INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA
CAPITAL GROUP
FOR Q1 2011

CONTENTS

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 2011 ("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 art. 83 par. 1 of the Regulation on current and periodic information, these interim consolidated financial statements comprise quarterly standalone financial information of the PZU Group parent company, Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "Company", "parent").

According to article 45 par. 1a of the Accountancy Act of 29 September 1994 (Journal of Laws no. 152 of 2009, item 1223 as amended, "Accountancy Act"), the financial statements of issuers of securities admitted to trading on one of the regulated markets of the European Economic Area countries 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"), specified in the Accountancy Act, and in the executive regulations issued on its basis, inter alia:

- Regulation issued by the Finance Minister on 28 December 2009 on special accounting principles for insurance companies and reinsurance companies (Journal of Laws no. 226 of 2009, item 1825);
- Regulation issued by the Finance Minister on 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and the method of presenting financial instruments (Journal of Laws no. 149 of 2001, item 1674 as amended).

In matters that are not regulated by the Accountancy Act and the executive regulations issued on its basis, PZU applies Polish Accounting Standards and/or IFRS.

SELECTED FINANCIAL DATA

1. Selected consolidated financial data of the PZU Group

Data from the consolidated statement of financial position	PLN '000 31 March 2011	PLN '000 31 December 2010	PLN '000 31 March 2010	PLN '000 31 December 2009	EUR '000 31 March 2011	EUR '000 31 December 2010	EUR '000 31 March 2010	EUR '000 31 December 2009
Assets	53,640,564	50,670,557	52,577,500	53,287,438	13,370,364	12,794,626	13,613,355	12,970,994
Share capital	86,352	86,352	86,352	86,352	21,524	21,804	22,358	21,019
Capital and provisions attributable to the shareholders of the parent	13,646,489	12,799,800	12,053,128	11,266,746	3,401,503	3,232,028	3,120,793	2,742,502
Minority interest	88,189	126	121	133	21,982	32	31	32
Total equity	13,734,678	12,799,926	12,053,249	11,266,879	3,423,485	3,232,060	3,120,825	2,742,534
Weighted average basic and diluted number of ordinary shares	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300
Book value per ordinary share (in PLN/EUR)	158.03	148.23	139.58	130.47	39.39	37.43	36.14	31.76

Data from the consolidated profit and loss account	PLN '000 1 January – 31 March 2011	PLN '000 1 January – 31 March 2010	EUR '000 1 January – 31 March 2011	EUR '000 1 January – 31 March 2010
Gross written premiums	3,976,884	3,804,773	1,000,675	959,130
Net earned premium	3,572,134	3,444,564	898,831	868,326
Revenue from commissions and fees	78,273	62,632	19,695	15,789
Net result on investment activity	474,059	909,805	119,284	229,349
Net insurance claims	(2,400,828)	(2,474,264)	(604,103)	(623,727)
Gross profit (loss)	961,856	982,148	242,025	247,586
Net profit (loss) attributed to equity holders of the parent	791,799	807,415	199,235	203,538
Minority profit (loss)	(564)	(3)	(142)	(1)
Weighted average basic and diluted number of ordinary shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted profit per ordinary share (in PLN/EUR)	9.17	9.35	2.31	2.36

Data from the consolidated cash flow statement	PLN '000 1 January – 31 March 2011	PLN '000 1 January – 31 March 2010	EUR '000 1 January – 31 March 2011	EUR '000 1 January – 31 March 2010
Net cash flows from operating activities	660,080	(1,254,041)	166,091	(316,126)
Net cash flows from investment activities	(795,549)	1,177,277	(200,178)	296,775
Net cash flow from financing activities	8,917	(2,393)	2,244	(603)
Total net cash flows	(126,552)	(79,157)	(31,843)	(19,954)

2. Selected standalone PZU financial data (according to PAS)

Balance sheet data	PLN '000 31 March 2011	PLN '000 31 December 2010	PLN '000 31 March 2010	PLN '000 31 December 2009	EUR '000 31 March 2011	EUR '000 31 December 2010	EUR '000 31 March 2010	EUR '000 31 December 2009
Assets	28,003,036	26,349,819	29,640,983	29,048,207	6,979,994	6,653,491	7,674,637	7,070,787
Share capital	86,352	86,352	86,352	86,352	21,524	21,804	22,358	21,019
Total equity	12,409,924	11,902,186	10,895,053	10,411,542	3,093,278	3,005,375	2,820,945	2,534,332
Weighted average basic and diluted number of ordinary shares	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300
Book value per ordinary share (in PLN/EUR)	143.71	137.83	126.17	120.57	35.82	34.80	32.67	29.35

Data from the technical property and casualty insurance account and non-technical profit and loss account	PLN '000 1 January – 31 March 2011	PLN '000 1 January – 31 March 2010	EUR '000 1 January – 31 March 2011	EUR '000 1 January – 31 March 2010
Gross written premiums	2,256,909	2,145,152	567,890	540,763
Net earned premium	1,858,658	1,786,366	467,681	450,318
Net result on investment activity	193,972	301,252	48,808	75,941
Net profit (loss)	260,669	100,416	65,590	25,313
Weighted average basic and diluted number of ordinary shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted profit per ordinary share (in PLN/EUR)	3.02	1.16	0.76	0.29

3. Selected standalone financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna (according to PAS)

Balance sheet data	PLN '000 31 March 2011	PLN '000 31 December 2010	PLN '000 31 March 2010	PLN '000 31 December 2009	EUR '000 31 March 2011	EUR '000 31 December 2010	EUR '000 31 March 2010	EUR '000 31 December 2009
Assets	30,893,647	29,761,380	29,607,501	30,467,809	7,700,503	7,514,931	7,665,968	7,416,340
Total equity	6,882,064	6,414,677	8,073,769	7,375,769	1,715,413	1,619,745	2,090,459	1,795,377

Data from the technical life insurance account and non-technical profit and loss account	PLN '000 1 January – 31 March 2011	PLN '000 1 January – 31 March 2010	EUR '000 1 January – 31 March 2011	EUR '000 1 January – 31 March 2010
Gross written premiums	2,045,222	1,836,828	514,625	463,039
Technical life insurance result	479,536	686,014	120,662	172,935
Net result on investment activities	360,723	589,194	90,766	148,528
Net profit (loss)	453,031	655,555	113,993	165,256

4. Summary of consolidated financial results

PZU Group’s net financial result for Q1 2011 was PLN 791.2 million and was 2.0% lower from the net result for the first quarter of last year.

As at the end of Q1 2011, ROE was 23.9%, down by 3.8 p.p. year-over-year.

The decrease of the net result was attributable to lower income on PZU Group’s investment activity resulting from change in valuation of debt securities (increase of yield on bonds) and worse situation on the Warsaw Stock Exchange compared to last year.

Positive impact on PZU Group’s net result in Q1 2011 was also exerted by the following elements:

- In the analyzed period there were no catastrophic events – last year in the same period, in total PLN 161.2 million on account of “snow claims” was disbursed and provisioned. However in Q1 2011 there were much higher than last year agriculture insurance claims pertaining to winter survival (non-catastrophic) for which a PLN 80.0 million provision has been established.
- Improvement of profitability in the property and other insurance segment, mainly in fire products;
- Reduction of administration expenses thanks to the restructuring program carried out in 2010 and the fixed cost reduction program;
- Consolidation of the Armatura Group – one-off impact on the net result in the amount of PLN 118.9 million;
- Consequences of implementation of the PZU Group strategy during last year, in particular:
  - Restructuring of the quality of the corporate client motor insurance portfolio in property and casualty insurance;
  - Restructuring processes aiming at reducing administrative expenses.

