**-**	**8,780,212**	**363,242**	**(38,004)**	**4,998,329**	**-**	**14,190,131**	**79,138**	**14,269,269**
Changes in accounting principles	-	-	-	(75)	-	75	-	-	-	-
As at 1 January 2013 after reconciling to comparable data	**86,352**	**-**	**8,780,212**	**363,167**	**(38,004)**	**4,998,404**	**-**	**14,190,131**	**79,138**	**14,269,269**
Measurement of financial instruments available for sale	-	-	-	(156,756)	-	-	-	(156,756)	-	(156,756)
Exchange differences from translation	-	-	-	-	2,830	-	-	2,830	7	2,837
Total net other comprehensive income	**-**	**-**	**-**	**(156,756)**	**2,830**	**-**	**-**	**(153,926)**	**7**	**(153,919)**
Net profit (loss)	-	-	-	-	-	-	837,908	837,908	(791)	837,117
Total comprehensive income	**-**	**-**	**-**	**(156,756)**	**2,830**	**-**	**837,908**	**683,982**	**(784)**	**683,198**
Other changes, including:	**-**	**(110)**	**2,275**	**(2,275)**	**-**	**(602)**	**-**	**(712)**	**183**	**(529)**
Distribution of financial result	-	-	-	-	-	(686)	-	(686)	-	(686)
Sale of revalued real property	-	-	2,275	(2,275)	-	-	-	-	-	-
Change of the consolidation perimeter	-	(110)	-	-	-	84	-	(26)	183	157
Balance as at 31 March 2013	**86,352**	**(110)**	**8,782,487**	**204,136**	**(35,174)**	**4,997,802**	**837,908**	**14,873,401**	**78,537**	**14,951,938**

(in thousands of PLN)

5. Interim Consolidated Cash Flow Statement

Consolidated cash flow statement	1 January - 31 March 2014	1 January - 31 December 2013 *(restated)*	1 January - 31 March 2013 *(restated)*
Cash flow on operating activity			
Proceeds	5,604,901	19,910,136	5,611,291
- proceeds on gross insurance premiums	4,245,634	16,065,448	4,272,864
- proceeds on investment contracts	166,624	1,097,951	729,576
- proceeds on reinsurance commissions and share in reinsurer's gains	2,252	69,069	70,814
- payments received from reinsurers for their share of claims paid	14,935	281,363	156,117
- proceeds for acting as an emergency adjuster	55,363	229,562	67,884
- proceeds on the sale of units by mutual fund	776,311	908,616	57,201
- other operating proceeds	343,782	1,258,127	256,835
Expenditures	4,882,152	(16,954,310)	(4,609,291)
- insurance premiums paid for reinsurance	(77,544)	(242,809)	(93,941)
- commissions paid and profit-sharing on inward reinsurance	(2,223)	(1,685)	(685)
- gross claims paid	(2,103,004)	(8,354,637)	(2,153,545)
- claims paid on investment contracts	(820,139)	(1,334,843)	(768,499)
- acquisition expenditures	(451,599)	(1,673,032)	(414,400)
- administrative expenditures	(506,926)	(2,075,101)	(531,136)
- interest expenditures	(29)	(415)	(20)
- income tax expenditures	(141,236)	(863,601)	(150,930)
- expenditures for acting as an emergency adjuster	(123,597)	(474,690)	(129,976)
- expenditures on redemption of units by mutual fund	(222,506)	(515,878)	(32,541)
- other operating expenditures	(433,349)	(1,417,619)	(333,618)
Net cash flow on operating activity	**722,749**	**2,955,826**	**1,002,000**
Cash flow on investing activity			
Proceeds	162,477,429	662,791,546	148,427,134
- sale of investment property	9,112	20,982	262
- proceeds from investment property	35,274	134,991	8,312
- sale of intangible assets and components of property, plant and equipment	438	12,177	1,227
- sale of ownership interests and shares	2,176,165	8,205,820	3,022,053
- realization of debt securities	18,682,145	114,078,782	20,530,930
- closing of buy-sell-back transactions	95,174,147	366,309,659	85,289,770
- closing of term deposits in credit institutions	43,104,395	152,486,255	34,446,077
- realization of other investments	3,186,249	18,892,512	4,671,950
- interest received	108,372	2,167,415	63,675
- dividends received	1,132	127,489	38,957
- increase in cash due to the change of the consolidation perimeter	-	355,464	353,921

(in thousands of PLN)

Interim Consolidated Cash Flow Statement (cont.)

PLN thousands

Consolidated cash flow statement	1 January - 31 March 2014	1 January - 31 December 2013	1 January - 31 March 2013
Expenditures	(163,075,191)	(665,414,979)	(149,301,465)
- purchase of investment property	(70,302)	(391,751)	(308,704)
- expenditures for the maintenance of investment property	(43,258)	(87,860)	(9,448)
- purchase of intangible assets and components of property, plant and equipment	(56,543)	(225,114)	(61,241)
- purchase of ownership interests and shares	(3,059,617)	(9,634,941)	(4,505,706)
- purchase of debt securities	(19,472,672)	(114,022,255)	(20,193,418)
- purchase of debt securities under buy-sell-back transactions	(95,657,133)	(367,791,576)	(85,517,605)
- purchase of term deposits in credit institutions	(41,038,726)	(155,299,282)	(34,570,204)
- purchase of other investments	(3,668,439)	(17,951,679)	(4,130,773)
- other expenditures for investments	(8,501)	(10,521)	(4,366)
Net cash flow on investing activity	**(597,762)**	**(2,623,433)**	**(874,331)**
Cash flow from financing activities			
Proceeds	95,363,672	106,079,401	3,614,456
- loans, borrowings and debt securities issues	10,746	89,889	10,866
- opening of sell-buy-back transactions	95,352,926	105,989,512	3,603,590
Expenditures	(95,480,899)	(106,098,984)	(3,561,634)
- dividends paid to equity holders in the parent company	-	(4,166,166)	(18)
- amortization of loans and borrowings and redemption of own debt securities	(4,435)	(209,125)	(2,317)
- closing of sell-buy-back transactions	(95,474,247)	(101,708,734)	(3,555,960)
- interest on loans and borrowings and issued debt securities	(2,217)	(14,959)	(3,339)
Net cash flow from financing activities	**(117,227)**	**(19,583)**	**52,822**
Total net cash flow	**7,760**	**312,810**	**180,491**
Cash and cash equivalents at the beginning of the period	569,157	262,063	262,063
Change in cash due to exchange differences	1,016	(5,716)	1,360
Cash and cash equivalents at the end of the period, including:	577,933	569,157	443,914
- restricted cash	95,794	110,819	14,421

SUPPLEMENTARY INFORMATION TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Information on PZU and the PZU Group

1.1. PZU

The parent company in the PZU Group is PZU - a joint stock company with a registered seat in Warsaw at Al. Jana Pawła II 24. PZU was established by the transformation of Państwowy Zakład Ubezpieczeń into a State Treasury-owned joint stock company, pursuant to Article 97 of the Insurance Activity Act of 28 July 1990 - uniform text in Journal of Laws No. 11 of 1996, Item 62, as later amended.

PZU has been entered in the National Court Register kept by the District Court for the Capital City of Warsaw in Warsaw, 13th Economic Division of the National Court Register , under file number KRS 0000009831.

According to Polish Classification of Economic Activities (PKD), the core business of PZU consists of other casualty insurance and property insurance (PKD 65.12) and according to the European Classification of Economic Activities, non-life insurance (EKD 6603).

(in thousands of PLN)

1.2. PZU Group companies

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Line of business
				31 March 2014	31 December 2013	31 March 2014	31 December 2013	
Consolidated entities								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Non-life 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%	Management of pension funds
4	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds
5	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Creation, representing and management of mutual funds
6	PZU Asset Management SA ("PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity
7	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Provision of assistance services
8	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA ("MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Management of an employee pension fund
9	PrJSC IC PZU Ukraine ("PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Property insurance
10	PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance.
11	UAB DK PZU Lietuva ("PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99.76%	99.76%	Property insurance
12	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance.

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Line of business
				31 March 2014	31 December 2013	31 March 2014	31 December 2013	
13	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity
14	Tower Inwestycje Sp. z o.o. ("Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services activity, excluding insurance and pension funds.
15	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Buying, operating, renting and selling real estate
16	Armatura Kraków SA [1)]	Cracow	07.10.1999	100.00%	92.75%	100.00%	92.75%	Distribution of Armatura Group products, administration and management of the Group
17	Armatoora SA [1)]	Nisko	10.12.2008	100.00%	92.75%	100.00%	92.75%	Production and sale of radiators and sanitary fittings
18	Armaton SA [1)]	Cracow	10.02.2009	100.00%	92.75%	100.00%	92.75%	Utilization of available funds, growth investments
19	Armagor SA [1)]	Cracow	06.09.2009	100.00%	92.75%	100.00%	92.75%	Production of water, gas and central heating fixtures
20	Armadimp SA [1)]	Cracow	20.07.2012	100.00%	92.75%	100.00%	92.75%	Production of ceramic sanitary products
21	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity
22	Ipsilon Bis SA	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity
23	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity
24	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services
25	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	n/a	n/a	Investment of funds collected from fund members
26	PZU FIZ Akcji	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	as above
27	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	as above
28	PZU FIZ Sektora Nieruchomości [2)]	Warsaw	01.07.2008	n/a	n/a	n/a	n/a	as above
29	PZU FIZ Sektora Nieruchomości 2 [2)]	Warsaw	21.11.2011	n/a	n/a	n/a	n/a	as above

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Line of business
				31 March 2014	31 December 2013	31 March 2014	31 December 2013	
30	PZU FIZ Sektora Nieruchomości 3 [2)]	Warsaw	24.02.2012	n/a	n/a	n/a	n/a	as above

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Line of business
				31 March 2014	31 December 2013	31 March 2014	31 December 2013	
31	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	n/a	n/a	as above
32	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	n/a	n/a	as above
33	PZU Energia Medycyna Ekologia	Warsaw	20.12.2007	n/a	n/a	n/a	n/a	as above
34	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above
35	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above
36	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above
37	PZU FIZ Forte	Warsaw	27.12.2012	n/a	n/a	n/a	n/a	as above
38	PZU FIZ Aktywów Niepublicznych RE Income [2)]	Warsaw	08.11.2011	n/a	n/a	n/a	n/a	as above
39	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	n/a	n/a	as above
Co-subsidiary								
40	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	50.00%	50.00%	50.00%	Execution of construction projects.
Associates								
41	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance service
42	EMC Instytut Medyczny SA (medical institute)	Wrocław	18.06.2013	28.58%	29.87%	25.41%	25.31%	Human health activities, research and development on medical sciences and pharmaceutical practice

[1)] Information on the change of exposure in Armatura Kraków SA are presented in item 2.3.

[2)] As at 31 March 2014, PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3, PZU FIZ Aktywów Niepublicznych RE Income funds conducted their investment activity through subsidiary commercial law companies operating as special-purpose vehicles and investing in individual properties, whose number was respectively: 37, 9, 9, 6 for each of the funds (on 31 December 2013: 37, 8, 9, 6).

1.2.1. Non-controlling interest

In the PZU Group there are no subsidiaries in which there would be hold non-controlling interests of material importance to the PZU Group. They have non-controlling interests of 0.24% and 0.66%, respectively in the equity and votes of PZU Lietuva and UAB PZU Lietuva Gyvybes Draudimas.

2. Changes in organization of the PZU Group

2.1. Changes to the consolidation of mutual funds

Information on the application of IFRS 10 as of 1 January 2014 has been presented in item 3.3.1.

2.2. Acquisition of shares in EMC Instytut Medyczny

On 23 December 2013, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 (PZU Closed-end Mutual Fund of Unlisted Assets BIS 2 – "PZU FIZ AN BIS 2") concluded a final agreement on the acquisition of 948,370 shares in EMC from the new issue at a nominal value of PLN 4 per share and an issue price of PLN 19.50 per share. The total purchase price for the acquisition of the new issue was PLN 18,493 thousand.

On 14 March 2014 EMC's capital increase was registered under the issue of 3,692,310 shares with a par value of PLN 4 per share and an issue price of PLN 19.50 per share. According to the foregoing final agreement PZU FIZ AN BIS 2 subscribed for 948,370 shares (representing 25.685% of the new issue shares). As a result of the capital increase PZU FIZ AN BIS 2 holds a total of 3,435,638 shares representing 28.58% of the share capital and giving it the right to 25.41% of the votes at EMC's shareholder meeting.

The subscription for the new issue shares was not aligned to PZU FIZ AN BIS 2's previous stake in the share capital and votes at the shareholder meeting. As a result of the change to the stake in the share capital, these consolidated financial statements have recognized non-recurring income of PLN 966 thousand, which is carried in the line item entitled "Net investment income".

2.3. Increasing the equity stake in Armatura Kraków SA

As at 31 December 2013 PZU FIZ AN BIS 2 held a total of 75,125,538 shares representing 92.75% of the share capital in Armatura Kraków SA and giving it the right to 92.75% of the votes at the shareholder meeting.

As a result of the equity squeeze out, on 23 January 2014 PZU FIZ AN BIS 2 acquired 5,517,888 shares in Armatura Kraków SA. As a result of this transaction, PZU FIZ AN BIS 2 came to hold a total of 80,643,426 shares representing 99.56% of the share capital in Armatura Kraków SA and giving it the right to 99.56% of the votes at the shareholder meeting.

In transactions cleared on 3 March 2014 and 14 March 2014 PZU FIZ AN BIS 2 acquired 298,399 and 58,175 shares, respectively. As a result of these transactions, PZU FIZ AN BIS 2 came to hold a total of 81,000,000 shares representing 100% of the share capital in Armatura Kraków SA and giving it the right to 100% of the votes at the shareholder meeting.

On 9 January 2014 an application was filed with the Polish Financial Supervision Authority ("Polish FSA") for a permit to reinstate the shares of Armatura Kraków SA in the form of a document, i.e. to overturn the decision to record the shares electronically. On 18 February 2014, KNF issued a decision to dematerialize the shares. According to this decision, as of 10 March 2014 Armatura Kraków SA ceased to be subject to the obligations following from the Act of 29 July 2005 on Public Offerings and the Conditions for Introducing Financial Instruments on an Organized Trading Platform and on Public Companies (consolidated text in the Journal of Laws of 2013, Item 1382).

3. Key accounting principles (accounting policy)

Detailed accounting principles (accounting policy) are presented in the annual consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for 2013, signed by the PZU Management Board on 11 March 2014 for which the auditor issued an unqualified opinion on the same date ("Consolidated financial statements of the PZU Group for 2013").

The consolidated financial statements of the PZU Group for 2013 are available on the PZU website at www.pzu.pl in the "Investor Relations / Financial Information" tab.

3.1. Compliance with International Financial Reporting Standards

These interim consolidated financial statements of the PZU Group were drawn up according to the International Financial Reporting Standards approved by the European Commission as at 31 March 2014, including in compliance with the requirements of IAS 34 "Interim Financial Reporting" and in compliance with the requirements set forth in the Regulation on current and periodic information.

(in thousands of PLN)

3.2. Introduction of new IFRS

3.2.1. Standards, interpretations and amended standards effective from 1 January 2014

In these interim consolidated financial statements, the following new standards and interpretations and amendments of standards have been applied:

Standard/interpretation	Effective Date for annual periods starting from	Regulation approving the standard or interpretation	Commentary
IFRS 10 – Consolidated Financial Statements	1 January 2013 [1)]	1254/2012	IFRS 10 supersedes the guidelines on consolidation set forth in IAS 27 "Consolidated and standalone financial statements" and SIC-12 "Consolidation – special purpose entities" by implementing a uniform model of consolidation for all entities on the basis of control, notwithstanding the nature of the investment (i.e. whether an entity is controlled through investors' voting rights or through other contractual arrangements generally applied to special-purpose entities). According to IFRS 10 control is based on whether an investor has the ability to control and investment, exposure or the right to variable earnings coming from the involvement in the investment and the ability to take advantage of control over the investment to affect the amount of return from the investment. As a result of applying IFRS 10, from the outset of 2014, Sub-fund PZU Energia Medycyna Ekologia, Sub-fund PZU Akcji Rynków Wschodzących, Sub-fund PZU Akcji Spółek Dywidendowych and PZU FIZ Forte are subject to consolidation. The balance sheet assets and liabilities recognize the assets and liabilities of the consolidated funds instead of the fund units. The impact exerted by applying the new standard on the consolidated statement of financial position, the consolidated statement of profit and loss and the consolidated statement of comprehensive income has been presented in item 3.3.1. On account of the retrospective application of the new standard, the data for 2013 have been transformed.
IFRS 11 – Joint Arrangements	1 January 2013 [1)]	1254/2012	IFRS 11 implements new accounting regulations in respect of joint contractual arrangements, replacing IAS 31 "Interests in joint ventures". The ability to apply the proportionate consolidation method has been eliminated. Moreover, IFRS 11 eliminates the term "jointly-controlled assets" leaving intact the distinction between joint operations and a joint venture. The application of IFRS 11 will have no material impact on the consolidated financial statements of the PZU Group.

(in thousands of PLN)

Standard/interpretation	Effective Date for annual periods starting from	Regulation approving the standard or interpretation	Commentary
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013 [1)]	1254/2012	IFRS 12 requires the provision of more information on the entities subject to consolidation and the entities not subject to consolidation. The purpose of IFRS 12 is to provide information in such a way that the users of financial statements may assess the basis for control, the limitations imposed on consolidated assets and liabilities and equity, the exposure to risk stemming from the involvement in structural entities not subject to consolidation and the involvement of non-controlling holders of interests in the operations of consolidated entities. As a result of applying IFRS 12 the PZU Group has made additional disclosures concerning the associates and joint ventures it holds. Since the PZU Group does not have subsidiaries holding non-controlling interests of material significance to the PZU Group, no disclosures required by IFRS 12 for such entities have been made.
Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013 [1)]	313/2013	These amendments aim to provide additional explanations on the temporary regulations in IFRS 10, IFRS 11 and IFRS 12 in such a way so as to curtail the requirements of transforming comparable data solely to the previous comparable period.
Amendments to IFRS 10, IFRS 12, IAS 27 – Investment Entities	1 January 2014	1174/2013	These amendments give a release from the requirement of consolidation (according to IFRS 10) and they require that investment entities recognize the individual subsidiaries at fair value through the financial result instead of through consolidation. These amendments also contain requirements concerning disclosures for investment entities. This amendment does not apply to the PZU Group.
Amended IAS 27 – Separate Financial Statements	1 January 2013 [1)]	1254/2012	The requirements concerning standalone financial statements have not changed and are laid down in the revised IAS 27. Other parts of IAS 27 were replaced by IFRS 10. This amendment does not apply to the PZU Group.
Amended IAS 28 – Investments in Associates and Joint Ventures	1 January 2013 [1)]	1254/2012	IAS 28 was changed as a result of publishing IFRS 10, IFRS 11 and IFRS 12.
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1256/2012	The amendments state more precisely the rules for offsetting and concentrate on four major areas: explaining what it means "to have an enforceable right to set off"; simultaneously making set offs and settlements; offsetting security; the meaning of a clearing entity for offsetting. The amendment had no impact on the consolidated financial statements of the PZU Group.

(in thousands of PLN)

Standard/interpretation	Effective Date for annual periods starting from	Regulation approving the standard or interpretation	Commentary
Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	1374/2013	The changes to IAS 36 to a limited extent pertain to the additional precision given to the requirement to disclose information on the recoverable value of assets for which an impairment charge has been made and simultaneously this recoverable value is based on fair value minus the costs of sale. The amendment had no impact on the consolidated financial statements of the PZU Group.
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1375/2013	Changes of limited scope afford the opportunity to continue applying security accounting in the event of novating a derivative (designated as a hedge) in such a way so that the central counterparty becomes a party thereto provided that it meets certain conditions. The change did not affect the PZU Group's consolidated financial statements (security accounting not applied).

[1)] The European Commission voted for this regulation to become effective no later than for annual periods starting from 1 January 2014 (early implementation was permitted).

(in thousands of PLN)

3.2.2. Standards, interpretations and amended standards issued but not effective

The following standards, interpretations and amended standards have been issued but have not come into effect:

- not approved by the European Commission:

Standard/interpretation	Date of issue by the International Accounting Standards Board	Effective date for annual periods starting from (according to IASB)	Commentary
IFRS 9 – Financial Instruments	12 November 2009 16 December 2011 (update)	On 19 November 2013 the International Accounting Standards Board announced the postponement of the timing for the obligatory implementation of the standard on account of not completing the phase of work pertaining to the impairment of value. The new date for implementation will be set in the future when the draft version of IFRS 9 will be closer to completion.	On 19 November 2013 the International Accounting Standards Board ("IASB") published another series of changes to the accounting of financial instruments. This standard sets a single approach to determine whether financial assets are measured at amortized cost or fair value, replacing numerous principles prescribed by IAS 39. The approach of IFRS 9 is based on an assessment of how the entity manages financial instruments (i.e. based on an assessment of the business model) and an assessment of the character of the contractual cash flow associated with financial assets. The new standard also requires the application of a single method to assess impairments, replacing numerous methods to assess impairment as prescribed by IAS 39. The new requirements for settling financial liabilities concern the issue of the volatility of the financial result stemming from the issuer's decision to measure its own debt at fair value. IASB decided to maintain the current measurement at amortized cost in reference to most liabilities, effecting a change only in regulations concerning proprietary credit risk. Under the new requirements an entity which decides to measure liabilities at fair value presents the change of fair value following from changes to its proprietary credit risk in other comprehensive income instead of in the statement of profit and loss. The changes of November 2013 will introduce material changes to security accounting and will make it possible to apply the recognition of proprietary credit risk without having to change other accounting standards for financial instruments. Due to the remote and unspecified effective date, anticipated further amendments to accounting principles for financial instruments, related to, among others, the work currently conducted on the gradual substitution of the current IAS 39 with new regulations, the effect of application of IFRS 9 on PZU Group's comprehensive income and equity was not estimated.
Changes to IAS 19 – Employee benefits – Defined benefits plans – employee contributions	21 November 2013	1 July 2014	Minor changes concern the scope of application of IAS 19 to contributions from employees or third parties paid in favor of defined benefits schemes. The purpose of the changes is to simplify the settlement of contributions that do not depend on the number of years worked (e.g. employee contributions computed as a fixed percentage of salary). The amendment will have no impact on the consolidated financial statements of the PZU Group.
IFRS 14 – Regulatory deferral account balances	30 January 2014	1 January 2016	Enabling entities applying IFRS for the first time, which currently recognize regulatory deferral account balances in accordance with their previous, generally accepted accounting standards to continue recognizing these balances after switching to IFRS. This amendment does not apply to the PZU Group.

(in thousands of PLN)

Standard/interpretation	Date of issue by the International Accounting Standards Board	Effective date for annual periods starting from (according to IASB)	Commentary
Improvements to IFRS 2010-2012	12 December 2013	1 July 2014	Changes to various standards and interpretations under the procedure for making annual corrections to Standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), mostly directed at solving incongruences and tightening terminology. The changes made state more precisely the required accounting recognition in situations in which previously it was permissible to have an arbitrary interpretation. The most important ones are new or changed requirements concerning: the definition of a "condition to acquire rights"; settling a conditional payment in the combination of ventures; aggregation of operating segments and reconciliation of the sum of assets of reporting segments to the entity's assets; measurement of short-term receivables and payables; proportionate transformation of accumulated depreciation in the revaluation model and the definition of key members of management. The amendment will have no material impact on the consolidated financial statements of the PZU Group.
Improvements to IFRS 2011-2013	12 December 2013	1 July 2014	Changes to various standards and interpretations under the procedure for making annual corrections to Standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40), mostly directed at solving incongruences and tightening terminology. The changes made state more precisely the required accounting recognition in situations in which previously it was permissible to have an arbitrary interpretation. The most important ones are new or changed requirements concerning: the significance of the IFRS in force in IFRS 1; the scope of exemptions concerning joint ventures; the scope of paragraph 52 of IFRS 13 (portfolio exemption) and stating more precisely the relationship between IFRS 3 and IAS 40 concerning the classification of properties as investment properties or properties occupied for its own use. The amendment will have no material impact on the consolidated financial statements of the PZU Group.
IFRIC 21 Interpretation – Levies	20 May 2013	1 January 2014	IFRIC 21 is an interpretation of IAS 37 – Provisions, contingent liabilities and contingent assets. IAS 37 specifies the criteria for recognizing a liability, with one of them being the requirement to have a current obligation following from past events (referred to as an obligating event). The interpretation explains that an event leading to the emergence of a liability to remit a public fee is a activity subject to a public fee prescribed by the appropriate legal regulations. The amendment will have no impact on the consolidated financial statements of the PZU Group.
Amendments to IFRS 11 – Accounting for acquisitions and interests in joint operations	6 May 2014	1 January 2016	The amendment states more precisely that the buyers of interests in joint operations should apply all the standards concerning acquisition accounting resulting from IFRS 3 and other IFRS, which are not in contradiction with IFRS 11 and disclose the information required under these standards. The amendment should have no impact on the consolidated financial statements of the PZU Group.
Amendments to IAS 16 and IAS 38 – explaining acceptable depreciation	12 May 2014	1 January 2016	The amendment states more precisely that it is not proper to adopt amortization methods based on revenues generated by assets.

Standard/interpretation	Date of issue by the International Accounting Standards Board	Effective date for annual periods starting from (according to IASB)	Commentary
methods			The amendment should have no impact on the consolidated financial statements of the PZU Group

3.3. Changes to accounting principles (accounting policy) and comparability of financial data

In January 2014 the following changes described below have been made to accounting standards (policy).

3.3.1. Application of IFRS 10

The PZU Group has applied IFRS 10 as of 1 January 2014, which is the date of first application within the meaning of item C2B of IFRS 10.

As a result of applying IFRS 10 the following mutual funds are subject to consolidation: Sub-fund PZU Energia Medycyna Ekologia, Sub-fund PZU Akcji Rynków Wschodzących, Sub-fund PZU Akcji Spółek Dywidendowych and PZU FIZ Forte. This means that the assets and liabilities of these funds have been recognized in the pertinent line items of these consolidated financial statements instead of the hitherto presentation of the value of the investment in a given fund at fair value in the appropriate line item of "Financial assets" in the consolidated statement of financial position.

Information on material estimates adopted by the PZU Group in conjunction with the application of IFRS 10 has been presented in item 4.

The tables present the impact of applying IFRS 10 on the consolidated statement of financial position, the consolidated profit and loss statement and the consolidated statement of other comprehensive income.

