

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

**FINANCIAL STATEMENTS
FOR THE PERIOD OF 6 MONTHS
ENDED 30 JUNE 2013**

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

TABLE OF CONTENTS

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

FINANCIAL STATEMENTS OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2013

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

AUDITOR'S OPINION

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

We have audited the attached financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("the Company") with its registered office in Warsaw, at Al. Jana Pawła II 24, including introduction to the financial statements, balance sheet prepared as of 30 June 2013, technical insurance account- property and personal insurance, general profit and loss account, statement of changes in equity, cash flow statement for the financial year from 1 January 2013 to 30 June 2013 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Company. The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act" and are in line with principles determined in the Minister of Finance's Ordinance of 28 December 2009 on special principles of insurance companies' accounting (Journal of Laws of 2009, No. 226, item 1825, as amended). Our responsibility was to audit and express an opinion on compliance of the financial statements with the accounting principles (policy) adopted by the Company and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Company and on the correctness of the underlying accounting records.

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

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

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

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

- present fairly and clearly the information material to evaluate the economic and financial position of the Company as of 30 June 2013 as well as its profit or loss in the financial period from 1 January 2013 to 30 June 2013,
- have been prepared in accordance with the Company's accounting policy determined by the Accounting Act, the Ordinance and based on properly kept accounting records,
- comply with the provisions of law and the articles of association of the Company which affect the contents of the financial statements.

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

Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

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

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

Warsaw, 26 August 2013

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

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA
FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2013**

I. GENERAL INFORMATION

1. Details of the audited Company

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

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

The terms and procedures of transformation and assumption of liabilities of Państwowy Zakład Ubezpieczeń are governed by the Ordinance of the Minister of Finance of 18 December 1991 (Journal of Law from 1991, no. 119, item 522). Formal and actual transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company took place on 23 December 1991 pursuant to a notarized deed Rep. A-III-21516/91. Currently, the Company is recorded in the register of entrepreneurs kept by the District Court for the capital city of Warsaw, XII Business-Registry Division in Warsaw under number KRS0000009831.

The Company's tax identification number NIP assigned by the Second Tax Office Warszawa-Śródmieście on 4 June 1993 is: 526-025-10-49. The REGON number assigned by the Statistical Office on 5 July 1993 is: 010001345.

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

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

As of 30 June 2013, the Company's share capital equaled PLN 86,352,300 and was divided into 86,352,300 ordinary shares with nominal value of PLN 1 each. A series bearer shares and B series shares are publicly traded and listed on the Warsaw Stock Exchange. As of 30 June 2013 the Company's shareholder holding over 5% was State Treasury – owner of 35.1875% of shares.

As of 31 December 2012, the Company's equity amounted to PLN 12,465,060 thousand.

The Company's financial year is the calendar year.

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

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

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

- On 12 March 2013 the Supervisory Board appointed Dariusz Krzewina a Member of the Management Board, effective from 15 March 2013,
- On 12 March 2013 the Supervisory Board appointed Barbara Smalska a Member of the Management Board, effective from 15 March 2013.

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

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

The activities of the Company in 2012 resulted in a net profit of PLN 2,580,720 thousand. The financial statements of the Company for 2012 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 12 March 2013 the certified auditor issued an emphasis of matter opinion on those financial statements, stating as follows:

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

The General Shareholders' Meeting which approved the financial statements for the 2012 financial year was held on 23 May 2013. The General Shareholders' Meeting decided on the following distribution of the net profit for 2012:

- | | |
|-----------------------------|-------------------------|
| – dividends to shareholders | – PLN 2,564,663,310.00, |
| – supplementary capital | – PLN 6,056,877.99, |
| – employee benefit fund | – PLN 10,000,000.00. |

In accordance with applicable laws, the financial statements for the 2012 financial year were submitted to the National Court Register (KRS) on 29 May 2013.

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

The audit of the financial statements was performed based on the agreement of 16 July 2012 concluded between Powszechny Zakład Ubezpieczeń Spółka Akcyjna and Deloitte Audyt Sp. z o.o. (currently: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.) with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Jacek Marczak, key certified auditor, (No. 9750), in the registered office of the Company and in its branches from 10 July 2013 until the date of this opinion.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 8 May 2012, based on authorization included in Article 22, clause 2, point 10 of the Company's By-Laws.