ABBREVIATED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Interim consolidated statement of financial position

in PLN '000

Assets	Note	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Intangible assets		103,851	109,067	92,154	85,069
Goodwill		8,419	8,381	19,676	19,631
Property, plant and equipment		1,136,675	990,411	1,025,038	1,043,811
Investment property		465,686	441,014	390,518	346,552
Entities measured using the equity method		-	-	-	-
Financial assets	8.1				
Financial instruments held to maturity	8.1.1	21,604,789	20,305,758	21,982,409	23,327,568
Financial instruments available for sale	8.1.2	9,525,092	8,623,082	8,732,300	10,027,845
Financial instruments carried at fair value through profit or loss	8.1.3	12,815,474	12,118,252	8,940,641	10,213,631
Loans	8.1.4	3,466,573	4,297,940	7,754,173	4,668,549
Receivables, including receivables from insurance contracts	8.2	2,441,754	1,734,274	1,671,662	1,495,207
Reinsurers' share in the technical provisions	8.2	759,838	771,850	732,036	748,313
Estimated recoveries and recourses		66,199	77,812	75,285	82,330
Deferred income tax assets		15,988	16,645	24,075	24,913
Current income tax receivables		10,585	9,958	89,351	87,599
Deferred acquisition cost		568,360	540,729	547,297	518,279
Prepayments	8.5	214,847	194,226	199,230	215,804
Other assets		141,957	7,455	17,094	15,781
Cash and cash equivalents		294,477	423,703	284,561	366,556
Assets used in continuing operations		**53,640,564**	**50,670,557**	**52,577,500**	**53,287,438**
Non-current assets held for sale and disposal groups		-	-	-	-
Total Assets		**53,640,564**	**50,670,557**	**52,577,500**	**53,287,438**

Interim consolidated statement of financial position (cont.)

in PLN '000

Equity and liabilities	Note	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Equity					
Issued share capital and other equity attributable to the shareholders of the parent					
Share capital		86,352	86,352	86,352	86,352
Other capitals		6,704,681	6,649,782	5,781,577	5,802,568
Supplementary capital		6,296,320	6,296,313	5,485,051	5,485,014
Revaluation reserve		448,178	392,268	323,077	340,970
Exchange differences from translation of controlled entities		(39,817)	(38,799)	(26,551)	(23,416)
Undistributed profit/uncovered loss		6,855,456	6,063,666	6,185,199	5,377,826
Previous year profit (loss)		6,063,657	3,624,435	5,377,784	2,365,282
Net profit (loss)		791,799	2,439,231	807,415	3,762,945
Appropriations on net profit during the financial year		-	-	-	(750,401)
Minority interest		88,189	126	121	133
Total equity		**13,734,678**	**12,799,926**	**12,053,249**	**11,266,879**

Liabilities					
Technical provisions	8.6				
Provision for unearned premium and unexpired risks		4,648,051	4,315,675	4,485,839	4,189,849
Life insurance provision		14,498,287	14,570,725	14,523,344	14,582,590
Provision for outstanding claims		5,078,277	5,157,080	4,367,088	4,456,464
Provision for capitalized value of annuity claims		4,837,658	4,862,552	4,904,855	4,874,653
Provision for bonuses and rebates for the insured		8,017	6,177	3,252	5,071
Other technical provisions		593,035	614,692	669,411	698,918
Unit linked technical provisions		2,350,605	2,296,089	2,117,703	2,017,501
Investment contracts	8.7				
- with guaranteed and fixed terms and conditions		2,441,973	2,270,568	1,148,407	2,632,054
- for the client and at the client's risk		1,380,985	1,273,947	1,179,236	1,094,475
Provisions for employee benefits		259,873	257,916	253,999	260,946
Other provisions	8.8	204,035	212,559	311,497	314,595
Provision for deferred income tax		449,691	404,956	528,742	444,053

Interim consolidated statement of financial position (cont.)

in PLN ‘000

Liabilities and equity	Note	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Current income tax liabilities		29,823	1,743	2,223	3,056
Derivatives		19,869	11,730	5,692	3,533
Other liabilities	8.9	2,689,770	1,132,079	5,635,644	5,974,052
Accruals and deferred income	8.10				
Cost accruals		407,993	474,272	383,922	464,126
Deferred income		7,944	7,871	3,397	4,623
Liabilities related to continuing operations		**39,905,886**	**37,870,631**	**40,524,251**	**42,020,559**
Liabilities directly related to non-current assets classified as held for sale		-	-	-	-
Total Liabilities		**39,905,886**	**37,870,631**	**40,524,251**	**42,020,559**
Total equity and liabilities		**53,640,564**	**50,670,557**	**52,577,500**	**53,287,438**

2. Interim consolidated income statement

in PLN '000

Consolidated income statement	Note	1 January – 31 March 2011	1 January – 31 March 2010
Gross written premiums	8.11	3,976,884	3,804,773
Reinsurers' share in gross written premium		(112,235)	(86,852)
Net written premium		**3,864,649**	**3,717,921**
Change in net provision for unearned premium		(292,515)	(273,357)
Net earned premium		**3,572,134**	**3,444,564**
Revenue from commissions and fees	8.12	78,273	62,632
Net investment income	8.13	405,905	440,700
Net profit or loss on realization and impairment loss on investments	8.14	(129,544)	135,274
Net change in the fair value of assets and liabilities plus equity measured at fair value	8.15	197,698	333,831
Other operating revenue	8.16	204,933	25,894
Claims and change in technical provisions		(2,403,856)	(2,452,092)
Reinsurer's share in claims and change in technical provisions		3,028	(22,172)
Net insurance claims	8.17	**(2,400,828)**	**(2,474,264)**
Claims and change in measurement of investment contracts	8.18	(35,639)	(62,787)
Acquisition expense	8.19	(470,515)	(442,302)
Administrative expense	8.19	(328,961)	(363,250)
Other operating expense	8.20	(131,304)	(71,125)
Operating profit (loss)		**962,152**	**1,029,167**
Financial expense		(296)	(47,019)
Share in the net profit (loss) of entities measured using the equity method		-	-
Gross profit (loss)		**961,856**	**982,148**
Income tax			
- current portion		(144,048)	(96,703)
- deferred portion		(26,573)	(78,033)
Net profit (loss), including		**791,235**	**807,412**
- profit (loss) attributable to equity holders of the parent		791,799	807,415
- minority profits (loss)		(564)	(3)

Net profit (loss) from continuing operations	791,799	807,415
Net profit (loss) from discontinued operations	-	-
Weighted average basic and diluted number of ordinary shares	86,352,300	86,352,300
Basic and diluted profit (loss) on continuing operations per ordinary share (in PLN)	9.17	9.35
Basic and diluted profit (loss) on discontinued operations per ordinary share (in PLN)	-	-
Basic and diluted profit (loss) per ordinary share (in PLN)	9.17	9.35

3. Interim consolidated statement of comprehensive income

in PLN '000

Consolidated statement of comprehensive income	1 January – 31 March 2011	1 January – 31 March 2010
Net profit (loss)	791,235	807,412
Other comprehensive income:	54,893	(21,037)
Financial assets available for sale	49,880	(28,351)
Exchange differences from translation of controlled entities	(1,017)	(3,144)
Real property reclassified from property, plant and equipment to investment property	6,030	10,458
Net comprehensive income total	**846,128**	**786,375**
- comprehensive income attributed to holders of the parent's equity	846,691	786,387
- total income attributed to the equity component of agreements with a discretionary participation feature	-	-
- comprehensive income attributable to minority interest	(563)	(12)

4. Interim statement of changes in consolidated equity

in PLN '000

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital							Minority interest	Total Equity
		Other capitals			Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Total		
Balance as at 1 January 2011	**86,352**	**6,296,313**	**392,268**	**(38,799)**	**6,036,666**	**-**	**12,799,800**	**126**	**12,799,926**
Change in measurement of AFS financial instruments assets	-	-	49,880	-	-	-	49,880	-	49,880
Exchange differences from translation	-	-	-	,(1,018)	-	-	(1,018)	1	(1,017)
Real property reclassified from property, plant and equipment to investment property	-	-	6,030	-	-	-	6,030	-	6,030
Total increases (decreases) recognized directly in net capital (including income tax)	-	-	**55,910**	**(1,018)**	-	-	**54,892**	**1**	**54,893**
Net profit (loss) for the financial year	-	-	-	-	-	**791,799**	**791,799**	(564)	**791,235**
Total increases (decreases)	**-**	**-**	**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**

Interim statement of changes in consolidated equity (cont.)