(in thousands of PLN)

Assets	**31 December 2013** *(historical)*	**Adjustment**	**31 December 2013** *(restated)*	**31 March 2013** *(historical)*	**Adjustment**	**31 March 2013** *(restated)*	**1 January 2013** *(historical)*	**Adjustment**	**1 January 2013** *(restated)*
Intangible assets	308,726	-	308,726	177,587	-	177,587	183,238	-	183,238
Goodwill	8,519	-	8,519	8,475	-	8,475	8,474	-	8,474
Property, plant and equipment	927,281	-	927,281	972,651	-	972,651	992,317	-	992,317
Investment property	1,474,770	-	1,474,770	1,599,060	-	1,599,060	564,404	-	564,404
Entities measured by the equity method	48,595	-	48,595	692	-	692	-	-	-
Financial assets									
Financial instruments held to maturity	18,859,902	-	18,859,902	21,622,916	-	21,622,916	21,117,559	-	21,117,559
Financial instruments available for sale	1,922,173	(2,061)	1,920,112	2,985,969	(2,052)	2,983,917	3,924,501	(100,092)	3,824,409
Financial instruments measured at fair value through profit or loss	19,790,102	114,074	19,904,176	15,192,662	4,438	15,197,100	15,628,401	66,081	15,694,482
Borrowings	14,116,537	285,001	14,401,538	11,861,365	-	11,861,365	9,752,615	-	9,752,615
Receivables, including receivables under insurance contracts	2,664,986	6,978	2,671,964	2,247,156	(2)	2,247,154	1,835,793	5,080	1,840,873
Reinsurers' share in technical provisions	526,605	-	526,605	567,962	-	567,962	749,334	-	749,334
Estimated recoveries and recourses	129,950	-	129,950	108,555	-	108,555	121,632	-	121,632
Deferred tax assets	16,949	-	16,949	16,814	-	16,814	13,963	-	13,963
Current income tax receivables	34,895	-	34,895	83,991	-	83,991	80,646	-	80,646
Deferred acquisition expenses	609,819	-	609,819	592,093	-	592,093	574,489	-	574,489
Other assets	195,449	-	195,449	188,264	-	188,264	178,646	-	178,646
Cash and cash equivalents	548,266	20,891	569,157	442,653	1,261	443,914	136,586	125,477	262,063
Assets related to continuing operations	**62,183,524**	**424,883**	**62,608,407**	**58,668,865**	**3,645**	**58,672,510**	**55,862,598**	**96,546**	**55,959,144**
Assets held for sale	178,897	-	178,897	87,922	-	87,922	46,962	-	46,962
Total assets	**62,362,421**	**424,883**	**62,787,304**	**58,756,787**	**3,645**	**58,760,432**	**55,909,560**	**96,546**	**56,006,106**

Liabilities and equity	**31 December 2013** *(historical)*	**Adjustment**	**31 December 2013** *(restated)*	**31 March 2013** *(historical)*	**Adjustment**	**31 March 2013** *(restated)*	**1 January 2013** *(historical)*	**Adjustment**	**1 January 2013** *(restated)*

(in thousands of PLN)

Liabilities and equity	**31 December 2013** *(historical)*	**Adjustment**	**31 December 2013** *(restated)*	**31 March 2013** *(historical)*	**Adjustment**	**31 March 2013** *(restated)*	**1 January 2013** *(historical)*	**Adjustment**	**1 January 2013** *(restated)*
Equity									
Issued share capital and other capital attributable to parent's shareholders									
Share capital	86,352	-	86,352	86,352	-	86,352	86,352	-	86,352
Other capital	9,061,508	(157)	9,061,351	8,951,490	(151)	8,951,339	9,105,450	(75)	9,105,375
Treasury shares	-	(110)	(110)	-	(110)	(110)	-	-	-
Supplementary capital	8,855,999	-	8,855,999	8,782,487	-	8,782,487	8,780,212	-	8,780,212
Revaluation reserve	242,344	(47)	242,297	204,177	(41)	204,136	363,242	(75)	363,167
Actuarial gains and losses related to provisions for employee benefits	902	-	902	-	-	-	-	-	-
Exchange differences from translation	(37,737)	-	(37,737)	(35,174)	-	(35,174)	(38,004)	-	(38,004)
Retained earnings	3,963,586	1	3,963,587	5,835,699	11	5,835,710	4,998,329	75	4,998,404
Retained earnings (losses)	2,396,978	159	2,397,137	4,997,643	159	4,997,802	4,998,329	75	4,998,404
Net profit (loss)	3,293,654	(158)	3,293,496	838,056	(148)	837,908	-	-	-
Charges to net profit during the financial year	(1,727,046)	-	(1,727,046)	-	-	-	-	-	-
Non-controlling interest	16,341	-	16,341	78,537	-	78,537	79,138	-	79,138
Total equity	**13,127,787**	**(156)**	**13,127,631**	**14,952,078**	**(140)**	**14,951,938**	**14,269,269**	**-**	**14,269,269**

(in thousands of PLN)

Liabilities and equity	**31 December 2013** *(historical)*	**Adjustment**	**31 December 2013** *(restated)*	**31 March 2013** *(historical)*	**Adjustment**	**31 March 2013** *(restated)*	**1 January 2013** *(historical)*	**Adjustment**	**1 January 2013** *(restated)*
Liabilities									
Technical provisions									
Provision for unearned premiums and for unexpired risks	4,540,011	-	4,540,011	4,818,611	-	4,818,611	4,537,167	-	4,537,167
Provision for life insurance	16,048,191	-	16,048,191	15,930,287	-	15,930,287	15,675,243	-	15,675,243
Provisions for outstanding claims	6,586,781	-	6,586,781	5,912,807	-	5,912,807	5,878,445	-	5,878,445
Provision for capitalized value of annuities	5,761,332	-	5,761,332	5,654,496	-	5,654,496	5,660,281	-	5,660,281
Provisions for bonuses and discounts for the insureds	2,893	-	2,893	5,093	-	5,093	4,227	-	4,227
Other technical provisions	477,987	-	477,987	516,853	-	516,853	531,617	-	531,617
Technical provisions for life insurance if the policyholder bears the investment risk	3,907,221	-	3,907,221	3,274,588	-	3,274,588	3,113,798	-	3,113,798
Investment contracts									
- with guaranteed and set conditions	1,250,492	-	1,250,492	1,303,778	-	1,303,778	1,297,224	-	1,297,224
- for the client's account and risk	870,545	-	870,545	963,554	-	963,554	1,001,923	-	1,001,923
Provisions for employee benefits	123,380	-	123,380	118,565	-	118,565	107,307	-	107,307
Other provisions	192,906	-	192,906	259,159	-	259,159	267,456	-	267,456
Deferred tax provision	255,399	-	255,399	320,641	-	320,641	357,557	-	357,557
Current income tax liabilities	53,372	-	53,372	67,300	-	67,300	21,658	-	21,658
Derivatives	237,749	-	237,749	178,065	24	178,089	129,921	226	130,147
Other liabilities	8,926,375	425,039	9,351,414	4,480,912	3,761	4,484,673	3,056,467	96,320	3,152,787
Liabilities related to continuing operations	**49,234,634**	**425,039**	**49,659,673**	**43,804,709**	**3,785**	**43,808,494**	**41,640,291**	**96,546**	**41,736,837**
Total liabilities	**49,234,634**	**425,039**	**49,659,673**	**43,804,709**	**3,785**	**43,808,494**	**41,640,291**	**96,546**	**41,736,837**
Total liabilities and equity	**62,362,421**	**424,883**	**62,787,304**	**58,756,787**	**3,645**	**58,760,432**	**55,909,560**	**96,546**	**56,006,106**

(in thousands of PLN)

Consolidated profit and loss account	**1 January - 31 March 2013** *(historical)*	**Adjustment**	**1 January - 31 March 2013** *(restated)*
Gross written insurance premium	4,425,923	-	4,425,923
Reinsurers' share in gross written insurance premium	(33,597)	-	(33,597)
Net written premiums	**4,392,326**	**-**	**4,392,326**
Change in net provision for unearned premiums	(284,599)	-	(284,599)
Net earned premium	**4,107,727**	**-**	**4,107,727**
Revenue from commissions and fees	70,564	(40)	70,524
Net investment income	444,037	(14)	444,023
Net result on the realization of investments and impairment charges	(46,952)	(130)	(47,082)
Net change in the fair value of assets and liabilities carried at fair value	31,926	-	31,926
Other operating income	204,918	-	204,918
Claims and change in technical provisions	(2,720,388)	-	(2,720,388)
Claims and change in insurance liabilities ceded to re-insurers	(10,309)	-	(10,309)
Net insurance claims	**(2,730,697)**	**-**	**(2,730,697)**
Claims and changes in valuation of investment contracts	(11,224)	-	(11,224)
Acquisition expenses	(480,588)	-	(480,588)
Administrative expenses	(326,284)	-	(326,284)
Other operating expenses	(196,959)	-	(196,959)
Operating profit (loss)	**1,066,468**	**(184)**	**1,066,284**
Financial expenses	(14,400)	-	(14,400)
Share of the net profit (loss) of entities measured by the equity method	2,457	-	2,457
Gross profit (loss)	**1,054,525**	**(184)**	**1,054,341**
Income tax			
- current part	(196,985)	-	(196,985)
- deferred part	(20,275)	36	(20,239)
Net profit (loss) on continuing operations	837,265	(148)	837,117
Net profit (loss), including	**837,265**	**(148)**	**837,117**
- profit (loss) attributed to holders of parent's equity	838,056	(148)	837,908
- profit (loss) attributed to holders of non-controlling interest	(791)	-	(791)

Consolidated Statement of Comprehensive Income	**1 January - 31 March 2013** *(historical)*	**Adjustment**	**1 January - 31 March 2013** *(restated)*
Net profit (loss)	837,265	(148)	837,117
Other comprehensive income	(153,953)	34	(153,919)
To be reclassified to profit or loss in the future	(153,953)	34	(153,919)
Measurement of financial instruments available for sale	(156,790)	34	(156,756)
Exchange differences from translation	2,837	-	2,837
Total net comprehensive income	**683,312**	**(114)**	**683,198**
- comprehensive income attributed to holders of parent's equity	684,096	(114)	683,982
- comprehensive income attributed to holders of non-controlling interest	(784)	-	(784)

4. Critical accounting estimates and judgments

The critical estimates and assessments were presented in the PZU Group's consolidated financial statements for 2013.

In connection with the application of IFRS 10 as of 1 January 2014, the PZU Group has assumed that it exercises control over a mutual fund if the following conditions are jointly met:

- the PZU Group companies jointly have the capacity to use their authority over the fund to influence the value of the return from the investment, with the prerequisites for this capacity being, among others, control over the mutual fund company, significant percentage of the total number of votes at the meeting of investors or board of investors;
- the total exposure of the PZU Group companies to variable returns from exposure to a mutual fund is significant, which means that the total percentage of PZU Group companies in this fund's net assets is equal to or greater than 20% (where when determining this total percentage, the fund's assets forming the net assets of life insurance in which the investment risk is borne by the policyholder and investment contracts for the client's account and at the client's risk are not taken into account).

The PZU Group allows for maintaining a fund's consolidation (or not being subject to consolidation, as the case may be) for a period of the next 2 quarters after the quarter at whose end a decline (or increase, as the case may be) in the percentage of a fund's net assets occurs below 20% (or above, as the case may be) in a situation in which this decline (or increase, as the case may be) stems from deposits (or disbursements, as the case may be) made by members from outside the PZU Group.

5. Corrections of errors from previous years

In the 3-month period from 1 January to 31 March 2014, no corrections were made of errors from previous years.

6. Other information related to the manner of drawing up the interim consolidated financial statements

6.1. Period covered by the interim consolidated financial statements

These interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2014.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company's statements with the reservation that the financial statements of the consolidated mutual funds are prepared as of the date for which the last official measurement is published of the units or investment certificates of these funds, forming the basis for recognizing the measurement of these funds in the consolidated financial statements of the PZU Group entities.

6.2. Functional and presentation currency

Polish zloty is the functional and the presentation currency of the PZU Group. Unless otherwise noted, all the amounts presented in these interim consolidated financial statements are stated in thousands of Polish zloty.

6.3. Going concern

These interim consolidated financial statements have been drawn up under the assumption that PZU Group entities remain a going concern in the foreseeable future, i.e. in the period of at least 12 months after the end of the reporting period. As at the date of signing these interim consolidated financial statements, there are no facts or circumstances that would indicate a threat to ability of PZU Group entities to continue their activity in the period of 12 months after the end of the reporting period as a result of an intentional or an induced discontinuation or a material curtailment of their hitherto activity.

(in thousands of PLN)

6.4. Discontinued operations

In the period of 3 months ended 31 March 2014, PZU Group entities did not discontinue any type of activity, except for PZU AM, which discontinued its brokerage activity

6.5. Seasonality and business cycles

Activity of the PZU Group is not seasonal and is not subject to business cycles to an extent that would justify application of the suggestion included in Clause 21 of IAS 34.

6.6. FX rates

The following currency exchange rates were used in these interim consolidated financial statements to convert financial data of foreign subordinated entities and to present financial highlights:

Currency	1 January – 31 March 2014	31 March 2014	1 January – 31 December 2013	31 December 2013	1 January – 31 March 2013	31 March 2013	1 January 2013
LTL	1.2134	1.2081	1.2196	1.2011	1.2088	1.2099	1.1840
UAH	0.3080	0.2693	0.3886	0.3706	0.3896	0.4006	0.3825
EUR	4.1894	4.1713	4.2110	4.1472	4.1738	4.1774	4.0882

These FX rates:

- for line items in the statement of financial position – mean NBP exchange rates on the balance sheet date;
- for profit and loss account, statement of comprehensive income and cash flow statement line items – exchange rates calculated as mean NBP exchange rates for the last day of each month of the given period.

7. Information about major events that materially influence the structure of financial statement items

7.1. Application of IFRS 10

Information on the application of IFRS 10 has been presented in item 3.3.1.

8. Significant events after the end of the reporting period

8.1. Acquisition of shares in Link4 Towarzystwa Ubezpieczeń Spółka Akcyjna

On 17 April 2014, as a result of the conclusion of negotiations, an agreement was signed for the purchase of shares in Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna ("Link4") between Royal & Sun Alliance Insurance plc, a limited liability company incorporated in England and Wales with its registered office in West Sussex, the United Kingdom ("RSA") as the seller and PZU as the buyer ("Link4 Share Purchase Agreement").

Under the Link4 Share Purchase Agreement, PZU will acquire from RSA 111,354,305 registered shares in Link4 ("Link4 Shares") with a par value of PLN 1.00 each.

The purchase of the Link4 Shares provided for in the Link4 Share Purchase Agreement is subject to the fulfillment of the following conditions precedent ("Conditions Precedent No. 1").

- obtaining KNF's consent for the transaction covered by the Link4 Share Purchase Agreement;
- obtaining antimonopoly consent from the European Commission or the Office of Competition and Consumer Protection (depending on which of these authorities will have jurisdiction over the matter) together with a statement of no objection; such antimonopoly consent should be unconditional or contain conditions acceptable to PZU;

- obtaining consent from KNF for the repayment of the loan granted under the subordinated loan agreement between InTouch Insurance Group B.V. and Link4 of 4 March 2009, as amended;
- obtaining consent from the Ukrainian antimonopoly authority.

The fulfillment of Conditions Precedent No. 1 should take place by 17 January 2015. The Link4 Share Purchase Agreement will be terminated if Conditions Precedent No. 1 are not fulfilled by 17 January 2015.

Payment for the Link4 Shares on the transaction closing date as specified in the Link4 Share Purchase Agreement will be EUR 90,000 thousand plus an estimated amount of compensation for the difference between the estimated net asset value and the notional net asset value ("Estimated Compensation Amount No. 1").

The actual amount of compensation will be determined after the closing of the transaction provided for in the Link4 Share Purchase Agreement based on the closing balance sheet prepared by PZU and approved by RSA ("Closing Balance Sheet No. 1"). If the actual amount of compensation equal to the difference between the net asset value and the notional net asset value determined on the basis of Closing Balance Sheet No. 1 is:

- lower than Estimated Compensation Amount No. 1, then RSA will pay PZU the resulting difference, or if it is
- higher than Estimated Compensation Amount No. 1, the PZU will pay RSA the excess amount.

As at the date of this interim report, Conditions Precedent No. 1 have not been fulfilled and thus Link4 is not treated as a subsidiary.

8.2. Acquisition of shares in Lietuvos Draudimas shares in AB, AAS Balta and the assets of the Estonian branch of Codan Forsikring A/S

On 17 April 2014, as a result of the conclusion of negotiations, the following agreements were signed:

- agreement for the purchase of shares in the Lithuanian company Lietuvos Draudimas AB between RSA as the seller and PZU as the buyer ("Lietuvos Draudimas AB Share Purchase Agreement");
- agreement for the purchase of shares in the Latvian company AAS Balta between RSA as the seller and PZU as the buyer ("AAS Balta Share Purchase Agreement");
- acquisition agreement pertaining to the acquisition of assets of the Estonian branch of Codan Forsikring A/S, a company incorporated in Denmark with its registered office in Frederikberg ("Codan") as the seller, PZU Lietuva acting through its branch UAB DB PZU Lietuva Eesti Filiaal registered in the Republic of Estonia as the buyer and PZU as the buyer’s guarantor ("Codan Purchase Agreement").

Up to the date of conveying this interim report, Lietuvos Draudimas AB and AAS Balta have not been treated as subsidiaries on account of the non-fulfillment of the conditions precedent prescribed by the aforementioned agreements.

Acquisition of shares in Lietuvos Draudimas AB

Under the Lietuvos Draudimas AB Share Purchase Agreement, PZU will purchase from RSA 805,432 ordinary registered shares in Lietuvos Draudimas AB representing 99.977% of the share capital of Lietuvos Draudimas AB ("Lietuvos Draudimas AB Shares") with a par value of LTL 50.00 each.

The purchase of the Lietuvos Draudimas AB Shares provided for in the Lietuvos Draudimas AB Share Purchase Agreement is subject to the fulfillment of the following conditions precedent ("Conditions Precedent No. 2"):

- obtaining a decision of the Bank of Lithuania in compliance with the relevant provisions of Lithuanian law (including a statement of no objection);
- obtaining antimonopoly consent from the European Commission or the Lithuanian antimonopoly authority (depending on which of these authorities will have jurisdiction over the matter) together with a statement of no objection; such antimonopoly consent should be unconditional or contain conditions acceptable to PZU;
- obtaining consent from the Ukrainian antimonopoly authority.

The fulfillment of Conditions Precedent No. 2 should take place by 17 October 2014. The Lietuvos Draudimas AB Share Purchase Agreement will be terminated if Conditions Precedent No. 2 are not fulfilled by 17 October 2014.

Payment for the Lietuvos Draudimas AB Shares on the transaction closing date as specified in the Lietuvos Draudimas AB Share Purchase Agreement will be EUR 180,000 thousand plus an estimated amount of compensation for the difference between the estimated net asset value and the notional net asset value ("Estimated Compensation Amount No. 2").

The actual amount of compensation will be determined after the closing of the transaction provided for in the Lietuvos Draudimas AB Share Purchase Agreement based on the closing balance sheet prepared by PZU and approved by RSA ("Closing Balance Sheet No. 2"). If the actual amount of compensation equal to the difference between the net asset value and the notional net asset value determined on the basis of Closing Balance Sheet No. 2 is:

- lower than Estimated Compensation Amount No. 2, then RSA will pay PZU the resulting difference, or if it is
- higher than Estimated Compensation Amount No. 2, the PZU will pay RSA the excess amount.

Acquisition of shares in AAS Balta

Under the AAS Balta Share Purchase Agreement, PZU will purchase from RSA 4,651,825 ordinary shares in AAS Balta representing 99.995% of the share capital of AAS Balta ("AAS Balta Shares") with a par value of LTL 1.00.

The purchase of the AAS Balta provided for in the AAS Balta Share Purchase Agreement is subject to the fulfillment of the following conditions precedent ("Conditions Precedent No. 3"):

- obtaining a decision of the Commission for Finances and Capital Markets of the Republic of Latvia for the purchase of the AAS Balta Shares in compliance with the relevant provisions of Latvian law (together with a statement of no objection);
- obtaining antimonopoly consent from the European Commission or the Latvian antimonopoly authority (depending on which of these authorities will have jurisdiction over the matter) together with a statement of no objection; such antimonopoly consent should be unconditional or contain conditions acceptable to PZU;
- obtaining consent from the Ukrainian antimonopoly authority.

The fulfillment of Conditions Precedent No. 3 should take place by 17 October 2014. The AAS Balta Share Purchase Agreement will be terminated if Conditions Precedent No. 3 are not fulfilled by 17 October 2014.

Payment for the AAS Balta Shares on the transaction closing date as specified in the AAS Balta Share Purchase Agreement will be EUR 48,000 thousand plus an estimated amount of compensation for the difference between the estimated net asset value and the notional net asset value ("Estimated Compensation Amount No. 3").

The actual amount of compensation will be determined after the closing of the transaction provided for in the AAS Balta Share Purchase Agreement based on the closing balance sheet prepared by PZU and approved by RSA ("Closing Balance Sheet No. 3"). If the actual amount of compensation equal to the difference between the net asset value and the notional net asset value determined on the basis of Closing Balance Sheet No. 3 is:

- lower than Estimated Compensation Amount No. 3, then RSA will pay PZU the resulting difference, or if it is
- higher than Estimated Compensation Amount No. 3, the PZU will pay RSA the excess amount.

Acquisition of the assets of Codan’s branch

Under the Codan Purchase Agreement, PZU Lietuva will purchase from Codan an enterprise consisting of an insurance business run by Codan through a branch registered in Estonia, in particular the rights and benefits arising out of the existing agreements, employment contracts, office equipment and intellectual property rights associated with the enterprise in question ("Enterprise").

The acquisition of the Enterprise is subject to obtaining consent from the Ukrainian antimonopoly authority ("Condition Precedent No. 4"). The fulfillment of Condition Precedent No. 4 should take place by 17 January 2015.

Payment for the Enterprise to be made by PZU Lietuva on the transaction closing date as specified in the Codan Purchase Agreement will be EUR 30,000 thousand. The amount of the payment to be made on the transaction closing date will be subject to compensation by the amount of the difference between the net asset value and the notional net asset value ("Estimated Compensation Amount No. 4").

The actual amount of compensation will be determined after the closing of the transaction provided for in the Codan Purchase Agreement based on the closing balance sheet prepared by PZU Lietuva and approved by Codan ("Closing Balance Sheet No. 4"). If the actual amount of compensation equal to the difference between the net asset value and the notional net asset value determined on the basis of Closing Balance Sheet No. 4 is:

- lower than Estimated Compensation Amount No. 4, then Codan will pay PZU Lietuva the resulting difference, or if it is
- higher than Estimated Compensation Amount No. 4, then PZU Lietuva will pay Codan the excess amount.

Insurance portfolio transfer agreement

In addition to the Codan Purchase Agreement, PZU Lietuva and Codan also signed a Portfolio Transfer Agreement – Transfer of the Estonian Insurance Portfolio by Codan ("Insurance Portfolio Transfer Agreement"). Under the Insurance Portfolio Transfer Agreement, PZU Lietuva will purchase from Codan the collection of all insurance agreements signed or acquired by Codan as at the transaction closing date ("Insurance Portfolio"). The Insurance Portfolio Transfer Agreement is subject to the fulfillment of the following conditions precedent:

- closing the purchase of the Enterprise under the Codan Purchase Agreement, and
- obtaining consent from the Danish financial supervisory commission for the transfer of the Insurance Portfolio.

PZU guaranteed the performance of PZU Lietuva’s obligations under the Codan Purchase Agreement and the Insurance Portfolio Transfer Agreement.

8.3. Acquisition of shares in Orlen Medica Sp. z o.o.

On 8 April 2014, an agreement was signed for the purchase of shares in Orlen Medica Sp. z o.o. ("Orlen Medica") between Polski Koncern Naftowy Orlen SA ("PKN Orlen") as the seller and PZU FIZ AN BIS 2 as the buyer ("Orlen Medica Share Purchase Agreement").

Under the Orlen Medica Share Purchase Agreement, PZU FIZ AN BIS 2 purchased from PKN Orlen 17,983 shares in Orlen Medica with a par value of PLN 500.00 each, representing 100% of the shares in the share capital and giving the right to 100% of the votes at the Shareholder Meeting. The title to the shares was transferred on 9 May 2014.

The total purchase price for 17,983 shares in Orlen Medica is PLN 42,137 thousand. This price is subject to adjustment depending on the difference between the financial liabilities and cash held by Orlen Medica as at the date of signing of the agreement and the date of transfer of the shares.

Under the Orlen Medica Share Purchase Agreement, PZU will become an indirect owner of 4,525 shares in the company operating under the business name of Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. with a par value of PLN 500.00 representing 98.58% of the share capital and 98.58% of the votes at the Shareholder Meeting the rights to which are held by Orlen Medica.

8.4. Acquisition of shares in Prof-med Sp. z o.o.

On 8 April 2014 the share purchase agreement for the company doing business as Specjalistyczna Przychodnia Przemysłowa "Prof-med" Sp. z o.o. was signed. ("Prof-med") by and between Anwil SA ("Anwil") as the seller and PZU FIZ AN BIS 2 as the buyer ("Share Purchase Agreement for Prof-med").

Pursuant to the share purchase agreement for Prof-med, PZU FIZ AN BIS 2 acquired 136 shares in Prof-med from Anwil with a par value of PLN 500.00 each, representing approximately 96.45% of the share capital and giving the right to roughly 96.45% of the votes at the shareholder meeting. The title to the shares was transferred on 12 May 2014.

(in thousands of PLN)

The total share purchase price for 136 shares in Prof-med is PLN 3,635 thousand. The price may be adjusted depending on the difference between the financial liabilities and the cash in the possession of Prof-med on the day of signing the agreement and on the share transfer date.

9. Supplementary notes to the interim consolidated financial statements

9.1. Entities measured by the equity method

Entities measured by the equity method	31 March 2014	31 December 2013	31 March 2013
EMC	67,492	47,954	-
GSU Pomoc	624	616	692
Armatura Tower	25	25	-
Entities measured by the equity method	**68,141**	**48,595**	**692**

(in thousands of PLN)

Associates and joint ventures.	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**
Name	EMC Instytut Medyczny SA (medical institute)			GSU Pomoc SA			Armatura Tower Sp. z o.o.		
Nature of PZU's relationship with the entity	Associate – strategic			Associate – non-strategic			Joint venture – non-strategic		
Seat of the entity	Wrocław			Tychy			Cracow		
Equity stake in the entity	28.58%	29.87%	n/a	30.00%	30.00%	30.00%	50.00%	50.00%	n/a
Percentage of votes in the entity	25.41%	25.31%	n/a	30.00%	30.00%	30.00%	50.00%	50.00%	n/a
Valuation method in the consolidated financial statements	Equity method		n/a	Equity method			Equity method		n/a
Accounting standard used by the entity	IFRS		n/a	PAS			IFRS		n/a
Fair value of the exposure to the entity	55,692	44,746	n/a	None – unlisted entity			None – unlisted entity		n/a
Value of dividends received from an entity	-	-	n/a	-	104	n/a	-	-	n/a
Financial highlights									
Assets, including:	248,149	231,397	n/a	2,698	2,633	2,384	46	n/a [1)]	n/a
Current assets, of which:	69,153	79,690	n/a	2,664	2,594	2,331	46	n/a [1)]	n/a
Cash and cash equivalents	36,877	59,685	n/a	2,553	2,494	2,249	45	n/a [1)]	n/a
Long-term assets.	178,996	151,707	n/a	34	39	53	-	n/a [1)]	n/a
Equity	139,045	139,021	n/a	2,079	2,053	2,305	45	n/a [1)]	n/a
Liabilities, including:	109,104	92,376	n/a	619	580	79	1	n/a [1)]	n/a
Current liabilities	62,694	48,905	n/a	619	580	79	1	n/a [1)]	n/a
Short-term financial liabilities	24,957	23,384	n/a	-	-	-	-	n/a [1)]	n/a
Non-current liabilities	46,410	43,471	n/a	-	-	-	-	n/a [1)]	n/a
Long-term financial liabilities	24,487	25,436	n/a	-	-	-	-	n/a [1)]	n/a

(in thousands of PLN)

Associates and joint ventures.	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**	**1 January – 31 March 2014 and as at 31 March 2014**	**1 January – 31 December 2013 and as at 31 December 2013**	**1 January – 31 March 2013 and as at 31 March 2013**
Revenues from core business	59,022	172,556	n/a	192	677	171	-	n/a [1)]	n/a
Depreciation and amortization	3,158	9,121	n/a	5	24	5	-	n/a [1)]	n/a
Interest revenues	236	172	n/a	37	153	50	-	n/a [1)]	n/a
Interest expenses	685	2,780	n/a	-	-	-	-	n/a [1)]	n/a
Income tax	299	569	n/a	14	54	13	-	n/a [1)]	n/a
Comprehensive income, including:	32	78	n/a	26	121	25	(5)	n/a [1)]	n/a
Net financial result, of which	22	171	n/a	26	121	25	(5)	n/a [1)]	n/a
Net financial result on continuing operations	22	171	n/a	26	121	25	(5)	n/a [1)]	n/a
Net result on discontinued operations	-	-	n/a	-	-	-	-	n/a [1)]	n/a
Other comprehensive income	10	(93)	n/a	-	-	-	-	n/a [1)]	n/a

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

There are no limitations (e.g. following from arrangements pertaining to loans, regulatory requirements or contracts) on the ability of affiliates to transfer funds in the form of cash dividends.

(in thousands of PLN)

9.2. Financial assets

In the period of 3 months ended 31 March 2014 and in 2013, no financial instruments were reclassified from groups measured at fair value to groups carried at cost or amortized cost.

9.2.1. Financial instruments held to maturity

Financial instruments held to maturity	31 March 2014	31 December 2013	31 March 2013
Instruments, for which fair value can be determined	**19,914,955**	**18,859,902**	**21,622,916**
Debt securities	19,914,955	18,859,902	21,622,916
Government securities	19,689,094	18,633,511	21,400,741
Fixed rate	18,492,590	17,589,984	20,950,435
Floating rate	1,196,504	1,043,527	450,306
Other	225,861	226,391	222,175
Listed on a regulated market	103,393	105,509	99,226
Fixed rate	103,393	105,509	99,226
Not listed on a regulated market	122,468	120,882	122,949
Floating rate	122,468	120,882	122,949
Financial assets held to maturity, total	**19,914,955**	**18,859,902**	**21,622,916**

9.2.2. Financial instruments available for sale

Financial instruments available for sale	31 March 2014	31 December 2013	31 March 2013
Instruments, for which fair value can be determined	**1,986,363**	**1,916,984**	**2,978,548**
Equity instruments	423,640	405,827	1,350,093
Listed on a regulated market	387,144	370,228	941,483
Not listed on a regulated market	36,496	35,599	408,610
Debt instruments	1,562,723	1,511,157	1,628,455
Government securities	1,080,770	1,134,622	1,249,391
Fixed rate	979,410	1,032,503	1,237,132
Floating rate	101,360	102,119	12,259
Other	481,953	376,535	379,064
Listed on a regulated market	241,452	132,570	96,633
Fixed rate	199,582	132,570	96,633
Floating rate	41,870	-	-
Not listed on a regulated market	240,501	243,965	282,431
Floating rate	240,501	243,965	282,431
Instruments, for which fair value cannot be determined	**3,128**	**3,128**	**5,369**
Equity instruments	3,128	3,128	5,369
Not listed on a regulated market	3,128	3,128	5,369
Financial instruments available for sale, total	**1,989,491**	**1,920,112**	**2,983,917**

(in thousands of PLN)

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

Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	31 March 2014	31 December 2013	31 March 2013
Instruments, for which fair value can be determined	**13,509,938**	**10,988,879**	**8,467,226**
Equity instruments	1,637,215	817,007	257,442
Listed on a regulated market	1,612,519	791,919	230,658
Not listed on a regulated market	24,696	25,088	26,784
Debt instruments	11,872,723	10,171,872	8,209,784
Government securities	11,839,645	10,138,525	8,137,777
Fixed rate	10,554,020	9,175,313	6,758,545
Floating rate	1,285,625	963,212	1,379,232
Other	33,078	33,347	72,007
Listed on a regulated market	33,078	33,347	27,242
Fixed rate	33,078	33,347	27,242
Not listed on a regulated market	-	-	44,765
Floating rate	-	-	44,765
Financial instruments measured at fair value through profit or loss - classified in that category upon first recognition, total	**13,509,938**	**10,988,879**	**8,467,226**

Financial instruments measured at fair value through profit or loss – held for trading	31 March 2014	31 December 2013	31 March 2013
Instruments, for which fair value can be determined	**6,982,223**	**8,915,297**	**6,729,874**
Equity instruments	4,886,169	5,081,854	3,967,629
Listed on a regulated market	2,249,654	2,528,806	1,835,477
Not listed on a regulated market	2,636,515	2,553,048	2,132,152
Debt instruments	1,812,188	3,573,400	2,630,433
Government securities	1,737,318	3,499,207	2,579,086
Fixed rate	1,712,215	3,473,888	2,553,829
Floating rate	25,103	25,319	25,257
Other	74,870	74,193	51,347
Not listed on a regulated market	74,870	74,193	51,347
Floating rate	74,870	74,193	51,347
Derivatives	283,866	260,043	131,812
Financial instruments measured at fair value through profit or loss – held for trading, total	**6,982,223**	**8,915,297**	**6,729,874**

(in thousands of PLN)

9.2.4. Borrowings

Borrowings	31 March 2014	31 December 2013	31 March 2013
Debt securities	**2,079,436**	**2,088,892**	**1,738,667**
Government securities	25,132	30,221	46,200
Fixed rate	25,132	30,221	46,200
Other	2,054,304	2,058,671	1,692,467
Listed on a regulated market	8,018	10,735	10,450
Fixed rate	8,018	10,735	10,450
Not listed on a regulated market	2,046,286	2,047,936	1,682,017
Fixed rate	-	-	11,912
Floating rate	2,046,286	2,047,936	1,670,105
Other, including:	**12,065,682**	**12,312,646**	**10,122,698**
- buy-sell-back transactions	4,853,369	3,203,344	4,379,962
- term deposits with credit institutions	5,357,593 1)	7,387,007	4,749,053
- deposits with ceding companies	11	87	206
- loans	1,854,709	1,722,208	993,477
Total loans	**14,145,118**	**14,401,538**	**11,861,365**

1) PLN deposits constitute over 95% of term deposits with credit institutions. For more than 73% of investments, the term of maturity is prior to June 2014, while for more than 92% of investments it is prior to the end of September 2014.

