INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA
CAPITAL GROUP
FOR Q1 2012

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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 2012 ("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 (Journal of Laws No. 33 of 2009, Item 259 – "Regulation on current and periodic information").

Pursuant to Article 83 section 1 of the Regulation on current and periodic information, quarterly standalone 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 2009, No. 152 Item 1223, as amended, "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 standalone 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.

FINANCIAL HIGHLIGHTS

1. Selected consolidated financial data of the PZU Group

Data from the consolidated statement of financial position	thous. PLN 31 March 2012	thous. PLN 31 December 2011	thous. PLN 31 March 2011	thous. EUR 31 March 2012	thous. EUR 31 December 2011	thous. EUR 31 March 2011
Assets	55,328,867	52,129,282	53,640,564	13,295,095	11,802,500	13,370,364
Share capital	86,352	86,352	86,352	20,750	19,551	21,524
Capital and provisions attributed to holders of the parent's equity	13,702,003	12,783,162	13,646,489	3,292,484	2,894,213	3,401,503
Non-controlling interest	86,674	86,343	88,189	20,827	19,549	21,982
Total equity	13,788,677	12,869,505	13,734,678	3,313,311	2,913,762	3,423,485
Main 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)	158.68	148.03	158.03	38.13	33.52	39.39

Data from the consolidated profit and loss account	thous. PLN 1 January - 31 March 2012	thous. PLN 1 January - 31 March 2011	thous. EUR 1 January - 31 March 2012	thous. EUR 1 January - 31 March 2011
Gross written insurance premium	4,322,747	3,976,884	1,035,389	1,000,675
Net earned premium	3,868,858	3,572,134	926,673	898,831
Fee and commission income	60,002	78,273	14,372	19,695
Net result on investment activity	872,798	474,059	209,053	119,284
Net insurance claims	(2,776,882)	(2,400,828)	(665,121)	(604,103)
Gross profit (loss)	1,028,914	961,856	246,446	242,025
Net profit (loss) attributed to holders of parent's equity	822,291	791,799	196,956	199,235
Profit (loss) attributed to holders of non-controlling interest	338	(564)	81	(142)
Main and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Main and diluted profit per common share (in PLN/EUR)	9.52	9.17	2.28	2.31

Data from the consolidated cash flow statement	thous. PLN 1 January - 31 March 2012	thous. PLN 1 January - 31 March 2011	thous. EUR 1 January - 31 March 2012	thous. EUR 1 January - 31 March 2011
Net cash flow on operating activity	1,380,795	660,080	330,729	166,091
Net cash flow on investing activity	(1,557,675)	(795,549)	(373,096)	(200,178)
Net cash flow on financing activity	101,506	8,917	24,313	2,244
Total net cash flow	(75,374)	(126,552)	(18,054)	(31,843)

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	thous. PLN 31 March 2012	thous. PLN 31 December 2011	thous. PLN 31 March 2011	thous. EUR 31 March 2012	thous. EUR 31 December 2011	thous. EUR 31 March 2011
Assets	29,402,216	27,397,857	28,003,036	7,065,123	6,203,101	6,979,994
Share capital	86,352	86,352	86,352	20,750	19,551	21,524
Total equity	12,544,351	11,745,410	12,409,924	3,014,310	2,659,258	3,093,278
Main 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)	145.27	136.02	143.71	34.91	30.80	35.82

Data from technical account of non-life insurance and non-technical profit and loss account	PLN thous. 1 January – 31 March 2012	PLN thous. 1 January – 31 March 2011	thous. EUR 1 January – 31 March 2012	thous. EUR 1 January – 31 March 2011
Gross written insurance premium	2,441,191	2,256,909	584,716	567,890
Technical result of non-life insurance	174,468	193,230	41,789	48,621
Net result on investment activity (*)	302,129	193,972	72,366	48,808
Net profit (loss)	323,730	260,669	77,540	65,590
Main and diluted weighted average number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Main and diluted profit per common share (in PLN/EUR)	3.75	3.02	0.90	0.76

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

3. Selected non-consolidated financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna (PAS)

Data from the balance sheet	PLN thous. 31 March 2012	PLN thous. 31 December 2011	PLN thous. 31 March 2011	thous. EUR 31 March 2012	thous. EUR 31 December 2011	thous. EUR 31 March 2011
Assets	31,007,197	29,407,202	30,893,647	7,450,787	6,658,033	7,700,503
Total Equity	6,538,943	5,960,002	6,882,064	1,571,257	1,349,394	1,715,413

Data from the technical life insurance account and the non-technical profit and loss account	PLN thous. 1 January – 31 March 2012	PLN thous. 1 January – 31 March 2011	thous. EUR 1 January – 31 March 2012	thous. EUR 1 January – 31 March 2011
Gross written insurance premium	2,831,145	2,045,222	678,119	514,625
Technical life insurance result	487,438	479,536	116,752	120,662
Net result on investment activity	618,010	360,723	148,026	90,766
Net profit (loss)	520,882	453,031	124,762	113,993

4. Summary of consolidated financial results

The PZU Group’s net financial result for Q1 2012 was PLN 822,629 thousand and was 4.0% higher than the net result in the same period of the previous year.

ROE for the period from 1 January to 31 March 2012 was 24.7%, up 0.8 % from the corresponding period of the previous year.

The following factors also affected PZU Group’s net result after Q1 2012:

- higher investment income associated with the higher valuation of treasury bonds (declining interest rates) and equities (in Q1 2012, the WIG index went up 9.8% compared to 2.6% in Q1 2011);
- increased gross written premium due to higher sales of, among others, motor TPL insurance (mass insurance segment), mandatory ADD insurance for hospitals and TPL insurance for health care units (corporate insurance segment) and group protection insurance and individual life insurance (through the bancassurance channel);
- higher level of claims (taking into account the movement in technical provisions) in the current year resulting from:
  - negative impact of winter crops in the mass insurance segment;
  - slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance,
  - higher individual product sales in the bancassurance channel resulting in an increase of technical provisions,
- improved profitability in motor insurance (especially in the corporate insurance segment) and in property insurance and group and individually continued insurance (excluding the conversion effect);
- maintaining cost discipline while launching project activity aimed at changing the image of the PZU Group, automating and increasing efficiency of service processes.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Consolidated statement of financial position

PLN thousands

Assets	Note	31 March 2012	31 December 2011	31 March 2011
Intangible assets		152,329	166,038	103,851
Goodwill		8,529	8,716	8,419
Property, plant and equipment		1,038,599	1,055,381	1,136,675
Investment property		531,510	534,222	465,686
Entities carried by the equity method		-	-	-
Financial assets				
Financial instruments held to maturity	9.1.1	22,029,401	21,659,505	21,604,789
Financial instruments available for sale	9.1.2	8,508,798	7,851,903	9,525,092
Financial instruments carried at fair value through profit or loss	9.1.3	10,592,121	10,814,619	12,815,474
Borrowings	9.1.4	8,278,276	6,449,332	3,466,573
Receivables, including receivables under insurance contracts	9.3	2,491,604	1,734,636	2,441,754
Reinsurers' share in technical provisions	9.4	629,051	700,713	759,838
Estimated salvage and subrogation		73,434	83,117	66,199
Deferred income tax assets		13,923	8,600	15,988
Current income tax receivables		7,035	8,582	10,585
Deferred acquisition cost		588,033	569,843	568,360
Accruals and prepayments		99,317	125,890	214,847
Other assets		126,123	120,461	141,957
Cash and cash equivalents		160,784	237,724	294,477
Assets related to continuing operations		**55,328,867**	**52,129,282**	**53,640,564**
Non-current assets earmarked to be sold and assets comprising groups to be sold		-	-	-
Total assets		**55,328,867**	**52,129,282**	**53,640,564**

Interim Consolidated statement of financial position (cont.)

PLN thousands

Liabilities and equity	Note	31 March 2012	31 December 2011	31 March 2011
Equity				
Issued share capital and other capital attributable to parent's shareholders				
Share capital		86,352	86,352	86,352
Other capital		8,045,033	7,948,386	6,704,681
Reserve capital		7,711,915	7,711,818	6,296,320
Revaluation reserve		369,769	268,831	448,178
FX gains from converting subordinated entities		(36,651)	(32,263)	(39,817)
Retained earnings		5,570,618	4,748,424	6,855,456
Profit (loss) carried forward		4,748,327	2,403,000	6,063,657
Net profit (loss)		822,291	2,345,424	791,799
Non-controlling interest		86,674	86,343	88,189
Total Equity		**13,788,677**	**12,869,505**	**13,734,678**
Liabilities				
Technical provisions	9.7			
Unearned premium provision and unexpired risk provision		4,895,536	4,521,396	4,648,051
Life insurance provision		14,733,835	14,595,112	14,498,287
Unpaid claims provision		5,471,924	5,429,481	5,078,277
Provision for capitalized annuities		5,104,344	5,088,626	4,837,658
Provision for premiums and rebates for the insureds		5,914	7,192	8,017
Other technical provisions		563,127	581,155	593,035
technical provisions for life insurance if the policyholder bears the investment risk		2,448,643	2,299,767	2,350,605
Investment contracts	9.8			
- with guaranteed and set conditions		2,981,131	2,330,870	2,441,973
- for the client's account and risk		1,136,171	1,140,902	1,380,985
Provisions for employee benefits		257,050	255,576	259,873
Other provisions	9.9	299,920	322,063	204,035
Deferred income tax provision		302,941	109,716	449,691
Current income tax liabilities		1,893	7,570	29,823
Derivatives		24,712	93,443	19,869
Other liabilities	9.10	2,754,282	1,789,951	2,689,770
Accruals and deferred income	9.11			
Accrued expenses		532,122	669,048	407,993
Deferred income		26,645	17,909	7,944
Liabilities related to continuing operations		**41,540,190**	**39,259,777**	**39,905,886**
Liabilities related directly to non-current assets classified as earmarked to be sold		-	-	-
Total Liabilities		**41,540,190**	**39,259,777**	**39,905,886**
Total Liabilities and Equity		**55,328,867**	**52,129,282**	**53,640,564**

2. Interim Consolidated Profit And Loss Account

PLN thousands

Consolidated profit and loss account	**Note**	**1 January - 31 March 2012**	**1 January - 31 March 2011**
Gross written insurance premium	9.12	4,322,747	3,976,884
Reinsurers' share in gross written insurance premium		(55,602)	(112,235)
Net written premium		**4,267,145**	**3,864,649**
Movement in net unearned premium provision		(398,287)	(292,515)
Net earned premium		**3,868,858**	**3,572,134**
Fee and commission income	9.13	60,002	78,273
Net investment income	9.14	436,435	405,905
Net result on the realization of investments and impairment charges	9.15	110,421	(129,544)
Net change in the fair value of assets and liabilities carried at fair value	9.16	325,942	197,698
Other operating income	9.17	75,446	204,933
Claims and movement in technical provisions	9.18 9.20	(2,749,342)	(2,403,856)
Claims and movement in insurance liabilities ceded to re-insurers		(27,540)	3,028
Net insurance claims		**(2,776,882)**	**(2,400,828)**
Claims and changes in valuation of investment contracts	9.19	(75,307)	(35,639)
Acquisition cost	9.20	(500,734)	(470,515)
Administrative costs	9.20	(365,110)	(328,961)
Other operating expenses	9.21	(124,399)	(131,304)
Operating profit (loss)		**1,034,672**	**962,152**
Financial costs	9.22	(5,758)	(296)
Share of the net profit (loss) of units carried by the equity method		-	-
Gross profit (loss)		**1,028,914**	**961,856**
Income tax			
- current part		(42,716)	(144,048)
- deferred part		(163,569)	(26,573)
Net profit (loss), including		**822,629**	**791,235**
- profit (loss) attributed to holders of parent's equity		822,291	791,799
- profit (loss) attributed to holders of non-controlling interest		338	(564)

Net profit (loss) on continuing operations	822,291	791,799
Net profit (loss) on discontinued operations	-	-
Main and diluted weighted average number of common shares	86,352,300	86,352,300
Main and diluted profit (loss) on continuing operations per common share (PLN)	9.52	9.17
Main and diluted profit (loss) on discontinued operations per common share (PLN)	-	-
Main and diluted profit (loss) per common share (PLN)	9.52	9.17

3. Interim consolidated Statement of Comprehensive Income

PLN thousands

Consolidated Statement of Comprehensive Income	**1 January - 31 March 2012**	**1 January - 31 March 2011**
Net profit (loss)	822,629	791,235
Other comprehensive income:	96,543	54,893
Financial assets available for sale	100,938	49,880
FX gains from converting subordinated entities	(4,395)	(1,017)
Reclassification of real property from property, plant and equipment to investment property	-	6,030
Total net comprehensive income	**919,172**	**846,128**
- comprehensive income attributed to holders of parent's equity	918,841	846,691
- comprehensive income attributed to holders of non-controlling interest	331	(563)

4. Interim Statement of Changes in Consolidated Equity

PLN thousands

Statement of Changes in Consolidated Equity	Capital and provisions attributed to holders of the parent's equity							Non-controlling interest	Total Equity
		Other capital			Retained earnings				
	Share capital	Reserve capital	Revaluation reserve	Conversion FX differences	Profit (loss) carried forward	Net profit (loss)	Total		
Balance as at 1 January 2012	**86,352**	**7,711,818**	**268,831**	**(32,263)**	**4,748,424**	**-**	**12,783,162**	**86,343**	**12,869,505**
Change in the value of financial instruments available for sale	-	-	100,938	-	-	-	100,938	-	100,938
Conversion FX differences	-	-	-	(4,388)	-	-	(4,388)	(7)	(4,395)
Increases (decreases) recognized directly in capital, net (after income tax), total	**-**	**-**	**100,938**	**(4,388)**	**-**	**-**	**96,550**	**(7)**	**96,543**
Net profit (loss) of the financial year	-	-	-	-	-	822,291	822,291	338	822,629
Increases (decreases), total	**-**	**-**	**100,938**	**(4,388)**		**822,291**	**918,841**	**331**	**919,172**
Other	-	97	-	-	(97)	-	-	-	-
Balance as at 31 March 2012	**86,352**	**7,711,915**	**369,769**	**(36,651)**	**4,748,327**	**822,291**	**13,702,003**	**86,674**	**13,788,677**

Interim Statement of Changes in Consolidated Equity (cont.)

PLN thousands

Statement of Changes in Consolidated Equity	Capital and provisions attributed to holders of the parent's equity							Non-controlling stakes	Total Equity
		Other capital			Retained earnings				
	Share capital	Reserve capital	Revaluation reserve	Conversion FX differences	Profit (loss) carried forward	Net profit (loss)	Total		
Balance as at 1 January 2011	**86,352**	**6,296,313**	**392,268**	**(38,799)**	**6,063,666**	**-**	**12,799,800**	**126**	**12,799,926**
Change in the value of financial instruments available for sale	-	-	(162,649)	-	-	-	(162,649)	-	(162,649)
Conversion FX differences	-	-	-	6,536	-	-	6,536	14	6,550
Reclassification of real property from property, plant and equipment to investment property	-	-	39,212	-	-	-	39,212	-	39,212
Increases (decreases) recognized directly in capital, net (after income tax), total	**-**	**-**	**(123,437)**	**6,536**	**-**	**-**	**(116,901)**	**14**	**(116,887)**
Net profit (loss) of the financial year	-	-	-	-	-	2,345,424	2,345,424	(1,477)	2,343,947
Increases (decreases), total	**-**	**-**	**(123,437)**	**6,536**	**-**	**2,345,424**	**2,228,523**	**(1,463)**	**2,227,060**
Other changes, including:	**-**	**1,415,505**	**-**	**-**	**(3,660,666)**	**-**	**(2,245,161)**	**87,680**	**(2,157,481)**
Distribution of financial result	-	1,415,325	-	-	(3,660,485)	-	(2,245,160)	(2,830)	(2,247,990)
Consolidation of the Armatura Group	-	-	-	-	-	-	-	88,679	88,679
Other	-	180	-	-	(181)	-	(1)	1,831	1,830
Balance as at 31 December 2011	**86,352**	**7,711,818**	**268,831**	**(32,263)**	**2,403,000**	**2,345,424**	**12,783,162**	**86,343**	**12,869,505**

Interim Statement of Changes in Consolidated Equity (cont.)

PLN thousands

Statement of Changes in Consolidated Equity	Capital and provisions attributed to holders of the parent's equity							Non-controlling interest	Total Equity
			Other capital		Retained earnings				
	Share capital	Reserve capital	Revaluation reserve	Conversion FX differences	Profit (loss) carried forward	Net profit (loss)	Total		
Balance as at 1 January 2011	**86,352**	**6,296,313**	**392,268**	**(38,799)**	**6,036,666**	**-**	**12,799,800**	**126**	**12,799,926**
Change in the value of financial instruments available for sale	-	-	49,880	-	-	-	49,880	-	49,880
Conversion FX differences	-	-	-	(1,018)	-	-	(1,018)	1	(1,017)
Reclassification of real property from property, plant and equipment to investment property	-	-	6,030	-	-	-	6,030	-	6,030
Increases (decreases) recognized directly in capital, net (after income tax), total	**-**	**-**	**55,910**	**(1,018)**	**-**	**-**	**54,892**	**1**	**54,893**
Net profit (loss) of the financial year	-	-	-	-	-	791,799	791,799	(564)	791,235
Increases (decreases), total	**-**	**-**	**55,910**	**(1,018)**		**791,799**	**846,691**	**(563)**	**846,128**
Other changes, including:	**-**	**7**	**-**	**-**	**(9)**	**-**	**(2)**	**88,626**	**88,624**
Consolidation of the Armatura Group	-	-	-	-	-	-	-	88,679	88,679
Other	-	7	-	-	(9)	-	(2)	(53)	(55)
Balance as at 31 March 2011	**86,352**	**6,296,320**	**448,178**	**(39,817)**	**6,063,657**	**791,799**	**13,646,489**	**88,189**	**13,734,678**

5. Interim Consolidated Cash Flow Statement

PLN thousands

Consolidated cash flow statement	1 January - 31 March 2012	1 January - 31 December 2011	1 January - 31 March 2011
Cash flow on operating activity			
Proceeds	5,540,809	19,725,868	4,576,924
- proceeds on gross insurance premiums	4,212,672	14,929,349	3,759,869
- proceeds on investment contracts	1,024,223	3,054,350	385,009
- proceeds on reinsurance commissions and profit-sharing	3,032	20,513	1,197
- payments received from reinsurers for their share of claims paid	54,995	385,775	122,355
- other operating proceeds	245,887	1,335,881	308,494
Expenditures	(4,160,014)	(18,138,296)	(3,916,844)
- insurance premiums paid for reinsurance	(74,038)	(174,369)	(61,819)
- commissions paid and profit-sharing on inward reinsurance	(825)	(4,679)	(49)
- gross claims paid	(2,257,002)	(9,026,567)	(2,285,560)
- claims paid on investment contracts	(447,591)	(3,068,852)	(136,089)
- acquisition expenditures	(393,722)	(1,483,488)	(371,562)
- administrative expenditures	(513,106)	(2,073,279)	(611,908)
- interest expenditures	(13)	(146)	(91)
- income tax expenditures	(41,980)	(904,071)	(42,736)
- other operating expenditures	(431,737)	(1,402,845)	(407,030)
Net cash flow on operating activity	**1,380,795**	**1,587,572**	**660,080**
Cash flow on investing activity			
Proceeds	65,022,085	259,765,786	63,817,429
- sale of investment property	-	13,282	-
- proceeds from investment property	1,944	8,763	3,357
- sale of intangible assets and components of property, plant and equipment	1,226	27,905	439
- sale of ownership interests and shares	1,467,335	4,372,949	1,174,898
- realization of debt securities	10,021,425	65,465,651	19,516,037
- liquidation of term deposits in credit institutions	32,302,474	130,812,922	34,838,255
- realization of other investments	21,122,770	58,512,745	8,260,541
- interest received	101,291	450,899	21,855
- dividends received	3,620	98,101	198
- increase in cash due to consolidation of new entities	-	2,569	1,849
Expenditures	(66,579,760)	(260,054,472)	(64,612,978)
- expenditures for the maintenance of investment property	(6,470)	(11,581)	(4,708)
- purchase of intangible assets and components of property, plant and equipment	(31,358)	(168,435)	(24,279)
- purchase of ownership interests and shares	(1,264,135)	(4,561,634)	(1,359,468)
- purchase of debt instruments	(11,073,225)	(63,630,331)	(19,996,842)
- purchase of term deposits in credit institutions	(34,167,571)	(132,934,922)	(35,273,248)
- purchase of other investments	(20,033,625)	(58,733,953)	(7,953,138)
- other expenditures for investments	(3,376)	(13,616)	(1,295)
Net cash flow on investing activity	**(1,557,675)**	**(288,686)**	**(795,549)**

Interim Consolidated Cash Flow Statement (cont.)