in PLN '000

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital							Minority interest	Total Equity
		Other capitals			Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Total		
Balance as at 1 January 2010	**86,352**	**5,485,014**	**340,970**	**(23,416)**	**5,377,826**	**-**	**11,266,746**	**133**	**11,266,879**
Change in measurement of AFS financial instruments assets	-	-	641	-	-	-	641	-	641
Exchange differences from translation	-	-	-	(15,383)	-	-	(15,383)	(5)	(15,388)
Real property reclassified from property, plant and equipment to investment property	-	-	50,657	-	-	-	50,657	-	50,657
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**51,298**	**(15,383)**	**-**	**-**	**35,915**	**(5)**	**35,910**
Net profit (loss) for the financial year	-	-	-	-	-	2,439,231	2,439,231	(2)	2,439,229
Total increases (decreases)	**-**	**-**	**51,298**	**(15,383)**	**-**	**2,439,231**	**2,475,146**	**(7)**	**2,475,139**
Other changes, including:	**-**	**811,299**	**-**	**-**	**(1,753,391)**	**-**	**(942,092)**	**-**	**(942,092)**
Distribution of the financial result	-	811,115	-	-	(1,753,219)	-	(942,104)	-	(942,104)
Other	-	184	-	-	(172)	-	12	-	12
Balance as at 31 December 2010	**86,352**	**6,296,313**	**392,268**	**(38,799)**	**3,624,435**	**2,439,231**	**12,799,800**	**126**	**12,799,926**

Interim statement of changes in consolidated equity (cont.)

in PLN '000

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital							Minority interest	Total Equity
		Other capitals			Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Total		
Balance as at 1 January 2010	**86,352**	**5,485,014**	**340,970**	**(23,416)**	**5,377,826**	**-**	**11,266,746**	**133**	**11,266,879**
Change in measurement of AFS financial instruments assets	**-**	**-**	(28,351)	-	-	-	(28,351)	-	(28,351)
Exchange differences from translation	**-**	**-**	-	(3,135)	-	-	(3,135)	(9)	(3,144)
Real property reclassified from property, plant and equipment to investment property	**-**	**-**	10,458	-	-	-	10,458	-	10,458
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**(17,893)**	**(3,135)**	**-**	**-**	**(21,028)**	**(9)**	**(21,037)**
Net profit (loss) for the financial year	-	-	-	-	-	807,415	807,415	(3)	807,412
Total increases (decreases)	**-**	**-**	**(17,893)**	**(3,135)**	**-**	**807,415**	**786,387**	**(12)**	**786,375**
Other changes	-	37	-	-	(42)	-	(5)	-	(5)
Balance as at 31 March 2010	**86,352**	**5,485,051**	**323,077**	**(26,551)**	**5,377,784**	**807,415**	**12,053,128**	**121**	**12,053,249**

5. Interim consolidated cash flow statement

in PLN '000

Consolidated cash flow statement	1 January – 31 March 2011	1 January – 31 March 2010
Cash flows from operating activities		
Inflows	4,576,924	4,224,440
- gross inflows from insurance premiums	3,759,869	3,758,772
- inflows from investment contracts	385,009	231,359
- inflows from reinsurance commissions and share in reinsurers' profit	1,197	580
- reinsurers' payments due to share of claims	122,355	46,777
- other inflows from operating activities	308,494	186,952
Outflows	(3,916,844)	(5,478,481)
- insurance premiums paid to reinsurance	(61,819)	(54,081)
- paid commissions and profit sharing due to outward reinsurance	(49)	(130)
- gross claims paid	(2,285,560)	(2,284,731)
- claims paid due to investment contracts	(136,089)	(1,689,439)
- outflows due to acquisition	(371,562)	(332,192)
- administrative outflows	(611,908)	(559,562)
- interest payments	(91)	(50)
- income tax payments	(42,736)	(100,612)
- other operating outflows	(407,030)	(457,684)
Net cash flows from operating activities	**660,080**	**(1,254,041)**
Cash flows from investment activities		
Inflows	63,817,429	86,385,791
- inflows from investment property	3,357	1,675
- disposal of intangible assets and property, plant and equipment	439	1,712
- disposal of shares	1,174,898	1,581,728
- redemption of debt securities	19,516,037	6,775,843
- withdrawal of term deposits at credit institutions	34,838,255	36,045,346
- cash from other investments	8,260,541	41,866,853
- interest received	21,855	112,634
- dividends received	198	-
- other inflows from investments	1,849	-
Outflows	(64,612,978)	(85,208,514)
- acquisition of investment property	-	(317)
- payments for maintenance of investment property	(4,708)	(4,461)
- acquisition of intangible assets and property, plant and equipment	(24,279)	(49,047)
- acquisition of shares	(1,359,468)	(1,581,012)
- acquisition of debt securities	(19,996,842)	(2,449,938)
- acquisition of term deposits at credit institutions	(35,273,248)	(35,015,122)
- acquisition of other investments	(7,953,138)	(46,101,746)
- other payments for investments	(1,295)	(6,871)
Net cash flows from investment activities	**(795,549)**	**1,177,277**

Interim consolidated cash flow statement (cont.)

in PLN '000

Consolidated cash flow statement	1 January – 31 March 2011	1 January – 31 March 2010
Cash flows from financing activities		
Inflows	10,784	11
- loans and borrowings and issues of debt securities	10,784	11
Outflows	(1,867)	(2,404)
- dividends paid to holders of the parent's equity	(49)	(2,349)
- repayment of loans and borrowings and redemption of debt securities	(128)	(55)
- interest on loans and borrowings and issued debt securities	(1,314)	-
- other financial outflows	(376)	-
Net cash flows from financing activities	**8,917**	**(2,393)**
Total net cash flows	**(126,552)**	**(79,157)**
Cash and cash equivalents at the beginning of the period	423,703,	366,556,
Change in cash due to exchange differences	(2,674)	(2,838)
Cash and cash equivalents at the end of the period, including:	**294,477**	**284,561**
- of limited disposability	61,971	23,323

ADDITIONAL INFORMATION TO THE INTERIM ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS

1. Information about PZU and the PZU Group

1.1. PZU

The PZU Group's parent company is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24. It was established as a result of transforming Państwowy Zakład Ubezpieczeń into a joint stock company pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Journal of Laws no. 11 of 1996, item 62 as amended.

PZU is entered to the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw, 12th Business Division, under file number KRS 0000009831.

According to Polish NACE (PKD), the core business of PZU includes other personal and property insurance (PKD 65.12) and according to NACE, property and personal insurance (EKD 6603). Warsaw Stock Exchange (WSE) classifies the Company in the insurance sector.

1.2. PZU Group companies

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Line of business
				31 March 2011	31 December 2010	31 March 2011	31 December 2010	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń Spółka Akcyjna	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and personal insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Life")	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance
3	Powszechne Towarzystwo Emerytalne PZU SA, („PTE PZU")	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Pension fund management
4	PZU Centrum Operacji SA („PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds
5	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other financial service activity, excluding insurance and pension funds
6	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99.76%	99.76%	Property insurance
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Buying, operating, renting and selling real estate
9	Armatura Kraków SA [1)]	Kraków	07.10.1999	64.63%	64.63%	64.63%	64.63%	Manufacturing bathroom and kitchen fixtures
10	Armatoora SA [1)]	Nisko	10.12.2008	64.63%	64.63%	64.63%	64.63%	Manufacturing radiators and aluminum casts
11	Armatoora SA i wspólnicy sp. k. [1)]	Kraków	10.02.2009	64.63%	64.63%	64.63%	64.63%	Utilization of free funds, development investments
12	Armagor SA (until 5 April 2011: Armagor Sp. z o.o.) [1)]	Gorzów Śląski	06.09.2009	64.37%	64.37%	64.37%	64.37%	Manufacturing valves, tool services