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

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 26 August 2013.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

<u>Main balance sheet items (in PLN '000)</u>	<u>30.06.2013</u>	<u>31.12.2012</u>
Intangible assets	149,445	129,729
Investments	26,274,875	27,591,485
Receivables	6,017,453	1,473,952
Other assets	172,249	140,580
Prepayments	578,082	577,470
Total assets	33,192,104	29,913,216
Equity	12,465,060	13,452,581
Technical provisions	16,270,835	15,771,187
Reinsurer's share in provisions	(463,050)	(721,301)
Expected recoveries and recourses	(99,132)	(116,776)
Other provisions	213,069	218,355
Other liabilities and special funds	4,473,203	810,652
Accruals	332,119	498,518
Total liabilities	33,192,104	29,913,216
<u>Main items from the technical account of property and personal insurance (PLN '000)</u>	<u>6 months period ended 30 June 2013</u>	<u>6 months period ended 30 June 2012¹</u>
Premiums	4,047,613	4,084,173
Net investment income including costs, reclassified from the general profit and loss account	152,346	144,813
Other technical revenues net of reinsurance	28,760	44,780
Claims	2,401,630	2,633,393
Bonuses and rebates combined with the change in provisions net of reinsurance	(711)	(3,144)
Costs of insurance activity	897,310	1,044,995
Other technical charges – net of reinsurance	169,296	179,874
Technical result on property and personal insurance	761,194	418,648
<u>Main items from the general profit and loss account (in PLN '000)</u>	<u>6 months period ended 30 June 2013</u>	<u>6 months period ended 30 June 2012¹</u>
Technical result on property and personal insurance	761,194	418,648
Investment income	4,441,416	1,902,140
Unrealized gains on investments	146,175	82,835
Costs of investment activity	205,211	138,742
Unrealized losses on investments	127,858	53,431
Net investment income, including costs, reclassified to the technical account for property and personal insurance	152,346	144,813
Other operating revenue	22,850	25,040
Other operating expenses	28,100	25,263
Income tax	185,897	167,023

¹ Comparable data for the period from 1 January 2012 to 30 June 2012 were not audited.

POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA

Share in net profits (losses) of controlled entities measured using the equity method	7,690	(4,030)
Net profit (loss)	4,679,913	1,895,361

<u>Profitability ratios</u>	<u>6 months period ended 30 June 2013</u>	<u>6 months period ended 30 June 2012¹</u>
– profit ratio on the basis of gross premium (net profit / gross earned premium)	113.1%	45.4%
– profit ratio net of reinsurers' share (net profit / earned premium net of reinsurance)	115.6%	46.4%

Claims ratios

– Claims ratio on the basis of gross premium written ((Gross claims paid +/- Change in provisions for claims outstanding (gross))/ gross earned premium)	57.6%	66.0%
– claim ratio net of reinsurance (Claims paid net of reinsurance +/- change in the gross provisions for claims net of reinsurance) / premium earned net of reinsurance	59.3%	64.5%

Operating costs ratio

– total operating costs ratio (Insurance activity costs / gross written premium) ²	23.6%	24.7%
– administrative expenses ratio (administrative expenses / gross written premium)	6.8%	7.2%
– acquisition costs ratio (acquisition costs / gross written premium)	16.8%	17.5%

<u>Solvency and funds security ratios</u>	<u>30.06.2013</u>	<u>31.12.2012</u>
– invested reserves ratio (investments / technical provisions net of reinsurance)	166.2%	183.3%
– solvency margin (in PLN '000)	1,369,183	1,343,831
– own funds to cover the solvency margin	9,857,628	10,956,132
– margin coverage ratio (own funds surplus)	8,488,455	9,612,301
– solvency margin coverage ratio (own funds / solvency margin)	720.0%	815.3%
– value of assets covering technical provisions	19,143,728	19,741,146
– surplus (shortage) of assets to cover technical provisions	2,974,711	4,089,265

² Costs of insurance activity without reinsurers' commissions and reinsurers' share in profit.