PLN thousands

Consolidated cash flow statement	**1 January - 31 March 2012**	**1 January - 31 December 2011**	**1 January - 31 March 2011**
Cash flow on financing activity			
Proceeds	14,421,732	39,242,376	10,784
- loans, borrowings and debt securities issues [1)]	14,421,721	39,242,376	10,784
- other financial proceeds	11	-	-
Expenditures	(14,320,226)	(40,728,208)	(1,867)
- dividends paid to holders of parent's equity	(132)	(2,163,206)	(49)
- dividends paid to holders of non-controlling interest	-	(2,830)	-
- amortization of loans and borrowings and redemption of own debt securities [1)]	(14,318,928)	(38,556,267)	(128)
- interest on loans and borrowings and issued debt securities	(1,166)	(5,905)	(1,314)
- other financial expenditures	-	-	(376)
Net cash flow on financing activity	**101,506**	**(1,485,832)**	**8,917**
Total net cash flow	**(75,374)**	**(186,946)**	**(126,552)**
Cash and cash equivalents at the beginning of the period	237,724	423,703	423,703
Movement in cash due to foreign currency differences	(1,566)	967	(2,674)
Cash and cash equivalents at the end of the period, including:	160,784	237,724	294,477
- restricted cash	15,827	26,841	61,971

1) These items contain almost exclusively the cash flows resulting from sell-buy-back transactions.

SUPPLEMENTARY INFORMATION TO THE INTERIM CONDENSED 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 its 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 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).

1.2. PZU Group companies

No.	Name of the entity	Headquarters	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 2012	31 December 2011	31 March 2012	31 December 2011	
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 December 1991	100.00%	100.00%	100.00%	100.00%	Life insurance.
3	Powszechne Towarzystwo Emerytalne PZU SA, („PTE PZU")	Warsaw	8 December 1998	100.00%	100.00%	100.00%	100.00%	Management of pension funds.
4	PZU Centrum Operacji SA („PZU CO")	Warsaw	30 November 2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
5	Tower Inwestycje Sp. z o.o. („Tower Inwestycje")	Warsaw	27 August 1998	100.00%	100.00%	100.00%	100.00%	Other service activity.
6	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	100.00%	100.00%	Property insurance.
7	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26 April 2002	99.76%	99.76%	99.76%	99.76%	Property insurance.
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15 September 2004	100.00%	100.00%	100.00%	100.00%	Buying, operating, renting and selling real estate
9	Armatura Kraków SA	Kraków	7 October 1999	63.83%	63.83%	63.83%	63.83%	Manufacturing bathroom and kitchen fixtures
10	Armatoora SA	Nisko	10 December 2008	63.83%	63.83%	63.83%	63.83%	Manufacturing heaters and aluminum casts
11	Armatoora SA i wspólnicy sp. k.	Kraków	10 February 2009	63.83%	63.83%	63.83%	63.83%	Utilization of available funds, growth investments
12	Armagor SA	Gorzów	6 September	63.83%	63.83%	63.83%	63.83%	Manufacture of valves, tooling services

No.	Name of the entity	Headquarters	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 2012	31 December 2011	31 March 2012	31 December 2011	
		Śląski	2009					
13	PZU Debt Specialized Open-End Mutual Fund	Warsaw	15 December 2009	100.00%	100.00%	n/a	n/a	Investment of funds collected from fund members
Unconsolidated subsidiaries								
14	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	Warsaw	30 April 1999	100.00%	100.00%	100.00%	100.00%	Establishing, representing and managing investment funds
15	PZU Asset Management SA („PZU AM”)	Warsaw	12 July 2001	100.00%	100.00%	100.00%	100.00%	Provision of managed account services
16	PZU Pomoc SA	Warsaw	18 March 2009	100.00%	100.00%	100.00%	100.00%	Provision of assistance services.
17	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26 April 2002	99.34%	99.34%	99.34%	99.34%	Life insurance.
18	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life”)	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	100.00%	100.00%	Life insurance.
19	PZU Inter-company Employee Pension Fund Company SA („MPTE PZU SA”)	Warsaw	13 August 2004	100.00%	100.00%	100.00%	100.00%	Managing an employee pension fund
20	Ipsilon Sp. z o.o.	Warsaw	2 April 2009	100.00%	100.00%	100.00%	100.00%	Provision of assistance services and medical services
21	Ipsilon Bis SA	Warsaw	2 September 2011	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity.
22	Omicron SA	Warsaw	13 September 2011	100.00%	100.00%	100.00%	100.00%	The company does not conduct any activity.
23	Syta Development Sp. z o.o. in liquidation	Warsaw	29 April 1996	100.00%	100.00%	100.00%	100.00%	Buying and selling real estate, intermediacy in buying and selling,

No.	Name of the entity	Headquarters	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 2012	31 December 2011	31 March 2012	31 December 2011	
								administration of real estate
24	Sigma Investments Sp. z o.o.	Warsaw	28 December 1999	100.00%	100.00%	100.00%	100.00%	Investment activity.
25	LLC SOS Services Ukraine	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	100.00%	100.00%	Assistance services.
26	Company with Additional Liability Inter-Risk Ukraine („Inter Risk") [1)]	Kiev (Ukraine)	1 July 2005	n/a	100.00%	n/a	100.00%	Legal services.
27	LLC Finansowa Kompania Idea-Kapitał [2)]	Kiev (Ukraine)	6 October 2011	n/a	100.00%	n/a	100.00%	Financial services.
28	ICH Center SA in liquidation[3)]	Warsaw	31 January 1996	90.00%	90.00%	90.00%	90.00%	The company does not conduct any activity.

No.	Name of the entity	Headquarters	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 2012	31 December 2011	31 March 2012	31 December 2011	
Associates								
29	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17 August 1998	37.53%	37.53%	36.71%	36.71%	Operating ski and tourist lifts.
30	Nadwiślańska Agencja Ubezpieczeniowa S.A.	Tychy	8 June 1999	30.00%	30.00%	30.00%	30.00%	Insurance service.

[1)] By the power of the agreement of 22 December 2011, the ownership title to the shares was transferred to the buyer on 16 January 2012.

[2)] By the power of the agreement of 20 March 2012, the ownership title to the shares was transferred to the buyer (Public Joint Stock Company Kredobank) on 23 March 2012 for the total amount of UAH 4,100 thousand.

[3)] With a Resolution adopted by the Extraordinary Shareholder Meeting on 8 March 2012, a decision was made to open the liquidation process on 16 March 2012.

2. Changes in organization of the PZU Group

2.1. Converting some financial investments into a mutual fund

On 2 February 2012, another portion of the bonds issued by the State Treasury held by PZU Życie and classified in the portfolio of financial instruments measured at fair value through profit or loss – classified in this category upon initial recognition with a market value of PLN 953,162 thousand as at the transfer date, was transferred to PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny (PZU Specialized Debt Open-end Mutual Fund) whose sole participant is PZU Życie.

This measure aims to improve the efficiency of the financial investment management process, among others through tax optimization (in respect of the corporate income tax and VAT tax payable so far to other PZU Group companies for securities portfolio management services which did not constitute tax-deductible expenses for PZU Życie).

The foregoing transactions did not affect the PZU Group’s net assets or its financial result.

Nor have the presentation, classification or method of measuring these assets been changed in these consolidated financial statements of the PZU Group, due to the fact that the PZU Specialized Debt Open-end Mutual Fund is consolidated by the full method since 30 June 2011.

2.2. Sale of Inter Risk

On 22 December 2011, PZU Ukraine and PZU Ukraine Life entered into an agreement with Powszechna Kasa Oszczędności BP SA („PKO BP SA”) to sell Inter Risk for a total amount of PLN 2,500 thousand.

On 16 January 2012, the ownership title to Inter Risk shares was transferred to the buyer. The profit earned on the sale of shares was PLN 2,286 thousand.

3. 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 ("EC") as at 31 March 2012, 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.

Introduction of new IFRS

3.1. Standards, interpretations and amended standards effective from 1 January 2012

No new standards, interpretations and amended standards, which would come into force for the periods starting on 1 January 2012 for the purposes of PZU Group's consolidated financial statements, were adopted for the first time in these interim consolidated financial statements.

3.1.1. 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 EC:

Standard/interpretation	Date of entry into effect for the periods starting as of (according to IABS)
IFRS 9 – Financial Instruments	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013 *
IFRS 11 – Joint Arrangements	1 January 2013 *
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013 *
IFRS 13 – Fair Value Measurement	1 January 2013
Amended IAS 27 – Separate Financial Statements	1 January 2013
Amended IAS 28 – Investments in Associates and Joint Ventures	1 January 2013
Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (amendments to IFRS 1)	1 July 2011
Amendments to IAS 1 – Presentation of items of Other Comprehensive Income	1 July 2012
Amendments to IAS 19 – Amendments to the accounting of post-employment benefits	1 January 2013
Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendment to IFRS 1 – Government Loans	1 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

* On 9 December 2011, the European Financial Reporting Advisory Group („EFRAG") proposed to delay the adoption date to the later of two dates: 1 January 2014 or 12 months after the publication of both documents – amendments to IFRS 10 and the standard regarding the consolidation of investment entities.

It is expected that the application of the above standards and interpretations and amendment to standards will not materially affect PZU Group's comprehensive income and equity, with the exception of the following:

- IFRS 9, in whose case, due to the remote 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 applying IFRS 9 on PZU Group's comprehensive income and equity was not estimated.
- IFRS 10, in whose case the range of consolidated entities may expand, however due to the remote effective date (which also follows the EFRAG's proposal), the effect of applying IFRS 10 on PZU Group's comprehensive income and equity was not analyzed.

4. 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 2011, signed by the PZU Management Board on 14 March 2012 for which the auditor issued an unqualified opinion on the same date ("PZU Group 2011 consolidated financial statements").

The consolidated financial statements of the PZU Group for 2011 are available on the PZU website at www.pzu.pl in the "PZU Group / Investor Relations / Current and periodic reports / Periodic reports" tab.

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

In the 3-month period ended 31 March 2012 no changes were made to the accounting principles (policy).

The method of presentation of financial data in the consolidated financial statements as compared to the annual consolidated financial statements of the PZU Group for 2011 did not change, with the proviso that:

- these interim consolidated financial statements are condensed statements within the meaning of IAS 34;

- since the beginning of 2012, the presentation of the segmental note has been changed, which is prepared in accordance with IFRS 8. The new presentation of the segmental note, the basics of which are detailed in item 13 resulted from the changes in presentation of the financial results to the main corporate body responsible for making operational decisions in PZU. The new presentation of segment information, as compared to the previous one (which suffered from significant simplification with respect to the reflection of the organizational structure and operating processes), is more detailed and more useful, while reliability was maintained.

6. Key assumptions for accounting estimation purposes and subjective judgments made in the process of selecting and applying accounting rules (policies)

The key assumptions made for accounting estimation purposes and subjective judgments made in the process of selecting and applying accounting rules (policies) were presented in the consolidated financial statements of the PZU Group for 2011.

No changes were made to these assumptions and judgments in the period of 3 months ended 31 March 2012.

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

7.1. 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 2012.

7.2. 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.

7.3. 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.

7.4. Discontinued operations

In the period of 3 months ended 31 March 2012, the consolidated entities of the PZU Group did not discontinue any type of operations.

With a resolution adopted by the Extraordinary Shareholder Meeting of an unconsolidated subsidiary ICH Center SA on 8 March 2012, the decision was made to open the liquidation process of that company on 16 March 2012. ICH Center SA discontinued its statutory business activity starting from the beginning of 2011 (i.e. handling claims under green card insurance).

7.5. 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.

7.6. 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 2012	31 March 2012	1 January – 31 December 2011	31 December 2011	1 January – 31 March 2011	31 March 2011
LTL	1.2092	1.2053	1.1990	1.2792	1.1510	1.1619
UAH	0.3910	0.3889	0.3716	0.4255	0.3605	0.3562
EUR	4.1750	4.1616	4.1401	4.4168	3.9742	4.0119

These FX rates are:

- 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.

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

In the period of 3 months ended 31 March 2012, there were no events that resulted in any significant change of the structure of financial statement items.

9. Supplementary notes to the interim condensed consolidated financial statements

9.1. Financial assets

9.1.1. Financial instruments held to maturity

Financial instruments held to maturity	31 March 2012	31 December 2011	31 March 2011
Instruments, for which fair value can be determined	**22,029,401**	**21,659,505**	**21,604,789**
Debt securities	22,029,401	21,659,505	21,604,789
Sovereign debt	21,842,846	21,467,316	20,980,175
Fixed income	21,495,731	21,128,913	20,980,175
Variable interest rate	347,115	338,403	-
Others	186,555	192,189	624,614
Listed on a regulated market	63,571	66,566	474,477
Fixed income	63,571	66,566	474,477
Not listed on a regulated market	122,984	125,623	150,137
Fixed income	-	-	30,010
Variable interest rate	122,984	125,623	120,127
Financial assets held to maturity, total	**22,029,401**	**21,659,505**	**21,604,789**

9.1.2. Financial instruments available for sale

Financial instruments available for sale	31 March 2012	31 December 2011	31 March 2011
Instruments, for which fair value can be determined	**8,382,792**	**7,723,676**	**9,398,933**
Capital instruments	1,405,315	1,189,903	1,370,694
Listed on a regulated market	563,654	506,886	787,213
Not listed on a regulated market	841,661	683,017	583,481
Debt instruments	6,977,477	6,533,773	8,028,239
Sovereign debt	6,675,543	6,467,372	7,884,239
Fixed income	6,025,991	5,764,231	7,834,853
Variable interest rate	649,552	703,141	49,386
Others	301,934	66,401	144,000
Listed on a regulated market	68,716	66,401	51,205
Fixed income	24,527	23,745	35,907
Variable interest rate	44,189	42,656	15,298
Not listed on a regulated market	233,218	-	92,795
Variable interest rate	233,218	-	92,795
Instruments, for which fair value cannot be determined	**126,006**	**128,227**	**126,159**
Capital instruments	126,006	128,227	126,159
Not listed on a regulated market*	126,006	128,227	126,159
Financial instruments available for sale, total	**8,508,798**	**7,851,903**	**9,525,092**

* this line item includes shares in unconsolidated subordinated entities, the carrying value of which as at 31 March 2012 was PLN 122,918 thousand (PLN 125,140 thousand as at 31 December 2011 and PLN 122,908 thousand as at 31 March 2011).

9.1.3. Financial instruments carried at fair value through profit or loss

Financial instruments valued at fair value through profit or loss - classified in that category upon first recognition	31 March 2012	31 December 2011	31 March 2011
Instruments, for which fair value can be determined	**4,461,262**	**4,363,764**	**6,402,994**
Capital instruments	16,376	118,727	238,219
Listed on a regulated market	13,773	11,240	20,075
Not listed on a regulated market	2,603	107,487	218,144
Debt instruments	4,444,886	4,245,037	6,164,775
Sovereign debt	4,376,043	4,178,520	6,032,539
Fixed income	3,900,407	3,719,321	5,922,129
Variable interest rate	475,636	459,199	110,410
Others	68,843	66,517	132,236
Listed on a regulated market	68,843	66,517	39,441
Fixed income	24,654	23,861	24,143
Variable interest rate	44,189	42,656	15,298
Not listed on a regulated market	-	-	92,795
Variable interest rate	-	-	92,795
Financial instruments carried at fair value through profit or loss - classified in that category upon first recognition, total	**4,461,262**	**4,363,764**	**6,402,994**

Financial instruments carried at fair value through profit or loss – held for trading	31 March 2012	31 December 2011	31 March 2011
Instruments, for which fair value can be determined	**6,130,859**	**6,450,855**	**6,412,480**
Capital instruments	3,694,099	3,723,493	4,305,121
Listed on a regulated market	1,836,739	1,989,010	2,507,658
Not listed on a regulated market	1,857,360	1,734,483	1,797,463
Debt instruments	2,372,545	2,642,574	2,049,568
Sovereign debt	2,325,100	2,597,771	2,020,160
Fixed income	1,581,775	1,870,647	1,852,105
Variable interest rate	743,325	727,124	168,055
Others	47,445	44,803	29,408
Listed on a regulated market	-	-	5,152
Fixed income	-	-	5,152
Not listed on a regulated market	47,445	44,803	24,256
Fixed income	24,739	24,402	-
Variable interest rate	22,706	20,401	24,256
Other, including:	64,215	84,788	57,791
- derivatives	64,215	84,788	57,791
Financial instruments carried at fair value through profit or loss – held for trading, total	**6,130,859**	**6,450,855**	**6,412,480**

9.1.4. Borrowings

Borrowings	31 March 2012	31 December 2011	31 March 2011
Debt securities	**160,408**	**114,143**	**-**
Sovereign debt	9,560	5,329	-
- fixed income	9,560	5,329	-
Others	150,848	108,814	-
- listed on a regulated market	52,347	51,622	-
- fixed income	793	860	-
- variable income	51,554	50,762	-
- unlisted	98,501	57,192	-
- variable income	98,501	57,192	-
Other, including:	**8,117,868**	**6,335,189**	**3,466,573**
- reverse repo transactions	516,588	628,497	524,233
- term deposits in credit institutions	6,678,217*	4,828,511	2,920,822
- deposits with ceding companies	334	407	1,680
- borrowings	922,729	877,774	19,838
Total borrowings	**8,278,276**	**6,449,332**	**3,466,573**

* PLN deposits constitute over 95% of deposits in credit institutions. Over 75% of term deposits mature before the end of June 2012.