Other borrowings

Borrowing type	31 March 2014	31 December 2013	31 March 2013
Mortgage-backed loans	-	-	-
Borrowings secured by pledges on shares, on receivable portfolios and on bank accounts, other borrowings or otherwise	1,847,283	1,712,382	988,962
Unsecured loans	7,426	9,826	4,515
Total	**1,854,709**	**1,722,208**	**993,477**

9.2.5. Exposure to debt securities issued by governments other than the Polish Government, by corporations and local government units

The tables present the exposure of the PZU Group companies to debt securities issued by governments other than the Polish government, by corporations and local government units.

9.2.5.1. *Debt securities issued by governments other than the Polish government*

As at 31 March 2014	Currency	Valuation method	Purchase price	Balance sheet value	Fair value measurement	Impairment charges
Croatia	EUR	fair value	142	136	136	-
Croatia	EUR	amortized cost	1,225	1,227	1,228	-
Croatia	USD	fair value	22,626	23,017	23,017	-
Iceland	USD	fair value	31,362	32,375	32,375	-
Lithuania	EUR	fair value	14,319	14,966	14,966	-
Lithuania	EUR	amortized cost	75,112	77,039	80,384	-
Lithuania	LTL	fair value	3,560	3,666	3,666	-
Lithuania	LTL	amortized cost	85,493	86,948	89,346	-
Lithuania	USD	fair value	14,495	15,156	15,156	-
Latvia	EUR	fair value	59	60	60	-
Latvia	USD	fair value	35,960	34,425	34,425	-
Germany	EUR	fair value	171,246	169,689	169,689	-
Romania	EUR	fair value	277,345	282,667	282,667	-
Romania	RON	fair value	174,989	179,075	179,075	-

(in thousands of PLN)

As at 31 March 2014	Currency	Valuation method	Purchase price	Balance sheet value	Fair value measurement	Impairment charges
Romania	USD	fair value	27,985	28,800	28,800	-
Slovenia	EUR	fair value	83,589	103,384	103,384	-
Slovenia	USD	fair value	12,791	13,233	13,233	-
Turkey	USD	fair value	33,837	33,425	33,425	-
Ukraine	UAH	fair value	1,881	1,687	1,687	-
Ukraine	USD	fair value	2,969	2,909	2,909	-
Ukraine	UAH	amortized cost	24,695 [1)]	8,012 [1)]	8,222 [1)]	-
Ukraine	USD	amortized cost	18,618	17,120	16,648	-
Hungary	EUR	fair value	42,638	44,742	44,742	-
Hungary	EUR	amortized cost	2,845	2,912	2,987	-
Hungary	HUF	fair value	27,916	27,538	27,538	-
Hungary	USD	fair value	23,992	24,400	24,400	-
Other	EUR/USD	fair value	57,363	62,229	62,229	-
Total			**1,269,052**	**1,290,837**	**1,296,394**	

[1)] the nominal amount is repaid on these bonds on a semi-annual basis at a fixed amount of UAH 100 (i.e. 10% of the nominal value of the bonds). The acquisition price shows the actual price paid by the company and does not include the repayments made on the nominal amount.

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

[1)] the nominal amount is repaid on these bonds on a semi-annual basis at a fixed amount of UAH 100 (i.e. 10% of the nominal value of the bonds). The acquisition price shows the actual price paid by the company and does not include the repayments made on the nominal amount.

(in thousands of PLN)

As at 31 March 2013	Currency	Valuation method	Purchase price	Balance sheet value	Measurement at fair value	Impairment charges
Romania	EUR	fair value	354,131	370,707	370,707	-
Romania	USD	fair value	43,427	47,041	47,041	-
Iceland	USD	fair value	295,884	329,209	329,209	-
Slovenia	EUR	fair value	354,248	343,791	343,791	-
Slovenia	USD	fair value	118,697	119,200	119,200	-
Lithuania	EUR	fair value	2,629	2,765	2,765	-
Lithuania	LTL	fair value	16,211	16,477	16,477	-
Lithuania	USD	fair value	14,178	16,716	16,716	-
Lithuania	EUR	amortized cost	41,252	42,143	46,638	-
Lithuania	LTL	amortized cost	66,604	75,038	78,142	-
Latvia	USD	fair value	35,960	37,452	37,452	-
Ukraine	UAH	amortized cost	27,217 [1)]	20,166 [1)]	n/a	-
Ukraine	USD	amortized cost	26,924	26,034	n/a	-
Hungary	EUR	fair value	41,061	45,983	45,983	-
Hungary	EUR	amortized cost	5,124	5,357	5,445	-
Hungary	CHF	fair value	8,685	8,811	8,811	-
other	EUR/USD	fair value	72,953	78,645	78,693	-
Total			**1,525,185**	**1,585,535**	**n/a**	**-**

[1)] the nominal amount is repaid on these bonds on a semi-annual basis at a fixed amount of UAH 100 (i.e. 10% of the nominal value of the bonds). The acquisition price shows the actual price paid by the company and does not include the repayments made on the nominal amount.

All debt securities issued by governments other than the Republic of Poland, which have been measured at fair value are in Level I of fair value hierarchy.

9.2.5.2. *Debt securities issued by corporations and local government units*

As at 31 March 2014	Valuation method	Purchase price	Balance sheet value	Fair value measurement	Impairment charges
Companies from the WIG-Bank Index	fair value	203,645	208,374	208,374	-
	amortized cost	1,336,121	1,342,163	n/a	-
Companies from the WIG-Paribas Index	fair value	268,489	279,775	279,775	-
	amortized cost	700,000	707,684	n/a	-
Privately held domestic banks	amortized cost	65,000	66,033	n/a	-
Foreign banks	fair value	552	650	650	-
	amortized cost	90,548	90,779	n/a	-
Mortgage banks	fair value	41,983	41,870	41,870	
Domestic local government	fair value	45,632	53,608	53,608	-
	amortized cost	50,000	50,058	n/a	-
Other	fair value	5,289	5,624	5,624	-
	amortized cost	23,657	23,448	n/a	-
Other - covered by full write-offs	fair value	11,630	-	-	11,630
Foreign banks – fully written off	amortized cost	1,142	-	-	1,142
Total		**2,843,688**	**2,870,066**	**n/a**	**12,772**

(in thousands of PLN)

As at 31 December 2013	Valuation method	Purchase price	Balance sheet value	Fair value measurement	Impairment charges
Companies from the WIG-Bank Index	fair value	138,661	140,340	140,340	-
	amortized cost	1,336,121	1,349,381	n/a	-
Companies from the WIG-Paribas Index	fair value	268,489	283,249	283,249	-
	amortized cost	700,000	700,816	n/a	-
Privately held domestic banks	amortized cost	65,000	66,227	n/a	-
Foreign banks	fair value	552	634	634	-
	amortized cost	90,548	92,296	n/a	-
Domestic local government	fair value	45,632	54,279	54,279	-
	amortized cost	50,000	52,507	n/a	-
Other	fair value	5,154	5,573	5,573	-
	amortized cost	23,657	23,835	22,408	-
Other - covered by full write-offs	fair value	11,630	-	-	11,630
Foreign banks – fully written off	amortized cost	1,142	-	-	1,142
Total		**2,736,586**	**2,769,137**	**n/a**	**12,772**

As at 31 March 2013	Classification in portfolio	Purchase price	Balance sheet value	Measurement at fair value	Impairment charges
Companies from the WIG-Bank Index	fair value	166,071	171,636	171,636	-
	amortized cost	961,206	965,687	n/a	-
Companies from the WIG-Paribas Index	fair value	268,489	276,784	276,784	-
	amortized cost	700,000	710,237	n/a	-
Privately held domestic banks	amortized cost	65,000	66,344	n/a	-
Foreign banks	fair value	280	399	399	-
	amortized cost	100,686	104,832	n/a	-
Domestic local government	fair value	45,632	53,512	53,512	-
	amortized cost	50,000	50,060	n/a	-
Other	fair value	64	87	89	-
	amortized cost	17,428	17,482	18,143	-
Other - covered by full write-offs	fair value	11,630	-	-	11,630
Total		**2,386,486**	**2,417,060**	**n/a**	**11,630**

(in thousands of PLN)

9.2.6. Derivatives

Derivatives – assets	**31 March 2014**	**31 December 2013**	**31 March 2013**
Interest rate derivatives	**246,566**	**215,193**	**106,732**
Unlisted (OTC) instruments, including:	246,566	215,193	106,732
- FRA transactions	6,171	1,142	9,084
- SWAP transactions	240,395	214,051	97,648
Foreign exchange derivatives	**8,263**	**22,492**	**8,721**
Listed instruments, including:	2,723	-	4,183
- forward contracts	-	-	4,183
- call options (purchase)	1,912	-	-
- put options	811	-	-
Unlisted (OTC) instruments, including:	5,540	22,492	4,538
- forward transactions	5,426	5,592	4,184
- SWAP transactions	114	16,900	354
Equity derivatives	**29,037**	**22,358**	**16,359**
Listed instruments, including:	11,384	5,080	-
- forward contracts	11,384	5,080	-
Unlisted (OTC) instruments, including:	17,653	17,278	16,359
- call options (purchase)	17,653	17,034	16,359
- forward transactions	-	244	-
Derivatives – assets, total	**283,866**	**260,043**	**131,812**

Derivatives – liabilities	**31 March 2014**	**31 December 2013**	**31 March 2013**
Interest rate derivatives	**274,982**	**237,117**	**134,798**
Unlisted (OTC) instruments, including:	274,982	237,117	134,798
- FRA transactions	16,977	1,986	6,384
- SWAP transactions	258,005	235,131	128,414
Foreign exchange derivatives	**2,192**	**632**	**24,364**
Listed instruments, including:	-	-	5,314
- forward contracts	-	-	5,314
Unlisted (OTC) instruments, including:	2,192	632	19,050
- forward transactions	1,676	-	10,739
- SWAP transactions	516	632	8,311
Equity derivatives	**3,962**	**-**	**-**
Listed instruments, including:	3,962	-	-
- forward contracts	3,962	-	-
Other	**-**	**-**	**18,927**
Derivatives – liabilities, total	**281,136**	**237,749**	**178,089**

(in thousands of PLN)

9.2.7. Information on changes in the economic situation and conditions of running business activity having material effect on fair value of financial assets and liabilities

Information on changes in the economic situation and conditions of running business activity having material effect on fair value of financial assets and liabilities is presented in item 16.

9.2.8. Changes in classification of financial assets driven by changes of purpose or use of those assets

In the 3-month period ended 31 March 2014, neither PZU nor its subsidiaries changed any classification of financial assets as a result of a change in the purpose or use of such assets.

9.3. Fair value

9.3.1. Description of valuation techniques

9.3.1.1. *Debt securities*

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

9.3.1.2. *Assets and liabilities related to mutual funds*

All exposures to mutual funds (units and investment certificates), liabilities under unit-linked contracts and liabilities to members in the consolidated mutual funds are measured at the fair value of assets of a given investment fund (at the share in the mutual fund's net assets).

9.3.2. Fair value hierarchy

On the basis of the input data for fair value measurement, the individual assets and liabilities for which fair value has been presented have been classified to the following levels:

- Level 1 – financial instruments measured based on listed prices (unadjusted) from active markets for identical assets or liabilities. The following is classified in this level:
  - liquid listed debt securities;
  - shares listed on stock exchanges;
  - derivatives listed on stock exchanges;
- Level II – financial instruments measured based on input data other than listed prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). The following is classified in this level:
  - unlisted debt securities and illiquid listed debt securities (including non-treasury debt securities issued by other financial entities, self-government units and non-financial entities);
  - derivatives other than those listed on stock exchanges;
  - mutual fund units;
  - liabilities to members of consolidated mutual funds;
  - investment contracts for client's account and risk;
- Level III – assets and liabilities measured on the basis of inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assets and liabilities measured at fair value as at 31 March	Level 1	Level 2	Level 3	Total

2014				
Assets				
Financial instruments available for sale	1,709,366	276,997	-	1,986,363
Equity instruments	387,144	36,496	-	423,640
Debt securities	1,322,222	240,501	-	1,562,723
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	13,485,242	24,696	-	13,509,938
Equity instruments	1,612,519	24,696	-	1,637,215
Debt securities	11,872,723	-	-	11,872,723
Financial instruments measured at fair value through profit or loss – held for trading	3,944,703	3,037,520	-	6,982,223
Equity instruments	2,249,654	2,636,515	-	4,886,169
Debt securities	1,680,942	131,246	-	1,812,188
Derivatives	14,107	269,759	-	283,866
Liabilities				
Derivatives	3,962	277,174	-	281,136
Liabilities to members of consolidated mutual funds	-	1,009,451	-	1,009,451
Investment contracts for client's account and risk (unit-linked)	-	791,014	-	791,014

Assets and liabilities measured at fair value as at 31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments available for sale	1,637,420	279,564	-	1,916,984
Equity instruments	370,228	35,599	-	405,827
Debt securities	1,267,192	243,965	-	1,511,157
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	10,963,791	25,088	-	10,988,879
Equity instruments	791,919	25,088	-	817,007
Debt securities	10,171,872	-	-	10,171,872
Financial instruments measured at fair value through profit or loss – held for trading	5,976,711	2,938,586	-	8,915,297
Equity instruments	2,528,806	2,553,048	-	5,081,854
Debt securities	3,442,825	130,575	-	3,573,400
Derivatives	5,080	254,963	-	260,043
Liabilities				
Derivatives	1,169	236,580	-	237,749
Liabilities to members of consolidated mutual funds	-	688,282	-	688,282
Investment contracts for client's account and risk (unit-linked)	-	870,545	-	870,545

(in thousands of PLN)

Assets and liabilities carried at fair value as at 31 March 2013	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments available for sale	1,990,238	988,310	-	2,978,548
Equity instruments	941,483	408,610	-	1,350,093
Debt securities	1,048,755	579,700	-	1,628,455
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	8,395,677	71,549	-	8,467,226
Equity instruments	230,658	26,784	-	257,442
Debt securities	8,165,019	44,765	-	8,209,784
Financial instruments measured at fair value through profit or loss – held for trading	4,361,639	2,368,235	-	6,729,874
Equity instruments	1,835,477	2,132,152	-	3,967,629
Debt securities	2,521,979	108,454	-	2,630,433
Derivatives	4,183	127,629	-	131,812
Liabilities				
Derivatives	5,314	172,775	-	178,089
Liabilities to members of consolidated mutual funds	-	165,276	-	165,276
Investment contracts for client's account and risk (unit-linked)	-	963,554	-	963,554

9.3.3. Reclassifications between Level I and Level II

In the period of 3 months ended 31 March 2014, none of the assets or liabilities measured at fair value were reclassified between Level I and Level II in the fair value classification.

9.3.4. Change in the fair value measurement methodology for financial instruments measured at fair value

In the 3-month period ended 31 March 2014, neither PZU nor its subsidiaries changed the fair value measurement methodology for financial instruments measured at fair value.

9.3.5. The most extensive and best usage of a component of non-financial assets and its current usage

As at 31 March 2014, in the event of one investment property with a balance sheet value of PLN 2,822 thousand (as at 31 December 2013: PLN 2,822 thousand) its current usage is not its most extensive or best usage, however the balance sheet measurement incorporates its most extensive and best usage.

As at 31 March 2013, the measurement of this investment property was PLN 3,999 thousand and it did not include its most extensive and best usage.

This real estate entails developed land with a structure that must be razed, while the optimum usage would be to build new facilities.

(in thousands of PLN)

9.4. Receivables, including receivables under insurance contracts

Receivables, including receivables under insurance contracts – carrying value	**31 March 2014**	**31 December 2013**	**31 March 2013**
Receivables on direct insurance	1,433,772	1,384,325	1,441,019
Receivables from policyholders	1,296,078	1,245,337	1,260,931
Receivables from insurance intermediaries	113,352	113,941	139,734
Other receivables	24,342	25,047	40,354
Receivables on reinsurance	36,124	18,828	25,165
Other receivables	1,922,562	1,268,811	780,970
Net receivables, including receivables under insurance contracts	**3,392,458**	**2,671,964**	**2,247,154**

9.4.1. Other receivables

Other receivables	**31 March 2014**	**31 December 2013**	**31 March 2013**
Receivables from the state budget, other than income tax receivables	15,431	86,177	66,152
Receivables from Metro Projekt Sp. z o.o.	83,203	83,203	100,256
Receivables relating to prevention activities	54,949	53,506	53,761
Receivables for acting as an emergency adjuster	7,154	6,351	5,364
Receivables from securities transactions and security deposits	1,633,399	902,019	422,391
Trade receivables	88,213	97,646	89,178
Other	40,213	39,909	43,868
Other receivables, total	**1,922,562**	**1,268,811**	**780,970**

The issues associated with the receivables from Metro Projekt Sp. z o.o. are described in clause 24.6.

9.5. Reinsurers’ share in technical provisions

Reinsurers’ share in technical provisions – non-life insurance	**31 March 2014**	**31 December 2013**	**31 March 2013**
Provision for unearned premiums	208,269	209,940	171,942
Provision for unexpired risk	15	16	259
Provisions for outstanding claims, including:	178,819	170,375	245,045
- for reported claims	135,058	121,826	192,696
- for claims not reported (IBNR)	24,723	29,989	39,986
- for claims handling costs	19,038	18,560	12,363
Provision for capitalized value of annuities	145,311	146,180	150,616
Provisions for bonuses and discounts	11	8	-
Reinsurers’ share in technical provisions (net)	**532,425**	**526,519**	**567,862**

Reinsurers’ share in technical provisions – life insurance	**31 March 2014**	**31 December 2013**	**31 March 2013**
Provision for unearned premiums	68	86	100
Reinsurers’ share in technical provisions (net)	**68**	**86**	**100**

(in thousands of PLN)

9.6. Impairment of financial assets and receivables

Change in impairment charges for financial assets in the period of 1 January - 31 March 2014	Impairment charges at the beginning of the period	Creation of charges recognized in the profit and loss account	Release of charges recognized in the profit and loss account	Removal of charges from accounting ledgers (sale, writing down etc.)	Exchange differences	Impairment charges at the end of the period
Financial assets available for sale	154,899	3,400	-	-	(472)	157,827
Equity instruments	154,899	3,400	-	-	(472)	157,827
Financial assets held to maturity	1,202	-	-	-	7	1,209
Debt instruments	1,202	-	-	-	7	1,209
Borrowings	24,725	-	-	-	58	24,783
Term deposits with credit institutions	9,797	-	-	-	57	9,854
Borrowings	14,928	-	-	-	1	14,929
Receivables, including receivables under insurance contracts	651,579	31,747	(13,950)	(506)	(2,281)	666,589
Receivables on direct insurance	597,608	30,366	(9,286)	(19)	(1,851)	616,818
Receivables on reinsurance	4,619	116	(934)	-	-	3,801
Other receivables	49,352	1,265	(3,730)	(487)	(430)	45,970
Reinsurers' share in technical provisions	4,828	6,419	(5,171)	-	1	6,077
Total	**837,233**	**41,566**	**(19,121)**	**(506)**	**(2,687)**	**856,485**

(in thousands of PLN)

Change in impairment charges for financial assets in the year ended 31 December 2013	**Impairment charges at the beginning of the period**	**Creation of charges recognized in the profit and loss account**	**Release of charges recognized in the profit and loss account**	**Removal of charges from accounting ledgers (sale, writing down etc.)**	**Exchange differences**	**Change in composition of Group**	**Impairment charges at the end of the period**
Financial assets available for sale	164,273	110	-	(9,429)	(55)	-	154,899
Equity instruments	164,273	110	-	(9,429)	(55)	-	154,899
Financial assets held to maturity	-	-	-	-	(19)	1,221	1,202
Debt instruments	-	-	-	-	(19)	1,221	1,202
Borrowings	24,582	-	-	-	143	-	24,725
Term deposits with credit institutions	9,657	-	-	-	140	-	9,797
Borrowings	14,925	-	-	-	3	-	14,928
Receivables, including receivables under insurance contracts	606,747	58,572	(11,900)	(3,342)	(229)	1,731	651,579
Receivables on direct insurance	568,127	40,847	(10,111)	(2,687)	(182)	1,614	597,608
Receivables on reinsurance	3,959	1,220	(438)	(122)	-	-	4,619
Other receivables	34,661	16,505	(1,351)	(533)	(47)	117	49,352
Reinsurers’ share in technical provisions	8,037	1,348	(4,557)	-	-	-	4,828
Total	**803,639**	**60,030**	**(16,457)**	**(12,771)**	**(160)**	**2,952**	**837,233**

(in thousands of PLN)

Change in impairment charges for financial asset in the period of 1 January - 31 March 2013	**Impairment charges at the beginning of the period**	**Creation of charges, recognized in the profit and loss account**	**Release of charges, recognized in the profit and loss account**	**Removal of charges from accounting ledgers (sale, writing down etc.)**	**Exchange differences**	**Change in composition of Group**	**Impairment charges at the end of the period**
Financial assets available for sale	164,273	86	-	(8,363)	84	-	156,080
Equity instruments	164,273	86	-	(8,363)	84	-	156,080
Borrowings	24,582	-	-	-	216	-	24,798
Term deposits with credit institutions	9,657	-	-	-	212	-	9,869
Borrowings	14,925	-	-	-	4	-	14,929
Receivables, including receivables under insurance contracts	606,747	47,083	(8,829)	(1,038)	451	1,361	645,775
Receivables on direct insurance	568,127	46,135	(8,070)	(971)	372	1,361	606,954
Receivables on reinsurance	3,959	465	(282)	-	-	-	4,142
Other receivables	34,661	483	(477)	(67)	79	-	34,679
Reinsurers' share in technical provisions	8,037	224	(3,618)	-	-	-	4,643
Total	**803,639**	**47,393**	**(12,447)**	**(9,401)**	**751**	**1,361**	**831,296**

(in thousands of PLN)

9.7. Other assets

Other assets	31 March 2014	31 December 2013	31 March 2013
Reinsurance settlements	49,280	63,272	53,535
IT costs	23,129	18,202	10,755
Inventories	120,184	93,240	85,481
Other asset components	37,963	20,735	38,493
Other assets, total	**230,556**	**195,449**	**188,264**

9.8. Assets held for sale

Assets held for sale before reclassification	31 March 2014	31 December 2013	31 March 2013
Property, plant and equipment	53,212	55,786	43,711
Investment property	140,345	123,111	27,007
Associates measured by the equity method	-	-	17,204
Assets held for sale before reclassification, total	**193,557**	**178,897**	**87,922**

"Property, plant and equipment" presents mainly the real property and technical equipment and machinery used previously by the Armatura Capital Group for its own purposes with a value of PLN 37.407 thousand (PLN 37.407 thousand as at 31 December 2013, PLN 41,821 thousand as at 31 March 2013).

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

9.9. Technical provisions

9.9.1. Technical provisions in non-life insurance

Technical provisions in non-life insurance	31 March 2014	31 December 2013	31 March 2013
Provision for unearned premiums	4,718,316	4,428,845	4,704,845
Provision for unexpired risk	9,180	8,770	11,327
Provisions for outstanding claims	6,025,446	6,041,030	5,418,055
Provision for capitalized value of annuities	5,826,199	5,761,332	5,654,496
Provisions for bonuses and discounts for the insureds	2,414	2,277	3,595
Technical provisions, total	**16,581,555**	**16,242,254**	**15,792,318**

9.9.2. Technical provisions in life insurance

Technical provisions in life insurance	31 March 2014	31 December 2013	31 March 2013
Provision for unearned premiums	97,249	102,396	102,439
Provision for life insurance	16,136,550	16,048,191	15,930,287
Provisions for outstanding claims	524,361	545,751	494,752
Provisions for bonuses and discounts for the insureds	809	616	1,498
Other technical provisions	463,809	477,987	516,853
Technical provisions for life insurance if the policyholder bears the investment risk	4,110,329	3,907,221	3,274,588
Technical provisions, total	**21,333,107**	**21,082,162**	**20,320,417**

9.10. Investment contracts

Investment contracts - carrying amount	31 March 2014	31 December	31 March 2013

		2013	
Investment contracts with guaranteed and set conditions	677,104	1,250,492	1,303,778
- carried at amortized cost	677,104	1,250,492	1,303,778
Investment contracts for client's account and risk (unit-linked)	791,014	870,545	963,554
Investment contracts – carrying amount, total	**1,468,118**	**2,121,037**	**2,267,332**

9.11. Other provisions

Change in other provisions in the period from 1 January to 31 March 2014	Opening balance	Increase	Utilization	Reversal	Closing balance
Provisions established for the potential liabilities on account of CLSiOR-related investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance agreements	3,075	44	-	-	3,119
Provision for the Office of Competition and Consumer Protection penalties	119,549	-	-	-	119,549
Provision for exit costs of the Graphtalk project	50,944	137	-	-	51,081
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(19)	-	7,382
Other	11,021	1,286	(1,296)	(395)	10,616
Other provisions, total	**192,906**	**1,467**	**(1,315)**	**(395)**	**192,663**

Change in other provisions in the year ended 31 December 2013	Opening balance	Increase	Utilization	Reversal	Closing balance
Provision for restructuring costs	58,194	-	(39,568)	(18,626)	-
Provisions established for the potential liabilities on account of CLSiOR-related investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance agreements	2,687	388	-	-	3,075
Provision for the Office of Competition and Consumer Protection penalties	138,310	-	(5,613)	(13,148)	119,549
Provision for exit costs of the Graphtalk project	49,925	1,483	-	(464)	50,944
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8,836	477	(329)	(1,583)	7,401
Other	8,588	6,688	(103)	(4,152)	11,021
Other provisions, total	**267,456**	**9,036**	**(45,613)**	**(37,973)**	**192,906**

(in thousands of PLN)

Change in other provisions in the period from 1 January to 31 March 2013	Opening balance	Increases	Utilization	Dissolution	Closing balance
Provision for restructuring costs	58,194	-	(5,970)	-	52,224
Provisions established for the potential liabilities on account of CLSiOR-related investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance agreements	2,687	45	-	-	2,732
Provision for the Office of Competition and Consumer Protection penalties	138,310	-	(3,968)	-	134,342
Provision for exit costs of the Graphtalk project	49,925	574	-	-	50,499
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8,836	202	(52)	-	8,986
Other	8,588	1,065	(103)	(90)	9,460
Other provisions, total	**267,456**	**1,886**	**(10,093)**	**(90)**	**259,159**

The item entitled "Provisions for the Office of Competition and Consumer Protection penalties" includes the amounts ensuing primarily from the issues discussed in items 24.2 and 24.3.

9.12. Other liabilities

Other liabilities	31 March 2014	31 December 2013	31 March 2013
Costs to be paid	**537,324**	**638,382**	**497,390**
Posted agency commission costs	219,180	209,871	194,028
Posted reinsurance costs	95,848	121,415	126,761
Posted reinsurance costs	128,677	194,079	72,702
Posted bonuses for employees	66,944	84,064	70,832
Other	26,675	28,953	33,067
Revenues charged in advance	**23,043**	**17,738**	**13,195**
Other liabilities	**10,230,332**	**8,695,294**	**3,974,088**
Liabilities on direct insurance	658,438	634,831	638,054
Reinsurance liabilities	95,334	53,738	97,946
Liabilities due to sell-buy-back transactions	5,754,399	5,124,161	1,151,722
Liabilities on loans and borrowings	234,200	227,353	355,135
Liabilities to members of consolidated mutual funds	1,009,451	688,282	165,276
Liabilities to the state budget, other than income tax liabilities	26,423	147,721	23,826
Regulatory settlements: ZUS, PFRON, ZFŚS and other	34,333	23,195	35,819
Insurance Guarantee Fund [1)]	8,894	10,231	10,925
OFE PZU Guarantee Fund	20,873	534	-
Liabilities to the National Fire Brigade Headquarters and Voluntary Fire Brigades	20,756	4,451	21,111
Under securities transactions and security deposits	2,175,143	1,533,088	1,288,212
Liabilities to PZU shareholders on account of dividends	3,317	3,321	3,396
Trade liabilities	72,997	69,273	60,029
Estimated non-insurance liabilities	34,019	125,673	43,880
Other	81,755	49,442	78,757
Other liabilities, total	**10,790,699**	**9,351,414**	**4,484,673**

[1] The growth in liabilities to the OFE PZU Guarantee Fund follows from the compulsory additional payment to the Guarantee Fund referred to in item 14.6.