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Line of business
				31 March 2011	31 December 2010	31 March 2011	31 December 2010	
No.	**Entity's name**	**Registered office**	**Date of commencing control/significant impact**	**% of share capital directly or indirectly held by PZU**		**% of votes directly or indirectly held by PZU**		**Line of business**
				31 March 2011	**31 December 2010**	**31 March 2011**	**31 December 2010**	
Non-consolidated subsidiaries								
13	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Provision of assistance services
14	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Provision of assistance services and medical services
15	Syta Development Sp. z o.o. in liquidation	Warsaw	29.04.1996	100.00%	100.00%	100.00%	100.00%	Buying and selling real estate, intermediacy in buying and selling real estate, administering real estate
16	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishing, representing and managing investment funds
17	Sigma Investments Sp. z o.o.	Warsaw	28.12.1999	100.00%	100.00%	100.00%	100.00%	Investment activity. Buying and selling the shares of public companies, bonds and other publicly-traded securities
18	PZU Asset Management SA („PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Provision of managed account services
19	PZU Inter-company Employee Pension Fund Company SA („MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Employee pension fund management
20	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance
21	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services
22	Company with Additional Liability Inter-Risk Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Legal services
23	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance
24	ICH Center SA	Warsaw	31.01.1996	90.00%	90.00%	90.00%	90.00%	Claims handling under Greed Card
Associated companies								
25	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37.53%	37.53%	36.71%	36.71%	Operation of ski and tourist lifts

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Line of business
				31 March 2011	31 December 2010	31 March 2011	31 December 2010	
26	Nadwiślańska Agencja Ubezpieczeniowa S.A.	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance handling

1) Consolidated by the full method as of 1 January 2011. The question is described in item 7.1.

During the 3 months ended 31 March 2011 and until the date of submission of this interim report, there were no material changes to the PZU Group's organization.

2. Compliance with International Financial Reporting Standards

These interim consolidated financial statements of the PZU Group have been prepared in line with International Financial Reporting Standards as endorsed by the EC Commission "EC Commission") as at 31 March 2011, including the requirements of the International Accounting Standard 34 "Interim Financial Reporting" and in compliance with the requirements of the Regulation on current and periodic information.

These interim consolidated financial statements have been drawn up for the 3 moths period from 1 January to 31 March 2011.

2.1. Introduction of new IFRS

2.1.1. Standards, interpretations and amended standards effective from 1 January 2011

The following standards, interpretations, and amended standards effective from 1 January 2011 have been first time adopted in these interim consolidated financial statements.

Standard/interpretation	Date of entry into force for periods beginning on	EC Regulation endorsing the standard or interpretation
Amendment to IAS 32 – Classification of Rights Issues	1 February 2010	1293/2009
Amendment to IFRS 1 – First-Time Adoption of IFRS: Limited Exemption from Comparative IFRS 7 Disclosures	1 July 2010	574/2010
Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement	1 January 2011	633/2010
Revised IAS 24 – Related Party Disclosures	1 January 2011	632/2010
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	662/2010
Improvements to IFRS (published by IASB in May 2010)	Different dates, the first on 1 July 2010	149/2011

The above standards and interpretations do not affect the accounting principles in relation to comprehensive income or equity of the PZU Group as presented in these interim consolidated financial statements.

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

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

- unendorsed by the EC Commission:

Standard/interpretation	Date of entry into effect for the periods starting as of (according to IABS)
IFRS 9 – Financial Instruments	1 January 2013
Amendment to IFRS 7 – Financial Instruments: Disclosures	1 July 2011
Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)	1 January 2012
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (amendments to IFRS 1)	1 July 2011

It is expected that adoption of the aforementioned standards, interpretations and amended standards will not have material impact on the total income and equity of the PZU Group, except for IFRS 9, for which, considering a remote effective date, expected further revisions of accounting principles pertaining to financial instruments, related among others to the current work aimed at gradual replacement of the existing IAS 39 with new regulations, the effects of application of IFRS 9 on PZU Group's comprehensive income and equity have not been estimated.

3. Key accounting principles (accounting policy)

Detailed accounting principles (accounting policy) are presented in the annual consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for 2010, signed by the PZU Management Board on 15 March 2011 for which the auditor issued an unqualified opinion on the same date ("PZU Group 2010 consolidated financial statements").

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

In the 3 months period ended 31 March 2011 the following changes to the accounting principles (accounting policy) were made, as described in the items below.

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 2010 did not change, with the proviso that:

- these interim consolidated financial statements are abbreviated statements within the meaning of IAS 34;
- the PZU Group took advantage of the exemption specified in par. 25 of revised IAS 24 "Related Party Disclosures" making it possible to refrain from disclosing certain information on transactions with related parties as they are controlled, jointly controlled or government-related, disclosing only the amounts of written premiums and investment contract volumes in the transactions with such parties. At the same time, in accordance with the definition presented in sec. 9 of revised IAS 24, disclosures were made for transactions with entities that are subsidiary, jointly controlled and government-related and not like in previous years, only transactions with entities under joint control of the same government (i.e. only with subsidiaries of the same government).

4.1. Change of rules for recognition of gross written premium in PZU

From 1 January 1011 a change was made; it involved recognition of income from written premium on the date of conclusion of the insurance contract rather than on the date of commencement of insurance liability resulting from concluded insurance contracts (deferred on the other side through the premium provision). In addition, a corresponding change was applied to recognition of the costs of commissions on the concluded contracts in the profit and loss account (without impact on the financial result by using the mechanism of deferring these costs over time on the other side).

This change did not have impact on the consolidated financial result or consolidated net assets of the PZU Group.

4.2. ABC allocation

4.2.1. Introduction of the ABC allocation model in PZU

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

In previous years, the indirect cost allocation method assumed allocation of:

- administrative expenses – pro rata to written premium;
- indirect acquisition expenses – pro rata to direct acquisition expenses;
- indirect costs of claims handling and recourse collection – pro rata to claims paid.

This cost classification involved significant simplifications as regards reflecting the organizational structure and operational processes. Application of a simplified cost allocation method using general keys resulted in imprecise allocation of costs to individual product groups and products (also imprecise allocation of costs between the corporate client and mass client divisions). This led to numerous difficulties in the cost analysis process and, as a consequence, made managerial processes difficult.

The aim of the activity based costing introduced in 2011 is to:

- more precisely determine the actual costs of the products offered by PZU;
- more precisely determine the actual overhead charges (and the basis of their allocation) to individual products.

The ABC method envisages distribution of indirect costs by product and taking out of the administration expenses: acquisition expenses, claims handling and recourse collection costs, investment activity costs and other operating expenses. The adopted methodology is based on determining:

- the type and amount of allocated resources;
- actions that make it possible to ascribe resources;
- cost carriers making it possible to allocate resources to actions;
- cost objects to which resources are allocated;
- cost carriers making it possible to ascribe actions to cost objects.

Only the following are allocated: indirect acquisition expenses, indirect claims handling costs, indirect costs of pursuing recourse claims, portion of administration expenses (described above), costs of upkeep of investment property and other costs of investment activity.

The model is updated on a quarterly basis with regard to resources and actions reflected in it; the cost data comes from the financial and accounting system (general ledger and individual modules).

4.2.2. Change in the ABC model in PZU Życie

In 2011 PZU Życie introduced a new model for allocation of indirect costs to individual insurance products using the ABC method.

The new model is based on the following assumptions: simplification of the structure in relation to the previous model, improvement of model transparency and calculation results, increase of usefulness of the model for managerial purposes, increase of model flexibility through facilitating its adaptability to organizational changes.

The key changes introduced (in relation to the previous model version) involve reducing the list of resources and actions adopted in the calculation (aggregation), determining new division carriers for the resources and for actions, abandoning time work sheets completed by all employees of specific organizational cells in favor of work time sheets completed by managers of specific organizational cells.

4.3. Impact of the changes on comparable data

The individual tables present the impact of the above changes on the financial data for the comparable period of 3 months ended 31 March 2010 (profit and loss account) and as at 31 December 2010, as at 31 March 2010 and as at 31 December 2009 (statement of financial position).