Other borrowings

Borrowing type	31 March 2012	31 December 2011	31 March 2011
Mortgage-backed loans	30,976	32,264	17,108
Borrowings secured by pledges on shares, on receivable portfolios and on bank accounts, other borrowings or otherwise	888,957	842,290	-
Unsecured borrowings	2,796	3,220	2,730
Total	**922,729**	**877,774**	**19,838**

9.1.5. Exposure to sovereign debt securities

The table below presents exposure of PZU Group companies to bonds issued by governments other than the Polish government as at 31 March 2012.

Issuer's name	Currency	Classification in portfolio	Purchase price	Balance sheet value	Measurement at fair value	Measurement at amortized cost	Impairment charges
Germany	EUR	available for sale	478,751	449,459	449,459	447,384	-
Germany	EUR	held for trading	4,333	4,366	4,366	4,369	-
Iceland	USD	held for trading	47,567	47,294	47,294	45,779	-
Lithuania	LTL	held to maturity	82,869	98,004	99,691	98,004	-
Lithuania	EUR	held to maturity	29,108	29,383	31,585	29,383	-
Ukraine	UAH	borrowings	10,926	9,559	n/a	9,559	-
Hungary	EUR	held to maturity	2,278	2,395	2,344	2,395	-
Hungary	EUR	held for trading	36,344	35,939	35,939	36,697	-
Total			**692,176**	**676,399**	**not applicable**	**673,570**	**-**

9.2. Fair value classification

In accordance with the fair value measurement method, individual items of financial assets and liabilities were classified in the following three-level hierarchy:

- Level 1 – financial instruments measured on the basis of quoted prices (unadjusted) in 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 on the basis of inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. 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;
  - participation units in mutual funds;
- Level III – financial instruments measured on the basis of inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes, among others, shares and ownership interests in unlisted subsidiaries and associates which are unconsolidated and all the financial asset held by PZU Ukraine.

Financial assets and liabilities carried at fair value as at 31 March 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial instruments available for sale	7,307,172	1,074,879	741	8,382,792
Capital instruments	562,913	841,661	741	1,405,315
Debt securities	6,744,259	233,218	-	6,977,477
Financial instruments valued at fair value through profit or loss - classified in that category upon first recognition	4,458,659	2,603	-	4,461,262
Capital instruments	13,773	2,603	-	16,376
Debt securities	4,444,886	-	-	4,444,886
Financial instruments carried at fair value through profit or loss – held for trading	4,161,839	1,969,020	-	6,130,859
Capital instruments	1,836,739	1,857,360	-	3,694,099
Debt securities	2,325,100	47,445	-	2,372,545
Derivatives	-	64,215	-	64,215
Financial liabilities				
Liabilities carried at fair value	181	24,531	-	24,712
Derivatives	181	24,531	-	24,712

Financial assets and liabilities carried at fair value as at 31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial instruments available for sale	7,039,968	683,017	691	7,723,676
Capital instruments	506,195	683,017	691	1,189,903
Debt securities	6,533,773	-	-	6,533,773
Financial instruments valued at fair value through profit or loss - classified in that category upon first recognition	4,256,277	107,487	-	4,363,764
Capital instruments	11,240	107,487	-	118,727
Debt securities	4,245,037	-	-	4,245,037
Financial instruments carried at fair value through profit or loss – held for trading	4,586,781	1,864,074	-	6,450,855
Capital instruments	1,989,010	1,734,483	-	3,723,493
Debt securities	2,597,771	44,803	-	2,642,574
Derivatives	-	84,788	-	84,788
Financial liabilities				
Liabilities carried at fair value	24	93,419	-	93,443
Derivatives	24	93,419	-	93,443

Financial assets and liabilities carried at fair value as at 31 March 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial instruments available for sale	8,720,676	676,276	1,981	9,398,933
Capital instruments	787,213	583,481	-	1,370,694
Debt securities	7,933,463	92,795	1,981	8,028,239
Financial instruments valued at fair value through profit or loss - classified in that category upon first recognition	6,092,055	310,939	-	6,402,994
Capital instruments	20,075	218,144	-	238,219
Debt securities	6,071,980	92,795	-	6,164,775
Financial instruments carried at fair value through profit or loss – held for trading	4,533,479	1,879,001	-	6,412,480
Capital instruments	2,507,658	1,797,463	-	4,305,121
Debt securities	2,025,312	24,256	-	2,049,568
Derivatives	509	57,282	-	57,791
Financial liabilities				
Liabilities carried at fair value	-	19,869	-	19,869
Derivatives	-	19,869	-	19,869

9.3. Receivables, including receivables under insurance contracts

Receivables, including receivables under insurance contracts – carrying value	**31 March 2012**	**31 December 2011**	**31 March 2011**
Receivables on direct insurance, including:	1,498,508	1,378,054	1,334,158
- receivables from policyholders	1,385,410	1,268,320	1,245,852
- receivables from insurance intermediaries	85,792	84,511	57,409
- other receivables	27,306	25,223	30,897
Receivables on reinsurance	35,303	33,987	60,301
Other receivables	957,793	322,595	1,047,295
Receivables, including receivables under insurance contracts (net)	**2,491,604**	**1,734,636**	**2,441,754**

9.3.1. Other receivables

Other receivables	31 March 2012	31 December 2011	31 March 2011
Amounts due from Metro Projekt Sp. z o.o.	97,924	96,491	94,532
Prevention settlements	48,062	43,057	32,054
Receivables for acting as an emergency adjuster	4,759	6,326	5,269
Receivables of unit-linked funds in life insurance	26,442	4,014	31,843
Receivables on selling securities	660,453	57,667	746,060
Trade receivables	89,816	89,426	108,967
Others	30,337	25,614	28,570
Other receivables, total	**957,793**	**322,595**	**1,047,295**

The issues associated with the receivables from Metro Projekt sp. z o.o. are described in clause 24.5.

9.4. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – non-life insurance	31 March 2012	31 December 2011	31 March 2011
Unearned premium provision	148,120	163,937	115,508
Unexpired risk provision	152	167	175
Claim provision, including:	235,427	283,085	294,327
- for reported claims	195,588	233,774	252,563
- for claims not reported (IBNR)	27,594	37,503	29,525
- for claims handling costs	12,245	11,808	12,239
Provision for capitalized annuities	244,797	253,524	349,268
Reinsurers' share in the technical provisions (net)	**628,496**	**700,713**	**759,278**

Reinsurers' share in technical provisions – life insurance	31 March 2012	31 December 2011	31 March 2011
Unearned premium provision	555	-	560
Reinsurers' share in the technical provisions (net)	**555**	**-**	**560**

9.5. Impairment of financial assets and receivables

Movement in impairment charges for financial asset in the period of 1 January - 31 March 2012	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 (not recognized in the profit and loss account)	FX gains and losses	Impairment charges at the end of the period
Financial assets available for sale	253,372	-	-	-	(170)	253,202
- capital instruments	253,372	-	-	-	(170)	253,202
Borrowings	28,770	-	-	-	(611)	28,159
Term deposits in credit institutions	10,434	-	-	-	(603)	9,831
Borrowings	18,336	-	-	-	(8)	18,328
Receivables, including receivables under insurance contracts	581,209	32,273	(3,883)	(800)	(920)	607,879
Receivables on direct insurance	512,855	32,052	(2,125)	(800)	(747)	541,235
Receivables on reinsurance	4,848	-	(198)	-	-	4,650
Other receivables	63,506	221	(1,560)	-	(173)	61,994
Reinsurers' share in technical provisions	18,613	10,067	(4,081)	-	-	24,599
Total	**881,964**	**42,340**	**(7,964)**	**(800)**	**(1,701)**	**913,839**

Movement in impairment charges for financial asset in the year ended 31 December 2011	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 (not recognized in the profit and loss account)	FX gains and losses	Other changes in impairment charges	Impairment charges at the end of the period
Financial assets available for sale	296,919	16,352	-	(60,147)	248	-	253,372
- capital instruments	296,919	16,352	-	(60,147)	248	-	253,372
Borrowings	18,321	9,780	-	-	669	-	28,770
Term deposits in credit institutions	-	9,780	-	-	654	-	10,434
Borrowings	18,321	-	-	-	15	-	18,336
Receivables, including receivables under insurance contracts	507,659	147,596	(61,677)	(13,756)	1,400	(13)	581,209
Receivables on direct insurance	423,260	93,258	(3,089)	(1,705)	1,135	(4)	512,855
Receivables on reinsurance	18,544	51,801	(53,892)	(11,605)	-	-	4,848
Other receivables	65,855	2,537	(4,696)	(446)	265	(9)	63,506
Reinsurers' share in technical provisions	36,372	7,378	(25,137)	-	-	-	18,613

Total	**859,271**	**181,106**	**(86,814)**	**(73,903)**	**2,317**	**(13)**	**881,964**

Movement in impairment charges for financial asset in the period of 1 January - 31 March 2011	**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 (not recognized in the profit and loss account)**	**FX gains and losses**	**Impairment charges at the end of the period**
Financial assets available for sale	296,919	-	-	(8,536)	(75)	288,308
- capital instruments	296,919	-	-	(8,536)	(75)	288,308
Borrowings	18,321	-	-	-	2	18,323
Borrowings	18,321	-	-	-	2	18,323
Receivables, including receivables under insurance contracts	507,659	53,818	(23,956)	-	(268)	537,253
Receivables on direct insurance	423,260	42,902	(2,015)	-	(211)	463,936
Receivables on reinsurance	18,544	10,905	(19,801)	-	-	9,648
Other receivables	65,855	11	(2,140)	-	(57)	63,669
Reinsurers’ share in technical provisions	36,372	-	-	-	-	36,372
Total	**859,271**	**53,818**	**(23,956)**	**(8,536)**	**(341)**	**880,256**

9.6. Accruals and prepayments

Accruals and prepayments	31 March 2012	31 December 2011	31 March 2011
IT costs	8,729	6,217	7,292
Capitalized acquisition expenses of OFE PZU	17,937	23,400	40,540
Reinsurance settlements	42,484	85,366	137,825
Others	30,167	10,907	29,190
Accruals, total	**99,317**	**125,890**	**214,847**

9.7. Technical provisions

9.7.1. Technical provisions in non-life insurance

Technical provisions in non-life insurance	31 March 2012	31 December 2011	31 March 2011
Unearned premium provision	4,777,729	4,411,652	4,508,630
Unexpired risk provision	23,620	13,411	41,451
Unpaid claims provision	4,898,036	4,817,359	4,452,771
Provision for capitalized annuities	5,104,344	5,088,626	4,837,658
Provision for premiums and rebates for the insureds	4,772	6,232	6,534
Technical provisions, total	**14,808,501**	**14,337,280**	**13,847,044**

9.7.2. Technical provisions in life insurance

Technical provisions in life insurance	31 March 2012	31 December 2011	31 March 2011
Unearned premium provision	94,187	96,333	97,970
Life insurance provision	14,733,835	14,595,112	14,498,287
Unpaid claims provision	573,888	612,122	625,506
Provision for premiums and rebates for the insureds	1,142	960	1,483
Other technical provisions	563,127	581,155	593,035
technical provisions for life insurance if the policyholder bears the investment risk	2,448,643	2,299,767	2,350,605
Technical provisions, total	**18,414,822**	**18,185,449**	**18,166,886**

9.8. Investment contracts

Investment contracts - carrying amount	31 March 2012	31 December 2011	31 March 2011
Investment contracts with guaranteed and set conditions	2,981,131	2,330,870	2,441,973
- carried at amortized cost	2,981,131	2,330,870	2,441,973
Investment contracts for client's account and risk (unit-linked)	1,136,171	1,140,902	1,380,985
Investment contracts - carrying amount, total	**4,117,302**	**3,471,772**	**3,822,958**

9.9. Other provisions

Other provisions	31 March 2012	31 December 2011	31 March 2011
Provisions established for the potential liabilities on account of CLSiOR-related investments	916	916	916
Provision for disputed claims and potential liabilities under outstanding insurance agreements	4,064	4,019	4,494
Provisions for restructuring costs	88,738	112,956	61,483
Provisions for Antimonopoly Office	137,035	137,035	69,143
Provision for Graphtalk project closing expenses	49,670	50,349	49,563
Provision for PTE's refund of undue commission to ZUS	7,844	8,095	8,854
Others	11,653	8,693	9,582
Other provisions, total	**299,920**	**322,063**	**204,035**

The item entitled „Provision for Graphtalk project closing expenses” includes the amount ensuing from the issue discussed in item 24.4.

The item entitled „Provisions for Antimonopoly Office” includes the amounts ensuing primarily from the issues discussed in items 24.2 and 24.3.

The restructuring process was described in items 25.4 and 25.5.

9.10. Other liabilities

Liabilities – carrying amount	31 March 2012	31 December 2011	31 March 2011
Liabilities on direct insurance	558,087	528,648	520,408
Reinsurance liabilities	100,854	49,450	81,728
Liabilities to credit institutions	1,158,856	758,951	199,109
Other liabilities	936,485	452,902	1,888,525
Total Liabilities	**2,754,282**	**1,789,951**	**2,689,770**

Liabilities to credit institutions are dominated by liabilities on account of sell-buy-back transactions which were PLN 1,071,347 as at 31 March 2012 (PLN 758,929 as at 31 December 2011 and PLN 80,386 as at 31 March 2011).

Other liabilities	31 March 2012	31 December 2011	31 March 2011
Liabilities to the state budget, other than income tax liabilities	17,606	18,016	18,888
Public law settlements: ZUS, PFRON, ZFŚS and other	42,646	23,564	30,384
On account of purchased securities	690,791	139,292	1,640,283
Trade liabilities	51,470	124,529	45,670
Estimated non-insurance liabilities	43,678	80,551	66,929
Others	90,294	66,950	86,371
Other liabilities, total	**936,485**	**452,902**	**1,888,525**

9.11. Accruals and deferred income

Accruals and deferred income	31 March 2012	31 December 2011	31 March 2011
Accrued expenses	**532,122**	**669,048**	**407,993**
- accrued agency commission costs	199,682	195,912	187,264
- accrued employee salary costs	85,581	121,803	79,451
- accrued costs and income on reinsurance	77,489	153,618	73,169
- employee leave provision	48,695	40,301	45,972
- accrued bonuses for employees	69,956	134,836	15,691
- other	50,719	22,578	6,446
Deferred income, including:	**26,645**	**17,909**	**7,944**
- deferred reinsurance commission	10,500	9,688	7,511
- other	16,145	8,221	433
Accruals and deferred income, total	**558,767**	**686,957**	**415,937**

9.12. Gross written insurance premium

Gross written insurance premium	1 January - 31 March 2012	1 January - 31 March 2011
Gross written premium in non-life insurance	2,515,825	2,316,671
In direct insurance	2,511,342	2,308,786
In indirect insurance	4,483	7,885
Gross written premium in life insurance	1,806,922	1,660,213
Individual premiums	683,438	592,859
On direct insurance	683,438	592,859
Group insurance premiums	1,123,484	1,067,354
On direct insurance	1,123,484	1,067,354
Gross written premium, total	**4,322,747**	**3,976,884**

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 2012	1 January - 31 March 2011
Results of accidents and illnesses (group 1 and 2)	169,079	103,747
Motor - third party liability (group 10)	774,215	704,406
Other motor (group 3)	585,591	595,436
Marine, air and cargo (groups 4, 5, 6, 7)	16,855	16,353
Fire and other property damages (groups 8 and 9)	620,763	621,874
Third party liability (groups 11, 12, 13)	262,034	190,095
Credit and guarantee (groups 14, 15)	16,783	13,187
Assistance (group 18)	47,953	45,184
Legal protection (group 17)	322	302
Other (group 16)	17,747	18,202
Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	**2,511,342**	**2,308,786**

9.13. Fee and commission income

Fee and commission income	1 January - 31 March 2012	1 January - 31 March 2011
Pension insurance	**48,948**	**66,008**
Commissions on distribution fees	9,791	28,928
Commissions on managing assets of an open-end pension fund	39,157	37,043
Commission on transfer payments	-	37
Investment contracts	**5,649**	**5,967**
Income from fees relating to investment contracts for the client's account and risk	5,649	5,967
Others	**5,405**	**6,298**
Income and fees from funds and mutual fund companies	5,405	6,298
Fee and commission income, total	**60,002**	**78,273**

9.14. Net investment income

Net investment income	1 January - 31 March 2012	1 January - 31 March 2011
Interest income, including:	458,914	411,916
- financial assets available for sale	56,152	86,347
- financial assets held to maturity	309,246	295,460
- borrowings	92,143	30,109
- cash and cash equivalents	1,373	-
Dividend income, including:	3,650	340
- financial assets classified as instruments carried at fair value through profit or loss at the moment of first recognition	-	227
- financial assets held for trading	105	113
- financial assets available for sale	3,545	-
Income on investment property	6,507	6,497
FX differences, including:	(16,266)	(3,887)
- financial assets held to maturity	(8,522)	1,779
- borrowings	(5,323)	632
- receivables, including receivables under insurance contracts	(2,421)	(6,298)
Other, including:	(16,370)	(8,961)
- investment activity expenses	(10,962)	(4,557)
- investment property maintenance expenses	(5,408)	(4,404)
Net investment income, total	**436,435**	**405,905**

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

Net investment realization result and investments impairment charges	**1 January - 31 March 2012**	**1 January - 31 March 2011**
Net result on investment realization	**138,811**	**(99,682)**
Financial assets carried at fair value through profit or loss - classified in that category upon first recognition, including:	32,135	(22,419)
- capital instruments	11,398	(1,339)
- debt securities	20,737	(21,080)
Financial assets held for trading, including	92,219	(26,406)
- capital instruments	62,152	(8,327)
- debt securities	(2,111)	(4,808)
- derivatives	32,178	(13,271)
Financial assets available for sale, including:	27,849	(34,818)
- capital instruments	1,960	2,412
- debt securities	25,889	(37,230)
Financial assets held to maturity, including:	606	(205)
- debt securities	606	(205)
Receivables, including receivables under insurance contracts	(13,998)	(15,834)
Impairment charges	**(28,390)**	**(29,862)**
Receivables, including receivables under insurance contracts	(28,390)	(29,862)
Net investment realization result and investments impairment charges, total	**110,421**	**(129,544)**

9.16. 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 2012**	**1 January - 31 March 2011**
Financial instruments carried at fair value through profit or loss – classified in that category upon first recognition, including:	71,111	65,828
- capital instruments	1,227	4,668
- debt securities	69,884	61,160
Financial instruments held for trading, including:	260,209	131,870
- capital instruments	198,298	92,232
- debt securities	42,871	26,523
- derivatives	19,040	13,115
Investment property	(5,378)	-
Net change in the fair value of assets and liabilities carried at fair value	**325,942**	**197,698**

9.17. Other operating income

Other operating income	**1 January - 31 March 2012**	**1 January - 31 March 2011**
Release of impairment charges for non-financial assets	755	4,354
Reinsurance commissions and profit-sharing	(2,384)	8,735
Revenues on the sales of products, merchandise and services by non-insurance companies	54,379	57,102
Consolidation of the Armatura Group	-	118,916
Others	22,696	15,826
Other operating income, total	**75,446**	**204,933**