(in thousands of PLN)

9.13. Gross written insurance premium

Gross written insurance premium	1 January - 31 March 2014	1 January - 31 March 2013
Gross written premium in non-life insurance	2,377,655	2,400,121
In direct insurance	2,359,824	2,389,304
In indirect insurance	17,831	10,817
Gross written premiums in life insurance	1,976,324	2,025,802
Individual premiums	822,488	900,268
In direct insurance	822,488	900,268
Group insurance premiums	1,153,836	1,125,534
In direct insurance	1,153,836	1,125,534
Gross written premiums, total	**4,353,979**	**4,425,923**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January - 31 March 2014	1 January - 31 March 2013
Results of accidents and illnesses (group 1 and 2)	103,455	105,680
Motor third party liability insurance (class 10)	698,831	758,613
Other motor insurance (class 3)	528,835	538,012
Marine, air and cargo insurance (classes 4, 5, 6, 7)	19,138	18,615
Insurance against fire and other property damage (classes 8 and 9)	650,062	620,150
TPL insurance (classes 11, 12, 13)	271,321	267,599
Credit and guarantee insurance (classes 14, 15)	16,802	12,023
Assistance (class 18)	54,334	49,706
Legal protection (class 17)	304	269
Other (class 16)	16,742	18,637
Gross written premium in direct non-life insurance, total	**2,359,824**	**2,389,304**

9.14. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 March 2014	1 January - 31 March 2013
Pension insurance	**43,374**	**50,302**
Commissions on distribution fees	9,323	10,940
Commissions on managing assets of an open-end pension fund	34,051	39,362
Investment contracts	**4,311**	**4,017**
Revenue from fees relating to investment contracts for the client's account and risk	4,311	4,017
Other	**21,368**	**16,205**
Revenue and payments received from funds and mutual fund companies	21,368	16,205
Revenue from commissions and fees, total	**69,053**	**70,524**

(in thousands of PLN)

9.15. Net investment income

Net investment income	**1 January - 31 March 2014**	**1 January - 31 March 2013**
Interest income, including:	353,338	434,429
- financial assets available for sale	14,924	17,259
- financial assets held to maturity	235,359	292,159
- loans	102,362	122,138
- cash and cash equivalents	693	2,873
Dividend income, including:	2,084	1,282
- financial assets measured at fair value through profit or loss upon first recognition	1,608	1,182
- financial assets held for trading	476	100
Income on investment property	31,607	25,546
Exchange differences, including:	(1,290)	9,956
- financial assets held to maturity	410	2,286
- financial assets available for sale	(486)	1,760
- loans	(214)	6,470
- receivables, including receivables under insurance contracts	(1,000)	(560)
Other, including:	(21,954)	(27,190)
- investment activity expenses	(6,434)	(9,712)
- investment property maintenance expenses	(16,486)	(17,478)
- effect of purchasing shares under the share capital increase in EMC	966	-
Net investment income, total	**363,785**	**444,023**

(in thousands of PLN)

9.16. Net result on the realization of investments and impairment charges

Net investment realization result and investments impairment charges	1 January - 31 March 2014	1 January - 31 March 2013
Net result on investment realization	**(90,468)**	**(8,742)**
Financial assets carried at fair value through profit or loss - classified in that category upon first recognition, including:	(26,713)	8,627
- equity instruments	20,734	(2,614)
- debt securities	(47,447)	11,241
Financial assets held for trading, including:	(59,160)	(24,734)
- equity instruments	(3,517)	14,890
- debt securities	(12,788)	(5,636)
- derivatives	(42,855)	(33,988)
Financial assets available for sale, including:	6,569	16,656
- equity instruments	-	(1,071)
- debt securities	6,569	17,727
Financial assets held to maturity, including:	1,445	2,847
- debt securities	1,445	2,847
Borrowings	-	40
Receivables, including receivables under insurance contracts	(13,116)	(12,192)
Investment property	507	14
Impairment charges	**(21,197)**	**(38,340)**
Financial assets available for sale, including:	(3,400)	(86)
- equity instruments	(3,400)	(86)
Receivables, including receivables under insurance contracts	(17,797)	(38,254)
Net investment realization result and investments impairment charges, total	**(111,665)**	**(47,082)**

9.17. Net change in the fair value of assets and liabilities carried at fair value

Net change in the fair value of assets and liabilities carried at fair value	1 January - 31 March 2014	1 January - 31 March 2013
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition, including:	206,218	(33,343)
- equity instruments	56,740	7,732
- debt securities	149,478	(41,075)
Financial instruments held for trading, including:	109,050	(79,806)
- equity instruments	68,499	(88,382)
- debt securities	31,784	33,288
- derivatives	8,767	(24,712)
Investment property	(3,535)	(16,151)
Measurement of liabilities to members of consolidated mutual funds	(28,673)	(6,227)
Consolidation of mutual funds, including:	-	167,453
- amount transferred from the "Revaluation reserve" item to the consolidated profit and loss account as at the consolidation date	-	179,270
- amount resulting from the consolidation of special-purpose vehicles, which are subsidiaries of consolidated funds	-	(11,817)
Net change in the fair value of assets and liabilities carried at fair value	**283,060**	**31,926**

(in thousands of PLN)

9.18. Other operating income

Other operating income	1 January - 31 March 2014	1 January - 31 March 2013
Change to the scope of consolidation and measurement by the equity method	-	35,392
Reinsurance commissions and profit-sharing	3,990	77,005
Revenues on the sales of products, merchandise and services by non-insurance companies	53,658	51,876
Other	47,539	40,645
Other operating income, total	**105,187**	**204,918**

9.19. Net insurance claims

Net insurance claims	1 January - 31 March 2014	1 January - 31 March 2013
Claims and change in technical provisions in non-life insurance	1,137,028	1,139,188
Reinsurers' share in claims and in the change in technical provisions in non-life insurance	(31,027)	10,300
Claims and change in technical provisions in life insurance	1,558,240	1,581,200
Reinsurers' share in claims and in the change in technical provisions in life insurance	(75)	9
Claims, total	**2,664,166**	**2,730,697**

9.20. Claims and changes in valuation of investment contracts

Claims and changes in valuation of investment contracts	1 January - 31 March 2014	1 January - 31 March 2013
Under investment contracts with guaranteed and set conditions	6,170	11,489
- interest expenses calculated using the effective interest rate	6,170	11,489
Under investment contracts for client's account and risk (unit-linked)	(1,253)	(265)
Claims and changes in valuation of investment contracts, total	**4,917**	**11,224**

9.21. Administrative, acquisition and claims handling expenses, by type

Claims handling, acquisition and administrative costs, by type	1 January - 31 March 2014	1 January - 31 March 2013
Consumption of materials and energy	19,707	22,640
External services	114,034	110,846
Taxes and fees	36,531	15,203
Employee expenses	329,081	337,567
Depreciation of property, plant and equipment	17,294	19,102
Amortization of intangible assets	16,792	15,650
Other, including:	499,126	455,045
- commission on direct activity	407,454	360,018
- advertising	7,585	12,362
- remuneration of group insurance administrators in work establishments	53,066	51,052
- other	31,021	31,613
Change in capitalized acquisition expenses	(31,634)	(13,712)
Claims handling, acquisition and administrative costs, total	**1,000,931**	**962,341**

(in thousands of PLN)

9.22. Other operating expenses

Other operating expenses	1 January - 31 March 2014	1 January - 31 March 2013
Change of the consolidation perimeter	-	35,134
Creation of impairment charges for intangible assets and property, plant and equipment	2,142	9,415
Insurance Guarantee Fund	8,894	9,997
National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	20,756	21,111
Compulsory payments to insurance market institutions	16,537	15,596
Expenditures for prevention activity	8,416	7,456
Expenses of the core business of the non-insurance companies	61,035	54,843
Other	58,910	43,407
Other operating expenses, total	**176,690**	**196,959**

9.23. Financial expenses

Financial expenses	1 January - 31 March 2014	1 January - 31 March 2013
Interest, including:	31,632	7,780
- loans	29,088	4,398
- bank loans	2,520	3,120
- other	24	262
Other, including:	566	6,620
- exchange differences	374	6,620
- other	192	-
Financial expenses, total	**32,198**	**14,400**

9.24. Other comprehensive income

Income tax on other comprehensive income items	1 January - 31 March 2014	1 January - 31 March 2013
Gross other comprehensive income	12,583	(197,513)
Income tax	(3,108)	43,594
Financial assets available for sale	(2,841)	43,594
Reclassification of real property from property, plant and equipment to investment property	(267)	-
Net other comprehensive income	**9,475**	**(153,919)**

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2014	31 December 2013	31 March 2013
Contingent assets, including:	27,287	35,231	17,746
Guarantees and sureties received	21,259	21,259	17,746
Other	6,628	13,972	-
Contingent liabilities	131,012	144,576	284,310
Guarantees and sureties given	5,147	6,842	6,040
Disputed insurance claims	87,534	92,535	176,578
Other disputed claims	19,912	17,270	51,142
Other, including:	18,419	27,929	50,550
- potential liabilities under loan agreements concluded by the Armatura Group	18,018	27,622	49,786

11. Commentary to the Interim Consolidated Financial Statements

11.1. Commentary

In the period of 3 months ended 31 March 2014, gross written premium was PLN 4,353,979 thousand compared to PLN 4,425,923 thousand in the corresponding period of the previous year (-1.6%). The decline in sales applied above all to the following:

- single-premium individual insurance (PLN -76,871 thousand), particularly endowment products in the bancassurance channel;
- in the mass insurance segment (PLN -39,052 thousand), including:
  - motor insurance (PLN – 51,725 thousand) as an effect of the aging portfolio and the decline in the average premium;
  - compulsory insurance of buildings in farms as an effect of market competition becoming more fierce;

At the same time, regular premium growth was recorded in the group and individually-continued insurance segment (PLN +32,475 thousand), mainly as a result of expanding protection group insurance (higher average premium and number of insureds, including a high level of new sales).

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) for Q1 2014 and Q1 of 2013 were PLN 535,180 thousand and PLN 428,867 thousand, respectively, increasing mainly due to higher valuation of equity instruments driven by better market conditions at the WSE (in Q1 2014, the WIG index grew by 2.1%, after dropping by 4.9% the year before) and higher valuation of debt instruments (e.g. the yield of 10Y bonds fell by 12 basis points in Q1 2014, while in Q1 2013 it rose by 20 basis points). Moreover, since mutual funds were consolidated as of 1 January 2013, non-recurring income (gross) of PLN 167,453 thousand was recognized in Q1 2013.

The reduction in net claims paid (incorporating the change in provisions for outstanding claims) of PLN 66,531 thousand (-2.4%) in comparison with a similar period in the previous year resulted in particular from the following:

- low claims ratio in motor insurance thanks to favorable road conditions (low claims frequency);
- low level of mass claims and single claims with a significant payment amount in property insurance;
- absence of high unit value claims in the corporate client segment;
- decline in the frequency of events caused by the death of the insured / co-insureds compared to Q1 2013 in group and continued protection insurance;
- lower sales of structured products in the bancassurance channel;
- lower growth of mathematical provisions in continued protection insurance as an effect of product modification affecting the amount of mathematical provisions established at the time when an insured takes individual continuation.

In turn, the following factors contributed to higher net claims paid:

- lower pace of conversion from long-term contracts into yearly-renewable term contracts in type P group insurance (the conversion effect in Q1 2014 translated into a reversal of provisions in the amount of PLN 29,210 thousand, PLN 18,384 thousand less than in the same period in 2013);
- an increase of mathematical provisions in unit-linked products following better investment activity performance, which coupled with the simultaneous higher valuation of investments did not exert an impact on the PZU Group’s results;
- higher level of annuity provisions in the agricultural insurance group.

In Q1 2014, acquisition expenses increased by PLN 27,036 thousand (+5.6%) compared to the corresponding period of the previous year. This growth was in particular the result of expanding the portfolio of contracts and the high sales of new policies in group protection insurance and changes to commission rates in bundled motor insurance in the mass insurance segment. The increase in acquisition expenses was partially offset by the incremental growth of deferred costs for long-term contracts executed in the corporate insurance segment.

The growth in administrative expenses of PLN 7,799 thousand (+2.4%) to a large extent resulted from PTE PZU's compulsory additional payment to the Guarantee Fund in KDPW in the amount of PLN 20,873 thousand (statutory change to the required level from 0.1% to 0.3% of an OFE's net asset value) and was partially offset by maintaining cost discipline in the major areas of activity.

The net balance of other operating revenues and expenses in the 3-month period ended 31 March 2014 declined by PLN 79,462 thousand compared to the corresponding period of the previous year. This change was caused mainly by recognition of non-recurring income under a settlement reached with a reinsurer (non-recurring impact on other operating revenues in Q1 2013 of PLN +73,272 thousand, with a total impact on the gross result being PLN +53,207 thousand). The purpose of this settlement was to square settlements for reinsurance commissions in the green card product, for which an adjustment was made in 2011 by reducing the result of that year by PLN 91,843 thousand.

The operating profit in Q1 2014 was PLN 1,011,681 thousand, making it lower by PLN 54,603 thousand (-5.1%) compared to the result in the same period of the previous year. This change was caused in particular by the following:

- deterioration in the profitability of the mass insurance segment compared to Q1 2013 (PLN -113,870 thousand), mainly in other motor insurance (recognizing in the results of the same period of 2013 the effect of the Green Card insurance settlement with the reinsurer with the impact on the technical result being PLN +53,207 thousand) and motor insurance (decline in the earned premium coupled with the simultaneous growth of acquisition expenses);
- higher result on investment activity associated with the improved market conditions on WSE;
- improvement of profitability in group and individually continued insurance (PLN +52,900 thousand, excluding the conversion effect) mainly as a result of portfolio growth, the lower loss ratio in protection products and lower growth of the mathematical reserve in individually continued insurance;
- lower pace of converting long-term insurance policies into yearly-renewable term contracts in type P group insurance, which contributed to a decline in the operating result in the group and continued insurance segment by PLN 18.384 thousand.

The net profit fell in comparison to Q1 2013 by PLN 76,674 thousand (-9.2%) to PLN 760,443 thousand.

IFRS-compliant consolidated equity as at 31 March 2014 was PLN 13,887,660 thousand compared to PLN 14,951,938 thousand as at 31 March 2013. The return on equity (ROE[2]) for the period from 1 January 2014 to 31 March 2014 was 22.5%, making it 0.4 p.p. lower than in the corresponding period of the previous year. In comparison with consolidated equity at 31 December 2013, equity rose PLN 760,029 thousand (+5.8%), while ROE1 was 1.6 percentage points lower as compared to the ratio for the period from 1 January 2013 to 31 December 2013.

Total equity and liabilities as at 31 March 2014 increased compared to 31 December 2013 by PLN 2,257,277 thousand, i.e. by 3.6% (to PLN 65,044,581 thousand), mainly as a result of concluded sell-buy-back transactions, unsettled securities purchase transactions and higher equity.

The investment portfolio as at 31 March 2014 and 31 December 2013 was PLN 51,945,065 thousand and PLN 51,198,588 thousand, respectively. The growth of PLN 746,477 thousand was associated mainly with the higher valuation of equity instruments.

The value of technical provisions with investment contracts at the end of the third quarter of 2014 was PLN 39,382,780 thousand, accounting for 60.5% of total assets. Compared to 31 December 2013, provisions fell by PLN 62,673 thousand. The changes resulted from, among other things, the following:

[2] Annualized ratio.

- high number of people reaching the endowment age in short-term endowment products in the bancassurance channel, combined with much lower sales levels;
- positive investment activity results and new business in unit-linked products;
- increase in premium provisions characteristic of non-life insurance in Q1 of this year associated with the seasonal nature of agreements (certain insurance agreements must be entered into 1 January – this includes insurance of farm buildings and certain types of third party liability insurance).

12. Solvency

The rules for calculating the solvency margin and the minimum amount of the indemnity capital are defined in the Regulation of 28 November 2003 on the method of calculating the solvency margin and the minimum amount of the indemnity capital for insurance sections and groups (Journal of Laws of 2003, No. 211, Item 2060, "Solvency Margin Regulation").

Detailed information on the method for calculating solvency have been presented in the consolidated financial statements of the PZU Group for 2013.

Financial data included in the calculation of shareholder funds and solvency margin have been determined based on the PAS.

(in thousands of PLN)

Calculation of shareholder funds covering PZU's solvency margin is presented below.

Calculation of shareholder funds covering the solvency margin	**31 March 2014**	**31 December 2013**	**31 March 2013**
PZU equity	**13,058,372**	**12,259,761**	**14,164,492**
Intangible assets	(233,366)	(244,582)	(126,529)
Value of shares in insurance companies held by the PZU insurance capital group	(4,922,079)	(4,565,872)	(7,145,578)
Deferred tax assets	(326,185)	(347,521)	(303,284)
Contribution of other insurance companies in the PZU insurance capital group to PZU's shareholder funds:	**2,779,270**	**2,403,826**	**5,072,714**
PZU Życie SA 100.00%	2,791,502	2,407,872	5,089,061
Shareholder funds	4,556,799	4,184,609	6,841,237
Solvency margin	1,765,297	1,776,737	1,752,176
Surplus of shareholder funds covering the solvency margin	2,791,502	2,407,872	5,089,061
UAB DK PZU Lietuva 99.76%	2,299	7,931	1,860
Shareholder funds	46,656	48,438	38,439
Solvency margin	44,351	40,488	36,575
Surplus of shareholder funds covering the solvency margin	2,305	7,950	1,864
UAB PZU Lietuva Gyvybes Draudimas 99.34%	6,287	6,608	7,535
Shareholder funds	21,763	21,996	23,042
Solvency margin	15,434	15,344	15,457
Surplus of shareholder funds covering the solvency margin	6,329	6,652	7,585
PrJSC PZU Ukraine 100.00%	(13,535)	(13,094)	(17,832)
Shareholder funds	4,084	10,554	4,929
Solvency margin	17,619	23,648	22,761
Surplus/shortage of shareholder funds covering the solvency margin	(13,535)	(13,094)	(17,832)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(7,283)	(5,491)	(7,910)
Shareholder funds	8,120	9,557	7,138
Solvency margin	15,403	15,048	15,048
Surplus/shortage of shareholder funds covering the solvency margin	(7,283)	(5,491)	(7,910)
PZU shareholder funds	**10,356,012**	**9,505,612**	**11,661,815**
PZU solvency margin	1,351,521	1,362,353	1,348,689
PZU indemnity capital	450,507	454,118	449,563
Surplus of shareholder funds covering the solvency margin	**9,004,491**	**8,143,259**	**10,313,126**
Surplus of shareholder funds covering the indemnity capital	**9,905,505**	**9,051,494**	**11,212,252**

13. Segment reporting

13.1. Reportable segments

13.1.1. Key classification criterion

IFRS 8 specifies how entities should present information regarding operating segments in annual and interim financial statements. Operating segments are components of a company for which separate financial information is available and are subject to regular assessment of the allocation of resources and assessment of operating results, by the chief operating decision maker ("CODM", in practice this is the PZU Management Board).

PZU Group's fundamental model of segmentation is based on the criterion of entities subject to consolidation, while in the leading companies of the PZU Group (PZU and PZU Życie) additional segments are distinguished according to the criteria of customer groups, product lines and nature of the business.

PZU has distinguished the following segments:

- corporate insurance (non-life);
- mass insurance (non-life);
- investments – entailing investing activity of its own funds.

PZU Życie has distinguished the following segments:

- group and individually continued insurance (life);
- individual insurance (life);
- investments – entailing investing activity of its own funds;
- investment contracts – described in greater detail below in this chapter.

The following segments have also been distinguished, because of to their distinct separation and operation in different regulatory environments, and also due to the internal financial reporting system used by the PZU Group, which is also based on the criterion of entities subject to consolidation and usefulness for users of financial statements:

- pension insurance;
- Ukraine (non-life and life insurance);
- Baltics – Lithuania, Latvia, Estonia (non-life and life insurance).

If the qualitative or quantitative prerequisites described by IFRS 8 items 12-19 are met, operating segments may be combined into reportable segments. These financial statements do not combine distinct operating segments into reportable segments save for the segment called investments encompassing investing activity of the own funds of the PZU Group companies.

13.1.2. Information relating to geographical areas

The PZU Group applies additional segmentation by geographic location, according to which the following segments were identified:

- Poland;
- Baltics;
- Ukraine.

13.2. Inter-segment settlements

The net result of investments (the difference between realized and unrealized revenues and costs) carried in corporate insurance (non-life), mass insurance (non-life), group and individually continued insurance (life), individual insurance (life) is determined on the basis of transfer prices using interest rates from the yield curves for treasury securities (risk free rate), giving consideration to the fact that for unit-linked products, guaranteed rate products and structured products the net result of investments covering the corresponding technical provisions is carried directly.

13.3. Segment's measure of profit

The PZU Group's fundamental measure of a segment's profit is as follows:

- in insurance companies – insurance result according to local accounting standards in force in the country of the company's registered offices, which is the financial result before tax and other operating revenues and costs (including costs of financing), however including investment income (corresponding to the value of technical provisions) determined using the risk free rate. The insurance result is a measure approximately equivalent to the technical result on insurance defined in PAS with the exception that both non-life and life insurance have a net result on investments as described in the previous sentence;
- in non-insurance companies – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax and costs of financing.

13.4. Description of the segments

Below a description of all the PZU Group's distinguished reportable segments has been presented along with a presentation of the accounting standards according to which their financial data have been presented:

- Corporate insurance (non-life) – reporting according to PAS – covering a broad scope of property insurance, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered by PZU to large economic agents;
- Mass insurance (non-life) - reporting according to PAS – covering a broad scope of property, accident, TPL and motor insurance offered by PZU to individual clients and entities in the small and medium enterprise sector;
- Group and individually continued insurance (life) - reporting according to PAS – covering group insurance addressed by PZU Życie to groups of employees and other formal groups (for instance trade unions), under which persons under a legal relationship with the policyholder (for instance employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance;
- Individual insurance (life) - reporting according to PAS – covering insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject

to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance;

- Investments – reporting according to PAS – covering investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the leading PZU Group insurance companies (PZU and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of PZU's and PZU Życie's technical provisions in non-investment products. Additionally, the investment segment includes income from other free funds in the PZU Group.
- Pension insurance – reporting according to PAS – covering PZU PTE;
- Ukraine (non-life and life insurance) – reporting according to IFRS – covering PZU Ukraine and PZU Ukraine Life;
- Baltics (non-life and life insurance) - reporting according to IFRS – including PZU Lietuva operating in the territory of Lithuania and also through its branches in Latvia and Estonia, and UAB PZU Lietuva Gyvybes Draudimas;
- Investment contracts – reporting according to PAS – covering PZU Życie products that do not transfer material insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products). According to IFRS, these products, in compliance with the requirements of IAS 39, are recognized using the deposit method and are measured depending on the construction of a given product – at depreciated cost or fair value. In both cases, according to IFRS, the gross written premium on these products is not recognized. According to PAS, all these products are carried as insurance products and their gross written premium is recognized;
- Other – reporting jointly according to IFRS or PAS (IFRS 8 does not require the presentation of the results of segments qualified to the category "other" according to cohesive accounting rules) – covers other entities not qualified as belonging to any other segment above, whose revenues predominantly originate from the manufacturing activity of bathroom and sink fixtures, heaters, foundry molds and service activity.

13.5. Accounting standards employed according to PAS

13.5.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting have been portrayed in detail in the annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2013 prepared according to PAS, signed by the PZU Management Board on 11 March 2014 and whose subject the statutory auditor issued on that same date an unqualified opinion ("PZU's standalone financial statements for 2013").

The standalone financial statements of PZU for 2013 are available on the PZU website at www.pzu.pl in the "Investor Relations / Financial Information" tab.

13.5.2. PZU Życie

The accounting standards according to PAS applicable to PZU Życie are convergent with the PAS applicable to PZU (bypassing accounting for insurance contracts and investment contracts).

The rules of accounting for insurance contracts and investment contracts at PZU Życie according to IFRS have been presented in the PZU Group's consolidated financial statements for 2013.

The basic difference between PAS and IFRS with regard to accounting of PZU Życie's insurance contracts and investments contracts pertains to the classification of insurance contracts in accordance with the IFRS 4 guidelines on classification of products as insurance contracts subject to IFRS 4 or investment contracts recognized in accordance with IAS 39. According to IFRS 4 a contract meets the definition of an insurance contract only if an insurable event may precipitate the necessity of an insurer paying significant additional benefits in every scenario, excluding scenarios lacking economic meaning (that is that do not exert a noticeable impact on the economics of the transaction), and thus if a contract transfers significant insurance risk. The assessment of whether a given contract transfers considerable financial risk requires analysis of the cash flows associated with a given product in different scenarios and estimating the probability of their occurrence.

The impact exerted by these differences between PAS and IFRS has been presented in the segmental note in a separate column.

13.6. Construction of the segmental note and the reconciliations it contains

As the segments' measures of profit are based on local accounting standards in the country of the registered offices of the PZU Group company, the financial data of the segments are carried using several different accounting standards; moreover, on account of the managerial accounting reports submitted to CODM compared to the format of IFRS-compliant financial statements, it would be necessary to employ two reporting frameworks: the framework of the managerial accounting reports submitted to CODM (left side of the note) and the IFRS-compliant format of financial statements (right side of the note).

As a consequence, the reconciliation in the note of the sum total of revenues and the sum total of profit or loss of the reportable segments with the similar consolidated figures, required according to IFRS 8 item 28, is complex and consists of the following stages described according to the sequence of placing the reconciliation columns in the segmental note:

- switching from the framework of the managerial accounting reports submitted to CODM to the format of IFRS-compliant financial statements (column entitled "differences in presentation"), effecting a number of changes in presentation, including the transfer of other operating revenues and expenses to the IFRS-compliant line items inserted under the measure of "operating profit (loss)";
- reconciling the differences between accounting standards in which the financial data of segments and of IFRS are presented along with a separate presentation of the most important ones;
- making consolidation adjustments (since this is the final stage of reconciliation – the adjustments have been presented in the framework of IFRS-compliant financial data).

13.7. Simplifications in the segmental note

The segmental note has applied certain simplifications compared to the requirements of IFRS 8. The justification for their usage is portrayed below:

- withdrawing from presenting data related to the allocation of all assets and liabilities to various segments – resulting from not preparing and not presenting such tables to CODM. The main information delivered to CODM consists of data regarding the results of given segments and managerial decisions are made on this basis, including decisions on resource allocation. The analysis of the segmental allocation of assets and liabilities is limited to monitoring the fulfillment of the PAS regulatory requirement, i.e. holding assets covering technical provisions at a level exceeding the amount of these provisions (analysis split into the various insurance companies, not product groups);
- presenting the net result on investments as a single amount as the difference between the realized and unrealized revenues and the costs of investments – stemming from the internal assessment of the segmental results based on such a combined measure of investment results;
- not allocating other revenues and costs to the segment called "investments" besides realized and unrealized revenues and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation;
- presenting other operating revenues and expenses and financial expenses for PZU and PZU Życie jointly for the operating segments distinguished in them (as a consequence also not allocating any amounts in this area to the segment called investment contracts) – stemming from the accepted measures of operating segments' profit and the impracticality of such an allocation;

- presenting the income tax burden as a single amount at the level of the consolidated data – stemming from the accepted measures of operating segments' profit and the impracticality of conducting an allocation exercise in this respect.