Assets	Item	31 December 2010 historical data	*Change*	31 December 2010 comparable data	31 March 2010 historical data	*Change*	31 March 2010 comparable data	31 December 2009 historical data	*Change*	31 December 2009 comparable data
Receivables, including under insurance contracts	4.1	1,597,549	*136,725*	1,734,274	1,601,963	*69,699*	1,671,662	1,383,978	*111,229*	1,495,207
Deferred acquisition cost	4.1	502,815	*37,914*	540,729	516,066	*31,231*	547,297	481,139	*37,140*	518,279
Prepayments and accruals	4.1	232,140	*(37,914)*	194,226	230,461	*(31,231)*	199,230	252,944	*(37,140)*	215,804
Total Assets		50,533,832	*136,725*	50,670,557	52,507,801	*69,699*	52,577,500	53,176,209	*111,229*	53,287,438

Liabilities and equity	Item	31 December 2010 historical data	*Change*	31 December 2010 comparable data	31 March 2010 historical data	*Change*	31 March 2010 comparable data	31 December 2009 historical data	*Change*	31 December 2009 comparable data
Unearned premium provision and unexpired risk provision	4.1	3,975,861	*339,814*	4,315,675	4,265,606	*220,233*	4,485,839	3,846,600	*343,249*	4,189,849
Deferred income	4.1	210,960	*(203,089)*	7,871	153,931	*(150,534)*	3,397	236,643	*(232,020)*	4,623
Total Liabilities and Equity		50,533,832	*136,725*	50,670,557	52,507,801	*69,699*	52,577,500	53,176,209	*111,229*	53,287,438

Consolidated profit and loss account	Item	1 January - 31 March 2010 historical data	*Change*	1 January - 31 March 2010 comparable data
Gross written premium	4.1	3,927,789	*(123,016)*	3,804,773
Net written premium	4.1	3,840,937	*(123,016)*	3,717,921
Change in the balance of the net unearned premium provision	4.1	(396,373)	*123,016*	(273,357)
Net earned premium		3,444,564	-	3,444,564
Net investment income	4.2	442,309	*(1,609)*	440,700
Claims and movements in technical provisions	4.2	(2,436,952)	*(15,140)*	(2,452,092)
Net insurance claims		(2,459,124)	*(15,140)*	(2,474,264)
Claims and changes in valuation of investment contracts	4.2	(62,188)	*(599)*	(62,787)
Acquisition costs	4.2	(433,329)	*(8,973)*	(442,302)
Administrative costs	4.2	(390,292)	*27,042*	(363,250)
Other operating expenses	4.2	(70,404)	*(721)*	(71,125)
Operating profit (loss)		1,029,167	-	1,029,167
Net profit (loss)		807,412	-	807,412

5. Key assumptions for accounting estimation purposes and judgments used when selecting and applying accounting principles (policies)

The key assumptions made for accounting estimation purposes and subjective judgments made in the process of selecting and applying accounting principles (policies) were presented in the consolidated financial statements of the PZU Group for 2010.

No changes were made to those assumptions and judgments in the period of 3 months ended 31 March 2011.

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

6.1. Functional and presentation currency

The Polish zloty (PLN) is the PZU Group's functional and presentation currency. Unless otherwise stated otherwise, all financial data presented in the consolidated interim financial statements are expressed in PLN thousands.

6.2. Going concern assumption

The consolidated interim financial statements have been prepared based on the assumption that PZU Group entities will operate as 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 consolidated interim financial statements, no facts or circumstances indicate a threat to the ability of PZU Group companies to operate as a going concern in the period of 12 months after the end of the reporting period due to an intentional or induced discontinuation or a material curtailment of their hitherto activity.

6.3. Discontinued operations

In the 3 months ended 31 March 2011, PZU Group entities did not discontinue any activity.

6.4. Seasonality and business cycles

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

6.5. FX rates

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

Currency	1 January – 31 March 2011	31 March 2011	1 January – 31 December 2010	31 December 2010	1 January – 31 March 2010	31 March 2010	31 December 2009
LTL	1.1510	1.1619	1.1597	1.1469	1.1489	1.1186	1.1898
UAH	0.3605	0.3562	0.3830	0.3722	0.3640	0.3630	0.3558
EUR	3.9742	4.0119	4.0044	3.9603	3.9669	3.8622	4.1082

These FX rates are:

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

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

7.1. Consolidation of the Armatura Capital Group

Starting on 1 January 2011, consolidated financial data of the Armatura Group (comprised of financial data of the following entities: Armatura Kraków SA, Armatoora SA, Armatoora i wspólnicy sp. k. and Armagora SA) are consolidated using the full method in the consolidated financial statements of the PZU Group. The consolidation of the Armatura Group is an effect of its consolidated financial data exceeding the significance thresholds adopted by the PZU Group for consolidated financial reporting purposes.

The table below presents the key positions of the consolidated balance sheet and reconciliation to the amount of consolidated net assets of the Armatura Group as at 1 January 2011 (measured according to PZU Group's accounting principles):

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

The difference between the carrying value of Armatura Kraków SA shares as at 1 January 2011 and PZU Group's share in Armatura Group's net assets, in the amount of PLN 118,916 thousand, was recorded in the 2011 financial result in the "Other operating income" item of the consolidated profit and loss account.

Impact of including the Armatura Group in consolidation on the PZU Group's consolidated financial result	Value
Carrying amount of Armatura Kraków SA shares (measured at historical cost taking into account impairment charges)	42,952
Consolidated net assets of the Armatura Group as at 1 January 2011	250,472
Share of PZU Group in Armatura Group's consolidated net assets as at 1 January 2011 (64.6250%)	161,868
Impact on PZU Group’s consolidated financial result	**118,916**

8. Supplementary notes to the condensed consolidated interim financial statements

8.1. Financial assets

8.1.1. Financial instruments held to maturity

Financial instruments held to maturity	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Debt securities	21,604,789	20,305,758	21,982,409	23,327,568
Government securities	20,980,175	19,687,560	21,378,470	22,724,017
Fixed rate	20,980,175	19,687,560	21,378,470	22,407,507
Floating rate	-	-	-	316,510
Other	624,614	618,198	603,939	603,551
Listed on a regulated market	474,477	445,700	435,519	428,328
Fixed rate	474,477	445,700	435,519	428,328
Not listed on a regulated market	150,137	172,498	168,420	175,223
Fixed rate	30,010	54,718	50,707	79,998
Floating rate	120,127	117,780	117,713	95,225
Total financial assets held to maturity	**21,604,789**	**20,305,758**	**21,982,409**	**23,327,568**

8.1.2. Financial instruments available for sale

Financial instruments available for sale	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Instruments for which fair value may be determined	**9,398,933**	**8,492,528**	**8,631,159**	**9,926,704**

Equity instruments	1,370,694	1,309,060	1,202,396	1,324,807
Listed on a regulated market	787,213	868,899	796,655	909,525
Not listed on a regulated market	583,481	440,161	405,741	415,282
Debt instruments	8,028,239	7,183,468	7,428,763	8,601,897
Government securities	7,884,239	7,052,769	7,365,027	8,537,465
Fixed rate	7,834,853	7,027,713	7,036,071	8,208,297
Floating rate	49,386	25,056	328,956	329,168
Other	144,000	130,699	63,736	64,432
Listed on a regulated market	51,205	39,425	15,301	15,067
Fixed rate	35,907	24,346	-	-
Floating rate	15,298	15,079	15,301	15,067
Not listed on a regulated market	92,795	91,274	48,435	49,365
Floating rate	92,795	91,274	48,435	49,365
Instruments, for which fair value may not be determined	**126,159**	**130,554**	**101,141**	**101,141**
Equity instruments	126,159	130,554	101,141	101,141
Not listed on a regulated market*	126,159	130,554	101,141	101,141
Total financial instruments available for sale	**9,525,092**	**8,623,082**	**8,732,300**	**10,027,845**

* this item includes shares in controlled entities not included in consolidation, whose carrying amount was PLN 122,908 thousand (PLN 127,313 thousand as at 31 December 2010, PLN 98,001 thousand as at 31 March 2010 and PLN 98,001 thousand as at 31 December 2009).