9.18. Net insurance claims

Net insurance claims	1 January - 31 March 2012	1 January - 31 March 2011
Claims and movement in technical provisions in non-life insurance	1,286,075	1,193,541
Reinsurers' share in claims and movement in technical provisions in non-life insurance	27,540	(3,028)
Claims and movement in technical provisions in life insurance	1,463,267	1,210,315
Reinsurers' share in claims and movement in technical provisions in life insurance	-	-
Claims, total	**2,776,882**	**2,400,828**

9.19. Claims and changes in valuation of investment contracts

Claims and changes in valuation of investment contracts	1 January - 31 March 2012	1 January - 31 March 2011
Under investment contracts with guaranteed and set conditions	24,601	21,588
- interest expenses calculated using the effective interest rate	24,601	21,588
Under investment contracts for client's account and risk (unit-linked)	50,706	14,051
Claims and changes in valuation of investment contracts, total	**75,307**	**35,639**

9.20. Administrative, acquisition and claims handling costs, by type

Claims handling, acquisition and administrative costs, by type	1 January - 31 March 2012	1 January - 31 March 2011
Materials and energy used	20,978	20,254
External services	136,620	131,550
Taxes and fees	14,239	26,128
Employee expenses	379,910	356,864
Depreciation of property, plant and equipment	18,452	23,238
Depreciation of intangible assets	19,160	11,574
Other, including:	445,091	392,737
- commission on direct activity	349,860	332,851
- advertising	30,809	14,293
- movement in capitalized acquisition expenses	(18,842)	(27,525)
- remuneration of group insurance administrators in work establishments	58,559	54,276
- other	24,705	18,842
Claims handling, acquisition and administrative costs, total	**1,034,450**	**962,345**

9.21. Other operating expenses

Other operating expenses	1 January - 31 March 2012	1 January - 31 March 2011
Insurance Guarantee Fund	-	7,112
National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	20,533	22,186
Obligatory fees to insurance market institutions	12,533	15,188
Expenditures for prevention activity	3,132	5,512
Expenses of the core business of the non-insurance companies	50,953	41,174
Others	37,248	40,132
Other operating expenses, total	**124,399**	**131,304**

9.22. Financial costs

Financial costs	1 January - 31 March 2012	1 January - 31 March 2011
Interest, including:	6,811	1,745
- borrowings	5,859	431

- bank loans	952	1,314
FX gains and losses	(1,053)	(1,449)
Financial expenses, total	**5,758**	**296**

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2012	31 December 2011	31 March 2011
Contingent assets, including:	17,894	17,746	4,528
Guarantees and sureties received	17,894	17,746	4,528
Contingent Liabilities	157,911	171,030	88,163
Guarantees and sureties given	4,864	4,873	7,183
Disputed insurance claims	57,786	53,937	55,510
Other disputed claims	22,886	32,029	24,536
Others	72,375*	80,191*	934

* including PLN 41,448 thousand (PLN 49,264 thousand as at 31 December 2011) for the potential liabilities under loan agreements entered into by the Armatura Group and PLN 30,000 thousand (PLN 30,000 thousand as at 31 December 2011) of potential liabilities related to the sale of real estate by the Armatura Group.

11. Commentary to the interim consolidated financial statements

11.1. Commentary

The gross written premium for Q1 2012 was PLN 4,322,747 thousand compared to PLN 3,976,884 thousand in a similar period of the previous year. The growth of PLN 345,863 thousand (+8.7%) was driven by higher sales of the following in particular:

- a new accidental death and dismemberment insurance product for hospitals, TPL insurance for corporate clients and modified TPL products for health care units (higher sums guaranteed) in the corporate insurance segment;
- motor TPL insurance in the mass insurance segment;
- group protection insurance (higher average premium and number of insureds, including a dynamic surge in new sales) and single premium endowment insurance in the bancassurance channel in the group and individually continued insurance segment;
- investment insurance in the bancassurance channel in the individual insurance segment.

The investment income (inclusive of investment contracts, i.e. contracts that do not entail substantial insurance risk) in Q1 2012 and Q1 2011 was PLN 872,798 thousand and PLN 474,059 thousand, respectively, primarily as a result of the higher valuation of treasury bonds (lower interest rates) and better market conditions on the WSE (the WIG index advanced in Q1 2012 by 9.8% as opposed to 2.6% in Q1 2011).

The growth in net claims paid (incorporating the movement in the technical provisions) of PLN 376,054 thousand (+15.7%) in comparison with a similar period in the previous year resulted from the following:

- adverse impact on winter crops in the mass insurance segment (up by PLN 90,088 thousand compared to Q1 2011),
- slower pace of converting long-term policies into yearly-renewable term insurance in type P group insurance (- PLN 123,704 thousand),
- higher sales of individual products in the bancassurance channel (growth in mathematical provisions of PLN 80,548 thousand).

At the same time, improved profitability was recorded in motor and property insurance in Q1 2012 in conjunction, among other things, with more favorable conditions on the roads and the absence of any single high value claims (loss ratios receded by 1.8 p.p. and 3.5 p.p., respectively to 68.6% and 33.5% compared to Q1 2011).

In Q1 2012 acquisition costs rose by PLN 30,219 thousand (+6.4%) compared to a similar period of the previous year. This growth was the outcome of higher sales and the rising share of more costly distribution channels (such as agents and multi-agencies).

Administrative costs grew by PLN 36,149 thousand (+11.0%) as a result of launching project-related measures to alter the PZU Group's image and to streamline and automate service processes, coupled with maintaining fixed cost discipline. Moreover, in Q1 2012 a charge was made to the Company's Social Benefits Fund in the amount of PLN 20,000 thousand.

The net balance of other operating revenues and expenses in Q1 2012 was - PLN 48,953 thousand, signifying deterioration of PLN 122,582 thousand compared to a similar period of the previous year. The main cause was commencing full consolidation of the Armatura Group as of 1 January 2011 (the one-off impact on the result in Q1 2011 was +PLN 118,916 thousand).

The operating profit in Q1 2012 was PLN 1,034,672 thousand making it higher by PLN 72,520 thousand (7.5%) than in a similar period of the previous year, primarily driven by the PZU Group's higher investment result. The net profit grew in comparison to Q1 2011 by PLN 31,394 thousand (+4.0%) to PLN 822,629 thousand.

IFRS-compliant consolidated equity as at 31 March 2012 was PLN 13,788,677 thousand compared to PLN 13,734,678 thousand as at 31 March 2011. The return on equity (ROE[1]) for the period from Q1 2012 to 31 March 2012 was 24.7% making it 0.8 p.p. higher than in a similar period of the previous year. In comparison with consolidated equity at 31 December 2011, equity surged by PLN 919,172 thousand (+7.1%), while the ROE calculated for the period of 1 January 2011 to 31 December 2011 was 18.3% (+6.4 p.p).

The value of financial assets (including investment property) as at 31 March 2012 and 31 March 2011 was PLN 49,940,106 thousand and PLN 47,877,614 thousand, respectively. The higher balance resulted from business growth (increase in gross written premium). Compared to 31 December 2011 the value of financial assets (including investment property) grew by PLN 2,630,525 thousand from PLN 47,309,581 thousand and resulted in particular from the higher valuation of treasury bonds (a decrease in interest rates) and of equities (good market conditions on the WSE).

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 2011.

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

[1] Annualized ratio

Calculation of shareholder funds to cover PZU's solvency margin are presented below.

Calculation of shareholder funds to cover the solvency margin	**31 March 2012**	**31 December 2011**	**31 March 2011**
PZU equity	**12,544,351**	**11,745,410**	**12,409,924**
Intangible assets	(99,569)	(107,004)	(63,192)
Value of shares in insurance companies held by the PZU insurance capital group	(6,476,777)	(6,063,902)	(6,741,493)
Deferred income tax assets	(331,920)	(363,384)	(277,533)
Contribution of other insurance companies in the PZU insurance capital group to PZU's shareholder funds:	**4,569,857**	**3,980,944**	**5,080,265**
PZU Życie SA 100.00%	4,580,758	3,988,423	5,067,373
Shareholder funds	6,342,836	5,703,608	6,727,364
Solvency margin	1,762,078	1,715,185	1,659,991
Surplus of shareholder funds to cover the solvency margin	4,580,758	3,988,423	5,067,373
UAB DK PZU Lietuva 99.76%	3,578	4,229	13,785
Shareholder funds	33,797	34,918	42,049
Solvency margin	30,210	30,679	28,231
Surplus of shareholder funds to cover the solvency margin	3,587	4,239	13,818
PrJSC PZU Ukraine 100.00%	(13,407)	(14,206)	(5,672)
Shareholder funds	5,728	6,715	11,173
Solvency margin	19,135	20,921	16,845
Surplus/shortage of equity to cover the solvency margin	(13,407)	(14,206)	(5,672)
Other insurance companies	(1,072)	2,498	4,779
PZU shareholder funds	**10,205,942**	**9,192,064**	**10,407,971**
PZU solvency margin	1,348,689	1,338,798	1,333,798
PZU indemnity capital	449,563	446,266	444,599
Surplus of shareholder funds to cover the solvency margin	**8,857,253**	**7,853,266**	**9,074,173**
Surplus of shareholder funds to cover the indemnity capital	**9,756,379**	**8,745,798**	**9,963,372**

13. Segment reporting

13.1. Reportable segments

13.1.1. Fundamental selection criterion

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

The main model for PZU Group segmentation is based on the criterion of entities subject to consolidation, with the reservation that in reference to the leading companies of the PZU Group (PZU and PZU Życie) segments are additionally distinguished according to the following criteria: 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.

Having regard for its separateness and its operation in different regulatory environments, the internal financial reporting system applied by the PZU Group, according to the PZU Group's segmentation model based on the criterion of entities subject to consolidation and having regard for their utility for users of financial statements the following segments have also been distinguished (despite not reaching the thresholds defined by IFRS 8 item 13):

- pension insurance;
- Ukraine (non-life);
- Lithuania (non-life);

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 a supplementary division using the geographic criterion according to which the following segments have been distinguished:

- Poland;
- Lithuania;
- Ukraine.

13.2. **Inter-segment settlements**

Economic transactions entered into by and between operating segments and geographic segments are entered into on arm's length conditions.

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 treasuries (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 technical provisions corresponding to them 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), incorporating however the net result on investments attributable to investments providing 100% coverage of technical provisions. 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 investing activity in respect of the PZU Group's own funds understood to mean surplus investments above the technical provisions in the PZU Group's leading insurance companies (PZU and PZU Życie where this surplus is different from the concept of investing the own funds of insurance undertakings as defined in PAS) and the PZU Group's other free cash flow;
- pension insurance – reporting according to PAS – covering PZU PTE;
- Ukraine (non-life) – reporting according to Ukrainian standards – covering PZU Ukraine;
- Lithuania (non-life) - reporting according to Lithuanian standards – covering PZU Lietuva;
- 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 subject to consolidation 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 2011 prepared according to PAS, signed by the PZU Management Board on 14 March 2012 and whose subject the statutory auditor issued on that same date an unqualified opinion („PZU's standalone financial statements for 2011").

PZU's standalone financial statements for 2011 are available on PZU's website www.pzu.pl under the tab „PZU Group / Investor Relations / Periodic and Current Reports / Periodic Reports".

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 2011.

The fundamental differences between PAS and IFRS in respect of accounting for insurance contracts and investment contracts at PZU Życie entail the following:

- classifying insurance contracts according to the guidelines set forth under IFRS 4 on the classification of products as insurance contracts subject to IFRS 4 or investment contracts measured according to 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 amount of the technical rate used to compute the technical provisions. According to IFRS 4, if an insurer measures its insurance contracts while applying sufficient prudence, it should not in subsequent reporting periods insert additional elements augmenting its level. In PAS financial reporting, the technical rates are reduced for some types of insurance, which results from the maximum levels of the technical rates published by the Polish Financial Services Authority, contributing to higher PAS technical provisions compared to similar IFRS-compliant provisions.

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

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 to cover 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 costs and financial costs 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.

Profit and loss account for the period from 1 January 2012 to 31 March 2012	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Pension insurance	Ukraine (non-life)	Lithuania (non-life)	Investment contracts	Other operations	Presentation differences	Real estate and capital instruments	Investment contracts	Technical rate in life insurance	Prevention fund and charges to the Company Social Benefits Fund	Consolidation and unallocated adjustments	Consolidated value	**Profit and loss account for the period from 1 January to 31 March 2012**
	PAS	PAS	PAS	PAS	PAS	PAS	UA GAAP	LT GAAP	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross premium written externally	617 229	1 823 409	1 589 252	217 670	-	-	31 479	43 708	1 024 223	-	-	-	(1 024 223)	-	-	-	4 322 747	Gross insurance premium written externally
Gross premium written between segments	553	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(553)	-	Gross insurance premium written between segments
Gross written insurance premium	617 782	1 823 409	1 589 252	217 670	-	-	31 479	43 708	1 024 223	-	-	-	(1 024 223)	-	-	(553)	4 322 747	
Reinsurers’ share in gross written premium	(40 864)	(621)	(783)	(40)	-	-	(9 092)	(5 300)	-	-	-	-	-	-	-	1 098	(55 602)	Reinsurers’ share in gross written insurance premium
Net written premium	576 918	1 822 788	1 588 469	217 630	-	-	22 387	38 408	1 024 223	-	-	-	(1 024 223)	-	-	545	4 267 145	**Net written premium**
Movement in the unearned premium reserve and gross unexpired risk reserve	(147 142)	(236 216)	(190)	2 337	-	-	1 825	594	(662)	-	(18 174)	-	662	-	-	(1 321)	(398 287)	Movement in net unearned premium reserve
Reinsurer’s share in the unearned premium reserve and gross unexpired risk reserve	(9 844)	(8 886)	519	37	-	-	-	-	-	-	18 174	-	-	-	-	-	-	
Net earned premium	419 932	1 577 686	1 588 798	220 004	-	-	24 212	39 002	1 023 561	-	-	-	(1 023 561)	-	-	(776)	3 868 858	**Net earned premium**
											48 948	-	11 054	-	-	-	60 002	Fee and commission income
Dividend income, including:	22 634	113 056	239 233	89 733	386 867	3 317	6 245	2 813	76 430	251	(940 579)							
Net result on investments (external activity)	22 634	113 056	239 233	89 733	380 116	3 317	6 245	2 813	76 430	251	(933 828)							
Net result on investments (inter-segment activity)	-	-	-	-	6 751	-	-	-	-	-	(6 751)							
											434 690	-	-	-	-	1 745	436 435	Net investment income (external activity)
											6 751	-	-	-	-	(6 751)	-	Net investment income (inter-segment activity)
											103 495	-	-	-	-	6 926	110 421	Net result on the realization of investments and impairment charges
											351 670	(19 025)	-	-	-	(6 703)	325 942	Net change in the fair value of assets and liabilities carried at fair value
Other net technical income	6 782	9 302	612	3 565	-	-	-	-	5 405	-	(25 666)							
Revenues on core business of non-insurance entities	-	-	-	-	-	48 948	-	-	-	78 090	(127 038)							
Other operating income (not applicable to insurance entities)	-	-	-	-	-	80	-	-	-	2 256	108 676	664	(5 405)	-	-	(30 825)	75 446	Other operating income
Gross claims paid	(260 801)	(872 645)	(1 087 289)	(142 935)	-	-	(12 953)	(26 878)	(447 690)	-	(980 535)	-	1 093 219	(10 608)	-	(227)	(2 749 342)	Claims and movement in technical reserves
Movement in the gross claims reserve	51 655	(167 829)	24 153	14 081	-	-	-	-	(267)	-	78 207							
Reinsurers’ share in claims paid	10 611	14 554	-	-	-	-	104	1 845	-	-	(54 713)	-	-	-	-	59	(27 540)	Claims and movement in insurance liabilities ceded to re-insurers
Reinsurer's share in the movement in reserves	(30 657)	(18 070)	-	-	-	-	-	-	-	-	48 727							
Net insurance claims	(229 192)	(1 043 990)	(1 063 136)	(128 854)	-	-	(12 849)	(25 033)	(447 957)	-	(908 314)	-	1 093 219	(10 608)	-	(168)	(2 776 882)	**Net insurance claims**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	(153 308)	(105 655)	-	-	-	-	(644 602)	-	903 565							
											-	-	(75 307)	-	-	-	(75 307)	Claims and changes in valuation of investment contracts
Net premiums and rebates for insureds including the movement in reserves	1 350	69	(181)	-	-	-	-	-	-	-	(1 238)							
Other net technical income	(9 297)	(92 691)	(9 994)	(402)	-	-	-	-	(1 040)	-	113 424							
Acquisition cost	(86 818)	(283 530)	(78 004)	(18 244)	-	(6 351)	(7 901)	(11 694)	(9 929)	-	-	(2)	-	-	-	1 739	(500 734)	Acquisition cost
Administrative costs	(28 445)	(136 153)	(143 131)	(11 482)	-	(17 239)	(6 551)	(4 126)	(3 091)	-	-	3 268	-	-	(20 000)	1 840	(365 110)	Administrative costs
Reinsurance commissions and profit-sharing	452	(3 036)	-	-	-	-	-	-	-	-	2 584							
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	(76 696)	76 696							
Other operating expenses (not applicable to insurance entities)						(236)				(548)	(144 104)	638	-	-	(6 052)	25 903	(124 399)	Other operating expenses
Result on insurance / Operating profit (loss)	97 398	140 713	380 889	48 665	386 867	28 519	3 156	962	(1 223)	3 353	3 560	(14 457)	-	(10 608)	(26 052)	(7 070)	1 034 672	**Operating profit (loss)**
Other operating income	15 167		4 773				99	620			(20 659)							
Other operating expenses	(14 564)		(7 125)				(441)	(786)			22 916							
Financial costs										101	(5 859)					-	(5 758)	Financial costs
																	1 028 914	**Gross profit (loss)**
																	(206 285)	Income tax
																	822 629	**Net profit (loss)**