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

- an increase in profitability ratio on the basis of gross premium from 113.1% in the period of 6 months ended 30 June 2012 to 31.2% in the period of 6 months ended 30 June 2013,
- an increase in profitability ratio net of reinsurance from 46.4% in the period of 6 months ended 30 June 2012 to 115.6% in the period of 6 months ended 30 June 2013,
- a decrease in claims ratio on the basis of gross premium from 66.0% in the period of 6 months ended 30 June 2012 to 57.6% in the period of 6 months ended 30 June 2013,
- a decrease in claims ratio net of reinsurance from 64.5% in the period of 6 months ended 30 June 2012 to 59.3% in the period of 6 months ended 30 June 2013,
- a decrease in operating costs ratio from 24.7% in the period of 6 months ended 30 June 2012 to 23.6% in the period of 6 months ended 30 June 2013,
- a decrease in provision allocation ratio from 183.3% as of 31 December 2012 to 166.2% as of 30 June 2013,
- a decrease in solvency margin coverage from 815.3% as of 31 December 2012 to 720.0% as of 30 June 2013.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation required by Article 10 of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act", referring in particular to: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities and determining the financial result, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and approved for use by a resolution of the Management Board No. UZ/203/2013 of 19 July 2013. Changes in the accounting policy arising from amended accounting and tax regulations have been introduced by separate resolutions of the Company's Management Board.

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

Accounting principles selected at the Company's discretion pursuant to Section 4 of the Accounting Act and principles determined in the Minister of Finance's Ordinance of 28 December 2009 on special principles of insurance companies' accounting (Journal of Laws of 2009, No. 226, item 1825, as amended) hereinafter referred to as the "Ordinance", have been selected in a manner that correctly reflects specifics of its business operations, its financial standing and performance. The accounting principles have been applied in a continuous manner and unchanged compared to those applied to the accounting records and financial statements in the preceding financial year.

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

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

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

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

2. Information about the audited financial statements

The audited financial statements were prepared as of 30 June 2013 and include:

- introduction to the financial statements;
- balance sheet prepared as of 30 June 2013, with total assets and liabilities plus equity of PLN 33,192,104 thousand;
- technical insurance account – property and casualty insurance for the period from 1 January 2013 to 30 June 2013, showing a positive technical result on property and casualty insurance to be transferred to the general profit and loss account in the amount of PLN 761,194 thousand;

- general profit and loss account for the period from 1 January 2013 to 30 June 2013, disclosing a net profit of PLN 4,679,913 thousand;
- statement of changes in equity for the period from 1 January 2013 to 30 June 2013, disclosing a decrease in equity of PLN 987,521 thousand;
- cash flow statement for the period from 1 January 2013 to 30 June 2013, showing a net cash inflow of PLN 34,866 thousand;
- additional information and explanations.

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

3. Information about selected material items of the financial statements

Investments

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

Technical provisions

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

As of 30 June 2013, technical provisions were created pursuant to “Principles of creating technical provision in PZU SA” approved for use by a resolution of the Management Board No. UZ/98/2013 of 29 March 2013 and principles determined in the Ordinance.

As of 30 June 2013, the Company created the following technical provisions:

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

Based on the work performed we came to the conclusion that the level of technical reserves net of insurers’ share presented in the balance sheet as of 30 June 2013 appears to be sufficient in light of the materiality concept, requirements of the Ordinance including limitations caused by natural uncertainty related to the necessity of estimating when determining the amount of provisions so that the Company is able to meet its future obligations resulting from insurance contracts concluded by 30 June 2013.

Structure of receivables

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

Liabilities

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

Prepayments and accruals

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

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

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

As of 30 June 2013, the Company created technical provisions in line with principles determined in the Ordinance in the amount ensuring full meeting of its current and future obligations imposed by concluded insurance contracts. The provisions are secured with investments.

The Company calculated the solvency margin as of 30 June 2013 and determined the required guarantee fund in line with the Minister of Finance's ordinance of 28 November 2003 on calculation methods and amount of solvency margin and the minimum guarantee fund for insurance departments and groups (Journal of Law from 2003, no. 211, item 2060, as amended).

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

5. Completeness and correctness of drawing up the introduction to the financial statements, additional information and explanations

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

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The introduction gives a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the financial statements.

The Company prepared notes in the form of tables to individual balance sheet and profit and loss account items as well as narrative descriptions.

Notes describing tangible fixed assets, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial period. Limitations imposed on individual assets disclosed in the balance sheet arising from security granted to creditors have been described.

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

IV. CLOSING COMMENTS

Management Board's Representation

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

Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

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

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

Warsaw, 26 August 2013