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

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Instruments for which fair value may be determined	**6,402,994**	**6,373,065**	**3,787,958**	**5,498,886**
Equity instruments	238,219	456,181	359,212	340,009
Listed on a regulated market	20,075	19,060	8,590	6,887
Not listed on a regulated market	218,144	437,121	350,622	333,122
Debt instruments	6,164,775	5,916,884	3,428,746	5,158,877
Government securities	6,032,539	5,786,065	3,364,693	5,094,085
Fixed rate	5,922,129	5,677,640	3,364,693	4,852,891
Floating rate	110,410	108,425	-	241,194
Other	132,236	130,819	64,053	64,792
Listed on a regulated market	39,441	39,545	15,618	15,427
Fixed rate	24,143	24,466	317	288
Floating rate	15,298	15,079	15,301	15,139
Not listed on a regulated market	92,795	91,274	48,435	49,365
Floating rate	92,795	91,274	48,435	49,365
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**6,402,994**	**6,373,065**	**3,787,958**	**5,498,886**

Financial instruments measured at fair value through profit or loss – held for trading	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Instruments for which fair value may be determined	**6,412,480**	**5,745,187**	**5,152,683**	**4,714,745**
Equity instruments	4,305,121	3,845,937	3,314,879	3,001,885
Listed on a regulated market	2,507,658	2,195,887	1,973,839	1,795,234
Not listed on a regulated market	1,797,463	1,650,050	1,341,040	1,206,651
Debt instruments	2,049,568	1,794,049	1,811,645	1,699,137
Government securities	2,020,160	1,765,125	1,760,083	1,649,374
Fixed rate	1,852,105	1,622,191	1,752,576	1,641,849
Floating rate	168,055	142,934	7,507	7,525
Other	29,408	28,924	51,562	49,763
Listed on a regulated market	5,152	5,131	8,199	7,683
Fixed rate	5,152	5,131	5,199	7,683
Floating rate	-	-	3,000	-
Not listed on a regulated market	24,256	23,793	43,363	42,080
Fixed rate	-	-	7,039	2,952
Floating rate	24,256	23,793	36,324	39,128
Other, including:	57,791	105,201	26,159	13,723
- derivatives	57,791	105,201	26,159	13,723
Total financial instruments measured at fair value through profit or loss – held for trading	**6,412,480**	**5,745,187**	**5,152,683**	**4,714,745**

8.1.4. Loans

Loans	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Debt securities	**-**	**-**	**-**	**-**
Other, including:	**3,466,573**	**4,297,940**	**7,754,173**	**4,668,549**
- reverse repo transactions	524,233	1,374,939	4,443,508	345,789
- term deposits with credit institutions	2,920,822	2,901,417	3,266,698	4,297,184
- deposits with ceding companies	1,680	1,770	1,832	1,542
- loans	19,838	19,814	42,135	24,034
Total loans	**3,466,573**	**4,297,940**	**7,754,173**	**4,668,549**

8.2. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying value	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Receivables from direct insurance, including:	1,334,158	1,274,191	1,247,767	1,184,828
- receivables from policyholders	1,245,852	1,162,466	1,176,190	1,122,860
- receivables from insurance intermediaries	57,409	55,462	63,745	51,616
- other receivables	30,897	56,263	7,832	10,352
Receivables from reinsurance	60,301	122,215	32,468	26,334
Other receivables	1,047,295	337,868	391,427	284,045
Net receivables, including under insurance contracts	**2,441,754**	**1,734,274**	**1,671,662**	**1,495,207**

8.2.1. Other receivables

Other receivables	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Receivables from Metro Projekt Sp. z o.o. pursued by litigation	94,532	92,439	90,863	89,831
Prevention-related settlements	32,054	36,155	21,896	24,593
Receivables for acting as an emergency adjuster	5,269	23,575	26,921	41,568
Receivables of life insurance capital funds	31,843	30,510	78,715	8,053
Receivables from disposal of securities	746,060	131,808	133,099	93,537
Trade receivables	108,967	767	832	644
Other	28,570	22,614	39,101	25,819
Total other receivables	**1,047,295**	**337,868**	**391,427**	**284,045**

8.3. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – property and casualty insurance	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Provision for unearned premiums	115,508	75,230	101,214	75,096
Provision for unexpired risk	175	89	-	-
Provision for claims outstanding, including:	294,327	336,023	160,721	191,210
- for claims reported	252,563	270,855	131,285	156,106
- for claims not reported (IBNR)	29,525	52,650	15,000	19,056
- for claims handling costs	12,239	12,518	14,436	16,048
Provision for capitalized value of annuity claims	349,268	360,508	470,101	482,007
Reinsurers' share in technical provisions (net)	**759,278**	**771,850**	**732,036**	**748,313**

Reinsurers' share in technical provisions – life insurance	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Provision for unearned premiums	560	-	-	-
Reinsurers' share in technical provisions (net)	**560**	**-**	**-**	**-**

8.4. Impairment of financial assets and receivables

Changes in impairment charges for financial assets in the period 1 January – 31 March 2011	Impairment charges - opening balance	Impairment charges recognized in the profit and loss account	Release of charges recognized in the profit and loss account	Derecognition of charges from the accounting records (not recognized in the profit and loss account)	Exchange differences	Other changes in impairment charges	Impairment charges - closing balance
Financial assets available for sale	296,919	-	-	(8,536)	(75)	-	288,308
- equity instruments	296,919	-	-	(8,536)	(75)	-	288,308
Loans	18,321	-	-	-	2	-	18,323
Loans	18,321	-	-	-	2	-	18,323
Receivables, including under insurance contracts	507,659	53,818	(23,956)	-	(268)	-	537,253
Receivables from direct insurance	423,260	42,902	(2,015)	-	(211)	-	463,936
Receivables from 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**

Movements in impairment charges for financial asset in the year ended 31 December 2010	Impairment charges - opening balance	Impairment charges recognized in the profit and loss account	Release of charges recognized in the profit and loss account	Derecognition of charges from the accounting records (not recognized in the profit and loss account)	Exchange differences	Other changes in impairment charges	Impairment charges - closing balance
Financial assets available for sale	303,779	17,737	-	(24,674)	77	-	296,919
Equity instruments	303,779	17,737	-	(24,674)	77	-	296,919
Loans	19,124	-	(375)	(423)	(5)	-	18,321
Loans	19,124	-	(375)	(423)	(5)	-	18,321
Receivables, including under insurance contracts	432,507	102,998	(28,313)	(415)	177	705	507,659
Receivables from direct insurance	347,079	80,797	(5,722)	(78)	179	1,005	423,260
Receivables from reinsurance	17,824	18,543	(17,593)	(224)	(6)	-	18,544
Other receivables	67,604	3,658	(4,998)	(113)	4	(300)	65,855
Reinsurers' share in technical provisions	30,370	12,918	(6,916)	-	-	-	36,372
Total	**785,780**	**133,653**	**(35,604)**	**(25,512)**	**249**	**705**	**859,271**

Changes in impairment charges for financial assets in the period 1 January – 31 March 2010	Impairment charges - opening balance	Impairment charges recognized in the profit and loss account	Release of charges recognized in the profit and loss account	Derecognition of charges from the accounting records (not recognized in the profit and loss account)	Exchange differences	Other changes in impairment charges	Impairment charges - closing balance
Financial assets available for sale	303,779	8,753	-	(18,071)	33	-	294,494
- equity instruments	303,779	8,753	-	(18,071)	33	-	294,494
Loans	19,124	-	-	-	(8)	-	19,116
Loans	19,124	-	-	-	(8)	-	19,116
Receivables, including under insurance contracts	432,507	47,469	(27,520)	-	4	(1,881)	450,579
Receivables from direct insurance	347,079	29,824	(5,079)	-	40	(1,928)	369,936
Receivables from reinsurance	17,824	17,309	(21,379)	-	(14)	-	13,740
Other receivables	67,604	336	(1,062)	-	(22)	47	66,903
Reinsurers' share in technical provisions	30,370	-	-	-	-	-	30,370
Total	**785,780**	**56,222**	**(27,520)**	**(18,071)**	**29**	**(1,881)**	**794,559**