(in thousands of PLN)

Profit and loss account for the period from 1 January 2014 to 31 March 2014	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Pension insurance	Ukraine	Baltic Countries	Investment contracts	Other operations	Presentation differences	Real estate and capital instruments	Investment contracts	Prevention fund, equalization reserve and designation to the Company Social Benefit Fund	Consolidation adjustments and unallocated items	Consolidated value	**Profit and loss account for the period from 1 January 2014 to 31 March 2014**
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS-IFRS	PAS-IFRS	PAS-IFRS	IFRS	IFRS	
Gross premium written externally	485 964	1 795 882	1 630 521	325 666	-	-	39 247	76 699	166 625	-	-	-	(166 625)	-	-	4 353 979	Gross insurance premium written externally
Gross premium written between segments	385	(226)	-	-	-	-	-	-	-	-	-	-	-	-	(159)	-	Gross insurance premium written between segments
Gross written insurance premium	486 349	1 795 656	1 630 521	325 666	-	-	39 247	76 699	166 625	-	-	-	(166 625)	-	(159)	4 353 979	
Reinsurers' share in gross written premium	(43 146)	(439)	(1 152)	(72)	-	-	(7 684)	(9 700)	-	-	-	-	-	-	1 219	(60 974)	Reinsurers' share in gross written insurance premium
Net written premium	443 203	1 795 217	1 629 369	325 594	-	-	31 563	66 999	166 625	-	-	-	(166 625)	-	1 060	4 293 005	**Net written premium**
Movement in the unearned premium reserve and gross unexpired risk reserve	(88 443)	(208 866)	234	1 861	-	-	3 907	(10 938)	4	-	393	-	(4)	-	(1 412)	(303 264)	Movement in net unearned premium reserve
Reinsurer's share in the unearned premium reserve and gross unexpired risk reserve	4 368	(8 565)	-	-	-	-	-	4 589	-	-	(392)	-	-	-	-	-	
Net earned premium	359 128	1 577 786	1 629 603	327 455	-	-	35 470	60 650	166 629	-	1	-	(166 629)	-	(352)	3 989 741	**Net earned premium**
											74 956	-	8 852	-	(14 755)	69 053	Fee and commission income
Investment income, including:	33 672	137 612	186 385	73 735	96 081	2 382	4 969	2 439	8 546	19 108	(564 929)						
Net result on investments (external activity)	33 672	137 612	186 385	73 735	89 624	2 382	4 969	2 439	8 546	19 108	(558 472)						
Net result on investments (inter-segment activity)	-	-	-	-	6 457	-	-	-	-	-	(6 457)						
											358 092	-	-	-	5 693	363 785	*Net investment income (external activity)*
											6 457	-	-	-	(6 457)	-	*Net investment income (inter-segment activity)*
											(109 850)	(1 814)	-	-	(1)	(111 665)	Net result on the realization of investments and impairment charges
											298 281	(279)	-	-	(14 942)	283 060	Net change in the fair value of assets and liabilities carried at fair value
Other net technical income	8 145	11 821	1 110	7 170	-	-	-	-	4 541	-	(32 787)						
Revenues on core business of non-insurance entities	-	-	-	-	-	43 374	-	-	-	77 782	(121 156)						
Other operating income (not applicable to insurance entities)	-	-	-	-	-	49	-	-	-	10 380	141 840	(598)	(4 541)	-	(41 943)	105 187	Other operating income
Gross claims paid	(184 357)	(841 567)	(1 109 119)	(172 537)	-	-	(32 717)	(36 918)	(820 151)	-	327 885	-	167 234	-	6 979	(2 695 268)	Claims and movement in technical reserves
Movement in the gross claims reserve	(31 384)	(36 131)	(4 719)	25 774	-	-	2 035	(2 907)	(1 404)	-	48 736						
Reinsurers' share in claims paid	13 411	4 669	11	(1)	-	-	678	3 396	-	-	8 585	-	-	-	353	31 102	Claims and movement in insurance liabilities ceded to re-insurers
Reinsurer's share in the movement in reserves	16 121	(2 271)	-	-	-	-	(1 361)	(2 656)	-	-	(9 833)						
Net insurance claims	(186 209)	(875 300)	(1 113 827)	(146 764)	-	-	(31 365)	(39 085)	(821 555)	-	375 373	-	167 234	-	7 332	(2 664 166)	**Net insurance claims**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	(97 385)	(179 844)	-	-	-	-	654 319	-	(377 090)						
											-	-	(4 917)	-	-	(4 917)	Claims and changes in valuation of investment contracts
Net premiums and rebates for insureds including the movement in reserves	(275)	-	(194)	-	-	-	-	-	(1)	-	470						
Other net technical income	(15 313)	(76 142)	(6 465)	(612)	-	-	-	-	(203)	-	98 735						
Acquisition cost	(73 955)	(282 850)	(86 239)	(31 282)	-	(977)	(12 954)	(16 940)	(6 103)	-	(2)	-	-	-	3 678	(507 624)	Acquisition cost
Administrative costs	(26 969)	(124 418)	(127 833)	(12 355)	-	(37 176)	(6 930)	(6 522)	(2 440)	-	1	5 092	-	-	5 467	(334 083)	Administrative costs
Reinsurance commissions and profit-sharing	3 113	509	98	-	-	-	-	-	-	-	(3 720)						
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	(82 946)	82 946						
Other operating expenses (not applicable to insurance entities)	-	-	-	-	-	(47)	-	-	-	(1 366)	(183 223)	(5 929)	-	(13 939)	27 814	(176 690)	Other operating expenses
Result on insurance / Operating profit (loss)	101 337	369 018	385 253	37 503	96 081	7 605	(10 810)	542	3 733	22 958	44 395	(3 528)	(1)	(13 939)	(28 466)	1 011 681	**Operating profit (loss)**
Other operating income	20 992		1 893				12 767	1 780			(37 432)						
Other operating expenses	(14 767)		(2 869)				(3 966)	(2 073)			23 675						
Financial costs										(18 127)	(30 637)				16 566	(32 198)	Financial costs
																86	Share of profits (losses) of entities accounted for using the equity method
																979 569	**Gross profit (loss)**
																(219 126)	Income tax
																760 443	**Net profit (loss)**

(in thousands of PLN)

Profit and loss account for the period from 1 January 2013 to 31 March 2013	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Pension insurance	Ukraine (non-life)	Baltic countries (non-life)	Investment contracts	Other operations	Presentation differences	Real estate and capital instruments	Investment contracts	Prevention fund, equalization reserve and designation to the Company Social Benefit Fund	Consolidation adjustments and unallocated items	Consolidated value	**Profit and loss account for the period from 1 January 2013 to 31 March 2013**
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS-IFRS	PAS-IFRS	PAS-IFRS	IFRS	IFRS	
Gross premium written externally	484 825	1 834 708	1 598 246	409 633	-	-	42 777	55 734	729 577	-	-	-	(729 577)	-	-	4 425 923	Gross insurance premium written externally
Gross premium written between segments	895	-	-	-	-	-	-	-	-	-	-	-	-	-	(895)	-	Gross insurance premium written between segments
Gross written insurance premium	485 720	1 834 708	1 598 246	409 633	-	-	42 777	55 734	729 577	-	-	-	(729 577)	-	(895)	4 425 923	
Reinsurers' share in gross written premium	(17 322)	(1 690)	(1 297)	(20)	-	-	(6 634)	(7 805)	-	-	-	-	-	-	1 171	(33 597)	Reinsurers' share in gross written insurance premium
Net written premium	468 398	1 833 018	1 596 949	409 613	-	-	36 143	47 929	729 577	-	-	-	(729 577)	-	276	4 392 326	**Net written premium**
Movement in the unearned premium reserve and gross unexpired risk reserve	(50 825)	(216 260)	183	2 237	-	-	(359)	(650)	285	-	(18 335)	-	(285)	-	(590)	(284 599)	Movement in net unearned premium reserve
Reinsurer's share in the unearned premium reserve and gross unexpired risk reserve	(15 334)	(8 541)	-	-	-	-	1 424	4 116	-	-	18 335	-	-	-	-	-	
Net earned premium	402 239	1 608 217	1 597 132	411 850	-	-	37 208	51 395	729 862	-	-	-	(729 862)	-	(314)	4 107 727	**Net earned premium**
											73 053	-	7 771	-	(10 300)	70 524	Fee and commission income
Investment income, including:	38 559	146 414	151 683	50 327	177 445	3 006	6 218	2 749	16 994	12 220	(605 615)						
Net result on investments (external activity)	38 559	146 414	151 683	50 327	174 068	3 006	6 218	2 749	16 994	12 220	(602 238)						
Net result on investments (inter-segment activity)	-	-	-	-	3 377	-	-	-	-	-	(3 377)						
											445 524	-	-	-	(1 501)	444 023	*Net investment income (external activity)*
											3 377	-	-	-	(3 377)	-	*Net investment income (inter-segment activity)*
											28 221	4 002	-	-	(79 305)	(47 082)	Net result on the realization of investments and impairment charges
											81 749	(22 934)	-	-	(26 889)	31 926	Net change in the fair value of assets and liabilities carried at fair value
Other net technical income	5 409	14 597	952	3 834	-	-	-	-	3 753	-	(28 545)						
Revenues on core business of non-insurance entities	-	-	-	-	-	50 302	-	-	-	85 619	(135 921)						
Other operating income (not applicable to insurance entities)	-	-	-	-	-	2	-	-	-	556	210 688	(66)	(3 754)	-	(2 508)	204 918	Other operating income
Gross claims paid	(223 269)	(811 191)	(1 160 139)	(146 852)	-	-	(21 312)	(34 878)	(768 598)	-	(294 760)	-	737 069	-	3 542	(2 720 388)	Claims and movement in technical reserves
Movement in the gross claims reserve	(34 867)	(26 776)	17 375	6 664	-	-	(76)	1 105	1 205	-	35 370						
Reinsurers' share in claims paid	11 524	140 849	(9)	-	-	-	193	1 967	-	-	(164 599)	-	-	-	(234)	(10 309)	Claims and movement in insurance liabilities ceded to re-insurers
Reinsurer's share in the movement in reserves	18 313	(185 876)	-	-	-	-	1 662	(2 092)	-	-	167 993						
Net insurance claims	(228 299)	(882 994)	(1 142 773)	(140 188)	-	-	(19 533)	(33 898)	(767 393)	-	(255 996)	-	737 069	-	3 308	(2 730 697)	**Net insurance claims**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	(36 865)	(251 937)	-	-	-	-	30 326	-	258 476						
											-	-	(11 224)	-	-	(11 224)	Claims and changes in valuation of investment contracts
Net premiums and rebates for insureds including the movement in reserves	(832)	-	(82)	-	-	-	-	-	(1)	-	915						
Other net technical income	(17 864)	(87 653)	(8 999)	(671)	-	-	-	-	(605)	-	115 792						
Acquisition cost	(76 727)	(266 023)	(77 853)	(26 444)	-	(4 076)	(13 903)	(14 929)	(4 354)	-	-	-	-	-	3 721	(480 588)	Acquisition cost
Administrative costs	(25 669)	(124 783)	(132 654)	(11 171)	-	(18 266)	(8 573)	(5 903)	(2 704)	-	-	(1 713)	-	-	5 152	(326 284)	Administrative costs
Reinsurance commissions and profit-sharing	1 497	75 113	196	-	-	-	-	-	-	-	(76 806)						
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	(79 394)	79 394						
Other operating expenses (not applicable to insurance entities)	-	-	-	-	-	(322)	-	-	-	(1 667)	(171 284)	(8 130)	-	(14 697)	(859)	(196 959)	Other operating expenses
Result on insurance / Operating profit (loss)	98 313	482 888	350 737	35 600	177 445	30 646	1 417	(586)	5 878	17 334	23 022	(28 841)	-	(14 697)	(112 872)	1 066 284	**Operating profit (loss)**
Other operating income	18 410		12 626				631	756			(32 423)						
Other operating expenses	(9 757)		(2 756)				(1 304)	(949)			14 766						
Financial costs										(18 554)	(5 365)					(14 400)	Financial costs
																2 457	Udział w zyskach (stratach) netto jednostek wycenianych metodą praw własności
																1 054 341	Gross profit (loss)
																(217 224)	Income tax
																837 117	**Net profit (loss)**

(in thousands of PLN)

1 January – 31 March 2014 and as at 31 March 2014	Poland	Baltic States	Ukraine	Consolidation adjustments	Consolidated value
Gross externally written insurance premium	4,238,033	76,699	39,247	-	4,353,979
Gross insurance premium written between segments	(31)	-	-	31	-
Revenue from commissions and fees	69,053	-	-	-	69,053
Net investment income	353,139	2,074	4,989	3,583	363,785
Net result on the realization of investments and impairment charges	(123,906)	363	(217)	12,095	(111,665)
Net change in the fair value of assets and liabilities carried at fair value	247,030	2	197	35,831	283,060
Non-current assets, other than financial instruments*	1,223,879	15,083	4,044	(509)	1,242,497
Deferred tax assets	20,288	-	911	-	21,199
Assets	64,800,423	439,451	202,955	(398,248)	65,044,581

* applies to intangible assets and property, plant and equipment

As at 31 December 2013	Poland	Baltic States	Ukraine	Consolidation adjustments	Consolidated value
Non-current assets, other than financial instruments*	1,216,845	14,125	5,822	(785)	1,236,007
Deferred tax assets	15,351	-	1,598	-	16,949
Assets	62,432,606	415,708	259,963	(400,973)	62,787,304

* applies to intangible assets and property, plant and equipment

1 January – 31 March 2013 and as at 31 March 2013	Poland	Baltic States	Ukraine	Consolidation adjustments	Consolidated value
Gross externally written insurance premium	4,327,412	55,734	42,777	-	4,425,923
Gross insurance premium written between segments	251	-	-	(251)	-
Revenue from commissions and fees	70,524	-	-	-	70,524
Net investment income	433,432	2,034	6,404	2,153	444,023
Net result on the realization of investments and impairment charges	(47,074)	112	(120)	-	(47,082)
Net change in the fair value of assets and liabilities measured at fair value	31,206	602	(60)	178	31,926
Non-current assets, other than financial instruments*	1,131,473	13,066	7,269	(1,570)	1,150,238
Deferred tax assets	15,360	-	1,454	-	16,814
Assets	58,536,929	368,157	244,809	(389,463)	58,760,432

* applies to intangible assets and property, plant and equipment

(in thousands of PLN)

14. Commentary to segment reporting

14.1. Corporate insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2014	1 January – 31 March 2013	% change
Motor TPL insurance	81,543	96,679	(15.7)%
MOD insurance	108,783	118,881	(8.5)%
Total motor insurance	190,326	215,560	(11.7)%
Insurance against fire and other damage to property	119,080	92,170	29.2%
Other liability insurance (groups 11, 12, 13)	138,397	140,749	(1.7)%
ADD and other insurance *	38,546	37,241	3.5%
Total non-life insurance without motor insurance	296,023	270,160	9.6%
Total corporate insurance segment (non-life insurance)	**486,349**	**485,720**	**0.1%**

* This line item includes loan guarantees and other financial insurance, assistance, travel, marine, railway and air insurance.

In Q1 2014, in the corporate insurance segment, gross written premium was at a similar level to Q1 2013 (+0.1%). The following was recorded within the premium:

- higher sales of property insurance as a result of the 6% growth in the number of insurance contracts in the SME and corporate client segment and acquisition of long-term contracts from the power and mining sector;
- higher sales of contract-related insurance in connection with improvement in the building industry;
- positive growth rate of sales of motor insurance offered to leasing companies resulting from a personalized approach to clients and underwriting;
- decrease of premium written in fleet motor insurance.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	486,349	485,720	0.1%
Net earned premium	359,128	402,239	(10.7)%
Investment income	33,672	38,559	(12.7)%
Net insurance claims	(186,209)	(228,299)	(18.4)%
Acquisition expenses	(73,955)	(76,727)	(3.6)%
Administrative expenses	(26,969)	(25,669)	5.1%
Reinsurance commissions and profit-sharing	3,113	1,497	107.9%
Other	(7,443)	(13,287)	(44.0)%
Operating profit (loss)	**101,337**	**98,313**	**3.1%**
acquisition expenses ratio (including reinsurance commission)*	19.7%	18.7%	1.0 p.p.
administrative expense ratio*	7.5%	6.4%	1.1 p.p.
claims ratio*	51.9%	56.8%	(4,9) p.p.
Combined ratio (COR)*	79.1%	81.8%	(2,7) p.p.

* ratios calculated with net premium earned

In Q1 2014, net claims fell by 18.4% compared to Q1 2013, which, considering the 10.7% decrease in earned premium, improved the loss ratio by 4.9 pp.

The lower level of net claims was caused mainly by:

- a decrease of the frequency of claims as a result of good road conditions;
- restrictive underwriting policy pursued for several years, reducing the number of unprofitable clients;
- no claims with a high unit value.

The lower investment income by 12.7% YoY (allocated at transfer prices) resulted from, among other things, a lower increase in the valuation of the portfolios securing insurance liabilities denominated in foreign currencies (in Q1 2014 the increase was lower than in Q1 2013).

Acquisition expenses in the corporate insurance segment decreased by 3.6% as compared to Q1 2013, which resulted from a significant increase of deferred costs, with comparable direct acquisition expenses (increase by

(in thousands of PLN)

1.9%), offset partly by a 3.2% increase of indirect costs (in particular this applies to IT costs). At the same time, the share of total commissions in written premium increased by 0.1 p.p. – mainly as a result of a higher share of commissions in the agency channel and change of the channel mix –sales down in the office staff channel (commission-free channel).

The PLN 1,300 thousand increase in administrative expenses as compared to Q1 2013 was associated mainly with higher costs of project initiatives to automate and streamline service processes.

The higher balance of the "Other" category compared to the corresponding period of the previous year resulted mainly from lower revaluation charges for receivables.

Operating profit in the corporate insurance segment was higher than in the corresponding period of the previous year, at PLN 101,337 thousand and PLN 98,313 thousand, respectively, for Q1 2014 and Q1 2013. Higher operating profit was attributable mainly to improved profitability of motor insurance, which resulted from lower loss frequency (good road conditions) and no losses of a high unit value.

14.2. Mass insurance – non-life insurance

Gross written premium by product group	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Motor TPL insurance	585,904	637,438	(8.1)%
MOD insurance	398,817	399,008	(0.0)%
Total motor insurance	984,721	1,036,446	(5.0)%
Insurance against fire and other damage to property	526,924	522,384	0.9%
Other liability insurance (groups 11, 12, 13)	126,738	122,936	3.1%
ADD and other insurance *	157,273	152,942	2.8%
Total non-life insurance without motor insurance	810,935	798,262	1.6%
Total mass insurance segment (non-life insurance)	**1,795,656**	**1,834,708**	**(2.1)%**

* This line item includes loan guarantees and other financial insurance, assistance, travel, marine, railway and air insurance.

In Q1 2014, in the mass insurance segment, gross written premium fell by PLN 39,052 thousand (-2.1%) as compared to Q1 2013. This growth resulted primarily from:

- lower written premium in motor insurance as a result of portfolio aging (lower sums insured, increase of discounts for loss-free driving) and decrease of the average premium;
- lower sales of mandatory insurance of farm buildings resulting from increasing market competition;

These adverse changes were partly offset by higher sales of the following insurance products:

- PZU Dom Plus, mainly as a result of restating the sums insured;
- detectives' TPL resulting from extension of insurance cover to include mandatory insurance of personal and property security agencies.

(in thousands of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Gross written insurance premium	1,795,656	1,834,708	(2.1)%
Net earned premium	1,577,786	1,608,217	(1.9)%
Investment income	137,612	146,414	(6.0)%
Net insurance claims	(875,300)	(882,994)	(0.9)%
Acquisition expenses	(282,850)	(266,023)	6.3%
Administrative expenses	(124,418)	(124,783)	(0.3)%
Reinsurance commissions and profit-sharing	509	75,113	x
Other	(64,321)	(73,056)	(12.0)%
Operating profit (loss)	**369,018**	**482,888**	**(23.6)%**
acquisition expenses ratio (including reinsurance commission)*	17.9%	11.9%	6.0 p.p.
administrative expense ratio*	7.9%	7.8%	0.1 p.p.
claims ratio*	55.5%	54.9%	0.6 p.p.
Combined ratio (COR)*	81.3%	74.5%	6.8 p.p.

* ratios calculated with net premium earned

In Q1 2014, net claims dropped 0.9% while net earned premium decreased by (-1.9%).

This change resulted from:

- higher loss ratio in the agricultural insurance group attributable to higher annuity reserves;
- in non-life insurance, a low level of mass claims and no individual claims with a significant payout;
- in motor TPL earned premium is down (-5.3%) with a stable level of claims (decrease by 0.3%).

The lower investment income by 6.0% YoY (allocated at transfer prices) resulted from, among other things, a lower increase in the valuation of the portfolios securing insurance liabilities denominated in foreign currencies (in Q1 2014 the increase was lower than in Q1 2013).

Acquisition expenses in the mass insurance segment increased by 6.3% despite declining sales, driven mainly by growth of direct acquisition expenses. The share of direct commissions in written premium increased as a result of changes to the commission rates in bundled motor insurance and as a result of the sales-oriented efforts in the multi-agency sales channel.

Additionally, a decrease of reinsurance commissions was recorded as a result of recognition in the corresponding period of 2013 of the effects of conclusion of a settlement with the reinsurer as regards the Green Card – one-off impact on the reinsurance commissions of Q1 2013: PLN +73,272 thousand, total impact on the gross result of Q1 2013: PLN +53,207 thousand.

The slight decrease of administrative expenses by PLN 365 thousand as compared to Q1 2013 was associated primarily with the lower level of marketing expenses partly offset by higher IT costs to continue streamlining service processes and lower consulting costs.

The 12.0% growth of the "Other" category compared to the corresponding period of the previous year was chiefly due to lower revaluation charges for receivables.

The decrease of operating profit in the mass insurance segment by PLN 113,870 thousand (-23.6%) compared to Q1 2013 was attributable mainly to lower profitability in other motor insurance (recognition of the effects of the settlement with the reinsurer regarding the Green Card in the results of the corresponding period of 2013, impact on the technical result PLN + 53,207 thousand) and in motor insurance (lower earned premium with simultaneous increase of acquisition expenses).

(in thousands of PLN)

New products

At the beginning of February 2014, PZU expanded its cooperation with Orange Polska SA to include telephone insurance addressed to the business client segment. This insurance is offered in three options, with different coverage.

A novelty in the property insurance offering for the Mass Client is the residential insurance bundle – PZU Dom, whose introduction was correlated in terms of timing with the execution of the Everest project. The new product was launched on 17 March 2014 and ultimately, after completion of the Everest project, it will replace the existing product sold in PZU's Mass Client Division.

As for non-motor TPL insurance, in Q1 2014 PZU launched the sales of new mandatory third party liability insurance for entrepreneurs conducting business activity in the area of personal and property security services. This followed the publication, in December 2013, of the Finance Minister's Regulation of 9 December 2013, in the matter of mandatory third party liability insurance of entrepreneurs conducting business activity in the area of personal and property security services (Journal of Laws of 16 December 2013, Item 1550) – effective date – 1 January 2014.

14.3. Group and individually continued insurance – life insurance

Gross written premium by payment type - group and individually continued insurance	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Regular premium	1,630,521	1,598,046	2.0%
Single premium	-	200	(100.0)%
Total	**1,630,521**	**1,598,246**	**2.0%**

The increase of regular gross written premium by PLN 32.475 thousand (+2.0%) resulted in particular from:

- growth in group protection insurance (higher average premium and more insureds, including high new sales levels);
- up-selling of riders and increase of sums insured in individually continued insurance products;
- acquisition of premium in group health insurance products (new clients in outpatient health insurance and launching of a new medicine and antibiotic product);
- continuation of cooperation with bank intermediaries in the sale of protection insurance.

At the same time, PZU totally withdrew from the sale of single-premium products in this segment due to their low profitability.

Data from the profit and loss account – group and individually continued insurance	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Gross written insurance premium	1,630,521	1,598,246	2.0%
Group insurance	1,153,544	1,125,183	2.5%
Individually continued insurance	476,977	473,063	0.8%
Net earned premium	1,629,603	1,597,132	2.0%
Investment income	186,385	151,683	22.9%
Net insurance claims	(1,113,827)	(1,142,773)	(2.5)%
Change in other net technical provisions	(97,385)	(36,865)	164.2%
Acquisition expenses	(86,239)	(77,853)	10.8%
Administrative expenses	(127,833)	(132,654)	(3.6)%
Other	(5,451)	(7,933)	(31.3)%
Operating profit (loss)	**385,253**	**350,737**	**9.8%**

Operating profit (loss) excluding the conversion effect	**356,043**	**303,143**	**17.5%**
acquisition expenses ratio*	5.3%	4.9%	0.4 p.p.
administrative expense ratio*	7.8%	8.3%	(0,5) p.p.
operating profit margin*	21.8%	19.0%	2.9 p.p.

* ratios calculated with gross premium written

(in thousands of PLN)

The decrease in net insurance claims (by PLN 28,946 thousand, i.e. 2.5%) was due to a lower frequency of events consisting of the death of the insured/co-insureds in relation to Q1 2013 (confirmed by data announced by the Central Statistical Office on a higher number of deaths in Poland in January 2013) in group and continued protection insurance. Additionally, the value of claims was affected by lower redemptions in unit-linked insurance (offset by change in the mathematical reserve).

The difference in the change in technical provisions (provisions growth was PLN 60,520 thousand higher than in the same period of the previous year) resulted from:

- an increase of the mathematical reserves in unit-linked products vs. a decrease in the corresponding period last year as a result of higher investment activity results;
- lower pace of conversion of long-term contracts into yearly-renewable term contracts in type P group insurance (the conversion effect in the first three quarters of 2014 translated into the release of provisions in the amount of PLN 29,210 thousand, PLN 18,384 thousand less than in the same period in 2013);
- these effects were offset by lower growth of mathematical provisions in continued protection insurance as an effect of product modification affecting the amount of mathematical provisions established at the time when an insured takes individual continuation;

The investment result consists of income allocated according to transfer prices and income on investment products. In the group and individually continued insurance segment, investment income increased PLN 34,702 thousand, mainly due to the higher investment activity result in investment products than the year before, which resulted from moderately good situation in the capital market vs. the falling WIG index in the comparable period of last year and significantly lower growth rate of the yield offered by Polish Treasury bonds than in the comparable period. During the analyzed period, allocated income according to transfer prices fell by PLN 13,832 thousand.

The acquisition expenses in the group and individually continued insurance segment in Q1 2014 were PLN 86,239 thousand, up by PLN 8,386 thousand from Q1 of the previous year. This is attributable to the increase in commissions in group protection insurance (including bancassurance) as a result of contract portfolio growth and high sales of new policies.

Lower administrative expenses in Q1 2014 as compared to the corresponding period of 2013 by PLN 4,821 thousand (-3.6%) resulted primarily from a decrease of the costs of service in the Group’s Branches.

Operating profit in the group and continued insurance segment in Q1 2014 increased compared to the corresponding period of 2013 by PLN 34,516 thousand (+9.8%) to PLN 385,253 thousand. Operating profit, excluding the effects of conversion of long-term contracts into renewable contracts in type P group insurance, increased by PLN 52,900 thousand YoY (+17.5%) – mainly as a result of increase of the portfolio, decrease of the loss ratio in protection products and lower increase of the mathematical reserve in individually continued insurance.

New products

In group and individually continued insurance, a medicine rider (Antibiotic coverage) was launched in Q1 2014. The product enables insureds to pay 20% of the medicine price at the pharmacy, while PZU Życie covers the remaining 80%. The insurance covers nearly 2,000 medicines (primarily antibiotics and chemotherapeutic drugs). This is the first health insurance product addressed to persons individually continuing protection insurance. It is also offered using distribution channels that are new to health insurance – mailing and sales in branches.

14.4. Individual insurance – life insurance

Gross written premium by payment type – individual insurance	1 January – 31 March 2014	1 January – 31 March 2013	% change
Regular premium	114,109	121,205	(5.9)%
Single premium	211,557	288,428	(26.7)%

(in thousands of PLN)

Total	**325,666**	**409,633**	**(20.5)%**

The gross written premium decrease of PLN 83,967 thousand (-20.5%) compared to Q1 2013 was the result of the following:

- significantly lower than last year sales of the structured product in cooperation with Bank Handlowy;
- lower deposits to accounts in the IKE product, in particular in comparison to January 2013;
- offset partly by higher gross written premium in other investment products and stable premiums in individual protection products.

Data from the profit and loss account – individual insurance	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	325,666	409,633	(20.5)%
Net earned premium	327,455	411,850	(20.5)%
Investment income	73,735	50,327	46.5%
Net insurance claims	(146,764)	(140,188)	4.7%
Change in other net technical provisions	(179,844)	(251,937)	(28.6)%
Acquisition expenses	(31,282)	(26,444)	18.3%
Administrative expenses	(12,355)	(11,171)	10.6%
Other	6,558	3,163	107.3%
Operating profit (loss)	**37,503**	**35,600**	**5.3%**
acquisition expenses ratio*	9.6%	6.5%	3.1 p.p.
administrative expense ratio*	3.8%	2.7%	1.1 p.p.
operating profit margin*	11.5%	8.7%	2.8 p.p.

* ratios calculated with gross premium written

The increase of net insurance claims (by PLN 6,576 thousand, i.e. by 4.7%) was the effect of a higher level of disbursements on account of reaching the endowment age in structured products, both in the bancassurance channel and in the proprietary channel (maturity of the next product tranches) and increase of redemptions in banking unit-linked products (increase of this portfolio year over year). These increases were partially offset by lower transfers in IKE and lower endowment payments under old policies from the individual endowment portfolio from the 1990s.

The difference in the movement of technical provisions (provisions up by PLN 179,844 thousand, growth lower by PLN 72,093 thousand than in the corresponding period of 2013) resulted mainly from lower than last year sale of these products, combined with higher level of endowment payments. This effect was partially offset by a higher provision in IKE compared to the decrease last year (better net investment profit and lower claims paid).

The investment result consists of income allocated according to transfer prices and income on investment products. In the individual insurance segment, they increased by PLN 23,408 thousand yoy, mainly due to higher profits associated with investment products – which resulted from moderately good situation in the capital market vs. the falling WIG index in the comparable period of last year and significantly lower growth rate of the yield on Polish Treasury bonds than in the comparable period. Income allocated according to transfer prices remained at a similar level.

The increase of acquisition expenses in this segment (by PLN 4,838 thousand, i.e. by 18.3%) resulted primarily from the higher share of commissions on assets in unit-linked products in the banking channel (change of the terms and conditions of the contract) and higher agency commission costs as a result of higher volume of new sales of protection products after curtailing the sales of investment products in proprietary channels.

The increase of administrative expenses in Q1 2014 compared to the corresponding period of 2013 by PLN 1,184 thousand (+10.6%) resulted primarily from an increase of the involvement of the agency network in managing individual products and rising marketing expenses.

The segment's operating result rose by PLN 1,903 thousand to PLN 37,503 thousand due to the higher result generated on investment products, in particular on account of participation in the management fee.

(in thousands of PLN)

14.5. Investments

As a consequence, PZU Group's investment income in Q1 2014 increased by 24.8% compared to the same period of the previous year.

Investment income in the investment segment represent the surplus income on PZU and PZU Życie's investments above the income allocated according to transfer prices to insurance segments (corporate, mass, group and individually continued and individual insurance segments) and investment contracts and other free financial resources in the PZU Group. This income decreased by PLN 84,444 thousand.

Investment income – by segment	1 January – 31 March 2014	1 January – 31 March 2013	% change
Investment Segment (external operations)	89,624	174,068	(48.5)%
Insurance activity segments (PZU and PZU Życie)	431,404	386,983	11.5%
Other segments and adjustments	14,152	(132,184)	x
Total	**535,180**	**428,867**	**24.8%**

Result on investment activity	1 January – 31 March 2014	1 January – 31 March 2013	% change
Equity instruments	141,140	(68,249)	x
Interest-bearing financial assets	481,396	460,504	4.5%
Investment property	12,093	(8,069)	x
Derivatives	(34,088)	(58,700)	x
Receivables	(31,913)	(51,006)	x
Other	(33,448)	154,387	x
Total	**535,180**	**428,867**	**24.8%**

(in thousands of PLN)

The increase in investment income of the PZU Group was caused, among others, by the appreciation of:

- equity instruments on financial markets (in Q1 2014, the WIG index rose by 2.1%, while it fell by 4.9% the year before);
- treasury bonds (in Q1 2014 the yield of 5-year Treasury bonds increased by 12 basis points and the yield on 10-year Treasury bonds dropped by 12 basis points, whereas in Q1 2013 the bond yields increased by 23 and 20 basis points, respectively) and
- In Q1 2014, better performance was also achieved on derivatives, which are purchased mainly to aid risk management in investment portfolios.