Profit and loss account for the period from 1 January 2011 to 31 March 2011	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Pension insurance	Ukraine (non-life)	Lithuania (non-life)	Investment contracts	Other operations	Presentation differences	Real estate and capital instruments	Prevention fund	Investment contracts	Technical rate in life insurance	Other differences in accounting standards	Consolidation and unallocated adjustments	Consolidated value	**Profit and loss account for the period from 1 January 2011 to 31 March 2011**
	PAS	PAS	PAS	PAS	PAS	PAS	UA GAAP	LT GAAP	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross premium written externally	476 322	1 779 221	1 523 468	136 745	-	-	27 946	33 182	385 009	-	-	-	-	(385 009)	-	-	-	3 976 884	Gross insurance premium written externally
Gross premium written between segments	444	922	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1 366)	-	Gross insurance premium written between segments
Gross written insurance premium	476 766	1 780 143	1 523 468	136 745	-	-	27 946	33 182	385 009	-	-	-	-	(385 009)	-	-	(1 366)	3 976 884	
Reinsurers' share in gross written premium	(62 388)	(34 971)	(1 561)	(130)	-	-	(7 971)	(6 413)	-	-	-	-	-	-	-	-	1 199	(112 235)	Reinsurers' share in gross written insurance premium
Net written premium	414 378	1 745 172	1 521 907	136 615	-	-	19 975	26 769	385 009	-	-	-	-	(385 009)	-	-	(167)	3 864 649	**Net written premium**
																		-	
Movement in the unearned premium reserve and gross unexpired risk reserve	(44 715)	(294 024)	(2)	2 663	-	-	571	5 055	-	-	38 407	(530)	-	-	-	-	60	(292 515)	Movement in net unearned premium reserve
Reinsurer's share in the unearned premium reserve and gross unexpired risk reserve	20 779	17 068	466	94	-	-	-	-	-	-	(38 407)	-	-	-	-	-	-	-	
Net earned premium	390 442	1 468 216	1 522 371	139 372	-	-	20 546	31 824	385 009	-	-	(530)	-	(385 009)	-	-	(107)	3 572 134	**Net earned premium**
											66 008	-	-	12 265	-	-	-	78 273	Fee and commission income
Dividend income, including:	31 147	118 810	196 473	67 935	115 066	3 429	4 621	1 763	32 214	147	(571 605)								
Net result on investments (external activity)	31 147	118 810	196 473	67 935	114 746	3 429	4 621	1 763	32 214	147	(571 285)								
Net result on investments (inter-segment activity)	-	-	-	-	320	-	-	-	-	-	(320)								
											406 160	-	-	-	-	-	(255)	405 905	Net investment income (external activity)
											320	-	-	-	-	-	(320)	-	Net investment income (inter-segment activity)
											(85 917)	(20 248)	-	-	-	-	(23 379)	(129 544)	Net result on the realization of investments and impairment charges
											202 426	(18 654)	-	-	-	-	13 926	197 698	Net change in the fair value of assets and liabilities carried at fair value
Other net technical income	2 811	27 222	318	3 020	-	-	-	-	6 297	-	(39 668)								
Revenues on core business of non-insurance entities	-	-	-	-	-	66 008	-	-	-	73 756	(139 764)								
Other operating income (not applicable to insurance entities)	-	-	-	-	-	4	-	-	-	1 101	128 543	2 187	-	(6 298)	-	-	79 396	204 933	Other operating income
Gross claims paid	(344 722)	(923 956)	(1 087 038)	(145 701)	-	-	(11 710)	(21 669)	(136 221)	-	(132 636)	(198)	-	414 680	(16 959)	-	2 274	(2 403 856)	Claims and movement in technical reserves
Movement in the gross claims reserve	73 529	34 705	(15 128)	(1 727)	-	-	-	-	(5 843)	-	(85 536)								
Reinsurers' share in claims paid	27 018	27 860	-	-	-	-	(433)	691	-	-	(52 379)	1 779	-	-	-	-	(1 508)	3 028	Claims and movement in insurance liabilities ceded to re-insurers
Reinsurer's share in the movement in reserves	(15 752)	(35 007)	-	-	-	-	-	-	-	-	50 759								
Net insurance claims	(259 927)	(896 398)	(1 102 166)	(147 428)	-	-	(12 143)	(20 978)	(142 064)	-	(219 792)	1 581	-	414 680	(16 959)	-	766	(2 400 828)	**Net insurance claims**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	45 009	11 529	-	-	-	-	(272 616)	-	216 078								
											-	-	-	(35 638)	-	-	(1)	(35 639)	Claims and changes in valuation of investment contracts
Net premiums and rebates for insureds including the movement in reserves	(1 821)	-	(272)	-	-	-	-	-	-	-	2 093								
Other net technical income	(8 807)	(112 235)	(10 052)	(191)	-	-	-	-	(838)	-	132 123								
Acquisition cost	(69 426)	(283 808)	(58 607)	(14 753)	-	(11 082)	(6 282)	(8 922)	(13 049)	-	-	2	-	-	-	-	(4 588)	(470 515)	Acquisition cost
Administrative costs	(21 184)	(116 037)	(140 645)	(11 603)	-	(20 325)	(6 335)	(3 547)	(2 925)	-	(4 901)	865	-	-	-	-	(2 324)	(328 961)	Administrative costs
Reinsurance commissions and profit-sharing	4 974	3 601	-	-	-	-	-	-	-	-	(8 575)								
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	(79 094)	79 094								
Other operating expenses (not applicable to insurance entities)						(116)				3 807	(161 984)	1 250	(10 466)	-	-	-	36 205	(131 304)	Other operating expenses
Result on insurance / Operating profit (loss)	68 209	209 371	452 429	47 881	115 066	37 918	407	140	(7 972)	(283)	639	(33 547)	(10 466)	-	(16 959)	-	99 319	962 152	**Operating profit (loss)**
Other operating income	26 488		20 510				91	649			(47 738)								
Other operating expenses	(24 117)		(21 044)				(489)	(841)			46 491								
Financial costs										(905)	609						-	(296)	Financial costs
																		961 856	**Gross profit (loss)**
																		(170 621)	Income tax
																		791 235	**Net profit (loss)**

1 January – 31 March 2012 and as at 31 March 2012	Poland	Lithuania	Ukraine	Not allocated (consolidation adjustments and other)	Consolidated value
Gross externally written insurance premium	4,247,560	43,708	31,479	-	4,322,747
Gross insurance premium written between segments	328	-	-	(328)	-
Fee and commission income	60,002	-	-	-	60,002
Net investment income	431,938	1,462	3,035	-	436,435
Net result on the realization of investments and impairment charges	108,056	305	2,060	-	110,421
Net change in the fair value of assets and liabilities carried at fair value	324,896	1,046	-	-	325,942
Other non-current assets other than financial instruments*	1,176,491	9,437	6,711	(1,711)	1,190,928
Deferred income tax assets	12,725	-	1,198	-	13,923
Assets	55,237,574	265,103	142,140	(315,950)	55,328,867

* applies to intangible assets and property, plant and equipment

As at 31 December 2011	Poland	Lithuania	Ukraine	Not allocated (consolidation adjustments and other)	Consolidated value
Other non-current assets other than financial instruments*	1,205,179	10,410	7,752	(1,922)	1,221,419
Deferred income tax assets	7,289	-	1,311	-	8,600
Assets	52,017,213	279,246	147,909	(315,086)	52,129,282

* applies to intangible assets and property, plant and equipment

1 January – 31 March 2011 and as at 31 March 2011	Poland	Lithuania	Ukraine	Not allocated (consolidation adjustments and other)	Consolidated value
Gross externally written insurance premium	3,915,756	33,182	27,946	-	3,976,884
Gross insurance premium written between segments	1,144	-	-	(1,144)	-
Fee and commission income	78,273	-	-	-	78,273
Net investment income	402,430	1,759	1,716	-	405,905
Net result on the realization of investments and impairment charges	(236,344)	(471)	(327)	107,598	(129,544)
Net change in the fair value of assets and liabilities carried at fair value	197,674	24	-	-	197,698
Other non-current assets other than financial instruments*	1,226,501	9,363	6,476	(1,814)	1,240,526
Deferred income tax assets	15,089	-	899	-	15,988
Assets	53,610,560	235,707	105,225	(310,928)	53,640,564

* applies to intangible assets and property, plant and equipment

14. Commentary to segment reporting

14.1. Corporate insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2012	1 January – 31 March 2011	% change
Motor TPL insurance	118,313	108,778	8.8%
MOD insurance	159,337	165,278	(3.6)%
Total motor insurance	277,649	274,057	1.3%
Insurance against fire and other damage to property	96,633	90,018	7.3%
Other liability insurance (groups 11, 12, 13)	146,367	84,514	73.2%
ADD and other insurance *	97,133	28,178	244.7%
Total non-life insurance without motor insurance	340,133	202,710	67.8%
Total corporate insurance segment (non-life insurance)	**617,782**	**476,766**	**29.6%**

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

In the corporate insurance segment, the increase in gross written premium by PLN 141,016 thousand (+29.6%) as compared to Q1 2011 resulted in particular from the sale of:

- new accident insurance for patients as a result of medical events (ADD insurance for hospitals +PLN 63,707 thousand; from 1 January 2012, this insurance is mandatory, however the wording used by the Finance Ministry indicates that legislative changes are planned which would release health care establishments from the obligation to take out insurance cover),
- TPL insurance for corporate clients (+PLN 21,002 thousand),
- modified TPL products for health care units (+PLN 46,729 thousand, mainly as a result of an increase of guaranteed sums),
- motor TPL insurance as a result of tariff increases which resulted in an increase of average premium.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2012	1 January – 31 March 2011	% change
Gross written insurance premium	617,782	476,766	29.6%
Net earned premium	419,932	390,442	7.6%
Investment income	22,634	31,147	(27.3)%
Net insurance claims	(229,192)	(259,927)	(11.8)%
Acquisition cost	(86,818)	(69,426)	25.1%
Administrative costs	(28,445)	(21,184)	34.3%
Operating profit (loss)	97,398	68,209	42.8%

Net claims paid in Q1 2012 were PLN 229,192 thousand down PLN 30,735 thousand (-11.8%) from Q1 2011. The largest decrease of net claims was recorded in motor insurance, which resulted from the portfolio decrease in connection with changes made to the underwriting policy, by reducing the number of unprofitable clients and changing the approach to individual valuation of risk. Moreover, lack of single claims with significant amounts and lack of natural disasters contributed to the lower net claims in property insurance.

Investment income allocated by transfer prices to the corporate insurance segment for Q1 2012 and Q1 2011 was PLN 22,634 thousand and PLN 31,147 thousand, respectively.

Acquisition expenses in the corporate insurance segment in Q1 2012 and in Q1 2011 were PLN 86,818 thousand and PLN 69,426 thousand, respectively, recording a 25.1% increase. The percentage of total commission in gross written premium increased mainly due to the lower percentage of commissions in the brokerage channel, for which, despite the increase of sums insured, commission paid does not increase and also as an effect of introducing a new product with lower commission rates (ADD insurance for hospitals).

The increase in administrative cost in Q1 2012 (+PLN 7,261 thousand) as compared to Q1 2011 was associated mainly with new project initiatives aimed at improving the image of the PZU Group and automating and increasing the efficiency of service processes.

Operating profit in the corporate insurance segment for Q1 2012 and Q1 2011 was PLN 97,398 thousand and PLN 68,209 thousand, respectively. The higher operating result was the effect in particular of the improved performance in non-motor insurance (reduction of the loss ratio by 16.4 p.p. to 32.7% due to the absence of single claims with significant amounts) and in motor insurance (reduction of the loss ratio by 7.4 p.p. to 69.6% in connection with better road conditions).

14.1.1. New products

On 1 January 2012, modified mandatory third party liability insurance for health care units was introduced in connection with the change of legal regulations. Additionally, from 1 January 2012, PZU included in its offering a mandatory insurance of medical events (ADD insurance for hospitals).

14.2. Mass insurance – non-life insurance

Gross written premium by product group	**1 January – 31 March 2012**	**1 January – 31 March 2011**	**% change**
Motor TPL insurance	635,380	580,595	9.4%
MOD insurance	407,926	416,342	(2.0)%
Total motor insurance	1,043,307	996,937	4.7%
Insurance against fire and other damage to property	512,134	528,078	(3.0)%
Other liability insurance (groups 11, 12, 13)	113,727	100,971	12.6%
ADD and other insurance *	154,241	154,157	0.1%
Total non-life insurance without motor insurance	780,102	783,206	(0.4)%
Total mass insurance segment (non-life insurance)	**1,823,409**	**1,780,143**	**2.4%**

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

In the mass insurance segment, gross written premium increased by PLN 43,266 thousand (+2.4%) as compared to Q1 2011. This growth resulted primarily from:

- tariff increases in motor TPL (average premium increase) carried out in 2011,
- growth of gross written premium in the other TPL group (the effect of implementing modified TPL products for health care units Individual and Small and Medium Enterprises),
- reduced sales in insurance against fire and other property losses (effect of reduced sales in mandatory insurance of farm buildings due to the increasing price competition).

Data from the profit and loss account – mass insurance (non-life insurance)	**1 January – 31 March 2012**	**1 January – 31 March 2011**	**% change**
Gross written insurance premium	1,823,409	1,780,143	2.4%
Net earned premium	1,577,686	1,468,216	7.5%
Investment income	113,056	118,810	(4.8)%
Net insurance claims	(1,043,990)	(896,398)	16.5%
Acquisition cost	(283,530)	(283,808)	(0.1)%
Administrative costs	(136,153)	(116,037)	17.3%
Operating profit (loss)	140,713	209,371	(32.8)%

Net claims paid in Q1 2012 were PLN 1,043,990 thousand, up by PLN 147,592 thousand (+16.5%) from Q1 2011. The growth of net claims paid was driven by losses associated with the effects of wintering in agricultural insurance (growth of PLN 90,088 thousand compared to Q1 2011 – an increase of claims provisions). Moreover, an increase was recorded in net claims in motor TPL insurance caused mainly by the increased size of the portfolio.

In motor insurance, performance improved after the loss ratio fell from 68.7% to 68.4% which resulted from lower frequency of claims (effect of better road conditions as compared to the winter of 2011).

Investment income allocated by transfer prices to the mass insurance segment for Q1 2012 and Q1 2011 was PLN 113,056 thousand and PLN 118,810 thousand, respectively.

Acquisition expenses in the mass insurance segment in Q1 2012 and in Q1 2011 were PLN 283,530 thousand and PLN 283,808 thousand, respectively, falling despite the sales increase, due to the lower level of indirect costs. At the same time, direct acquisition expenses increased driven by higher sales and an increased percentage of more expensive distribution channels. The growth was partially offset by the change of the product mix – increased sales of motor TPL products which command lower commission.

The increase in administrative cost in Q1 2012 (+PLN 20,116 thousand) as compared to Q1 2011 was associated mainly with new project initiatives aimed at improving the image of the PZU Group and automating and increasing the efficiency of service processes.

Operating profit in the mass insurance segment for Q1 2012 and Q1 2011 was PLN 140,713 thousand and PLN 209,371 thousand, respectively. The decrease of PLN 68,658 thousand (-32.8%) was mainly due to the negative effects of winter crops in agricultural insurance in 2012.

14.2.1. **New products**

In February, the amended Act on Mandatory Insurance, Insurance Guarantee Fund and the Polish Office of Motor Insurers came into effect. The amendment introduces, among others, more options for insureds to terminate mandatory insurance agreements and an option to change the insurer during the term of the policy.

As of 1 March 2012, partially changed premium tariffs for mandatory Third Party Liability insurance for motor vehicle owners were introduced (TPL) along with Motor Own Damage insurance tariffs for Individual Clients and Small and Medium Enterprises (MOD).

Additionally, as of 1 January 2012, new general terms and conditions of mandatory subsidized agricultural crops insurance came into effect. In March 2012, PZU launched its spring sales campaign for subsidized crop insurance, which is based on additional regulations and with the application of special tariff solutions aimed at growing gross written premium and obtaining new clients.

Due to the new legal status regulating the performance of health care activity as of 1 January 2012, a new mandatory TPL insurance for health care units was introduced along with a mandatory TPL insurance for service providers rendering health care services which are not health service units. The mandatory insurance mentioned above replaced the mandatory insurance products offered previously:

- TPL insurance for health care service providers,
- TPL insurance for entities accepting health service orders,
- TPL insurance for physicians and dentists practicing their profession in the territory of the Republic of Poland.

Within the project of supplementing the offering of mandatory TPL insurance, new general terms and conditions of insurance came into effect as of 1 January 2012 for TPL insurance for health care units, for persons practicing profession of a physician, nurse and other medical professions applicable to voluntary TPL insurance contracts, for Individual Clients and Small and Medium Enterprises. As of 1 January 2012, the general terms and conditions of TPL insurance for pharmacists and pharmacies were also amended.

Additionally, amendments were made to all the general terms and conditions of insurance; the amendments resulted mainly from the change of Article 16 section 4 of the Insurance Activity Act and removed the provisions that were ruled abusive by the Antimonopoly Office. They will come into effect in the second half of 2012.

14.3. **Group and individually continued insurance – life insurance**

Data from the profit and loss account – group and individually continued insurance	1 January - 31 March 2012	1 January - 31 March 2011	% change
Gross written insurance premium	1,589,252	1,523,468	4.3%
Group insurance	1,123,484	1,067,354	5.3%
Individually continued insurance	465,768	456,114	2.1%

Net earned premium	1,588,798	1,522,371	4.4%
Investment income	239,233	196,473	21.8%
Net insurance claims	(1,063,136)	(1,102,166)	(3.5)%
Movement in other net technical provisions	(153,308)	45,009	x
Acquisition cost	(78,004)	(58,607)	33.1%
Administrative costs	(143,131)	(140,645)	1.8%
Operating profit (loss)	380,889	452,429	(15.8)%

Operating profit (loss) excluding the conversion effect	280,807	222,225	26.4%

Gross written premium by payment type - group and individually continued insurance	**1 January - 31 March 2012**	**1 January - 31 March 2011**	**% change**
Regular premium	1,560,760	1,507,246	3.6%
Single premium	28,492	16,222	75.6%
Total	**1,589,252**	**1,523,468**	**4.3%**

The increase of gross written premium by PLN 65,784 thousand (+4.3%) was driven primarily by growth in group protection insurance (increase of average premium and the number of insured, including a dynamic growth of new sales) and increased sales of single premium endowment insurance in the bancassurance channel. Premium obtained from health insurance concluded in the group form also increased. In individually continued insurance, premium growth was achieved mainly due to the up-selling of riders (the number of insureds decreased, mainly in the closed portfolio of type D continued insurance).

The decline in net claims paid (decline of PLN 39,030 thousand, i.e. by 3.5%) was primarily the effect of lower amounts of claims in group and continued protection insurance (small decline in loss ratio). Another factor was the lower value of endowments in short-term investment products offset by the movement in the mathematical provision.

The difference in the technical provisions (provisions grew by PLN 153,308 thousand in comparison to the decline of PLN 45,009 thousand in Q1 2011) resulted primarily from the slower pace of converting long-term policies into yearly renewable term insurance in type P group insurance (the conversion effect[2] in Q1 2012 translated into releasing provisions worth PLN 100,082 thousand, as opposed to PLN 230,204 thousand in Q1 2011), and the growth of provisions in investment products (higher sales in Q1 2012 and better results of investment activity).

The investment income consists of income allocated according to transfer prices and income on investment products. In the group and individually continued insurance segment, the investment income grew by PLN 42,760 thousand mostly on account of materially higher revenues on investment products – the effect of a more favorable situation on the financial markets. Income allocated according to transfer prices remained at a similar level.

The acquisition costs in the group and individually continued insurance segment in Q1 2012 and 2011 were PLN 78,004 thousand and PLN 58,607 thousand, respectively. The movement of PLN 19,397 thousand (33.1%) resulted above all from the following:

- higher commissions paid on group protection insurance as a result of portfolio expansion, higher sales of new policies in Q1 2012 and the growing share of the premium acquired by the brokerage channel (upward trend in the percentage of the premium acquired by this channel in the total gross written premium was largely stopped compared to previous years);
- higher indirect acquisition costs, inter alia salaries for the sales network associated with acquiring new customers in group insurance;

[2] Conversion effect computed using PAS data.

- higher commissions in protection insurance distributed by the bancassurance channel as an effect of higher gross written premium.

The PLN 2,486 thousand (+1.8%) growth of administrative costs in Q1 2012 from Q1 2011 was the result of new project initiatives aimed at improving the image of the PZU Group and automating and increasing efficiency of service processes.