8.5. Prepayments and accruals

Prepayments and accruals	31 March 2011	31 December 2010	31 March 2010	31 December 2009
IT costs	7,292	4,536	2,665	3,338
Capitalized acquisition costs in favor of PZU OPF	40,540	45,829	47,074	38,154
Reinsurance settlements	137,825	132,776	130,230	164,228
Other	29,190	11,085	19,261	10,084
Total prepayments and accruals	**214,847**	**194,226**	**199,230**	**215,804**

8.6. Technical provisions

8.6.1. Technical provisions in property and casualty insurance

Technical provisions in property and casualty insurance	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Provision for unearned premiums	4,508,630	4,183,127	4,322,942	4,047,377
Provision for unexpired risk	41,451	31,917	59,424	37,167
Provision for claims outstanding	4,452,771	4,548,445	3,749,444	3,837,211
Provision for capitalized value of annuity claims	4,837,658	4,862,552	4,904,855	4,874,653
Provisions for bonuses and rebates for the insureds	6,534	4,731	2,113	4,180
Total technical provisions	**13,847,044**	**13,630,772**	**13,038,778**	**12,800,588**

8.6.2. Technical provisions in life insurance

Technical provisions in life insurance	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Provision for unearned premiums	97,970	100,631	103,473	105,305
Life insurance provision	14,498,287	14,570,725	14,523,344	14,582,590
Provision for claims outstanding	625,506	608,635	617,644	619,253
Provisions for bonuses and rebates for the insureds	1,483	1,446	1,139	891
Other technical provisions	593,035	614,692	669,411	698,918
Technical provisions for life insurance if the policyholder bears the investment risk	2,350,605	2,296,089	2,117,703	2,017,501
Total technical provisions	**18,166,886**	**18,192,218**	**18,032,714**	**18,024,458**

8.7. Investment contracts

Investment contracts - carrying amount	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Investment contracts with guaranteed and fixed terms and conditions	2,441,973	2,270,568	1,148,407	2,632,054
- carried at amortized cost	2,441,973	2,270,568	1,147,724	2,631,567
- measured at fair value	-	-	683	487
Investment contracts for client's account and risk (unit-linked)	1,380,985	1,273,947	1,179,236	1,094,475
Total investment contracts - carrying amount	**3,822,958**	**3,544,515**	**2,327,643**	**3,726,529**

8.8. Other provisions

Other provisions	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Provisions created for the potential liabilities relating to CLSiOR investments	916	916	916	916
Provision for disputed claims and potential liabilities under insurance contracts	4,494	4,461	24,936	24,936
Provision for restructuring costs	61,483	75,253	158,763	158,763
Provision for the Office of Competition and Consumer Protection	69,143	69,143	65,176	65,176
Provisions for exit costs of the GraphTalk project	49,563	49,396	43,104	48,632
Provision for PTE's reimbursement of undue fees to ZUS	8,854	9,532	12,460	12,858
Other	9,582	3,858	6,142	3,314
Total other provisions	**204,035**	**212,559**	**311,497**	**314,595**

The item entitled „Provisions for exit costs of the GraphTalk project" includes the amount ensuing from the issue discussed in clause 0.

The item entitled „Provision for the Office of Competition and Consumer Protection" includes the amount ensuing primarily from the issue discussed in clause 0.

The restructuring process was described in clause 0.

8.9. Other liabilities

Liabilities – carrying amount	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Liabilities due to direct insurance	520,408	484,004	422,505	371,199
Liabilities due to reinsurance	81,728	39,674	60,606	26,959
Liabilities to credit institutions	199,109	122	4,795,201	4,780,108
Other liabilities	1,888,525	608,279	357,332	795,786
Total Liabilities	**2,689,770**	**1,132,079**	**5,635,644**	**5,974,052**

Other liabilities	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Liabilities to the state budget, other than corporate income tax	18,888	18,234	13,555	23,288
Regulatory liabilities: to ZUS, PFRON, ZFŚS and other	30,384	23,895	40,506	45,200
Due to acquired securities	1,640,283	396,604	14,536	436,533
Investment fund liabilities	-	-	105,611	40,719
Estimated liabilities	66,929	90,509	76,853	145,321
Trade liabilities	45,670	10,050	3,591	9,470
Other	86,371	68,987	102,680	95,255
Total other liabilities	**1,888,525**	**608,279**	**357,332**	**795,786**

8.10. Accruals and deferred income

Accruals and deferred income	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Accrued expenses, including:	407,993	474,272	383,922	464,126
- accrued costs of agency commissions	165,408	164,331	182,864	174,814
- accrued payroll costs	79,451	115,410	41,846	94,916
- accrued costs and revenue from reinsurance	73,169	64,917	64,107	74,847
- remuneration of intermediaries in work establishments	21,856	19,507	20,718	19,523
- provision for paid vacation	45,972	39,386	47,278	38,633
- accrued employee bonuses	15,691	58,075	17,260	50,966
- other	6,446	12,646	9,849	10,427
Deferred income	7,944	7,871	3,397	4,623
Total accruals and deferred income	**415,937**	**482,143**	**387,319**	**468,749**

8.11. Gross written premiums

Gross written premiums	1 January – 31 March 2011	1 January – 31 March 2010
Gross written premiums in property and casualty insurance	2,316,671	2,199,304
In direct insurance	2,308,786	2,191,611
In indirect insurance	7,885	7,693
Gross written premiums in life insurance	1,660,213	1,605,469
Individual premiums	592,859	564,320
In direct insurance	592,859	564,320
In indirect insurance	-	-
Group insurance premiums	1,067,354	1,041,149
In direct insurance	1,067,354	1,041,149
In indirect insurance	-	-
Total gross written premiums	**3,976,884**	**3,804,773**

8.12. Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2011	1 January – 31 March 2010
Pension insurance	**66,008**	**54,942**
Commission on handling fees	28,928	22,216
Commission on assets management for open pension fund	37,043	32,715
Commission on transfer payments	37	11
Investment contracts	**5,967**	**4,255**
Revenue from fees relating to investment contracts for the client's account and risk	5,967	4,255
Other	**6,298**	**3,435**
Revenue and payments received from funds and mutual fund management companies	6,298	3,435
Total revenue from commissions and fees	**78,273**	**62,632**

8.13. Net investment income

Net investment income	1 January – 31 March 2011	1 January – 31 March 2010
Interest income, including:	411,916	449,229
- financial assets available for sale	86,347	86,384
- financial assets held to maturity	295,460	324,698
- loans	30,109	37,829
- cash and cash equivalents	-	318
Dividend income, including:	340	-
- financial assets classified as instruments measured at fair value through profit or loss upon initial recognition	227	-
- financial assets held for trading	113	-
Income from investment property	6,497	6,223
Exchange differences, including:	(3,887)	(7,832)
- financial assets held to maturity	1,779	-
- loans	632	(2,644)
- Receivables, including under insurance contracts	(6,298)	(5,188)
Other, including:	(8,961)	(6,920)
- costs of investing activities	(4,557)	(2,939)
- investment property maintenance costs	(4,404)	(3,981)
Total net investment income	**405,905**	**440,700**

8.14. Net investment realization result and investment impairment charges

Net investment realization result and investment impairment charges	1 January – 31 March 2011	1 January – 31 March 2010
Net result on realization of investments	**(99,682)**	**163,976**
Financial assets measured at fair value through profit or loss - classified as such upon initial recognition, including:	(22,419)	20,657
- equity instruments	(1,339)	(2)
- debt securities	(21,080)	20,659
Financial assets held for trading, including	(26,406)	24,314
- equity instruments	(8,327)	32,767
- debt securities	(4,808)	4,980
- other	(13,271)	(13,433)
Financial assets available for sale, including:	(34,818)	126,367
- equity instruments	2,412	78,829
- debt securities	(37,230)	47,538
Financial assets held to maturity, including:	(205)	(67)
- debt securities held to maturity	(205)	(67)
Loans	-	5,738
Receivables, including under insurance contracts	(15,834)	(13,033)
Impairment charges	**(29,862)**	**(28,702)**
Financial assets available for sale, including:	-	(8,753)
- equity instruments	-	(8,753)
Receivables, including under insurance contracts	(29,862)	(19,949)
Total net realization result and investment impairment charges	**(129,544)**	**135,274**