The decrease of the results on other investment activity involved mainly recognition of PLN 167,453 thousand in last year's investment activity results, which was caused by a one-off event, i.e. consolidation of real estate sector closed-end funds.

Investments (including investment contracts)[3]	**31 March 2014**	**31 December 2013**
Equity instruments, including:	6,950,152	6,307,816
Equity instruments, for which fair value can be determined – listed	4,249,317	3,690,953
Equity instruments, for which fair value can be determined – other	2,697,707	2,613,735
Equity instruments, for which fair value cannot be determined	3,128	3,128
Interest-bearing financial assets, including:	49,307,696	48,517,782
Debt securities – government	34,371,959	33,436,086
Debt securities – other	2,870,066	2,769,137
Buy-sell back transactions and term deposits with credit institutions	10,210,962	10,590,351
Borrowings	1,854,709	1,722,208
Investment property	1,438,875	1,474,770
Derivatives (net value)	2,730	22,294
Other	11	87
Liabilities under sell-buy back	(5,754,399)	(5,124,161)
Total	**51,945,065**	**51,198,588**

The PZU Group's investment activity complies with the statutory requirements while maintaining an adequate level of safety, liquidity and profitability. Government debt securities constituted over 60% of the investment portfolio as at 31 March 2014 and as at 31 December 2013. Exposure to debt securities issued by governments other than the government of the Republic of Poland was 2.3% and 3.5% of all investments as at 31 March 2014 and 31 December 2013, respectively.

The increasing value of equity instruments resulted, among others, from an increase in their market value in the period from the end of 2013 to the end of Q1 2014 (the WIG index grew 2.1% in that period).

In Q1 2014, a slight drop was noted in the percentage and value of money market instruments concluded on the interbank market to increase efficiency of the investment activity and to adjust investment portfolios to match their benchmarks (reverse repo transactions and term deposits with credit institutions).

[3] Financial assets, investment property and negative valuation of derivatives.

(in thousands of PLN)

14.6. Pension insurance

Data from the profit and loss account – pension segment	1 January – 31 March 2014	1 January – 31 March 2013	% change
Revenues on core business of non-insurance entities	43,374	50,302	(13.8)%
Acquisition expenses	(977)	(4,076)	(76.0)%
Administrative expenses	(37,176)	(18,266)	103.5%
Other	2,384	2,686	(11.2)%
Operating profit (loss)	**7,605**	**30,646**	**(75.2%)**

Revenues on fees and commissions ("Revenues on core business of non-insurance entities") in the pension insurance segment for Q1 2014 and Q1 2013 were PLN 43,374 thousand and PLN 50,302 thousand, respectively. The decrease by PLN 6,928 thousand (-13.8%) resulted mainly from statutory transfer of some of the OFE assets to ZUS corresponding to 51.5% of the settlement units recorded on the account of each PZU OFE member and reduction of the fee on the contributions from 3.5% to 1.75%.

Acquisition expenses were lower by PLN 3,099 thousand (-76.0%) mainly due to the ending, in 2013, of the settlement of commission costs on agreements concluded by 31 January 2010.

PTE PZU's administrative expenses increased by PLN 18,910 thousand (103.5%) mainly as a result of the mandatory contribution to the KDPW Guarantee Fund in the amount of PLN 20,873 thousand (statutory change of the required level from 0.1% to 0.3% of OFE's net assets). In addition, a decrease of the costs of the Transfer Agent by PLN 2,353 thousand (-24.1%) was recorded, inter alia, due to reduction of the rate for the handling of PZU OFE member accounts as of 1 February 2014.

These changes contributed to the operating profit declining from PLN 30,646 thousand in the same period of the previous year to PLN 7.605 thousand, i.e. by PLN 23,041 thousand (-75.2%).

At the end of Q1 2014, OFE PZU had 2.239,4 thousand members, i.e. 13.4% of the total number of members of all existing open-end pension funds, ranking OFE PZU third on the market in this respect. Compared to the balance as at the end of March of the previous year, the number of OFE PZU members increased by 10.9 thousand, i.e. 0.5%, while the total number of members of all open-end pension funds increased by 3.0%.

At the end of March 2014 the total value of net assets of all OFEs in the market was PLN 151.9 billion, down 43.7% from the end of Q1 2013 (which was caused by the transfer of 51.5% of OFE assets to ZUS on 3 February 2014). In the same period OFE PZU's assets fell 43.6% to PLN 20.4 billion in connection with these legislative changes. In the period from January to March 2014, ZUS transferred to OFE PZU contributions in the amount of PLN 0.31 billion, over 25% more than in the corresponding period of 2013 and the rate of return in the first 3 months of 2014 was 2.97%.

14.7. Ukraine

Data from the profit and loss account – Ukraine segment – non-life and life insurance together	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	39,247	42,777	(8.3)%
Net earned premium	35,470	37,208	(4.7)%
Investment income	4,969	6,218	(20.1)%
Net insurance claims	(31,365)	(19,533)	60.6%
Acquisition expenses	(12,954)	(13,903)	(6.8)%
Administrative expenses	(6,930)	(8,573)	(19.2)%
Operating profit (loss)	**(10,810)**	**1,417**	**x**
UAH/PLN exchange rate	0.3080	0.3896	(20.9)%

The Ukraine segment consists of two companies offering life insurance and non-life insurance.

The UAH exchange rate in PLN was significantly depreciated by 20.9% as a result of the current economic and political situation in Ukraine.

(in thousands of PLN)

14.7.1. Ukraine segment – non-life insurance – PZU Ukraine

Data from the income statement - segment Ukraine – non-life insurance	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	27,454	31,804	(13.7)%
Net earned premium	23,849	26,517	(10.1)%
Investment income	2,243	3,686	(39.2)%
Net insurance claims	(11,963)	(12,755)	(6.2)%
Acquisition expenses	(8,312)	(9,108)	(8.7)%
Administrative expenses	(5,783)	(7,316)	(21.0)%
Operating profit (loss)	**34**	**1,023**	**(96.7)%**
UAH/PLN exchange rate	0.3080	0.3896	(20.9)%
acquisition expenses ratio*	34.9%	34.3%	0.6 p.p.
administrative expense ratio*	24.2%	27.6%	(3,4) p.p.
claims ratio*	50.2%	48.1%	2.1 p.p.
Combined ratio (COR)*	109.3%	110.0%	(0,7) p.p.

* ratios calculated with net premium earned

The decrease of the gross written premium by 13.7% as compared to the corresponding period of 2013 resulted from the depreciation of the exchange rate of UAH in PLN by 20,9%; in the original currency gross written premium increased by 9.2% as a result of the positive growth rate of MOD insurance sales (+11.1%), property insurance (+14.6%), Green Card (+20.4%) and medical insurance (+34.2%).

Total investment income dropped in Q1 2014 by 39.2% as compared to Q1 2013, whereas in the original currency the decrease amounted to 23.0%. Lower investment income resulted from a decrease of the interest rates on debt instruments and deposits and reduction of the base of liquid assets (by the end of 2013 and in 2014, foreign currency liabilities were paid to reinsurers, which were not paid in the previous period due to the Regulator's procedures – no registration or delayed registration lengthened the process of performance of the liabilities resulting from reinsurance treaties).

The decrease of claims by 6.2% resulted from a decrease of the UAH exchange rate in PLN by 20.9%. Claims in the original currency increased by 18.6%, whereas net earned premium in the original currency increased 13.8%.

The decrease of acquisition expenses by 8.7% compared to the corresponding period of 2013 resulted from exchange rate changes. In the original currency acquisition expenses increased by 15.4% as a result of a positive growth rate of net earned premium (+13.8%), including from increase of sales of property insurance to natural persons, motor and travel insurance characterized by higher charges on sales.

Administrative expenses as compared to the corresponding period of last year dropped by 21.0% as a result of the exchange rates used in translations of UAH into PLN; in the original currency they remained on the same level as in Q1 2013. Additionally, an improvement of the administrative expense ratio by 3.4 p.p. was recorded, which is attributable to the positive growth rate of net earned premium in the original currency.

Improvement of the combined ratio (COR) by 0.7 p.p. in relation to the corresponding period of last year resulted mainly from the positive growth rate of earned premium and maintained cost discipline.

Operating profit was PLN 989 thousand lower YoY, mainly due to investment income being down by PLN 1,443 thousand and maintaining a high acquisition expense ratio at 34.9% (+0.6 p.p.).

(in thousands of PLN)

14.7.2. Ukraine segment – life insurance – PZU Ukraine Life

Data from the income statement - segment Ukraine – life insurance	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Gross written insurance premium	11,793	10,973	7.5%
Net earned premium	11,621	10,691	8.7%
Investment income	2,726	2,532	7.7%
Net insurance claims	(19,402)	(6,777)	186.3%
Acquisition expenses	(4,642)	(4,795)	(3.2)%
Administrative expenses	(1,147)	(1,256)	(8.7)%
Operating profit (loss)	**(10,844)**	**394**	**x**
UAH/PLN exchange rate	0.3080	0.3896	(20.9)%
acquisition expenses ratio*	39.4%	43.7%	(4,3) p.p.
administrative expense ratio*	9.7%	11.4%	(1,7) p.p.
operating profit margin*	(92.0)%	3.6%	(95,6) p.p.

* ratios calculated with gross premium written

Increase of gross written premium by 7.5% as compared to the corresponding period of 2013 (35.9% in the original currency) resulted from conclusion of a corporate agreement with a high unit value and positive sales dynamics in all distribution channels. In 2014 an increase of sales of both endowment products (+12.7%) and life insurance (+350.9%) was recorded.

The increase of investment income by 7.7% (in the original currency by 36.2%) as compared to Q1 2013 is attributable mainly to the higher base of liquid assets (+43.0%) resulting from an increase of the sales of endowment products.

Higher claims by 186.3% resulted mainly from an increase in the change in the technical provision for endowment products by PLN 12,412.1 thousand.

Lower acquisition expenses by 3.2% resulted from depreciation of the UAH exchange rate in PLN. Acquisition expenses in the original currency were higher by 22.5% compared to the corresponding period of 2013 as a result of positive growth rate of earned premium (+8.7% in PLN; +37.5% in UAH), increase of sales through the bancassurance channel (+617.0%) and active cooperation with brokers, which is characterized by higher commission charges.

Administrative expenses were 8.7% lower, also as a result of changes of the UAH exchange rate in PLN as compared to Q1 2013. Administrative expenses in the original currency compared to the corresponding period of last year were 15.5% higher, mainly as a result of increase of sales and annual salary indexation.

The operating loss was PLN 10,844 thousand compared to Q1 2013. The operating result deteriorated by PLN 11,238 thousand, mainly as a result of higher technical provisions for endowment products.

14.8. Baltic States

Data from the profit and loss account – Lithuania segment – non-life and life insurance	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Gross written insurance premium	76,699	55,734	37.6%
Net earned premium	60,650	51,395	18.0%
Investment income	2,439	2,749	(11.3)%
Net insurance claims	(39,085)	(33,898)	15.3%
Acquisition expenses	(16,940)	(14,929)	13.5%
Administrative expenses	(6,522)	(5,903)	10.5%
Operating profit (loss)	**542**	**(586)**	**x**
LTL/PLN exchange rate	1.2134	1.2088	0.4%

The Baltics segment (Lithuania, Latvia and Estonia) consists of two companies offering life insurance and non-life insurance.

(in thousands of PLN)

14.8.1. The Baltics segment – non-life insurance – PZU Lietuva

Data from the income statement - segment Lithuania – non-life insurance	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	68,336	48,781	40.1%
Net earned premium	52,335	44,490	17.6%
Investment income	2,144	1,865	15.0%
Net insurance claims	(34,115)	(29,244)	16.7%
Acquisition expenses	(14,215)	(12,486)	13.9%
Administrative expenses	(5,748)	(5,228)	9.9%
Operating profit (loss)	**401**	**(603)**	**x**
LTL/PLN exchange rate	1.2134	1.2088	(0.4)%
acquisition expenses ratio*	27.2%	28.1%	(0,9) p.p.
administrative expense ratio*	11.0%	11.8%	(0,8) p.p.
claims ratio*	65.2%	65.7%	(0,5) p.p.
Combined ratio (COR)*	103.3%	105.5%	(2,2) p.p.

* ratios calculated with net premium earned

Increase of written premium in Lithuania, Latvia and Estonia by PLN 19,556 thousand (+40.1%) compared to the corresponding period of 2013 resulted manly from the positive sales growth of motor, general TPL, property insurance and insurance guarantees.

The increase in investment income by 15.0% compared to the corresponding period of last year was due to better conditions on the capital markets.

Higher claims resulted from higher provisions, caused by claims in property insurance and motor TPL.

Higher acquisition expenses up by PLN 1,729 thousand (+13.9%) in relation to Q1 2013 resulted mainly from the positive growth rate of earned premium (+17.6%).

Administrative expenses at the end of Q1 2014 amounted to PLN 5,748 thousand and compared to the corresponding period of last year increased by 9.9% mainly as a result of expansion in the Latvian and Estonian market.

In Q1 2014 the company recorded a slight operating profit of PLN 401 thousand, compared to the PLN 603 thousand loss at the end of March 2013, mainly thanks to higher earned premium and higher investment income.

14.8.2. The Baltics segment – life insurance – UAB PZU Lietuva Gyvybes Draudimas

Data from the income statement - segment Lithuania – life insurance	1 January – 31 March 2014	1 January – 31 March 2013	% change
Gross written insurance premium	8,363	6,953	20.3%
Net earned premium	8,315	6,905	20.4%
Investment income	295	884	(66.6)%
Net insurance claims	(4,970)	(4,654)	6.8%
Acquisition expenses	(2,725)	(2,443)	11.6%
Administrative expenses	(774)	(675)	14.8%
Operating profit (loss)	**141**	**17**	**731.7%**
LTL/PLN exchange rate	1.2134	1.2088	0.4%
acquisition expenses ratio*	32.6%	35.1%	(2,5) p.p.
administrative expense ratio*	9.3%	9.7%	(0,4) p.p.
operating profit margin*	1.7%	0.2%	1.5 p.p.

* ratios calculated with gross premium written

The increase of gross written premium by PLN 1,410 thousand (+20.3%) as compared to the corresponding period of 2013 resulted primarily from dynamic growth of regular premium individual insurance.

The decrease of investment income in the analyzed period resulted from lower profitability of external mutual funds in unit-linked products.

Acquisition expenses, 11.6% higher than in the corresponding period of 2013, resulted from an increase of new sales of individual premium.

(in thousands of PLN)

Administrative expenses were PLN 99 thousand (+14.8%) higher than in the corresponding period of last year, which was associated with development of the IT systems and higher salary costs resulting from development of own sales network.

The rapid growth of gross written premium, while maintaining cost discipline, enabled the company to generate an operating profit of PLN 141 thousand, i.e. PLN 124 thousand higher than in Q1 2013.

14.9. Investment contracts

Investment contract accounting is conducted by applying the deposit method, as a consequence of which investment contract volumes do not constitute income according to IFRS.

Volumes obtained on investment contracts by payment type **Gross written premium**	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Regular premium	10,360	24,322	(57.4)%
Single premium	156,265	705,255	(77.8)%
Total	**166,625**	**729,577**	**(77.2)%**

Gross written premium generated on investment contracts during Q1 2014 decreased by PLN 562.952 thousand (-77.2%) compared to the same period in 2013. The changes in gross written premium were caused mainly by:

- lower sales of short-term endowment products in the bancassurance channel, which was the effect of a strategy to phase out policies of this type;
- lower deposits than last year to investment product individual pension security accounts (IKZE).

Data from the profit and loss account – investment contracts	**1 January – 31 March 2014**	**1 January – 31 March 2013**	**% change**
Gross written insurance premium	166,625	729,577	(77.2)%
Group insurance	29,648	627,262	(95.3)%
Individually continued insurance	136,977	102,315	33.9%
Net earned premium	166,629	729,862	(77.2)%
Investment income	8,546	16,994	(49.7)%
Net insurance claims	(821,555)	(767,393)	7.1%
Change in other net technical provisions	654,319	30,326	2057.6%
Acquisition expenses	(6,103)	(4,354)	40.2%
Administrative expenses	(2,440)	(2,704)	(9.8)%
Other	4,337	3,147	37.8%
Operating profit (loss)	**3,733**	**5,878**	**(36.5)%**
operating profit margin*	2.2%	0.8%	1.4 p.p.

* ratios calculated with gross premium written

Investment income in the investment contract segment dropped PLN 8,448 thousand, mainly in unit-linked products, as a result of lower amount of investments.

The PLN 54.162 thousand yoy increase in net claims resulted from higher endowment payments under short-term investment endowment insurance products in the bancassurance channel and increased surrenders in unit-linked products.

A much stronger decline in technical provisions during Q1 2014 by PLN 654,319 thousand (compared to the reduction of PLN 30,326 thousand in the same period of 2013) resulted from a much lower sales volume of short-term investment products, coupled with a higher level of endowment payments under those products.

The increase of acquisition expenses by PLN 1,749 thousand (40.2%) resulted primarily from a higher share of commissions on assets in unit-linked products in the banking channel (change of the terms and conditions of the contract).

The segment's operating result was PLN 3,733 thousand, which means a decrease of PLN 2,145 thousand from the similar period of 2013. The main reason was the year over year hike in acquisition expenses.

15. Impact of non-recurring events on operating results

There were no one-off events in Q1 2014.

The PZU Group's gross results in Q1 2013 were affected by the following one-off events:

- income from the consolidation of mutual funds of PLN +167,453 thousand – the effect of discontinuation, since 1 January 2013, of the application of the materiality criterion in determining a list of subsidiaries subject to consolidation;
- one-off income on account of a settlement with a reinsurer in respect of Green Card insurance PLN +53,207 thousand – the objective of the settlement was to settle reinsurance commissions in the Green Card product, for which an adjustment was made in 2011 by lowering the result of that period by PLN 91,843 thousand.

16. Macroeconomic environment

Q1 2014 saw a recovery of business activity – one can estimate that the GDP growth rate exceeded 3% YoY. Annual growth of industrial production accelerated in Q1 2014 to 4.8% yoy, compared to 4.5% yoy in the previous quarter. However, the mild winter had a material adverse impact on the results of overall industrial production. For it contributed to a significant reduction in production by companies generating and supplying electricity, gas, steam and hot water, and in mining. However, the growth rate of the processing industry was clearly higher in this period – 6.9% YoY. The mild winter, in turn, contributed to a significant increase of construction and installation production in Q1, whose annual growth rate amounted to as much as 10.6% YoY whereas in the previous quarter it was close to zero. Gradual recovery of retail sales of goods continued in this period. Its annual growth rate at fixed prices increased on average in a month to 5.0% YoY compared to 4.6% YoY in Q4 2013.

One can presume that in Q1 domestic demand was, again, the most important GDP growth driver. In the context of higher real income, the improving labor market and increasingly high consumer confidence indicators, the growth rate of consumption was probably higher than last quarter. Compared to the recovering domestic demand and good export prospects, including relatively high level of utilization of production capacity, relatively good financial situation and lower interest rates, enterprises increase their investment expenditures. This is shown, among other things, by the quickening pace of investment loans.

In Q1 the conditions for Polish exports improved. The recovery in the Eurozone and in Germany, and also in the United Kingdom, in the first months of 2014 was probably stronger than expected. The good results of the April studies of market conditions in the Eurozone show that this improvement is not only attributable to the mild winter. The improvement in the overall global situation driven by developed countries should be continued in the quarters to come. Hence one can expect that the favorable environment for economic growth in Poland should continue. The most important risk for this forecast is the development of the situation in Ukraine. The direct impact of the recession in Ukraine and GDP growth slowdown in Russia on the Polish economy should be offset by improving economic prospects of Germany and the entire Eurozone. However, escalation of the conflict in Ukraine – especially if energy supplies and financial markets are disrupted – would have serious economic consequences for the entire region.

The labor market is improving unexpectedly quickly, considering the phase of the economic cycle. In Q1 2014, the average employment in the company sector increased by 24.4 thousand compared to 14.7 thousand in Q1 last year. The registered unemployment rate in March amounting to 13.5% remained high, but was 0.8 percentage points lower than in March last year. Although the latest NBP analysis of market conditions does not confirm that wage pressure is already on the rise, or that companies are inclined to succumb to it, in Q1 the growth rate of the average monthly salary in the enterprise sector accelerated to 4.2% YoY compared to 3.3% YoY last quarter, and was the highest in two years. On top of that, low inflation makes it possible to attain a robust real increase in wages, creating, in combination with increasing employment, favorable conditions for higher consumption. In Q1 the average gross salary in companies was in real terms 3.7% higher than in the corresponding period last year, whereas one quarter before the growth rate was 2.6% YoY.

The annual consumer price index (CPI) fell in Q1 2014 to 0.6% yoy, compared to 0.7% yoy in the last quarter of the previous year. In February and March, low inflation was supported by lower food prices – attributable, among other things, to the embargo on pork exports. In Q1, however, all base inflation rates published by NBP fell (net inflation rate to 0.8% YoY compared to 1.2% YoY in Q4), confirming that there is no inflation pressure. In this situation the NBP interest rates remained unchanged in Q1 – the reference rate is still 2.5%. In March the Monetary Policy Council (MPC) declared to extend the period of unchanged interest rates at least till the end of Q3 2014. At the April MPC meeting this stance was upheld.

The yields on the "underlying" Treasury bonds markets in Germany and the US – at the turn of 2013 and 2014 they reached a local peak faced with the FED's commencement of tapering quantitative easing in December 2013. In Q1 2014 these yields decreased, however, especially in January. A contributing factor to lower interest rates was the FED's effective separation in its market communication of tapering from the question of commencing interest rate hikes. Declining yields were also supported by low global inflation, equivocal data on US economic growth, and ECB rhetoric clearly indicating that very "dovish" monetary policy will be continued.

In Poland, in turn, in January 2014, the yields of Treasury bonds increased in anticipation of the redemption of the bonds held by OFE, in order to drop very quickly afterwards – especially at the long end of the yield curve. These decreases continued till the end of Q1. Ultimately, the yields of 1-year Treasury securities increased by 5 basis points at the end of March 2014 as compared to the level from the end of 2013 and the yields of 10-year securities dropped by 12 basis points.

The decrease of yields observed from the beginning of February, accompanying the dropping yields in the "underlying" markets, was also supported by low inflation in Poland and postponement of the anticipated beginning of the increase of rates by the MPC till 2015. The demand for Polish Treasury bonds was also upheld by the improvement of Poland's fiscal situation. Redemption of Treasury bonds held by OFE reduced the level of public debt. On top of that, it is generally expected that the state budget deficit will be lower than planned in 2014 due to higher actual revenues and lower debt service costs. As a consequence, Poland's borrowing needs are falling and the level of their financing in 2014 was very high already in Q1.

In Q1 2014 Polish stock exchange indices were characterized by relatively high volatility, without a clear trend. In February, in the face of better prospects of Poland's economic growth and favorable trends in global markets, the stock exchange indices in Poland were growing. However the exacerbation of the Ukrainian crisis at the beginning of March again brought stock prices down, although the second half of the month turned out more positive. Ultimately, the WIG and WIG20 indices increased in Q1 2014 by 2.1% and 2.6%, respectively – more than the German DAX 30, American S&P 500 or British FTSE 100.

In this same period the Polish currency slightly weakened against the main currencies – EUR/PLN and USD/PLN rates at the end of Q1 2014 increased from the end of 2013 by 0.6% and 0.7% respectively, while the CHF/PLN fell by 1.1% in this same period.

17. Management Board's position on previously published result forecasts

PZU did not publish any standalone or consolidated result forecasts.

18. Risk factors which may affect the financial results in the subsequent quarters

18.1. Non-life insurance

The most significant risk factors which may affect the results in the mass and corporate insurance segment (non-life insurance) in the next quarters of 2014 include:

- occurrence of catastrophic events (floods, hurricanes, drought, spring ground frosts);
- slowdown in economic growth or stagnation which may cause an increase in the loss ratio of the financial and non-life insurance portfolio as a result of moral hazard;
- declining sales of new vehicles causing the number of motor insurance policies sold to abate;
- changes in the legal or regulatory conditions of the conduct of business, i.e. amendments to the Insurance Activity Act, the introduction of new standards by the Polish Financial Supervision Authority and pro-consumer case law of the Supreme Court;
- growing consumer awareness which may result in more claims due to, for instance, activities carried out by consumer-oriented institutions such as the Antimonopoly Office (UOKiK), the Ombudsman for the Insured, the Polish Financial Supervision Authority (KNF);
- growing insurance crime;
- increase in the number of drivers without TPL insurance due to new rules of termination of TPL agreements (amendment to the Compulsory Insurance Act);
- potential upward trend in the rate of unemployment in 2014 and a slowdown in private consumption may translate into a lack of growth in demand for insurance products;
- price pressure from the competition arising in particular from a decline in the motor insurance loss ratio in 2013;
- return to upward trends in the frequency of claims;
- growing average cost of bodily injury claims resulting, among others, from the growing share of non-public health care establishments and the impact of financial compensation to family members of the deceased (Article 446 § 4 of the Act of 23 April 1964 entitled the Civil Code (Journal of Laws of 2014, Item 121, hereinafter "Civil Code")), which may result in the need to increase the level of provisions in motor TPL insurance;
- risk that the number and value of claims reported by clients and injured persons will increase in connection with the Act of 17 December 2009 on Pursuing Claims in Group Proceedings (Journal of Laws No. 7 of 2010 Item 44, as amended);
- increased role of insurance brokers which may lead to an increase in acquisition expenses;
- absence of a precise definition of the scope of exemptions pertaining to, for instance, insurance services or medical services in the amended VAT Act of 29 July 2011 (Journal of Laws No. 177 in 2011 Item 1054, as amended; hereinafter: the "VAT Act");
- implementation of the Solvency II Directive in 2016, which may affect the level of capital requirements in the PZU Group and the scope of reporting;
- changes in regulations applicable to banks, which may reduce the number of mortgage loans and insurance for the borrowers.

18.2. Life insurance

The most significant risk factors which may affect the results in the group, individually continued and individual insurance segment (life insurance) in the next quarters of 2014 include:

- potential upward trend in the rate of unemployment in 2014, which may translate into a lack of growth in demand for insurance products;
- potential increase of competition in group insurance resulting from strengthening role of brokers in this segment and the requirement to invite tenders for group insurance by entities subject to the requirements of the Public Procurement Law Act of 29 January 2004 (Journal of Laws of 2013, Item 907, "Public Procurement Law");
- lower interest in policy-deposits and structured products as a result of the possible introduction of capital gains tax on such products;
- changes in the legal or regulatory conditions of the conduct of business, i.e. amendments to the Insurance Activity Act, the introduction of new recommendations by the Polish Financial Supervision Authority and pro-consumer case law of the Supreme Court;
- growing consumer awareness which may result in more claims due to, for instance, activities carried out by consumer-oriented institutions such as the Antimonopoly Office (UOKiK), the Ombudsman for the Insured, the Polish Financial Supervision Authority (KNF);
- changes in the financial intermediation market, suppressed popularity growth of independent financial consulting and thus reduced number of sales channels for insurance products;
- changes in the current mortality and morbidity levels;
- behavior of the capital market in 2014, particularly of WSE – there is a positive correlation between PZU's capital products offering and the business conditions on the capital markets;
- lack of a precise definition of the scope of exemptions pertaining to e.g. insurance services, medical services, in the amended VAT Act;
- changes in regulations applicable to banks, which may reduce the number of mortgage loans and insurance for the borrowers;
- increasing role of the so-called "insurance claims firms" in the process of handling of claims reported in previous years;
- implementation of the Solvency II Directive in 2016, which may affect the level of capital requirements in the PZU Group and the scope of reporting;
- changes in the individual insurance market caused by product modifications in line with Council Directive 2004/113/EC and verdict of the European Court of Justice (verdict in case C-236/09 (Test-Achats), of 1 March 2011) that may have significant influence on the value of new business and the technical result.

18.3. Pension funds

The most significant risk factors which may affect PTE PZU’s results in the subsequent quarters of 2014 include primarily:

- reform of the pension system in Poland;
- potential growth trend in the unemployment rate, which may translate into fewer members joining OFE;
- low rate of salary growth which contributes to the lower growth of premiums paid by pension fund members;
- changes on the financial intermediation market, slow-down in the growth of popularity of independent financial advisory services and, therefore, a reduction in the number of sales channels.
- behavior of the capital market in 2014, in particular WSE – some of the investment income of the PZU OFE depends on the trends in this market, which translates into the value of the assets and the level of the management fees charged by PTE PZU.

18.4. Investment activity

The most significant risk factors which may affect the investment activity performance in the subsequent quarters of 2014 include primarily:

- volatile yield on treasury securities depending on the economic situation in Poland and in the European Union; an increase in the yield on such securities may bring about a lower valuation of investments;
- behavior of the capital market in 2014, particularly of WSE – part of the companies' investment activity income depends on the trends on that market; Moreover, there is a positive correlation between PZU's capital products offering and the business conditions on the capital markets.

19. Issues, redemptions and repayments of debt securities and equity securities

In the 3-month period ended 31 March 2014, PZU did not issue, redeem or repay any debt securities or equity securities.

20. Default or breach of material provisions of loan agreements

During the 3 months ended 31 March 2014, there were no instances of default or a breach of any material provisions of loan agreements in PZU and in its subsidiaries in respect of which no remedial actions were taken until the end of the reporting period.