The operating profit in the group and continued insurance segment in Q1 2012 fell by PLN 71,540 thousand (-15.8%), mostly as a result of the lower conversion effect from long-term contracts into renewable contracts in type P group insurance. The operating profit excluding the conversion effect in type P group insurance grew quarter over quarter by PLN 58,582 thousand (+26.4%).

14.3.1. New products

In group and individually continued insurance, the following were introduced in Q1 2012:

- new levels of tariffs in type P Plus group employee insurance,
- group insurance rider with right to continue the insurance individually,
- new type P Plus individually continued employee insurance,
- changes in the type P Plus group employee insurance offer dedicated to the Small and Medium Enterprise sector called PZU Ochrona Plus.

Moreover, PZU Życie is also continuing its participation in submitting proposals in tenders, which are more and more widespread for group insurance and is concentrating on developing Klub PZU Pomoc w Życiu.

At the beginning of March 2012 PZU Życie launched a new product on the Polish market: Group Medicine Insurance. The holder of medicine insurance pays the drug store 20% of the price of the prescription medicine; PZU Życie covers the remaining 80% of the price of the medicine under the insurance. PZU's Medicine Insurance covers almost all medicines sold only under a prescription. The new product is offered as group insurance and is funded by employers for their employees.

14.4. Individual insurance - life insurance

Data from the profit and loss account – individual insurance	**1 January - 31 March 2012**	**1 January - 31 March 2011**	**% change**
Gross written insurance premium	217,670	136,745	59.2%
Net earned premium	220,004	139,372	57.9%
Investment income	89,733	67,935	32.1%
Net insurance claims	(128,854)	(147,428)	(12.6)%
Movement in other net technical provisions	(105,655)	11,529	x
Acquisition cost	(18,244)	(14,753)	23.7%
Administrative costs	(11,482)	(11,603)	(1.0)%
Operating profit (loss)	48,665	47,881	1.6%

Gross written premium by payment type – individual insurance	**1 January - 31 March 2012**	**1 January - 31 March 2011**	**% change**
Regular premium	114,843	116,868	(1.7)%
Single premium	102,827	19,877	417.3%
Total	**217,670**	**136,745**	**59.2%**

The growth of gross written premium of PLN 80,925 thousand (59.2%) was the result of the following:

- high growth rate of sales of the new single premium unit-linked individual product launched in November 2011 in cooperation with Bank Millennium S.A.;
- robust sales results of a structured product in cooperation with Citibank Handlowy;

- development of the regular premium investment and savings product called Plan na Życie launched in 2010 including a protection element;
- execution of several subscriptions of single premium structured insurance called Świat Zysków.

These changes were partially offset by the expiration of the endowment insurance portfolio from the 1990s.

The decline in the net claims paid (decline of PLN 18,574 thousand, i.e. by 12.6%) was primarily the effect of the lower value of endowments and surrenders of old policies in the individual endowment insurance portfolio from the 1990s.

The difference in the movement of the technical provisions (growth of provisions of PLN 105,655 thousand compared to the decline of PLN 11,529 thousand in Q1 2011) stemmed primarily from the high volume of new sales of investment insurance and the significantly better investment results, which translated into higher provisions for unit-linked insurance.

The investment income consists of income allocated according to transfer prices and income on investment products. In the individual insurance segment it grew by PLN 21,798 thousand primarily on account of the materially higher revenues associated with investment products – the effect of better circumstances on the financial markets. Income allocated according to transfer prices remained at a similar level.

The higher acquisition costs in this segment (up by PLN 3,491 thousand, i.e. by 23.7%) resulted mostly from dynamic sales development, especially of investment products through the bank channel.

As a consequence of the events described above, the segment's operating result grew by PLN 784 thousand to PLN 48,665 thousand.

14.4.1. **New products**

New individual products were not launched in the individual insurance segment.

14.5. **Investments**

The PZU Group's investment income in Q1 2012 and Q1 2011 was PLN 872,798 thousand and PLN 474,059 thousand, respectively (jointly with investment contracts, i.e. contracts, which do not entail significant insurance risk).

In turn, the investment income in the investments segment was PLN 386,867 thousand and PLN 115,066 thousand, respectively. It represented 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 as well as individual insurance) and investment contracts.

Investment income – by segment	1 January – 31 March 2012	1 January – 31 March 2011	% change
Investment segment	386,867	115,066	236.2%
Insurance activity segments (PZU and PZU Życie)	464,656	414,365	12.1%
Other segments and adjustments	21,275	(55,372)	x
Total	**872,798**	**474,059**	**84.1%**

The growth of investment income in the PZU Group and in the investment segment was driven, among others, by the increase in bond prices (yields of 10Y and 5Y bonds fell at the end of March 2012 by respectively 37 and 41 basis points from the end of 2011) and equity instruments on financial markets (the WIG index grew 9.8% in Q1 2012, compared to 2.6% in Q1 2011).

Result on investment activity	1 January – 31 March 2012	1 January – 31 March 2011	% change
Capital instruments	278,685	89,986	209.7%
Debt instruments	601,572	438,687	37.1%
Investment property	(4,279)	2,093	x
Others	(3,180)	(56,707)	x
Total	**872,798**	**474,059**	**84.1%**

The PLN 188,699 thousand growth of investment activity income earned on equity instruments resulted from the business conditions on the financial markets improving from the same quarter of the previous year. The increase in investment activity income earned on equity instruments contributed to the growth of the "Net change in the fair value of assets and liabilities carried at fair value" line item.

The PLN 162,885 thousand increase in the performance on debt instruments was caused by the decline in market interest rates in Q1 2012 as compared to the same period of the previous year, when interest rates increased.

The PLN 53,527 thousand increase in the result on investment activity in the item of "Other" financial instruments was driven among others by the better performance achieved on derivative instruments which are purchased mainly for adequate risk (including market risk) management purposes.

Investments (including investment contracts)	31 March 2012	Structure as at 31 March 2012	31 March 2011	Structure as at 31 March 2011
Debt instruments	35,984,717	72.1%	37,847,371	79.1%
Capital instruments	5,241,796	10.5%	6,040,193	12.6%
Investment property	531,510	1.1%	465,686	1.0%
Others	8,182,083	16.4%	3,524,364	7.3%
Total	**49,940,106**	**100.0%**	**47,877,614**	**100.0%**

The investment activity of the PZU Group is conducted in accordance with the statutory requirements, while keeping the adequate level of safety, liquidity and profitability. Debt securities issued by the State Treasury constituted over 70% of the investment portfolio as at 31 March 2012 as well as at 31 March 2011.

The declining share and value of equity instruments resulted, among others, from a reduction in their market value in the period from the end of Q1 2011 to the end of Q1 2012 and adjustment of their share to PZU Group's current investment strategy.

The increased share and value of the "Other" item was affected mainly by the increase in the value of term deposits in credit institutions associated with advantageous interest rates offered.

14.6. **Pension insurance**

Revenues on fees and commissions ("Revenues on core business of non-insurance entities") in the pension insurance segment for Q1 2012 and Q1 2011 were PLN 48,948 thousand and PLN 66.008 thousand, respectively. The decrease of PLN 17,060 thousand (-25.8%) resulted mainly from the PLN 19,137 thousand decrease in revenues on the premium fee (caused by the statutory reduction of premiums transferred by the Social Security Company (ZUS) to the Open-End Pension Fund (OFE) from 7.3% down to 2.3%) while the management fee increased by PLN 772 thousand due to a higher level of OFE's assets) and revenues on account of the reserve account increased by PLN 1,342 thousand.

The statutory reduction of premiums transferred to OFE also reduced the cost of fees charged by ZUS by PLN 4,358 thousand (-66.4%).

The PLN 4,731 thousand (-42.7%) decrease in acquisition costs was caused in particular from the statutory ban on acquisition activity in favor of OFE which came into effect in the beginning of 2012.

These changes contributed to the operating profit falling from PLN 37918 thousand in the same period of the previous year to PLN 28,519 thousand.

As at the end of March 2012, OFE PZU had 2.220,1 thousand members, i.e. 14.1% 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 18.2 thousand, i.e. 0.8% (while the total number of members of all open-end pension funds increased by 3.1%).

At the end of March 2012 the total value of net assets of all OFEs in the market was PLN 237,890,583.4 thousand, up 4.0% from the end of Q1 2011. In the same period OFE PZU's assets grew 2.0% up to PLN 32,139,439.5 thousand. The increased assets were affected by premiums received from ZUS and by investment results. In the period from January to March 2012, ZUS transferred PLN 280,635 thousand worth of premiums to OFE PZU, which was over 66.1% less than in the corresponding period of 2011 (such a significant drop was caused by the statutory reduction of premiums transmitted by ZUS from May 2011 from 7.3% to 2.3%, i.e. by 68.5%) and the rate of return was 4.7%.

14.7. **Ukraine**

Data from the profit and loss account – Ukraine	**1 January – 31 March 2012**	**1 January – 31 March 2011**	**% change**
Gross written insurance premium	31,479	27,946	12.6%
Net earned premium	24,212	20,546	17.8%
Investment income	6,245	4,621	35.1%
Net insurance claims	(12,849)	(12,143)	5.8%
Acquisition cost	(7,901)	(6,282)	25.8%
Administrative costs	(6,551)	(6,335)	3.4%
Operating profit (loss)	3,156	407	675.4%

The 12.6% increase of gross written premium in Q1 2012 compared to Q1 2011 was caused by the increased sales to corporate customers (28.5% annual growth) and direct sales (17% annual growth). Travel insurance, corporate property insurance and motor insurance played a special role in increasing the written premium.

Investment income increased 35.1% compared to Q1 the previous year, due to the increased profitability of liquid financial instruments (deposits, bonds) and an increased base of liquid assets after the sale of Inter Risk.

In Q1 2012, the loss ratio improved due to the reduction of popular but loss-generating medical insurance and the balancing of the portfolio with a profitable property insurance portfolio.

The acquisition costs increased by 25.8% driven by growing sales of property, motor and travel insurance which entail higher commission on acquired sales.

Administrative costs in the original currency (UAH) decreased by 2.0% in annual terms, which reflected the restrictive cost control policy. The 3.4% increase in PLN resulted from FX differences.

The PLN 2,749 thousand increase in operating result was driven mainly by growth in net earned premium (+17.8%) and a lower growth rate of net insurance claims (+5.8%).

14.8. **Lithuania**

Data from the profit and loss account – Lithuania	1 January – 31 March 2012	1 January – 31 March 2011	% change
Gross written insurance premium	43,708	33,182	31.7%
Net earned premium	39,002	31,824	22.6%
Investment income	2,813	1,763	59.6%
Net insurance claims	(25,033)	(20,978)	19.3%
Acquisition cost	(11,694)	(8,922)	31.1%
Administrative costs	(4,126)	(3,547)	16.3%
Operating profit (loss)	962	140	587.1%

Gross written premiums increased by PLN 10,526 thousand up to PLN 43,708 thousand mainly due to increased sale of casco insurance and health insurance.

The 59.6% hike in investment income as compared to the corresponding period of the previous year resulted from an better situation on the stock market in Q1 2012.

Net claims paid grew 19.3%, mainly in health insurance where the company increased its market share significantly in the previous year. Additionally, the loss ratio in motor insurance decreased when compared to the corresponding period of the previous year.

The growth of acquisition costs (+31.1%) remained at the gross written premium growth level (31.7%). Administrative costs increased 16.3% mainly due to the increased cost of remuneration resulting from an obligation to establish a provision for unused holiday leaves (which is a cyclical occurrence in Q1).

The PLN 822 thousand increase in operating result was driven mainly by the growth in net earned premium (+22.6%) and a slower growth of net insurance claims (+19.3%).

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.

Data from the profit and loss account – investment contracts	1 January - 31 March 2012	1 January - 31 March 2011	% change
Gross written insurance premium	1,024,223	385,009	166.0%
Group insurance	909,617	131,523	591.6%
Individual insurance	114,606	253,486	(54.8)%
Net earned premium	1,023,561	385,009	165.9%
Investment income	76,430	32,214	137.3%
Net insurance claims	(447,957)	(142,064)	215.3%
Movement in other net technical provisions	(644,602)	(272,616)	136.5%
Acquisition cost	(9,929)	(13,049)	(23.9)%
Administrative costs	(3,091)	(2,925)	5.7%
Operating profit (loss)	(1,223)	(7,972)	84.7%

Gross written premium on investment contracts by payment type	1 January - 31 March 2012	1 January - 31 March 2011	% change
Regular premium	3,618	1,987	82.1%
Single premium	1,020,605	383,022	166.5%
Total	**1,024,223**	**385,009**	**166.0%**

The gross written premium generated on investment contracts in Q1 2012 and 2011 was PLN 1,024,223 thousand and PLN 385,009 thousand. The growth of PLN 639,214 thousand (166.0%) primarily resulted from higher sales of short-term endowment products in the bank channel and in its own channel. A new investment product called Investment Retirement Savings Account was also launched for sale. This change was partially compensated for by lower sales of unit-linked investment products distributed by the bank channel.

The investment income in the investment contracts segment grew by PLN 44,216 thousand primarily on account of materially higher revenues on investment products – the effect of better circumstances on the financial markets.

The higher net insurance claims paid (+PLN 305,893 thousand) stemmed from reaching the endowment age in short-term investment insurance.

The materially higher growth of technical provisions was driven by the very high level of sales of endowments in cooperation with the PKO BP bank. Additional factors shaping this line item included the improved investment result leading to higher assets in unit-linked insurance and more people reaching the endowment age than last year.

The decline in acquisition costs of PLN 3,120 thousand (-23.9%) resulted from the change in the sales structure – the sales of unit-linked business was supplanted by endowment insurance with lower commissions.

The foregoing factors contributed to the segment's enhanced operating result of PLN 6,749 thousand, to PLN 1,223 thousand.

14.9.1. **New products**

In connection with new legal regulations introducing an additional possibility of saving funds for retirement entailing financial relief, at the beginning of 2012 PZU Życie launched an Individual Retirement Savings Account (IKZE PZU). The indubitable advantage of IKZE is the ability to obtain tax relief on an ongoing basis by deducting the amounts paid into IKZE in a given year from taxable income. In less than 4 months of offering IKZE, PZU Życie has become the leader in selling IKZE on the Polish market.

15. Impact of non-recurring events on operating results

There were no one-off events in Q1 2012.

16. Macroeconomic environment

The monthly data on economic activity indicate a deceleration in the annual pace of GDP growth, which at the end of Q1 2012 did not attain the level of 4% yoy. The projected GDP growth at year end may approach 3.5% yoy as opposed to 4.3% yoy recorded at the end of Q4 2011. The growth rate of industrial production sold at the end of Q1 2012 was 4.9% yoy and had deteriorated compared to 9.1% yoy at the end of Q1 2011 and 9.7% yoy at the end of Q4 2011. In turn, the pace of growth in construction and assembly production, which in Q1 2012 was 14.9% yoy stayed at a higher level than recorded in the previous quarter, but over the consecutive months of the quarter it showed a downward trend. The growth rate of retail sales of goods recorded growth to the level of 8.4% yoy (in constant prices) over the previous quarter (7.3% yoy), and Q1 2011 (6.0% yoy).

The trends in retail sales of goods have not recently reflected changes in individual consumption. Giving consideration to the falling growth rate of real income and the value of consumer loans extended, one should not expect growth in individual consumption above the level of 2.0% yoy recorded in Q4 2011. The growth rate of investment expenditures should not deviate significantly from the relatively high level recorded in the latter half of 2011 (8%-10% yoy). Investment growth will continue to be supported by public expenditures associated with executing infrastructure projects. Growth in companies' modernization investments has also been observed. Growth of net exports should also contribute to higher GDP in Q1 2012.

In Q1 2012 the situation on the labor market deteriorated. The unemployment rate registered in March 2012 was 13.3% compared to 12.5% in December 2011. In Q1 2012 the average monthly unemployment rate was similar to the level recorded in Q1 2011. The growth rate of headcount in the company sector explicitly fell where in Q1 2012 headcount edged up merely by 35.7 thousand persons compared to 129.2 thousand in Q1 2011. The growth rate in average monthly salaries in this sector at the end of Q1 2012 was 5.3% yoy and was higher than in Q1 2011 and Q4 2011 (4.5% yoy and 4.3% yoy, respectively). The material slowdown in the growth rate of headcount and high inflation translated into a deterioration in the growth rate of real income from labor in Q1 2012. The salary fund in companies rose in Q1 2012 in real terms by 1.9% yoy in comparison with 4.5% yoy in Q1 2011 and 2.5% yoy in Q4 2011, respectively.

The annual inflation rate (CPI) fell in Q1 2012 to 4.1% yoy from 4.6% one quarter earlier, constantly remaining above the inflation target of the Monetary Policy Board (RPP). The protracted relatively high inflation in Poland is primarily a result of supply-side shocks on the food and fuel market, as well as an effect of the weaker PLN (in comparison to USD) in the final months of 2011 and administrative price hikes. At the same time, the PLN appreciation in Q1 2012 fostered a certain suspension of price growth. Base inflation (after excluding food and energy prices) fell to 2.5% yoy versus 3.0% yoy in Q4 2011. The Monetary Policy Board did not change the interest rates in Q1 2012, leaving the reference rate at 4.5%, but in March the Monetary Policy Board explicitly sharpened its anti-inflationary rhetoric and in May it raised interest rates by 25 basis points.

In Q1 2012 there was a clear decline in risk aversion on the global financial markets, above all as a result of the attenuation of the risk of a grave financial and economic crisis in the Eurozone and even its collapse. The improvement in investor sentiments was dictated by the change of policy in the Eurozone, inter alia by the introduction of unlimited low interest rate operations for increasingly longer periods by the ECB to provide funding to banks operating in the EU member states, thereby reducing the risk of a credit crunch and indirectly supporting the demand for the bonds of debtor nations in the Eurozone. The EU policy also indirectly contributed to the growth in the asset value of Polish banks and other financial institutions. However, the Polish yield curve in this period shifted downward and slightly flattened, where the greatest impact on this phenomenon was exerted by the decline in yields on 5 and 10 year bonds of 41 and 37 basis points, respectively at the end of March 2012 compared to their level at the end of 2011. The WIG and WIG20 indices in Q1 2012 recorded growth of 9.8% and 6.6%, respectively compared to the end of 2011. In this same period the Polish currency strengthened against the main currencies, among others EUR/PLN and USD/PLN at the end of Q1 2012 fell from the end of 2011 by 5.8% and 8.7% respectively, while the CHF/PLN fell by 4.9% 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. Specification of factors which may affect the financial results in the subsequent quarters

18.1. Insurance activity

The most significant risk factors which may affect performance in insurance segments in the following quarters include:

- intensification of the financial crisis in the Euro zone leading to an economic slowdown and reduction of demand for insurance products;
- amendments to the Insurance Activity Act which are currently being prepared in connection with the implementation of the Solvency II and which may entail, among others, changes in measurement of certain financial items or business ratio calculations;
- increased risk of court judgments that are negative for the insurance market, among others pertaining to redress to families of accident casualties, requirement to offer replacement vehicles for the duration of repair of a damaged vehicle or to use original parts for claim valuation purposes;
- legislative changes releasing health care establishments from the obligation to take out insurance cover;
- 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 the financial intermediation market, suppressed popularity growth of independent financial consulting and thus reduced number of sales channels for products offered by companies;
- changes in the current mortality, longevity and morbidity levels (life insurance).