21. Granting of sureties or guarantees for loans or borrowings by PZU or its subsidiaries

In the 3-month period ended 31 March 2014, neither PZU nor its subsidiaries granted any sureties or guarantees for loans or borrowings to any single entity or any subsidiary of such an entity the total amount of which sureties or guarantees would be the equivalent of at least 10% of PZU's equity.

22. Dividends

Only the profit captured in the standalone financial statements of the parent company prepared in accordance with PAS is subject to distribution.

22.1. Update the PZU Group capital and dividend policy

On 13 May 2014 the PZU Management Board made the decision to update PZU Group's capital and dividend policy in 2013-2015 ("Policy"). At the same time, the PZU Management Board resolved to submit a motion to the PZU Supervisory Board for the Supervisory Board to adopt a resolution to approve the updated Policy. On 13 May 2014, the PZU Supervisory Board approved – in line with the Management Board's motion – the updated Policy, in the wording presented by the Management Board.

In connection with the uncertainty at the time of adopting the hitherto Policy pertaining to the PZU Group's results in 2013 and the execution of acquisition plans, the Policy did not define how to proceed in the event that safety ratios are met despite not issuing subordinated debt.

At present, since the PZU Group's 2013 financial results turned out to be higher than expected, while the current and forecasted safety ratios will not be lower than the ones posited by the Policy, amendments have been made to the Policy by whose power the interim dividend paid on 19 November 2013 will be deemed to be part of the payment from surplus capital.

(in thousands of PLN)

22.2. Distribute the profit earned in 2013

On 26 August 2013, the PZU Management Board adopted a resolution on the payment of an interim dividend for 2013 in the amount of PLN 1,727,046 thousand, i.e. PLN 20.00 per share, in accordance with the provisions of Article 349 of the Commercial Companies Code, from the profit earned during the 6 months ended 30 June 2013 in the amount of PLN 4,679,913 thousand, recognized in PZU's PAS-compliant standalone financial statements for this period.

On the same day, the Supervisory Board approved the payment of the interim dividend, and the dividend right date was set for 12 November 2013 and the disbursement date for 19 November 2013.

On 13 May 2014 the PZU Management Board resolved to submit a motion to PZU's ordinary shareholder meeting to distribute PZU's net profit for the year ended 31 December 2013 amounting to PLN 5,106,345 thousand in the following manner:

- PLN 4,663,024 thousand, i.e. PLN 54.00 designate for a dividend payment;
- PLN 433,321 thousand designate for supplementary capital;
- PLN 10,000 thousand designate for the Company's Social Benefits fund.

Having in mind the interim dividend payment made on 19 November 2013 in the amount of PLN 1,727,046 thousand (i.e. PLN 20.00 per share) anticipated for the 2013 financial year, the remaining part of the dividend to be paid for the year ended 31 December 2013 will be PLN 2,935,978 thousand (i.e. PLN 34.00 per share).

The PZU Management Board resolved to submit a motion to PZU's ordinary shareholder meeting to set the dividend record date for the remaining portion of the dividend to be paid for the year ended 31 December 2013 on 17 September 2014 and to pay the remaining portion of the dividend for the year ended 31 December 2013 on two dates:

- PLN 1,467,989 thousand (i.e. PLN 17.00 per share) on 8 October 2014;
- PLN 1,467,989 thousand (i.e. PLN 17.00 per share) on 15 January 2015.

The PZU Management Board's motion complies with the Policy updated on 13 May 2014, referred to in item 22.1 and takes into consideration the Polish FSA's recommendations concerning the dividend policy of insurance and reinsurance undertakings.

On the very same day the Supervisory Board positively endorsed the PZU Management Board's motion and resolved to recommend to PZU's ordinary shareholder meeting distribution of profit in accordance with this motion.

PZU's ordinary shareholder meeting will make the final decision on the distribution of PZU's net profit for the year ended 31 December 2013.

23. Information on the shareholders of PZU

23.1. List of PZU shareholders holding at least 5% of votes at the Shareholder Meeting

As at the date of conveying this interim report, the structure of entities holding at least 5% of votes at the PZU Shareholder Meeting is as follows:

Item	Shareholder's name	Number of shares and votes at the shareholder meeting	Percentage share in the share capital and in the total number of votes at the shareholder meeting
1	State Treasury	30,385,253	35.1875%
2	Other shareholders	55,967,047	64.8125%
Total		**86,352,300**	**100.00%**

(in thousands of PLN)

23.2. Changes in the ownership structure of significant shareholdings in the issuer's company

In the period from 1 January 2014 to the date of conveying these interim statements, no material changes have taken place in the ownership structure of significant shareholdings of PZU shares.

23.3. Shares or rights to shares held by persons managing or supervising PZU

Item	Corporate authority / Full name	Number of shares / rights to shares as at the date of conveying this interim report (i.e. 14 May 2014)	No. of shares / entitlements as at the date of conveying the annual report (i.e. 12 March 2014)	Resulting change during the period between the two dates
	Management Board			
1	Andrzej Klesyk	-	-	-
2	Przemysław Dąbrowski	-	-	-
3	Dariusz Krzewina	-	-	-
4	Barbara Smalska	-	-	-
5	Tomasz Tarkowski	80	80	-
6	Ryszard Trepczyński	-	-	-
	Group Directors			
1	Rafał Grodzicki	-	-	-
2	Przemysław Henschke	-	-	-
3	Sławomir Niemierka	-	-	-
4	Tobiasz Bury	50	50	
	Supervisory Board			
1	Waldemar Maj	30	30	-
2	Zbigniew Ćwiąkalski	-	-	-
3	Tomasz Zganiacz	-	-	-
4	Dariusz Daniluk	-	-	-
5	Zbigniew Derdziuk	-	-	-
6	Dariusz Filar	-	-	-
7	Włodzimierz Kiciński	30	30	-
8	Alojzy Nowak	-	-	-
9	Maciej Piotrowski	-	-	-
Total		**190**	**190**	**-**

24. Dispute-related financial settlements

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance agreements, disputes concerning labor relationships and disputes relating to contractual obligations. Typical administrative proceedings involving the PZU Group companies include proceedings related to the possession of real properties. Such proceedings and litigations are of a typical and repetitive nature and usually no particular one of them is of material importance to the PZU Group.

The majority of disputes involving the PZU Group companies concerned two companies: PZU and PZU Życie. Additionally, PZU and PZU Życie are parties to proceedings before the President of the Antimonopoly Office.

PZU and PZU Życie take disputed claims into account in the process of establishing their technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount. In the case of disputed claims pertaining to restatement of annuities in PZU Życie, the claims are carried in other technical provisions at the annual value of annuities above the corresponding amount of provision set within the framework of mathematical life provisions.

During the 3 months ended 31 March 2014 and until the date of conveying this interim report, the PZU Group was not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries, the unit value of which was at least 10% of PZU's equity.

As at 31 March 2014, the total value of all the 66,845 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 2,663,493 thousand. In this amount, PLN 2,048,584 thousand relates to liabilities and PLN 614,909 thousand to receivables of PZU Group companies, which represented 15.69% and 4.71%, respectively of PZU's equity according to PAS.

24.1. Resolution adopted by PZU's Ordinary Shareholder Meeting on the distribution of PZU's profit for the 2006 financial year

With the statement of claim of 30 July 2007 a proceeding was launched under a lawsuit filed by Manchester Securities Corporation against PZU to repeal resolution no. 8/2007 adopted by PZU's Ordinary Shareholder Meeting on 30 June 2007 on distributing PZU's profit for the 2006 financial year as being in contradiction with best practices and as aiming at injuring the plaintiff, a PZU shareholder.

The challenged resolution adopted by PZU's Ordinary Shareholder Meeting distributed the net profit for 2006 in the amount of PLN 3,280,883 thousand in the following manner:

- the amount of PLN 3,260,883 thousand was transferred to supplementary capital;
- the amount of PLN 20,000 thousand was transferred to the Company Social Benefits Fund.

In its judgment of 22 January 2010 the Regional Court in Warsaw repealed in its entirety the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting. On 17 February 2010 PZU submitted an appeal challenging the judgment of the Regional Court in Warsaw in its entirety.

The Appellate Court in Warsaw in its judgment handed down on 6 December 2011 dismissed in its entirety PZU's appeal against the judgment of the Regional Court in Warsaw of 22 January 2010. On the date of announcement of the judgment issued by the Appellate Court, the 22 January 2010 judgment of the Regional Court repealing the said Resolution of the PZU Ordinary Shareholder Meeting became final and legally binding.

On 7 December 2011 PZU submitted a petition for preparing a written justification for the judgment of the Appellate Court in Warsaw of 6 December 2011. On 2 April 2012 the Court's judgment along with its justification were served on PZU. On 29 May 2012, PZU filed a cassation complaint in which the 6 December 2011 judgment of the Appellate Court was appealed against in full. At the session of 27 March 2013, the Supreme Court announced its judgment in which it dismissed the cassation complaint and ordered PZU to pay the costs of the proceedings, including the costs of legal representation. According to the provisions of the Code of Civil Procedure, the judgment of the Supreme Court is final and not subject to further appeal.

According to PZU, repealing the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting will not cause the shareholders to obtain a claim for PZU to pay a dividend.

Notwithstanding the foregoing, in connection with the judgment repealing this resolution having become legally binding, an item has been included in the agenda of PZU's Ordinary Shareholder Meeting convened to take place on 30 May 2012 to adopt a resolution on distributing PZU's net profit for the 2006 financial year.

The Management Board recommended for the Ordinary Shareholder Meeting of PZU to distribute profit for the 2006 financial year in a manner corresponding to the distribution of profit based on the repealed resolution because after its adoption PZU paid a dividend for 2009 including the funds retained by PZU on the basis of that resolution.

On 30 May 2012, the PZU Ordinary Shareholder Meeting adopted a resolution to distribute the profit for the financial year 2006 in a manner reflecting the distribution of profit effected on the basis of the repealed resolution. The Manchester Securities Corporation filed an objection against the resolution of 30 May 2012. The objection was recorded in the minutes.

On 20 August 2012, a copy of a statement of claim filed by the Manchester Securities Corporation with the Regional Court in Warsaw was delivered to PZU. In the statement of claim, the Manchester Securities Corporation demands that the resolution on the distribution of profit for the financial year 2006 adopted on 30 May 2012 by the PZU Ordinary Shareholder Meeting be repealed. According to the plaintiff, the value of the litigation is PLN 5,054 thousand. PZU has submitted a rejoinder to the statement of claim requesting to dismiss the statement of claim in its entirety.

On 17 December 2013, the Regional Court passed a verdict in which it accepted the claim in its entirety and awarded the costs of proceedings from PZU to Manchester Securities Corporation. On 4 March 2014, PZU filed an appeal against the above verdict, contesting it in its entirety.

As of the balance sheet date of 31 March 2014 no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting, including the line items "Supplementary capital" and "Retained earnings (losses)", the funds in the Company's Social Benefits Fund were not adjusted and no provisions were established for any potential additional claims stemming from the repeal of the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting.

24.2. Proceedings of the Antimonopoly Office against PZU

24.2.1. Penalty imposed in 2009 for model contracts

In the decision of 30 December 2009 the President of the Antimonopoly Office imposed a cash penalty on PZU in the amount of PLN 14,792 thousand for PZU's use of practices breaching the collective interests of consumers entailing the following:

- inserting contractual clauses in the indicated model contracts entered into the Register of clauses of model contracts deemed to be impermissible;
- illegally inserting contractual clauses in the indicated model contracts breaching art. 813 § 1 of the Civil Code, by including a condition not covered by the disposition of this regulation of the unused sum insured as defining the premium amount to be refunded to the consumer by the insurance undertaking for the unused period of insurance cover.

PZU does not concur with the Antimonopoly Office's decision or its justification. On 18 January 2010 PZU submitted an appeal against this decision to the Court of Competition and Consumer Protection (whereby this decision is not legally binding). In its judgment of 14 November 2011 the Court of Competition and Consumer Protection ("SOKiK") dismissed PZU's appeal against this decision. On 14 December 2011, PZU submitted an appeal to the Appellate Court in Warsaw. On 5 July 2012, the Appellate Court in Warsaw repealed the 14 November 2011 judgment of the Court for Competition and Consumer Protection and returned the case for re-examination. On 18 January 2013, the Court for Competition and Consumer Protection rescinded in its entirety the decision of the President of the Antimonopoly Office of 30 December 2009. On 6 March 2013, the Court for Competition and Consumer Protection received an appeal from the President of the Office for Competition and Consumer Protection against the judgment.

On 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court for Competition and Consumer Protection on 18 January 2013 by partial rescission of the decision issued by the President of the Office for Competition and Consumer Protection on 30 December 2009, dismissal of PZU's appeal of 18 January 2010 in relation to the contractual provisions violating Article 813 § 1 of the Civil Code, and reduction of the fine to PLN 1,644 thousand. The verdict of 6 November 2013 is final and was implemented through payment of the awarded fine. A cassation complaint may be filed against the verdict with the Supreme Court within 2 months of receipt of the written justification for the judgment. PZU received the justification on 22 April 2014 hence the deadline for filing a cassation complaint elapses on 23 June 2014.

24.2.2. Penalties imposed in 2011

24.2.2.1. *Case concerning the reimbursement of the cost of renting a replacement vehicle*

In the decision of 18 November 2011 the President of the Antimonopoly Office imposed a cash penalty on PZU in the amount of PLN 11,287 thousand for employing a practice breaching the collective interests of consumers specified in art. 24 sections 1 and 2 of the Competition and Consumer Protection Law (Journal of Laws, No. 50 of 2007, Item 331 as amended), entailing the curtailment of PZU's scope of liability to consumers laying claim under the insurer's guarantee liability under compulsory motor third party liability insurance for the owner of a mechanical vehicle by:

- failing to recognize the very loss of the ability to use the damaged vehicle as a property loss and making the payment of indemnification for renting a replacement vehicle dependent upon the injured party demonstrating special circumstances associated with the necessity of renting a replacement vehicle;
- overlooking without justification the period of a car repair shop waiting for spare parts when determining the amount of the reimbursement for the cost of renting a replacement vehicle;

and he also ordered that PZU cease and desist from this practice.

The PZU Management Board does not concur with the decision or its legal and factual justification.

PZU submitted an appeal against this decision on 5 December 2011 (whereby this decision is not legally binding). In its appeal PZU raised a number of allegations.

At the hearing on 2 December 2013 the Regional Court in Warsaw issued a verdict in which it dismissed PZU's appeal and awarded the refund of litigation expenses from PZU to the UOKiK President. On 23 December 2013, PZU filed an appeal against this verdict which, as at the date of delivery of this interim report, has not been reviewed by the Appellate Court in Warsaw.

Notwithstanding the legal steps taken, PZU has also recognized a provision for this penalty, which amounted to PLN 11,287 thousand as at 31 March 2014, 31 December 2013 and 31 March 2013.

24.2.2.2. *Case concerning the sale of group ADD insurance*

In the decision of 30 December 2011 the President of the Antimonopoly Office imposed a cash penalty on PZU in the amount of PLN 56,605 thousand for employing a practice curtailing competition and breaching the ban prescribed by art. 6 section 1 sub-section 3 of the Competition and Consumer Protection Law entailing PZU and Maximus Broker Sp. z o.o. with its registered offices in Toruń ("Maximus Broker") entering into an agreement curtailing competition on the domestic market for selling ADD group insurance for children, adolescents and staff of educational units whereby the sales market was divided with respect to the entities involved by transferring PZU clients from the Kujawy-Pomeranian Region to be administered by Maximus Broker in exchange for recommending PZU insurance to these clients and at the same time he banned PZU from employing this practice he has alleged.

The PZU Management Board does not concur with the findings concerning the facts or the legal argumentation set forth in the decision. According to the PZU Management Board, not all the evidence was taken into account when making the decision and an erroneous legal qualification was made.

PZU submitted an appeal against this decision on 18 January 2012 (whereby this decision is not legally binding). In the appeal PZU pointed out among others that:

- no agreement (besides a brokerage commission agreement) was entered into by and between PZU and Maximus Broker;
- the President of the Antimonopoly Office erroneously grasps the principles of entering into insurance contracts with a broker;
- most of the insurance contracts entered into with Maximus Broker were entered into with other insurance undertakings besides PZU;
- PZU and Maximus Broker cannot and could not conduct competitive activity on the markets where they operate.

On 22 October 2012, PZU received a response on its appeal from the President of the Office for Competition and Consumer Protection, to which PZU replied on 5 November 2012. The hearing at which PZU's appeal will be reviewed was set for 5 September 2014.

Notwithstanding the appellate steps taken, PZU has also recognized a provision for this penalty, which amounted to PLN 56,605 thousand as at 31 March 2014, 31 December 2013 and 31 March 2013.

24.3. Proceedings of the Antimonopoly Office against PZU Życie

On 1 June 2005, the President of the Antimonopoly Office launched, at the request of several applicants, an antimonopoly procedure in the matter of a suspicion of PZU Życie's abuse of its dominating position in the group employee insurance market, which may constitute a breach of Article 8 of the Competition and Consumer Protection Act and Article 82 of the Treaty establishing the European Community. As a result of the procedure, on 25 October 2007 the President of the Antimonopoly Office imposed a fine on PZU Życie in the amount of PLN 50,384 thousand for hindering clients from taking advantage of the offers of the company's competitors.

The PZU Życie Management Board does not concur with the findings concerning the facts or the legal argumentation set forth in the decision. According to the PZU Życie Management Board, not all the evidence was taken into account when making the decision and an erroneous legal qualification was made and in effect it was groundlessly assumed that PZU Życie has a dominating position on the market.

PZU Życie appealed against that decision to the Competition and Consumer Protection Court (SOKiK). A total of 38 material law and formal law allegations against the decision of the President of the Antimonopoly Office were formulated in the appeal. On 31 May 2010, the Court rejected PZU Życie's appeal based on the circumstance that the decision issued by the President of the Antimonopoly Office on 25 October 2007 was improperly delivered to PZU Życie and thus the prescription period for the submission of PZU Życie's appeal against the decision did not start yet. Both parties appealed against the Court's decision. After examining the claimant's and the respondent's complaints, on 26 October 2010 the court of second instance resolved to quash the appealed decision. On 17 February 2011, the Regional Court in Warsaw – the Court for Competition and Consumer Protection issued a judgment partially changing the appealed decision but at the same time dismissing PZU Życie's appeal against the amount of the imposed penalty. On 6 May 2011, PZU Życie filed an appeal against this judgment.

In the judgment of 9 May 2013, the Court of Appeals in Warsaw agreed with PZU Życie's allegations and rescinded the judgment of the Court for Competition and Consumer Protection due to the invalidity of court proceedings, abolished the proceedings to the extent affected by the invalidity and remanded the case for reexamination by the Regional Court in Warsaw, the Court of Competition and Consumer Protection.

On 20 December 2013, a hearing was held before the Regional Court in Warsaw – Court for Competition and Consumer Protection. The announcement of the verdict was postponed twice due to the judge's illness. Consequently, on 17 January 2014 the hearing was opened and postponed again. After reviewing the case at the hearing on 14 March 2014 and closing the hearing, on 28 March 2014 the Court for Competition and Consumer Protection announced its verdict in which it dismissed PZU Życie's appeal and awarded refund of litigation expenses from PZU Życie in favor of the UOKiK President and participants.

On 31 March 2014 PZU Życie filed a petition to the Court for Competition and Consumer Protection for preparation of a justification of the verdict of 28 March 2014 and delivery of the verdict together with the justification. As at the date of submission of this interim report PZU has not received the justification. Within two weeks of the date of delivery of the verdict together with a justification PZU Życie will have the right to file an appeal against the Court for Competition and Consumer Protection to the Appellate Court.

Notwithstanding the appellate steps taken, PZU Życie has also recognized a provision for this penalty in the amount of PLN 50,384 thousand as at 31 March 2014, 31 December 2013 and 31 March 2013.

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

24.4.1. Proceedings before the Court of Arbitration at the National Chamber of Commerce in Warsaw

On 9 April 2010, the Court of Arbitration served PZU Życie with a statement of claim for payment in a case brought by CSC Computer Sciences Polska Sp. z o.o. ("CSC") against PZU Życie, in which CSC demanded payment of a total amount of EUR 8,437 thousand in connection with the implementation of the GraphTalk system in PZU Życie. Following the subsequent changes to the statement of claim, CSC pursued a payment of the total amount of PLN 35,663 thousand with interest accrued from the date of filing the statement of claim (i.e. from 31 March 2010) to the date of payment.

The amount pursued by the statement of claim encompasses CSC's claims on account of license fees, remuneration for the performance of implementation works, remuneration for computer system maintenance services, remuneration for repair services, fee for computer systems, liquidated damages and capitalized interest.

On 31 May 2010, in the rejoinder to the statement of claim, PZU Życie petitioned the Court of Arbitration to assert its temporary lack of jurisdiction to examine some of the claims and dismiss the statement of claim in its entirety. In PZU Życie's opinion, CSC's claims are either groundless or have never been proven.

Together with the rejoinder to the statement of claim, PZU Życie filed a counterclaim against CSC in which PZU Życie demanded payment of PLN 71,890 thousand as a refund of the remuneration collected by CSC under the agreement entered into with PZU Życie or as compensation for the improper performance of CSC's obligations arising out of that agreement. In its rejoinder to the counterclaim dated 31 August 2010, CSC petitioned the Court of Arbitration to dismiss PZU Życie's claim in its entirety, indicating the absence of grounds to accept PZU Życie's claim.

On 31 January 2012, a hearing was held before the Court of Arbitration at the National Chamber of Commerce in Warsaw and on 19 June 2012, the Court of Arbitration closed the hearing. After the submission of a pleading by CSC with another modification of its statement of claim, the Court of Arbitration opened a hearing.

On 18 December 2012, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw issued a judgment ("Judgment") awarding the amount of PLN 17,193 thousand from PZU Życie to CSC and discontinued the proceedings in respect of the main action pertaining to the request for payment of EUR 8,437 thousand plus statutory interest on this amount from the date of filing the statement of claim. Furthermore, the Court of Arbitration dismissed the main action pertaining to its remaining part, dismissed the counterclaim and awarded the amount of PLN 199 thousand from PZU Życie to CSC for the costs of the proceedings.

24.4.2. Enforcement-warrant proceedings

On 23 January 2013, CSC filed with the Regional Court in Warsaw a petition to declare the enforceability of the Judgment and attach an enforcement warrant to it.

On 15 March 2013, the Regional Court in Warsaw, following CSC's request of 23 January 2013 issued a ruling to grant the Judgment an enforcement warrant.

On 18 March 2013, PZU Życie filed a complaint with the Regional Court in Warsaw against the ruling of 15 March 2013, requesting suspension of its execution, to which on 22 March 2013 the Court issued a decision to suspend the execution of the ruling until the time of adjudicating PZU Życie's complaint of 18 March 2013. On 4 April 2013, CSC provided the Court with a reply to PZU Życie's complaint, requesting that it be dismissed in its entirety. The examination of the complaint has been suspended by the Court of Appeals pending the examination of PZU's complaint filed with the Regional Court to rescind the judgment.

24.4.3. Proceedings on PZU Życie's complaint to rescind the Judgment

On 1 February 2013, PZU Życie filed a complaint with the Regional Court in Warsaw to rescind the Judgment and suspend the execution of the Judgment in the part awarding the amount of PLN 17,193 thousand from PZU Życie to CSC, dismissing the counterclaim and awarding the amount of PLN 199 thousand from PZU Życie for the costs of the proceedings. PZU Życie also requested in its complaint to award from CSC reimbursement of the costs of the proceedings, including the costs of legal representation in accordance with prescribed standards and have the Regional Court in Warsaw request the Court of Arbitration at the Polish Chamber of Commerce in Warsaw to provide the Court with the files of the arbitration proceedings to enable the Court to decide whether grounds exist for rescinding the Judgment.

Following an exchange of pleadings filed by CSC and PZU Życie, by ruling of 15 April 2013 the Regional Court in Warsaw dismissed PZU Życie's request to suspend the execution of the Judgment as premature, because the Regional Court in Warsaw (in the case described in item 24.4.2) did not establish the enforceability of the Judgment issued by the court of arbitration, as it is impossible to suspend the execution of a judgment which is not subject to execution by way of enforcement.

In the verdict of 12 November 2013 the Regional Court dismissed the complaint for rescission of the verdict. PZU submitted an appeal to the Appellate Court in Warsaw against the judgment issued on 12 November 2013. On 17 February 2014, a reply to the appeal was delivered.

By the date of this interim consolidated report, no hearing date has been set.

24.4.4. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw on the statement of claim for payment and settlement proceedings before the District Court for the Capital City of Warsaw in a case for payment.

On 29 March 2013, CSC brought action to the Court of Arbitration at the Polish Chamber of Commerce against PZU Życie with a claim for payment of the total amount of PLN 6,690 thousand plus interest from the date of filing the statement of claim to the date of payment in respect of:

- PLN 6,064 thousand – payment of statutory interest (on the amounts awarded by a judgment of the court of arbitration of 18 December 2012, as described in item 24.4.1) from 1 April 2010 (the day following the date of filing the statement of claim by CSC in the case described in item 24.4.1 to 18 December 2012);
- PLN 626 thousand – payment of statutory interest on the amounts awarded by the aforementioned judgment of the court of arbitration from 19 December 2012 to the date of filing the statement of claim.

On 15 May 2013, PZU Życie submitted a rejoinder to the statement of claim. On 3 September 2013 and 4 March 2014 hearings were held after which pleadings were exchanged. By virtue of its decision of 14 April 2014, the Court of Arbitration closed the hearing. In its award of 24 April 2014 the Court of Arbitration awarded to CSC from PZU Życie PLN 2,397 thousand plus interest from the date of the award until the date of payment, the net amount of PLN 40 thousand as reimbursement for the arbitration fee, the amount of PLN 1 thousand as reimbursement of the registration fee and PLN 18 thousand as reimbursement for the costs of legal representation. The Court of Arbitration dismissed the rest of CSC’s statement of claim. At the same time, the Court of Arbitration awarded to PZU Życie from CSC the amount of PLN 32 thousand as reimbursement for the costs of legal representation.

After analyzing the justification for the award PZU Życie will make a decision on next steps, including on the matter of possibly submitting a complaint against the Court of Arbitration’s ruling.

24.5. Notification of PZU’s claim to the bankruptcy estate of companies of the PBG Capital Group

PZU executed with PBG SA with its registered office in Wysogotowo near Poznań (currently, PBG SA in composition bankruptcy – hereinafter: "PBG") and Hydrobudowa Polska SA (currently, Hydrobudowa Polska SA in liquidation bankruptcy – hereinafter: "Hydrobudowa") with its registered office in Wysogotowo near Poznań mandate agreements for periodic granting of insurance guarantees (contractual guarantees). Under these agreements, PZU issued insurance guarantees on the condition that in the event of PZU’s payment of the pecuniary consideration on the basis of the issued insurance guarantees, the clients, i.e. PBG and Hydrobudowa, would be obligated to repay to PZU the amounts disbursed under the guarantees.

In 2012, bankruptcy proceedings were initiated before the District Court in Poznań against PBG and Hydrobudowa. On 21 September 2012, PZU joined the bankruptcy proceedings by notifying its claims to the bankruptcy estate of the two companies.

PBG and Hydrobudowa are members of the same capital group where PBG is the parent company and they have guaranteed one another's liabilities. All the receivables reported as claims to Hydrobudowa's bankruptcy estate in the amount of PLN 100,996 thousand are consequently also reported as claims to PBG's bankruptcy estate. Out of the above receivables:

- PLN 33,747 thousand were receivables where PBG extended surety for the liabilities under guarantees issued to the order of Hydrobudowa;
- PLN 67,249 thousand were receivables where Hydrobudowa extended surety for the liabilities under guarantees issued to the order of PBG;

PZU’s claims to PBG’s bankruptcy estate, after being reviewed by a court commissioner and after being verified by a court supervisor, have been entered in the list of claims in the amount of PLN 103,014 thousand.

24.6. Receivable resulting from the mortgage-backed loan agreement with Metro-Projekt Sp. z o.o.

In 1999, PZU Życie granted a mortgage-backed loan to Metro-Projekt Sp. z o.o. (hereinafter: "Metro-Projekt") for five years. The loan amount was the equivalent of USD 25,500 thousand. The loan was secured with a capped mortgage instituted on the real estate located in Warsaw at al. Jerozolimskie 44, consisting of the perpetual usufruct right to the land and a building owned by Metro-Projekt.

The loan was not repaid, and the bankruptcy of Metro-Projekt was declared in November 2002.

On 15 September 2004, the receiver of Universal SA in bankruptcy (hereinafter: "Universal") filed an application with the Regional Court in Warsaw to remove the real estate in Warsaw at Al. Jerozolimskie 44 from the bankrupt's estate of Metro-Projekt Sp. z o.o. in connection with a notice, entered in Section III of the mortgage book, about the pending proceeding between Universal and BI Code SA ("BI Code") to declare invalid the transaction of the sale of the real estate by Universal to BI Code, from which Metro-Projekt purchased the real estate. Due to the above, on 21 September 2004, the Regional Court in Warsaw issued a decision to suspend the winding up of the estate of Metro-Projekt Sp. z o.o. until the claim to exclude the real estate from the bankrupt's estate is resolved.

The claim for declaring invalid the agreement to transfer perpetual usufruct right to the land and the ownership title to the office building located in Warsaw, Aleje Jerozolimskie 44 was resolved on 7 March 2006: the Appellate Court in Warsaw dismissed Universal's claim against BI Code. However, in August 2006, the receiver of Universal in bankruptcy filed a cassation complaint to the Supreme Court against the above decision.

As soon as the verdict of the Appellate Court of 7 March 2006 became effective, Metro-Projekt filed an application to delete the notice from Section III of the mortgage book about the pending court proceeding resulting from the claim filed by Universal against BI Code to declare the above sale agreement invalid. The decision to delete the entry was issued on 3 November 2006.