18.2. Investment activity

The most significant risk factors which may affect performance in the Investment segment in the following quarters include:

- situation on capital markets, particularly on the Warsaw Stock Exchange – a part of income on investment activity depends on the trends on those markets;
- volatile yield on treasury securities depending on the economic situation in Poland and in the European Union; a decrease in yield on such securities may bring about a decrease in the profitability of investments and result in a need to change the level of technical rates used in the PZU Group;

18.3. Pension funds

The most significant factors which may affect PTE PZU’s results in the following quarters include:

- low rate of salary growth which contributes to the lower growth of premiums paid by pension fund members;
- deeper financial crisis and its direct negative impact on the value of assets managed by PTE PZU;
- possible changes in legal regulations applicable to OFE, which may reduce the company's revenues.

19. Significant events after the end of the reporting period

19.1. Change of employment agreements in connection with termination of Company Collective Bargaining Agreements

This issue is described in item 25.4.

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

In the 3-month period ended 31 March 2012, PZU did not issue, redeem or repay any debt securities or equity securities.

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

In the 3-month period ended 31 March 2012, 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

With respect to profit for 2011 and the previous years, subject to distribution is only the profit indicated in the standalone financial statements of the parent company prepared in accordance with PAS.

On 12 April 2012, the PZU Management Board adopted a resolution to accept the motion to distribute profit for the financial year of 2011, recommending payment of a dividend in the amount of PLN 1,752,952 thousand, i.e. PLN 20.30 per share. On 8 May 2012, the PZU Supervisory Board issued a positive opinion on the motion submitted by the PZU Management Board which will be submitted for consideration to the Ordinary Shareholder Meeting of PZU. Draft resolution of the PZU Shareholder Meeting in this matter was published on 27 April 2012 and assumed that 30 August 2012 would be the dividend date (i.e. the date of determination of the list of shareholders entitled to a dividend) and the dividend would be paid on 20 September 2012.

Additionally, as the court repealed the resolution adopted by the Ordinary Shareholder Meeting of PZU to distribute PZU's profit for the financial year of 2006, the Management Board recommends to the Ordinary Shareholder Meeting of PZU to distribute the profit for the financial year of 2006 in a way that would correspond to the distribution of profit made on the basis of the repealed resolution. This issue is described in detail in item 24.1.

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	ING Otwarty Fundusz Emerytalny *	4,339,308	5.0251%
3	Other shareholders	51,627,739	59.7874%
Total		**86,352,300**	**100.0000%**

* Holding status directly after transactions settled on 22 July 2011.

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

In the period from 1 January 2012 to the date of conveying this interim report, no material changes have taken place in the ownership structure of significant shareholdings in the issuer's company.

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. 15 May 2012)	No. of shares / entitlements as at the date of conveying the 2011 annual report (i.e. 15 March 2012)	Resulting change during the period between the two dates
	Management Board.			
1	Andrzej Klesyk	-	-	-
2	Witold Jaworski	-	-	-
3	Przemysław Dąbrowski	-	-	-
4	Bogusław Skuza	500	500	-
5	Tomasz Tarkowski	80	80	-
6	Ryszard Trepczyński	-	-	-
	Group Directors			
1	Dariusz Krzewina	-	-	-
2	Rafał Grodzicki	-	-	-
3	Przemysław Henschke	-	-	-
4	Sławomir Niemierka	-	not applicable	not applicable
	Supervisory Board			
1	Marzena Piszczek	-	-	-
2	Zbigniew Ćwiąkalski	-	-	-
3	Krzysztof Dresler	-	-	-
4	Waldemar Maj	30	30	-
5	Dariusz Filar	-	-	-
6	Zbigniew Derdziuk	-	-	-
7	Dariusz Daniluk	-	-	-
Total		**610**	**610**	**-**

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 2012 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 2012, the aggregated value of all the 30,784 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 1,679,904 thousand. Out of this amount, PLN 1,315,234 relates to liabilities and PLN 364,670 to receivables of PZU Group companies, which represented respectively 10.47% and 2.90% of PZU's equity according to PAS.

24.1. Repeal of the 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 reserve capital;
- the amount of PLN 20,000 thousand was transferred to the Company's Social Benefits Fund.

In its judgment of 22 January 2010 the District 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 District 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 District Court in Warsaw of 22 January 2010. As a consequence of the issuance of the Appellate Court's judgment on 6 December 2011, the judgment of the District Court of 22 January 2010 repealing the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting became legally binding.

As of the date of conveying this periodic report, the judgment of the District Court remains in force.

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. Accordingly, PZU is vested in the right to submit a cassation complaint to the Supreme Court against the judgment of the Appellate Court in Warsaw until 2 June 2012 and PZU intends to avail itself of this right.

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 is recommending to PZU's Ordinary Shareholder Meeting distribution of 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.

As of the balance sheet date of 31 March 2012 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 „Reserve capital" and „Retained profit (loss)", 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 dismissed PZU's appeal against this decision. On 14 December 2011 PZU submitted an appeal to the Appellate Court in Warsaw.

Notwithstanding the appellate steps taken, PZU has established a provision for this penalty in the amount of PLN 14.792 thousand as at 31 March 2012 and 31 December 2011.

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.

Notwithstanding the appellate steps taken, PZU has established a provision for this penalty in the amount of PLN 11,287 thousand as at 31 March 2012 and 31 December 2011.

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, the entirety of the evidentiary material was not 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.

Notwithstanding the appellate steps taken, PZU has established a provision for this penalty in the amount of PLN 56.605 thousand as at 31 March 2012 and 31 December 2011.

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, the entirety of the evidentiary material was not 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. 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. On 7 February 2012, a hearing was held before the Appellate Court in Warsaw during which the Court deferred recognition of this case without stating the date.

Notwithstanding the appellate steps taken, PZU Życie has established a provision for this penalty in the amount of PLN 50,384 thousand as at 31 March 2012 and 31 December 2011.

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

On 9 April 2010, the Court of Arbitration served PZU Życie with a statement of claim filed by CSC Computer Sciences Polska Sp. z o.o. ("CSC") against PZU Życie in which CSC requested payment of the total amount of EUR 8,437 thousand in connection with the implementation of the GraphTalk system in PZU Życie. As a result of subsequent amendments to the statement of claim, CSC currently pursues payment of a total of PLN 36,923 thousand.

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 the next hearing date was set at 28 May 2012.

Furthermore, on 21 December 2010, PZU Życie filed a petition with the District Court for the Capital City of Warsaw to call for a settlement attempt against CSC to pay indemnification of PLN 123,326 thousand for the damage caused by improper performance of the agreement or, alternatively, to return the remuneration of PLN 71,890 thousand paid to CSC under the agreement. During the court session held on 8 February 2011, no settlement was reached. The court resolved to discontinue the proceedings to call for a settlement attempt. The court's decision on this issue is legally binding.

24.5. **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. for five years. The loan amount was the equivalent of USD 25,500 thousand. The loan was secured with a capped mortgage established on real estate consisting of the perpetual usufruct right to land and a building owned by Metro-Projekt in Warsaw at al. Jerozolimskie 44.

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 District 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 District 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 when 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 District Court and decided that the District Court should re-examine the case.

On 11 September 2009, the District 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 District Court filed by the receiver of Universal's bankruptcy estate, to exclude, from Metro-Projekt's bankruptcy estate, the perpetual usufruct right and a separate ownership title to a building located on the property. On 30 May 2011, the District Court dismissed Universal's claim in this case. The verdict was beneficial for the receiver of Metro-Projekt's bankruptcy estate but is not effective: on 12 September 2011, the receiver of Universal's bankruptcy estate filed an appeal. In a decision of 23 February 2012, the District Court in Warsaw dismissed the appeal since the relevant fees had not been paid.

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 subject to regular evaluations by rating agencies. Ratings awarded to PZU and PZU Życie result from analysis of financial data, competitive position, management and corporate strategy. 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 long-term credit rating and a financial strength rating (awarded by Standard & Poor's Ratings Services on 16 July 2009) of A with a stable rating outlook. Then, Standard & Poor's Ratings Services confirmed this rating and outlook (on 22 July 2011 and 5 July 2010).

The following table presents ratings awarded to the PZU Group companies by Standard & Poor's together with the previous year's ratings.

Company name	Rating and outlook	Date awarded / updated	Previous rating and outlook	Date awarded / updated
PZU				
Financial strength rating	A (stable)	22 July 2011	A (stable)	5 July 2010
Credit rating	A (stable)	22 July 2011	A (stable)	5 July 2010
PZU Życie				
Financial strength rating	A (stable)	22 July 2011	A (stable)	5 July 2010
Credit rating	A (stable)	22 July 2011	A (stable)	5 July 2010

25.2. Contribution to cover losses incurred by PZU Lietuva

On 11 April 2012, the Management Board of PZU SA adopted a resolution to cover part of PZU Lietuva's losses carried forward, by making a non-refundable contribution of LTL 7,000 thousand for PZU Lietuva to meet the regulatory minimum equity requirement (the Lithuanian law requires that the company's equity must not be less than half of its share capital).

At the end of 2011, this requirement was not satisfied due to the net loss of LTL 6,854 thousand suffered by PZU Lietuva in 2011.

On 27 April 2012, the Ordinary Shareholder Meeting of PZU Lietuva adopted a resolution regarding the provision of the contribution of LTL 7,000 thousand; after it was provided by PZU on 8 May 2012, PZU Lietuva meets the aforementioned regulatory requirements.

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

25.3.1. PZU Management Board

As at 31 December 2011, the PZU Management Board was composed of:

- Andrzej Klesyk – President of the PZU Management Board (CEO);
- Witold Jaworski – Member of the PZU Management Board;
- Przemysław Dąbrowski – Member of the PZU Management Board;
- Tomasz Tarkowski – Member of the PZU Management Board;
- Bogusław Skuza – Member of the PZU Management Board;
- Ryszard Trepczyński – Member of the PZU Management Board.

No changes in the composition of the PZU Supervisory Board have occurred until the date of conveying this interim report.

25.3.2. **PZU Supervisory Board**

As at 31 December 2011, the PZU Supervisory Board was composed of:

- Marzena Piszczek – Supervisory Board Chairwoman;
- Zbigniew Ćwiąkalski – Supervisory Board Deputy Chairman;
- Krzysztof Dresler – Supervisory Board Secretary;
- Waldemar Maj – Supervisory Board Member;
- Dariusz Filar – Supervisory Board Member;
- Zbigniew Derdziuk – Supervisory Board Member;
- Dariusz Daniluk – Supervisory Board Member.

No changes in the composition of the PZU Supervisory Board have occurred until the date of conveying this interim report.

25.3.3. **PZU Group Directors**

As at 31 December 2011, the following persons were the PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki.

On 7 February 2012, the Management Board of PZU appointed Przemysław Henschke to the position of a PZU Group Director, effective from 1 February 2012.

On 16 March 2012, the Management Board of PZU appointed Sławomir Niemierka to the position of a PZU Group Director, effective from 19 March 2012.

From 19 March 2012 to the date of conveying this interim report, PZU Group Directors included:

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

All the current PZU Group Directors are also members of the PZU Życie Management Board.

25.4. **Termination of Company Collective Bargaining Agreements and amendment of employment agreements**

On 28 February 2012, the Management Boards of PZU and PZU Życie terminated the Company Collective Bargaining Agreements ("ZUZP") in place in those companies from 2003 and 2006, respectively, mainly due to the need to introduce a new, more incentive-based remuneration system. Under the new principles, among others, new bonus rules have been introduced for the persons previously covered by the Collective Bargaining Agreements: the monthly bonus up to 25% of monthly basic salary has been replaced by a quarterly bonus up to 30% of quarterly basic salary (which relies directly on the fulfillment of objectives set with a superior on a quarterly basis, by the 15th day of each quarter; if the objectives are not assigned by that date, the employer guarantees that the bonus will be paid in the full amount of 30%), the "13th salary" has been abolished along with other employee benefit in amounts exceeding those set forth in the labor code. The new bonus rules come into force in Q4 2012 (i.e. on 1 October 2012).

Arrangements with trade unions pertaining to the salary regulations lasted from 28 February to 26 April 2012 and ended with the trade unions expressing their negative opinion regarding the proposed remuneration system. In connection with a possibility that certain employment agreements will terminate as a result of a failure to accept the new terms of remuneration, on 3 April 2012, PZU and PZU Życie announced their intention to carry out group layoffs. The talks with the trade unions on this subject were held from 27 April 2012 and no agreement was signed in the end. Accordingly, on 7 May 2012, the Management Boards of PZU and PZU Życie set the terms of group layoffs in the form of the bylaws and specified the temporary terms of remuneration to be proposed to employees until the remuneration system is agreed with the trade unions.

The process of changing employment agreements of all PZU and PZU Życie employees started on 9 May 2012. It consists of individual meetings with employees, during which their superiors and representatives of the HR provide each employee with a proposal of an amending agreements along with the new remuneration principles.

The persons who decide not to sign the amending agreement during the employment agreement change process will receive an amending termination. This means that the new terms of employment will apply after the termination period, unless the employee rejects the new proposed terms by the half-time of the termination period. In such a case, the employment agreement will terminate upon elapse of the termination period and the employee will receive severance pay in accordance with the law (Act of 13 March 2003 on special rules for termination of employment for reasons not attributable to employees, Journal of Laws of 2003 No. 90 Item 884, as amended, "Act on special rules for termination of employment") and dependent on the tenure of work for the PZU Group.

The delivery period of HR documents has been divided into two periods:

- from 8 May to 6 June 2012 – a period in which employees receive a proposal to enter into amending agreements;
- from 7 June to 6 July 2012 – a period in which amending agreements are provided to those employees who did not accept the change of the terms and conditions of the employment agreement by the power of the amending agreement.

25.5. **Employment restructuring in PZU and PZU Życie**

On 26 December 2009, the PZU and PZU Życie Management Boards announced a plan to implement a restructuring program for the years 2010-2012.

In the period of 3 months ended 31 March 2012, the group layoffs project was not carried out and the persons ended their employment at PZU and PZU Życie as an effect of the following given in 2011: a termination agreement or a statement terminating an employment agreement or as a result of the employees' non-acceptance of new terms and conditions of employment or remuneration, notwithstanding the employer's will.

Persons who were laid off or who did not accept the proposed change of conditions of employment during all the restructuring stages (i.e. in 2010-2011) received more favorable terms and conditions of severance than the ones contemplated by the law in similar circumstances („Act on the Special Rules for Terminating Employment Relations”). The amounts of additional severance pays depended on the salary level of the respective employees and their years in service in the PZU Group.

In the period of 3 months ended 31 March 2012, through individual layoffs for reasons not applicable to employees, employment contracts were terminated with 2 persons, the termination cost of which was also charged to the restructuring provision.

The total restructuring expenses charged to the provision in the period from 1 January to 31 March 2012 were PLN 24,218 thousand (in the whole of 2011: PLN 58,169 thousand and from 1 January to 31 March 2011: PLN 13.770 thousand).

As at 31 March 2012, the provision for restructuring expenses was PLN 88,738 thousand (as at 31 December 2011: PLN 112,956 thousand, as at 31 March 2011: PLN 61,483 thousand), i.e. in the period from 1 January to 31 March 2012 the provision decreased by PLN 24,218 thousand (in the whole of 2011: PLN 37.703 thousand).

26. Transactions with related entities

26.1. **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 period of 3 months ended 31 March 2012, 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.

26.2. Turnovers and balances of transactions executed with related entities

Balances and turnovers resulting from 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 2012 and as at 31 March 2012											
Key management staff of the primary units 1/	-	-	-	-	-	-	-	-	-	-	-
Other related entities /2	53	-	6,900	5,018	-	11,502	(9,806)	1,696	2,076	-	-
1 January – 31 December 2011 and as at 31 December 2011											
Key management staff of the primary units 1/	-	-	-	-	-	-	-	-	-	-	-
Other related entities /2	387	-	35,840	17,192	-	11,398	(9,806)	1,592	1,868	-	-
1 January – 31 March 2011 and as at 31 March 2011											
Key management staff of the primary units 1/	-	-	-	-	-	-	-	-	-	-	-
Other related entities /2	190	-	3,529	5,679	-	11,434	(10,306)	1,128	2,744	-	-

1/ Members of the management boards of the PZU Group companies subject to consolidation and PZU Group Directors.
2/ PZU's direct or indirect subsidiaries and associates not subject to consolidation whose complete list is presented in item 1.2.

As at 31 March 2012 and 31 December 2011, the main line item under the balance of receivables from other related entities is receivables from Syta Development Sp. z o.o. in liquidation ("Syta Development") for the performance of agreements related to the construction of the Claims Handling and Underwriting Center in the total gross amount of PLN 9,806 thousand (PLN 10,306 thousand as at 31 March 2011) which, due to non-performance of the agreements, were fully covered by a revaluation charge on both balance sheet dates.

26.3. Transactions with subsidiaries of the State Treasury

IAS 24 requires presentation of transactions with related entities. Until 11 May 2010, the State Treasury held a majority stake in PZU's share capital. On 11 May 2010, under the IPO process, the State Treasury's stake in PZU's share capital fell below the 50% threshold. Additionally, on 10 June 2011, the State Treasury sold a 10.00% stake in PZU thus reducing its share in the share capital and in the total number of votes down to 35.19%.

Despite the matters described above, 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 turnovers and balances of transactions executed with related entities it is assumed that the State Treasury retained control over PZU within the meaning of IAS 27, and, as a consequence, PZU is still a subsidiary of the State Treasury and is required to keep presenting in its financial statements transactions executed with entities related to 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. In particular, as part of their business operations prescribed by the respective articles of association, the PZU Group entities executed transactions with subsidiaries, co-subsidiaries or associates of the State Treasury other than the commercial law companies or state-owned companies listed on the State Treasury Ministry's website. Due to a very large number of such entities and transactions, limitations of the PZU Group's reporting system and insignificance of such transactions on the PZU Group's result, presentation of such transactions is, in PZU's opinion, immaterial for the presentation of the PZU Group's financial situation.

The PZU Group applied the exemption referred to in item 25 of IAS 24 and decided not to disclose certain information related to transactions with entities related by virtue of remaining under the control, shared control or significant influence of the same government.

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 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 2012**	**1 January – 31 March 2011**
Gross written premium in non-life insurance	14,189	23,751
Gross written premium in life insurance	3,447	2,647
Volumes from unit-linked contracts of PZU Życie	584,564	-
Total	**602,200**	**26,398**

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.