On 14 March 2007, the Supreme Court overruled the verdict of the Appellate Court and decided that the Appellate Court should re-examine the case. On 21 November 2007, the Appellate Court overruled the verdict of the Regional Court and decided that the Regional Court should re-examine the case.

On 11 September 2009, the Regional Court issued a verdict in the case filed by the receiver of Universal's bankruptcy estate against the receiver of BI Code's bankruptcy estate to rule invalidity of the sale of the perpetual usufruct right and the ownership title to the building concluded between Universal and BI Code, in which it ruled invalidity of the aforementioned sale agreement. The receiver of BI Code's bankruptcy estate appealed against the foregoing verdict, which was overruled in the verdict of 29 July 2010. The receiver of BI Code's bankruptcy estate then filed a cassation complaint against the Appellate Court's verdict, which was not accepted and accordingly, the proceedings were closed.

In January 2011, the receiver of Metro-Projekt's bankruptcy estate filed for recommencement of the proceedings suspended in 2005 in the case pending before the Regional Court filed by the receiver of Universal's bankruptcy estate, to exclude the perpetual usufruct right and a separate ownership title to a building located on the property from Metro-Projekt's bankruptcy estate. On 30 May 2011, the Regional Court dismissed Universal's claim in this case.

The verdict was not effective: on 12 September 2011, the receiver of Universal's bankruptcy estate filed an appeal. In a decision of 23 February 2012, the Regional Court in Warsaw dismissed the claim filed by the receiver of Universal's bankruptcy estate to exclude the real property at Al. Jerozolimskie 44 in Warsaw from Metro Projekt's bankruptcy estate. The proceeding ended with a legally effective judgment.

In a motion of 9 May 2012, the receiver of Metro-Projekt's bankruptcy estate requested permission from the Commissioner Judge to conclude a settlement with the receiver of Universal's bankruptcy estate concerning the disputed claims between both bankruptcy estates. After the settlement was concluded, in exchange for Universal's bankruptcy estate waiving all the claims, the Metro-Projekt's bankruptcy estate was to be charged with an additional amount of PLN 5,722 thousand in favor of Universal's bankruptcy estate. The Commissioner Judge approved the settlement deal in his decision of 31 May 2012. The decision is legally effective.

(in thousands of PLN)

As the receiver of Universal's bankruptcy estate has submitted a representation in the form of a notary deed that it irrevocably waives any claims against Metro-Projekt, the receiver of Metro-Projekt's bankruptcy estate paid the above amount to Universal's bankruptcy estate on 5 July 2012.

On 10 January 2013, 18 March 2013, 19 June 2013 and 30 September 2013 the receiver of Metro-Projekt's bankruptcy estate announced the sale of the enterprise of the bankrupt company in an unconstrained purchase procedure, with the reservation that the sale will be conducted in the form of an auction tender. The bidding price for the enterprise was PLN 110 million, PLN 99 million, PLN 93 million and PLN 90 million, respectively. In all cases, due to a lack of bids, the procedure was not performed.

The PZU Management Board believes that the mortgage entered in favor of PZU Życie exists and that PZU Życie has the right of satisfaction from each owner.

25. Other information

25.1. Evaluation of the PZU Group companies' standing by rating agencies

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. They also contain a rating outlook, i.e. an evaluation of the company's future situation in the event of the occurrence of certain specific circumstances.

As at the date of conveying this interim report, PZU and PZU Życie had a financial strength and credit rating of A (awarded by Standard & Poor's Ratings Services on 16 July 2009), subsequently reviewed at least once a year (the dates of the most recent updates have been presented in the table below).

As at the date of conveying this interim report, Poland's long-term credit rating in the local currency was A with a stable outlook, while Poland's credit rating for long-term debt denominated in a foreign currency was A- with a stable outlook.

On 26 November 2013 S&P put PZU on its CreditWatch Neg. This was related to a change in the rating methodology linking the company's rating with the long-term sovereign rating for debts in foreign currencies to which risk the company is particularly exposed.

In its release of 25 March 2014, S&P confirmed PZU's rating at the level "A" with a stable outlook. This means that PZU has successfully undergone the rating process based on the new criteria and its current financial strength rating is higher than Poland's rating for debt denominated in a foreign currency.

The table below presents ratings assigned to PZU and PZU Życie by S&P, together with those of the previous year.

Company name	Rating and outlook	Date awarded / updated	Previous rating and outlook	Date awarded / updated
PZU				
Financial strength rating	A /stable/	25 March 2014	A /watch/	26 November 2013
Credit rating	A /stable/	25 March 2014	A /watch/	26 November 2013
PZU Życie				
Financial strength rating	A /stable/	25 March 2014	A /watch/	26 November 2013
Credit rating	A /stable/	25 March 2014	A /watch/	26 November 2013

25.2. Changes in the composition of PZU's management and supervisory bodies

25.2.1. PZU Management Board

From 1 January 2014 to the date of conveying this interim report, the PZU Management Board consisted of the following persons:

- Andrzej Klesyk – President of the PZU Management Board (CEO);
- Przemysław Dąbrowski – Member of the PZU Management Board;

- Dariusz Krzewina – Member of the PZU Management Board;
- Barbara Smalska – Member of the PZU Management Board;
- Tomasz Tarkowski – Member of the PZU Management Board;
- Ryszard Trepczyński – Member of the PZU Management Board.

25.2.2. PZU Supervisory Board

From 1 January 2014 until the date of conveying this interim report, the following persons sat on the PZU Supervisory Board:

- Waldemar Maj – Supervisory Board Chairman;
- Zbigniew Ćwiąkalski – Supervisory Board Deputy Chairman;
- Tomasz Zganiacz – Supervisory Board Secretary;
- Dariusz Daniluk – Supervisory Board Member;
- Zbigniew Derdziuk – Supervisory Board Member;
- Dariusz Filar – Supervisory Board Member;
- Włodzimierz Kiciński – Supervisory Board Member;
- Alojzy Nowak – Supervisory Board Member;
- Maciej Piotrowski – Supervisory Board Member.

25.2.3. PZU Group Directors

Apart from Management Board Members, key managers in the PZU Group also comprise Group Directors who also sit on the Management Board of PZU Życie.

As at 1 January 2014, the following persons were PZU Group Directors:

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

On 15 January 2014 the PZU Management Board entrusted to Tobiasz Bury the function of PZU Group Director – as of 16 January 2014.

25.3. Transactions with related entities

25.4. Execution, by PZU or its subsidiaries, of material transactions with related entities on terms other than based on an arm’s length principle

In the 3-months period ended 31 March 2014, neither PZU nor its subsidiaries executed any single or multiple transactions with their related entities which were of material significance individually or collectively and were executed on terms other than based on an arm’s length principle.

(in thousands of PLN)

25.5. Amounts and balances of transactions executed with related entities

Amounts and balances of commercial transactions between the PZU Group and related entities	Gross written premium in non-life insurance	Gross written premium in life insurance (including the volumes from unit-linked contracts)	Other revenues	Costs	– including charges for receivables made in the current period	Receivables gross value	Receivables revaluation charges	Receivables value net	Liabilities	Contingent assets	Contingent liabilities
1 January – 31 March 2014 and as at 31 March 2014											
Key managers of the main entities [1]	-	-	-	-	-	-	-	-	-	-	-
Other related entities [2]	-	-	-	-	-	-	-	-	-	-	-
1 January – 31 December 2013 and as at 31 December 2013											
Key managers of the main entities [1]	-	-	-	-	-	-	-	-	-	-	-
Other affiliated entities	-	-	15	-	-	8,308	(8,306)	2	-	-	-
1 January – 31 March 2013 and as at 31 March 2013											
Key managers of the main entities [1]	-	-	-	-	-	-	-	-	-	-	-
Other affiliated entities	-	-	6	-	-	8,306	(8,306)	-	-	-	-

[1] Members of the management boards of the PZU Group companies subject to consolidation and PZU Group Directors.
[2] Syta Development Sp. z o.o. in liquidation (unconsolidated) .

(in thousands of PLN)

25.6. Transactions with subsidiaries of the State Treasury

Taking into account the provisions of the PZU Articles of Association (in particular those pertaining to the restriction of voting rights of shareholders other than the State Treasury and the rules for appointing the PZU Supervisory Board), for the purposes of presenting the amounts and balances of transactions executed with related entities it is assumed that the State Treasury retained control over PZU within the meaning of IAS 10, and, as a consequence, PZU is still a subsidiary of the State Treasury.

For the purposes of this item, "subsidiaries, co-subsidiaries and associates of the State Treasury" should be construed only as commercial law companies and state-owned companies which are subsidiaries, co-subsidiaries or associates of the State Treasury and listed as such on the State Treasury Ministry's website.

Transactions with subsidiaries, co-subsidiaries and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and unit-linked contracts.

The PZU Group applies the exemption from the requirement to disclose transactions with entities related by virtue of remaining under control, shared control or significant influence of the same government referred to in item 25 of IAS 24, however due to the usefulness of such information, it decided to disclose the value of the written premium and volumes from the investment contracts following from transactions with subsidiaries, co-subsidiaries and associates of the State Treasury.

The table below presents written premium and volumes from unit-linked contracts resulting from transactions with subsidiaries, co-subsidiaries and associates of the State Treasury executed and settled on terms and conditions available to unrelated clients.

Subsidiaries, co-subsidiaries and associates of the State Treasury	1 January - 31 March 2014	1 January - 31 March 2013
Gross written premium in non-life insurance	9,281	19,745
Gross written premium in life insurance	7,772	6,071
Volumes from unit-linked contracts of PZU Życie	-	-
Total	**17,053**	**25,816**

The following tables contain data on written premium and volumes from unit-linked contracts in bancassurance transactions with the State Treasury's subsidiary or associate banks.

Gross written premium and volumes in investment contracts	1 January - 31 March 2014	1 January - 31 March 2013
Bank Powszechna Kasa Oszczędności BP SA	**9,583**	**13,501**
Gross written premium of PZU	1,811	7,430
Gross written premium of PZU Życie	7,772	6,071
Volumes from unit-linked contracts of PZU Życie	-	-
Bank Gospodarstwa Krajowego SA	**-**	**71**
Gross written premium of PZU	-	71

(in thousands of PLN)

PZU's QUARTERLY UNCONSOLIDATED FINANCIAL INFORMATION (in compliance with PAS)

1. Interim balance sheet

ASSETS	31 March 2014	31 December 2013	31 March 2013
I. Intangible assets, including:	233,366	244,582	126,529
- goodwill	-	-	-
II. Investments	29,211,938	27,609,398	28,745,809
1. Real property	509,986	515,161	558,466
2. Investments in subordinated entities, of which:	5,319,350	4,957,219	7,543,036
- investments in subordinated entities measured by the equity method	5,319,350	4,957,219	7,515,916
3. Other financial investments	23,379,734	22,134,104	20,640,951
4. Deposit receivables from ceding companies	2,868	2,914	3,356
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	1,628,927	1,496,637	1,701,829
1. Receivables on direct insurance	1,330,098	1,282,803	1,345,724
1.1. From subordinated entities	15	15	214
1.2. From other entities	1,330,083	1,282,788	1,345,510
2. Receivables on reinsurance	34,993	18,229	24,072
1.1. From subordinated entities	524	30	22
1.2. From other entities	34,469	18,199	24,050
3. Other receivables	263,836	195,605	332,033
1.1. Receivables from the state budget	34,245	33,968	82,425
1.2. Other receivables	229,591	161,637	249,608
a) from subordinated entities	35,887	43,112	47,053
b) from other entities	193,704	118,525	202,555
V. Other asset components	177,966	179,203	144,272
1. Tangible asset components	102,746	104,194	94,615
2. Cash resources	75,220	75,009	49,657
3. Other asset components	-	-	-
VI. Prepayments and accruals	629,762	606,752	594,468
1. Deferred tax assets	-	2,877	17,183
2. Capitalized acquisition expenses	550,702	520,305	505,155
3. Posted interest and rents	-	-	-
4. Other accruals	79,060	83,570	72,130
Total assets	**31,881,959**	**30,136,572**	**31,312,907**

(in thousands of PLN)

Interim balance sheet (continued)

LIABILITIES AND EQUITY	31 March 2014	31 December 2013	31 March 2013
I. Equity	13,058,372	12,259,761	14,164,492
1. Share capital	86,352	86,352	86,352
2. Unpaid share capital (negative figure)	-	-	-
3. Treasury stock (negative figure)	-	-	-
4. Supplementary capital	3,974,673	3,974,327	3,967,600
5. Revaluation reserve	5,317,452	4,819,783	7,034,714
6. Other reserve capital	-	-	-
7. Retained earnings (losses)	3,379,299	-	2,580,720
8. Net profit (loss)	300,596	5,106,345	495,106
9. Charges to net profit during the financial year (negative figure)	-	(1,727,046)	-
II. Subordinated debt	-	-	-
III. Technical provisions	16,876,715	16,519,014	16,086,898
IV. Reinsurers' share in technical provisions (negative figure)	(492,156)	(482,520)	(529,567)
V. Estimated recoveries and recourses (negative figure)	(116,314)	(123,552)	(103,274)
1. Gross estimated recoveries and recourses	(119,414)	(126,669)	(105,507)
2. Reinsurer's share in estimated recoveries and recourses	3,100	3,117	2,233
VI. Other provisions	228,895	165,228	216,148
1. Provisions for pension benefits and other compulsory employee benefits	91,040	83,251	79,015
2. Deferred tax provision	55,462	-	-
3. Other provisions	82,393	81,977	137,133
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,875,278	1,280,359	1,084,064
1. Liabilities on direct insurance	305,233	313,346	322,349
1.1. To subordinated entities	324	1,087	1,125
1.2. To other entities	304,909	312,259	321,224
2. Reinsurance liabilities	69,291	28,759	69,287
2.1. To subordinated entities	-	-	-
2.2. To other entities	69,291	28,759	69,287
3. Liabilities on the issue of own debt securities and borrowings taken out	-	-	-
4. Liabilities to credit institutions	54,781	-	100,617
5. Other liabilities	1,301,984	797,693	482,811
5.1. Liabilities to the budget	23,840	49,864	69,795
5.2. Other liabilities	1,278,144	747,829	413,016
a) to subordinated entities	20,775	221,655	71,474
b) to other entities	1,257,369	526,174	341,542
6. Special purpose funds	143,989	140,561	109,000
IX. Prepayments and accruals	451,169	518,282	394,146
1. Accrued expenses	433,490	501,342	379,355
2. Negative goodwill	-	-	-
3. Deferred income	17,679	16,940	14,791
Total liabilities and equity	**31,881,959**	**30,136,572**	**31,312,907**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2014	31 December 2013	31 March 2013
Book value	13,058,372	12,259,761	14,164,492
Number of shares	86,352,300	86,352,300	86,352,300
Book value per share (in PLN)	151.22	141.97	164.03
Diluted number of shares	86,352,300	86,352,300	86,352,300
Diluted book value per share (PLN)	151.22	141.97	164.03

2. Interim statement of off-balance sheet line items

Off-balance sheet line items	31 March 2014	31 December 2013	31 March 2013
1. Conditional receivables, including:	8,030,193	7,769,202	8,861,746
1.1. Guarantees and sureties received	19,586	19,586	17,746
1.2. Other [1]	8,010,607	7,749,616	8,844,000
2. Contingent liabilities, including:	89,494	95,616	209,643
2.1. Guarantees and sureties given	4,530	6,385	6,040
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-
2.5. Disputed claims not accepted by the insurance company and pursued by debtors by litigation	84,657	88,924	202,839
2.6. Other	-		
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party asset components not captured in the assets	111,930	112,901	145,283
6. Other off-balance sheet line items	-	-	-

Shareholder funds	10,356,012	9,505,612	11,661,815
Equity Solvency margin	1,351,521	1,362,353	1,348,689
Surplus (deficiency) of shareholder funds covering the solvency margin	9,004,491	8,143,259	10,313,126
Technical provisions[2]	16,757,301	16,392,345	15,981,391
Assets covering the technical provisions	18,905,871	18,941,151	19,118,468
Surplus (deficiency) of assets covering the technical provisions	2,148,570	2,548,806	3,137,077

[1] This item includes predominantly: bills of exchange issued on account of granted bank guarantees, other bills of exchange, collateral received in the form of a transfer of ownership of the debtor's assets, mortgage on the debtor's assets, other contingent receivables, etc.

[2] including estimated gross recoveries and recourses

(in thousands of PLN)

3. Interim technical non-life insurance account

Technical non-life insurance account	**1 January - 31 March 2014**	**1 January - 31 March 2013**
I. Premiums (1-2-3+4)	1,936,914	2,010,456
1. Gross written premium	2,282,005	2,320,428
2. Reinsurers' share in the gross written premium	43,585	19,012
3. Change in the provision for unearned premiums and for unexpired risks	297,309	267,085
4. Reinsurers' share in the change in the provision for unearned premiums	(4,197)	(23,875)
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	66,992	74,932
III. Other net technical income	19,966	20,006
IV. Claims (1+2)	1,061,509	1,111,292
1. Net claims paid	1,007,844	882,087
1.1. Gross claims paid	1,025,924	1,034,460
1.2. Reinsurers' share in claims paid	18,080	152,373
2. Change in the net provision for outstanding claims	53,665	229,205
2.1. Change in the gross provision for outstanding claims	67,515	61,643
2.2. Reinsurers' share in the change in the provision for outstanding claims	13,850	(167,562)
V. Change in other net technical provisions	-	-
1. Change in other gross technical provisions	-	-
2. Reinsurers' share in the change in other technical provisions	-	-
VI. Net bonuses and discounts with the change in provisions	275	832
VII. Insurance activity expenses	504,569	416,591
1. Acquisition expenses, including:	356,805	342,750
- change in capitalized acquisition expenses	(30,396)	(14,870)
2. Administrative expenses	151,386	150,451
3. Reinsurance commissions and sharing in the reinsurers' profits	3,622	76,610
VIII. Other net technical income	91,455	105,517
IX. Change in loss ratio (risk) equalization provisions	-	-
X. Technical result on non-life insurance	**366,064**	**471,162**

(in thousands of PLN)

4. Interim non-technical profit and loss account

Non-technical profit and loss account	1 January - 31 March 2014	1 January - 31 March 2013
I. Technical result on non-life insurance or life insurance	366,064	471,162
II. Investment income	170,023	287,538
1. Investment income on real estate	1,504	1,629
2. Investment income from subordinated entities	-	-
2.1. on ownership interests or shares	-	-
2.2. on borrowings and debt securities	-	-
2.3. on other investments	-	-
3. Other financial investment income	101,026	183,548
3.1. on ownership interests, shares, other variable income securities, units and investment certificates in mutual funds	2,844	864
3.2. on debt securities and other fixed income securities	83,297	148,141
3.3. on term deposits in credit institutions	468	17,385
3.4. on other investments	14,417	17,158
4. Gain on investment revaluation	4,780	33
5. Gain on investment realization	62,713	102,328
III. Unrealized investment gains	84,078	46,520
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	96,141	74,878
1. Real estate maintenance expenses	3,304	3,497
2. Other investment activity expenses	2,487	5,994
3. Loss on investment revaluation	3,841	6,071
4. Loss on investment realization	86,509	59,316
VI. Unrealized investment losses	66,637	55,141
VII. Net investment income after including costs transferred to the technical non-life insurance account	66,992	74,932
VIII. Other operating income	20,992	18,410
IX. Other operating expenses	14,767	9,757
X. Operating profit (loss)	396,620	608,922
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Gross profit (loss)	396,620	608,922
XIV. Income tax	91,189	116,639
a) current part	63,555	97,459
b) deferred part	27,634	19,180
XV. Other compulsory reductions in profit (increase in losses)	-	-
XVI. Share of the net profit (loss) of subordinated entities measured by the equity method	(4,835)	2,823
XVII. Net profit (loss)	**300,596**	**495,106**

(in thousands of PLN)

Net profit (loss)	300,596	495,106
Weighted average number of common shares	86,352,300	86,352,300
Profit (loss) per common share (PLN)	3.48	5.73
Weighted average diluted number of common shares	86,352,300	86,352,300
Diluted earnings (losses) per common share (PLN)	3.48	5.73

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2014	1 January – 31 December 2013	1 January – 31 March 2013
I. Equity at the beginning of the period (opening balance)	12,259,761	13,452,581	13,452,581
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after reconciliation with comparable data	12,259,761	13,452,581	13,452,581
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Contributions due to the share capital at the beginning of the period	-	-	-
2.1. Changes in the contributions due to share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
2.2. Contributions due to share capital at the end of the period	-	-	-
3. Treasury stock at the beginning of the period	-	-	
3.1. Changes in treasury stock	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
3.2. Treasury stock at the end of the period	-	-	-
4. Supplementary capital at the beginning of the period	3,974,327	3,967,599	3,967,599
4.1. Change in supplementary capital	346	6,728	1
a) increases (by virtue of):	346	6,728	1
- distribution of profit (above the amount statutorily required)	-	6,057	-
- from revaluation reserve – by sale and liquidation of fixed assets	346	671	1
b) decreases	-	-	-
4.2. Supplementary capital at the end of the period	3,974,673	3,974,327	3,967,600
5. Revaluation reserve at the beginning of the period	4,819,783	6,817,910	6,817,910
- changes in the accepted accounting principles (policy)	-	-	-
5.1. Change in the revaluation reserve	497,669	(1,998,127)	216,804
a) increases (by virtue of):	531,710	549,837	336,373
- valuation of financial investments	531,562	549,086	335,622
- transfer of the impairment charges on investments available for sale	-	751	751
- other increases, including dissolution of real estate impairment charges	148	-	-
b) decreases (by virtue of)	34,041	2,547,964	119,569
- valuation of financial investments	33,695	2,545,012	119,523
- sale of fixed assets	346	671	1
- other	-	2,281	45
5.2. Revaluation reserve at the end of the period	5,317,452	4,819,783	7,034,714

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2014	1 January – 31 December 2013	1 January – 31 March 2013
6. Other reserve capital at the beginning of the period	-	-	-
6.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
6.2. Other reserve capital at the end of the period	-	-	-
7. Retained earnings (losses) at the beginning of the period	3,379,299	2,580,720	2,580,720
7.1. Retained earnings at the beginning of the period	3,379,299	2,580,720	2,580,720
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.2. Retained earnings at the beginning of the period, after reconciliation with comparable data	3,379,299	2,580,720	2,580,720
a) increases	-	-	-
b) decreases	-	2,580,720	-
- transfers to supplementary capital	-	6,057	-
- disbursement of dividends	-	2,564,663	-
- transfers to/charges for the Company Employee Benefit Fund	-	10,000	-
7.3. Retained earnings at the end of the period	3,379,299	-	2,580,720
7.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.5. Retained losses at the beginning of the period, after reconciliation with comparable data	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
7.6. Retained losses at the end of the period	-	-	-
7.7. Retained earnings (losses) at the end of the period	3,379,299	-	2,580,720
8. Net result	300,596	3,379,299	495,106
a) net profit	300,596	5,106,345	495,106
b) net loss	-	-	-
c) charges to profits	-	(1,727,046)	-
II. Equity at the end of the period (Closing Balance)	**13,058,372**	**12,259,761**	**14,164,492**

(in thousands of PLN)

6. Interim cash flow statement

Cash Flow Statement	**1 January – 31 March 2014**	**1 January – 31 December 2013**	**1 January – 31 March 2013**
A. Cash flow on operating activity			
I. Proceeds	2,429,146	9,533,864	2,649,347
1. Proceeds on direct activity and inward reinsurance	2,282,915	8,474,096	2,300,222
1.1. Proceeds on gross premiums	2,242,797	8,304,035	2,250,886
1.2. Proceeds on recoveries, recourses and claim refunds	31,590	131,572	39,073
1.3. Other proceeds on direct activity	8,528	38,489	10,263
2. Proceeds on outward reinsurance	16,625	340,039	226,705
2.1. Payments received from reinsurers for their share of claims paid	14,635	272,071	155,891
2.2. Proceeds on reinsurance commissions and profit-sharing	1,964	67,927	70,814
2.3. Other proceeds from outward reinsurance	26	41	-
3. Proceeds on other operating activity	129,606	719,729	122,420
3.1. Proceeds for acting as an emergency adjuster	54,842	229,061	67,884
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	360	3,935	1,056
3.3. Other proceeds	74,404	486,733	53,480
II. Expenditures	1,999,211	8,457,860	2,039,339
1. Expenditures on direct activity and inward reinsurance	1,619,524	6,663,528	1,631,617
1.1. Returns of gross premiums	38,443	186,430	53,168
1.2. Gross claims paid	878,449	3,726,114	901,918
1.3. Acquisition expenditures	288,451	1,042,740	258,092
1.4. Administrative expenditures	347,549	1,473,446	364,354
1.5. Expenditures for claims handling and pursuit of recoveries	33,867	121,214	29,472
1.6. Commissions paid and profit-sharing on inward reinsurance	2,223	1,685	685
1.7. Other expenditures on direct activity and inward reinsurance	30,542	111,899	23,928
2. Expenditures on outward reinsurance	62,180	182,268	74,743
2.1. Premiums paid for reinsurance	62,126	181,973	74,731
2.2. Other expenditures on outward reinsurance	54	295	12
3. Expenditures on other operating activity	317,507	1,612,064	332,979
3.1. Expenditures for acting as an emergency adjuster	120,637	463,108	129,974
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	38,377	162,350	42,394
3.3. Other operating expenditures	158,493	986,606	160,611
III. Net cash flow on operating activity (I-II)	**429,935**	**1,076,004**	**610,008**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash Flow Statement	1 January – 31 March 2014	1 January – 31 December 2013	1 January – 31 March 2013
B. Cash flow on investing activity			
I. Proceeds	48,520,526	177,071,640	33,077,480
1. Sale of real estate	5,866	10,127	33
2. Sale of ownership interests and shares in subordinated entities	-	265	-
3. Sale of ownership interests and shares in other entities and units and investment certificates in mutual funds	-	280,804	-
4. Realization of debt securities issued by subordinated entities and amortization of granted to these entities	-	-	-
5. Realization of debt securities issued by other entities	2,487,990	26,745,642	3,137,868
6. Liquidation of term deposits in credit institutions	10,706,484	42,649,055	11,007,333
7. Realization of other investments	35,310,000	105,188,546	18,915,136
8. Proceeds from real estate	2,159	7,773	2,387
9. Interest received	8,024	675,864	14,723
10. Dividends received	3	1,513,564	-
11. Other investment proceeds	-	-	-
II. Expenditures	48,803,684	174,143,656	33,781,543
1. Purchase of real estate	-	-	-
2. Purchase of ownership interests and shares in subordinated entities	-	12,359	-
3. Purchase of ownership interests and shares in other entities, units and investment certificates in mutual funds	298,550	1,076,750	876,750
4. Purchase of debt securities issued by subordinated entities and extension of loans to these entities	-	-	-
5. Purchase of debt securities issued by other entities	2,254,942	24,618,519	2,958,174
6. Purchase of term deposits in credit institutions	10,768,501	41,914,984	11,009,987
7. Purchase of other investments	35,461,064	106,497,405	18,928,549
8. Expenditures to maintain real estate	18,792	16,546	3,865
9. Other expenditures for investments	1,835	7,093	4,218
III. Net cash flow on investing activity (I-II)	**(283,158)**	**2,927,984**	**(704,063)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash Flow Statement	1 January – 31 March 2014	1 January – 31 December 2013	1 January – 31 March 2013
C. Cash flow on financing activity			
I. Proceeds	603,232	5,254,172	591,761
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	603,232	5,254,172	591,761
3. Other financial proceeds	-	-	-
II. Expenditures	750,261	9,220,185	491,873
1. Dividends	-	4,166,166	18
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	750,247	5,054,019	491,855
5. Interest on loans and borrowings and issued debt securities	14	-	-
6. Other financial expenditures	-	-	-
III. Net cash flow on financing activity (I-II)	**(147,029)**	**(3,966,013)**	**99,888**
D. Total net cash flow (A.III±B.III±C.III)	**(252)**	**37,975**	**5,833**
E. Balance sheet change in cash balance, including:	211	33,397	8,045
- change in cash due to exchange differences	463	(4,578)	2,212
F. Cash at the beginning of the period	75,009	41,612	41,612
G. Cash at the end of the period (F+/-E), including:	75,220	75,009	49,657
- restricted cash	73,921	70,842	41,609

7. Introduction

This quarterly standalone financial information of PZU was prepared in accordance with Polish Accounting Standards for reasons described in the part entitled Introduction, in which PAS were also defined.

8. Key accounting principles (accounting policy)

Detailed accounting principles (accounting policy) are presented in the annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2013 prepared according to PAS, signed by the PZU Management Board on 11 March 2014 for which the auditor issued an unqualified opinion on the same date ("standalone financial statements of PZU for 2013").

The standalone financial statements of PZU for 2013 are available on the PZU website at www.pzu.pl in the "Investor Relations / Financial Information" tab.

9. Changes in accounting policies

In the 3-month period ended 31 March 2014 no changes were made to the accounting principles (policy).

(in thousands of PLN)

PZU's consolidated interim financial statements for the period of 3 months ended 31 March 2014 have been signed by:

Date	Full name	Position / Function	
14 May 2014	Andrzej Klesyk	President of the PZU Management Board	.... (signed)
14 May 2014	Przemysław Dąbrowski	PZU Management Board Member	.... (signed)
14 May 2014	Dariusz Krzewina	PZU Management Board Member	.... (signed)
14 May 2014	Barbara Smalska	PZU Management Board Member	.... (signed)
14 May 2014	Tomasz Tarkowski	PZU Management Board Member	.... (signed)
14 May 2014	Ryszard Trepczyński	PZU Management Board Member	.... (signed)
14 May 2014	Katarzyna Łubkowska	Director of the Accounting Department	.... (signed)