Bank Powszechna Kasa Oszczędności BP SA	**1 January – 31 March 2012**	**1 January – 31 March 2011**
Gross written premium of PZU	2,571	8,986
Gross written premium of PZU Życie	3,447	2,647
Volumes from unit-linked contracts of PZU Życie	584,564	-
Total	**590,582**	**11,633**

Bank Ochrony Środowiska SA	**1 January – 31 March 2012**	**1 January – 31 March 2011**
Gross written premium of PZU	20	19

Gross written premium of PZU Życie	-	-
Volumes from unit-linked contracts of PZU Życie	-	-
Total	**20**	**19**

Bank Gospodarstwa Krajowego SA	**1 January – 31 March 2012**	**1 January – 31 March 2011**
Gross written premium of PZU	3	57
Gross written premium of PZU Życie	-	-
Volumes from unit-linked contracts of PZU Życie	-	-
Total	**3**	**57**

BANK GOSPODARKI ŻYWNOSCIOWEJ SA	**1 January – 31 March 2012**	**1 January – 31 March 2011**
Gross written premium of PZU	533	375
Gross written premium of PZU Życie	-	-
Volumes from unit-linked contracts of PZU Życie	-	-
Total	**533**	**375**

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

1. Interim balance sheet

PLN thousands

ASSETS	31 March 2012	31 December 2011	31 March 2011
I. Intangible assets, including:	99,569	107,004	63,192
- goodwill	-	-	-
II. Investments	26,414,958	24,882,946	25,151,224
1. Real property	577,578	582,328	596,132
2. Investments in subordinated entities, of which:	6,838,870	6,425,930	7,003,153
- investments in subordinated entities carried using the equity method	6,806,731	6,393,817	6,976,796
3. Other financial investments	18,993,553	17,868,972	17,544,646
4. Deposit receivables from ceding companies	4,957	5,716	7,293
III. Net assets of a life insurance company where the policyholder bears the investment risk	-	-	-
IV. Receivables	2,112,891	1,487,399	1,855,374
1. Receivables on direct insurance	1,416,902	1,293,075	1,253,652
1.1. From subordinated entities	219	283	254
1.2. From other entities	1,416,683	1,292,792	1,253,398
2. Receivables on reinsurance	33,760	32,917	59,463
1.1. From subordinated entities	3	43	488
1.2. From other entities	33,757	32,874	58,975
3. Other receivables	662,229	161,407	542,259
1.1. Receivables from the state budget	6,026	5,476	9,379
1.2. Other receivables	656,203	155,931	532,880
a) from subordinated entities	43,473	38,684	26,406
b) from other entities	612,730	117,247	506,474
V. Other asset components	143,283	208,545	251,988
1. Tangible asset components	91,966	100,677	105,182
2. Cash resources	51,317	107,868	146,806
3. Other asset components	-	-	-
VI. Accruals and prepayments	631,515	711,963	681,258
1. Deferred income tax assets	54,386	125,546	-
2. Capitalized acquisition expenses	512,850	493,180	491,241
3. Posted interest and rents	-	-	-
4. Other accruals	64,279	93,237	190,017
Total assets	**29,402,216**	**27,397,857**	**28,003,036**

Interim balance sheet (continued)

PLN thousands

LIABILITIES AND EQUITY	31 March 2012	31 December 2011	31 March 2011
I. Equity	12,544,351	11,745,410	12,409,924
1. Share capital	86,352	86,352	86,352
2. Unpaid share capital (negative figure)	-	-	-
3. Treasury stock (negative figure)	-	-	-
4. Reserve capital	3,331,934	3,331,838	2,060,279
5. Revaluation reserve	6,220,032	5,744,917	6,485,915
6. Other reserve capital	-	-	-
7. Profit (loss) carried forward	2,582,303	-	3,516,709
8. Net profit (loss)	323,730	2,582,303	260,669
9. Charges to net profit during the financial year (negative figure)	-		-
II. Subordinated debt	-		-
III. Technical provisions	15,140,965	14,653,008	14,183,259
IV. Reinsurers' share in technical provisions (negative figure)	(611,298)	(679,274)	(773,576)
V. Estimated recoveries and salvage (negative figure)	(68,790)	(78,387)	(62,855)
1. Gross estimated recoveries and salvage	(70,865)	(80,980)	(64,775)
2. Reinsurer's share in estimated recoveries and salvage	2,075	2,593	1,920
VI. Other provisions	404,776	412,906	343,647
1. Provisions for pension benefits and other compulsory employee benefits	221,785	216,628	217,574
2. Deferred income tax provision	-	-	22,621
3. Other provisions	182,991	196,278	103,452
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,583,458	826,280	1,598,903
1. Liabilities on direct insurance	290,411	301,954	277,317
1.1. To subordinated entities	146	686	1,002
1.2. To other entities	290,265	301,268	276,315
2. Reinsurance liabilities	66,197	20,574	61,597
2.1. To subordinated entities	-	-	-
2.2. To other entities	66,197	20,574	61,597
3. Liabilities on the issue of own debt securities and borrowings taken out	-	-	-
4. Liabilities to credit institutions	479,472	154,488	80,386
5. Other liabilities	635,083	244,530	1,032,619
5.1. Liabilities to the budget	8,284	16,552	35,232
5.2. Other liabilities	626,799	227,978	997,387
a) to subordinated entities	9,659	5,685	37,355
b) to other entities	617,140	222,293	960,032
6. Special purpose funds	112,295	104,734	146,984
IX. Accruals and prepayments	408,754	517,914	303,734
1. Accrued expenses	384,569	498,186	289,278
2. Negative goodwill	-	-	-
3. Deferred income	24,185	19,728	14,456
Total liabilities and equity	**29,402,216**	**27,397,857**	**28,003,036**

Interim balance sheet (continued)

PLN thousands

Book value	12,544,351	11,745,410	12,409,924
Number of shares	86,352,300	86,352,300	86,352,300
Book value per share (in PLN)	145.27	136.02	143.71
Diluted number of shares	86,352,300	86,352,300	86,352,300
Diluted book value per share (PLN)	145.27	136.02	143.71

2. Interim statement of off-balance sheet line items

PLN thousands

Off-balance sheet line items	31 March 2012	31 December 2011	31 March 2011
1. Conditional receivables, including:	9,577,471	9,367,846	8,410,533
1.1. Guarantees and sureties received	17,894	17,746	4,528
1.2. Others	9,559,577	9,350,100	8,406,005
2. Contingent liabilities, including:	55,908	59,347	56,979
2.1. Guarantees and sureties given	4,864	4,873	7,183
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	-	-	-
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	218,607	222,088	223,747
6. Other off-balance sheet line items	-	-	-

Shareholder funds	10,205,942	9,192,064	10,407,971
Equity Solvency margin	1,348,689	1,338,798	1,333,798
Surplus (deficiency) of shareholder funds to cover the solvency margin	8,857,253	7,853,266	9,074,173
Technical provisions	15,070,100	14,572,028	14,118,484
Assets covering the technical provisions	19,020,991	18,510,626	18,904,804
Surplus (deficiency) assets covering the technical provisions	3,950,891	3,938,598	4,786,320

3. Interim technical non-life insurance account

PLN thousands

Technical non-life insurance account	**1 January – 31 March 2012**	**1 January – 31 March 2011**
I. Premiums (1-2-3+4)	1,997,617	1,858,658
1. Gross written premium	2,441,191	2,256,909
2. Reinsurers' share in the gross written premium	41,485	97,359
3. Movement in the unearned premium provision and gross unexpired risk provision	383,358	338,739
4. Reinsurers' share in the change to the unearned premium provision balance	(18,731)	37,847
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	72,048	65,607
III. Other net technical income	16,084	30,033
IV. Claims (1+2)	1,273,183	1,156,325
1. Net claims paid	1,108,282	1,213,800
1.1. Gross claims paid	1,133,446	1,268,678
1.2. Reinsurers' share in claims paid	25,164	54,878
2. Movement in the net claims provision	164,901	(57,475)
2.1. Movement in the gross claims provision	116,174	(108,234)
2.2. Reinsurers' share in the movement of the claims provision	(48,727)	(50,759)
V. Movement in other net technical provisions	-	-
1. Movement in other gross technical provisions	-	-
2. Reinsurers' share in the movement of other gross technical provisions	-	-
VI. Net premiums and rebates jointly with the movement in provisions	(1,419)	1,821
VII. Insurance activity expenses	537,530	481,880
1. Acquisition expenses, including:	370,348	353,234
- movement in capitalized acquisition expenses	(19,670)	(29,183)
2. Administrative costs	164,598	137,221
3. Reinsurance commissions and sharing in the reinsurers' profits	(2,584)	8,575
VIII. Other net technical income	101,987	121,042
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result on non-life insurance	**174,468**	**193,230**

4. Interim non-technical profit and loss account

PLN thousands

Non-technical profit and loss account	1 January – 31 March 2012	1 January – 31 March 2011
I. Technical result on non-life insurance or life insurance	174,468	193,230
II. Investment income	321,043	297,191
1. Investment income on real estate	1,579	1,528
2. Investment income from subordinated entities	9,749	-
2.1. on ownership interests or shares	9,749	-
2.2. on borrowings and debt securities	-	-
2.3. on other investments	-	-
3. Other financial investment income	198,434	205,101
3.1. on ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	35	113
3.2. on debt securities and other fixed income securities	167,539	198,870
3.3. on term deposits in credit institutions	14,161	3,925
3.4. on other investments	16,699	2,193
4. Gain on investment revaluation	-	-
5. Gain on investment realization	111,281	90,562
III. Unrealized investment gains	71,020	54,514
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	61,440	128,896
1. Real estate maintenance expenses	1,446	1,308
2. Other investment activity expenses	6,807	4,901
3. Loss on investment revaluation	-	-
4. Loss on investment realization	53,187	122,687
VI. Unrealized investment losses	19,477	27,069
VII. Net investment income after including costs transferred to the technical non-life insurance account	72,048	65,607
VIII. Other operating income	15,167	26,488
IX. Other operating expenses	14,564	24,117
X. Operating profit (loss)	414,169	325,734
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Gross profit (loss)	414,169	325,734
XIV. Income tax	81,422	63,297
a) current part	22,760	50,426
b) deferred part	58,662	12,871
XV. Other compulsory reductions in profit (increase in losses)	-	-
XVI. Share of the net profit (loss) of subordinated entities carried by the equity method	(9,017)	(1,768)
XVII. Net profit (loss)	**323,730**	**260,669**

Net profit (loss)	323,730	260,669
Weighted average number of common shares	86,352,300	86,352,300
Profit (loss) per common share (PLN)	3.75	3.02
Weighted average diluted number of common shares	86,352,300	86,352,300
Diluted profit (loss) per common share (PLN)	3.75	3.02

5. Interim statement of changes in equity

PLN thousands

Statement of changes in equity	1 January – 31 March 2012	1 January – 31 December 2011	1 January – 31 March 2011
I. Equity at the beginning of the period (opening balance)	11,745,410	11,902,186	11,902,186
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	11,745,410	11,902,186	11,902,186
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Movements 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. Reserve capital at the beginning of the period	3,331,838	2,060,272	2,060,272
4.1. Movement in reserve capital	96	1,271,566	7
a) increases (by virtue of):	96	1,271,566	7
- distribution of profit (above the amount statutorily required)	-	1,271,549	-
- from revaluation reserve – by sale and liquidation of fixed assets	96	17	7
b) decreases	-	-	-
4.2. Reserve capital at the end of the period	3,331,934	3,331,838	2,060,279
5. Revaluation reserve at the beginning of the period	5,744,917	6,238,853	6,238,853
- changes in the accepted accounting principles (policy)	-	-	-
5.1. Movements in the revaluation reserve	475,115	(493,936)	247,062
a) increases (by virtue of):	494,344	772,741	326,227
- valuation of financial investments	494,344	768,401	326,227
- transfer of the impairment charges on investments available for sale	-	4,340	-
b) decreases (by virtue of)	19,229	1,266,677	79,165
- valuation of financial investments	19,133	1,266,660	79,158
- sale of fixed assets	96	17	7
5.2. Revaluation reserve at the end of the period	6,220,032	5,744,917	6,485,915
6. Other reserve capital at the beginning of the period	-	-	-
6.1. Movements in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
6.2. Other reserve capital at the end of the period	-	-	-

Interim statement of changes in equity (continued)

PLN thousands

Statement of changes in equity	**1 January – 31 March 2012**	**1 January – 31 December 2011**	**1 January – 31 March 2011**
7. Profit (loss) brought forward at the beginning of the period	2,582,303	3,516,709	3,516,709
7.1. Profit carried forward at the beginning of the period	2,582,303	3,516,709	3,516,709
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.2. Profit brought forward at the beginning of the period, after reconciliation with comparable data	2,582,303	3,516,709	3,516,709
a) increases	-	-	-
b) decreases	-	3,516,709	-
- transfers to reserve capital	-	1,271,549	-
- disbursement of dividends	-	2,245,160	-
7.3. Profit brought forward at the end of the period	2,582,303	-	3,516,709
7.4. Loss brought forward at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.5. Losses brought forward at the beginning of the period, after reconciliation with comparable data	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
7.6. Losses brought forward at the end of the period	-	-	-
7.7. Profit (loss) brought forward at the end of the period	2,582,303	-	3,516,709
8. Net result	323,730	2,582,303	260,669
a) net profit	323,730	2,582,303	260,669
b) net loss	-	-	-
c) charges to profits	-	-	-
II. Equity at the end of the period (Closing Balance)	**12,544,351**	**11,745,410**	**12,409,924**

6. Interim cash flow statement

PLN thousands

Cash Flow Statement	1 January – 31 March 2012	1 January – 31 December 2011	1 January – 31 March 2011
A. Cash flow on operating activity			
I. Proceeds	2,523,186	9,714,683	2,553,201
1. Proceeds on direct activity and inward reinsurance	2,363,919	8,407,305	2,243,197
1.1. Proceeds on gross premiums	2,316,200	8,197,909	2,202,241
1.2. Proceeds on recovery, salvage and claim refunds	39,523	172,166	32,171
1.3. Other proceeds on direct activity	8,196	37,230	8,785
2. Proceeds on outward reinsurance	58,329	411,549	126,564
2.1. Payments received from reinsurers for their share of claims paid	54,950	385,175	122,209
2.2. Proceeds on reinsurance commissions and profit-sharing	3,032	20,418	1,197
2.3. Other proceeds from outward reinsurance	347	5,956	3,158
3. Proceeds on other operating activity	100,938	895,829	183,440
3.1. Proceeds for acting as an emergency adjuster	71,047	220,906	52,954
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	1,039	1,269	133
3.3. Other proceeds	28,852	673,654	130,353
II. Expenditures	2,044,469	8,987,756	2,183,665
1. Expenditures on direct activity and inward reinsurance	1,727,236	7,269,288	1,864,344
1.1. Returns of gross premiums	40,466	147,561	34,508
1.2. Gross claims paid	996,190	4,515,214	1,112,819
1.3. Acquisition expenditures	262,107	1,018,273	264,433
1.4. Administrative expenditures	374,010	1,343,812	394,130
1.5. Expenditures for claims handling and pursuit of recoveries	23,232	118,751	31,231
1.6. Commissions paid and profit-sharing on inward reinsurance	825	4,679	49
1.7. Other expenditures on direct activity and inward reinsurance	30,406	120,998	27,174
2. Expenditures on outward reinsurance	76,631	213,605	71,257
2.1. Premiums paid for reinsurance	68,180	154,873	56,502
2.2. Other expenditures on outward reinsurance	8,451	58,732	14,755
3. Expenditures on other operating activity	240,602	1,504,863	248,064
3.1. Expenditures for acting as an emergency adjuster	127,261	423,401	101,104
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	17,075	88,770	14,284
3.3. Other operating expenditures	96,266	992,692	132,676
III. Net cash flow on operating activity (I-II)	**478,717**	**726,927**	**369,536**
B. Cash flow on investing activity			
I. Proceeds	32,911,589	122,440,185	29,187,425
1. Sale of real estate	-	-	-
2. Sale of ownership interests and shares in subordinated entities	-	76,457	76,457
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in investment funds	422,056	1,076,012	291,163
4. Realization of debt securities issued by subordinated entities and amortization of the loans granted to these entities	-	-	-
5. Realization of debt securities issued by other entities	6,161,768	37,241,036	9,757,394
6. Liquidation of term deposits in credit institutions	13,657,881	57,019,467	17,052,428
7. Realization of other investments	12,605,926	24,949,182	1,995,738

Interim cash flow statement (continued)

PLN thousands

Cash Flow Statement	1 January – 31 March 2012	1 January – 31 December 2011	1 January – 31 March 2011
8. Proceeds from real estate	1,711	7,524	2,884
9. Interest received	58,677	55,876	11,292
10. Dividends received	3,570	2,014,631	69
11. 11.Other investment proceeds	-	-	-
II. Expenditures	33,770,840	121,192,637	29,576,271
1. Purchase of real estate	-		-
2. Purchase of ownership interests and shares in subordinated entities	-	84,871	-
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in investment funds	420,242	1,122,246	365,117
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	6,069,627	36,098,609	9,671,165
6. Purchase of term deposits in credit institutions	14,966,275	58,536,895	17,548,174
7. Purchase of other investments	12,307,579	25,327,650	1,986,071
8. Expenditures to maintain real estate	4,614	9,410	4,708
9. Other expenditures for investments	2,503	12,956	1,036
III. Net cash flow on investing activity (I-II)	**(859,251)**	**1,247,548**	**(388,846)**
C. Cash flow on financing activity			
I. Proceeds	6,699,309	19,813,174	9
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	6,699,298	19,813,174	9
3. Other financial proceeds	11	-	-
II. Expenditures	6,374,446	21,846,772	177
1. Dividends	132	2,163,206	49
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	6,374,314	19,683,566	128
5. Interest on loans and borrowings and issued debt securities	-	-	-
6. Other financial expenditures	-	-	-
III. Net cash flow on financing activity (I-II)	**324,863**	**(2,033,598)**	**(168)**
D. Total net cash flow (A.III±B.III±C.III)	**(55,671)**	**(59,123)**	**(19,478)**
E. Balance sheet change in cash balance, including:	(56,551)	(58,421)	(19,483)
- movement in cash on account of FX gains	880	(702)	5
F. Cash at the beginning of the period	107,868	166,289	166,289
G. Cash at the end of the period (F±D), including:	51,317	107,868	146,806
- restricted cash	41,750	34,973	77,814

7. Introduction

This quarterly standalone financial information of PZU was prepared in accordance with the 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 2011 prepared according to the PAS, signed by the PZU Management Board on 14 March 2012 for which the auditor issued an unqualified opinion on the same date ("standalone financial statements of PZU for 2011").

PZU's standalone financial statements for 2011 are available on PZU's website www.pzu.pl under the tab „PZU Group / Investor Relations / Periodic and Current Reports / Periodic Reports".

9. Changes in accounting policies

In the 3-month period ended 31 March 2012 no changes were made to the accounting principles (policy).

The standalone interim financial statements of PZU for the period of 3 months ended 31 March 2012 has been signed by:

Date	**Full name**	**Position / Function**	
15 May 2012	Andrzej Klesyk	President of the PZU Management Board	.... (signed)
15 May 2012	Przemysław Dąbrowski	PZU Management Board Member	.... (signed)
15 May 2012	Witold Jaworski	PZU Management Board Member	.... (signed)
15 May 2012	Bogusław Skuza	PZU Management Board Member	.... (signed)
15 May 2012	Tomasz Tarkowski	PZU Management Board Member	.... (signed)
15 May 2012	Ryszard Trepczyński	PZU Management Board Member	.... (signed)
15 May 2012	Piotr Marczyk	Director of the Accounting Department	.... (signed)