8.15. Net change in the fair value of assets and liabilities measured at fair value

Net change in the fair value of assets and liabilities measured at fair value	1 January – 31 March 2011	1 January – 31 March 2010
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	65,828	112,852
- equity instruments	4,668	20,584
- debt securities	61,160	92,268
Financial instruments held for trading, including:	131,870	225,125
- equity instruments	92,232	165,178
- debt securities	26,523	45,809
- derivatives	13,115	14,138
Investment property	-	(4,146)
Net change in the fair value of assets and liabilities measured at fair value	**197,698**	**333,831**

8.16. Other operating revenue

Other operating revenue	1 January – 31 March 2011	1 January – 31 March 2010
Release of impairment charges for non-financial assets	4,354	11,291
Reinsurance commissions and share in reinsurers' profit	8,735	(3,035)
Consolidation of the Armatura Group	118,916	-
Revenues on the sales of products and merchandise in the Armatura Group	57,102	-
Other	15,826	17,638
Total other operating revenue	**204,933**	**25,894**

8.17. Net insurance claims

Insurance claims	1 January – 31 March 2011	1 January – 31 March 2010
Claims and change in technical provisions – property and casualty insurance	1,193,541	1,356,374
Reinsurers' share in claims and change in technical provisions –property and casualty insurance	(3,028)	22,172
Claims and change in technical provisions – life insurance	1,210,315	1,095,718
Reinsurers' share in claims and change in technical provisions –life insurance	-	-
Total insurance claims	**2,400,828**	**2,474,264**

8.18. Claims and change in measurement of investment contracts

Claims and change in measurement of investment contracts	1 January – 31 March 2011	1 January – 31 March 2010
Resulting from investment contracts with guaranteed and fixed terms and conditions	21,588	22,222
- interest expenses calculated using the effective interest rate	21,588	21,980
- embedded options	-	242
Resulting from unit-linked investment contracts for client's account and risk	14,051	40,565
Total claims and change in measurement of investment contracts	**35,639**	**62,787**

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

Claims handling, acquisition and administrative costs, by type	1 January – 31 March 2011	1 January – 31 March 2010
Consumption of materials and energy	20,254	26,456
External services	131,550	140,463
Taxes and charges	26,128	24,595
Employee expenses	356,864	380,987
Depreciation of property, plant and equipment	23,238	30,830
Amortization of intangible assets	11,574	10,896
Other (by type), including:	392,737	356,823
- direct business commission	332,851	290,865
- advertising	14,293	14,465
- change in capitalized acquisition costs	(27,525)	(29,501)
- remuneration of group insurance administrators in work establishments	54,276	53,195
- other	18,842	27,799
Total claims handling, acquisition and administrative costs	**962,345**	**971,050**

8.20. Other operating expenses

Other operating expenses	1 January – 31 March 2011	1 January – 31 March 2010
Insurance Guarantee Fund	7,112	5,003
National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	22,186	23,841
Obligatory fees to insurance market institutions	15,188	17,721
Expenditures for prevention activity	5,512	8,650
Product manufacturing and merchandise purchase costs in the Armatura Group	41,174	-
Other	40,132	15,910
Total other operating expenses	**131,304**	**71,125**

9. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Contingent assets, including:	4,528	4,528	3,399	3,699
Guarantees and sureties received	4,528	4,528	3,399	3,699
Contingent liabilities	88,163	136,699	77,548	1,000,074,157
Guarantees and sureties issued	7,183	8,543	6,158	7,714
Disputable claims related to insurance	55,510	64,426	47,741	1,000,045,496
Other disputable claims	24,536	62,704	22,585	19,865
Other	934	1,026	1,064	1,082

10. Commentary to the condensed consolidated interim financial statements

10.1. Summary

- Gross written premium in the PZU Group grew due to the increase of sales in both insurance segments. In the property and casualty insurance segment, the increase in gross written premium was recorded for mass client products, mainly motor insurance, while in the life insurance segment growth occurred in group and individual insurance.
- Investment income decreased significantly in connection with the change in valuation of debt securities (an increase in bond yields) and worse situation on the Warsaw Stock Exchange than in the previous year.
- Net claims YTD were lower than in Q1 of the previous year due to the improved loss ratio in property and agricultural insurance (mild winter - in Q1 2010, snow damage amounted to PLN 161.2 million and in Q1 2001 a provision was established for the consequences of winter damage to plants in the amount of PLN 80 million, improved loss ratio in motor insurance), while the loss ratio in life insurance increased as expected;
- Operating expenses were maintained at the level similar to Q1 2010. Acquisition costs increased in connection with:
  - higher sales;
  - changes in the management of the sales network;
  - growing contribution of more expensive distribution channels (such as agents and multiagencies) at the expense of automatic renewals.

- Administrative costs were cut by PLN 34.3 million as compared to Q1 2010, which resulted from the implemented costs saving programs: headcount restructuring and fixed cost cuts.
- The rules for recognizing written premium revenues changed: now they are recognized on the date of the agreement, instead of the insurance coverage beginning date; this change does not affect the consolidated financial result or the consolidated net assets of the PZU Group. For a detailed description, please see clause 4.1.
- Since 1 January 2011, a new activity based costing methodology was implemented in PZU for allocating indirect costs; the methodology is based on the company's structure and its internal processes. It does not change the sum of the costs, but results in shifts between cost categories and insurance products. For a detailed description, please see clause 4.2.1.
- Since 1 January 2011, PZU Życie changed the model for allocating indirect costs to respective insurance products to activity-based costing. For a detailed description, please see clause 4.2.2.
- Non-recurring impact of consolidating the Armatura Group in the amount of PLN 118.9 million increased the financial result through other operating revenue. For a detailed description, please see clause 7.1.
- The net result of the PZU Group in Q1 2011 was slightly lower than in 2010 (-2.0%), while the result on insurance activity improved and result on investment activity deteriorated.

10.2. Comments

Gross written premium in Q1 2011 was PLN 3,976.9 million as compared to PLN 3,804.8 million the year before (pro-forma, since the premium recognition methodology changed in PZU on 1 January 2011). The increase of PLN 172.1 million (+4.5%) was caused by higher premiums written in PZU Group's mass segment.

Investment income for Q1 2011 and Q1 2010 was PLN 474.1 million and PLN 909.8 million, respectively. The decrease by PLN 435.7 million resulted mainly from the detrimental trend on the treasury securities markets and lower growth of stock prices. The lower result on investment activity was also affected by the difference resulting from transferring part of the revaluation capital to the accounting result after the securities sale transactions performed in the period. The additional impact resulted from lower interest income due to a decrease of the average size of the debt securities portfolio associated with dividend payments.

The decrease of net claims by PLN 73.4 million (-3.0%) results from the absence of claims caused by catastrophic events in the property and casualty insurance segment, as compared to Q1 2010. Lower loss ratio in property, non-motor and agricultural insurance was partially compensated by the expected increase in loss ratio in life insurance.

In the first quarter of 2011, acquisition costs increased by PLN 28.2 million (6.4%) compared to the same period of 2010. The increase was mainly due to higher sales and greater use of more expensive distribution channels.

The PLN 34.3 million decrease in administrative expenses (-9.4%) was largely a consequence of the restructuring activities conducted in PZU Group companies, including the headcount restructuring program implemented in PZU and PZU Life in 2010 and the fixed cost reduction program. In addition to payroll expenses, the Group managed to reduce in particular IT costs, and costs of administrative materials and services and real property maintenance costs.

A change in the balance of other operating revenue and expenses in Q1 2011 reached PLN 118.9 million, marking an improvement from PLN 45.2 million in Q1 2010 to PLN 73.6 million in Q1 2011. The change resulted primarily from the consolidation of the Armatura Group using the full method in PZU Group's consolidated financial statements. This fact resulted in a non-recurring income of PLN 118.9 million.

Operating profit in Q1 2011 was PLN 962.2 million, PLN 67.0 million (-6.5%) less than in the same period of the previous year, which was primarily due to lower income on PZU Group's investment activity. Compared to Q1 2010, net profit fell PLN 16.2 million (-2%), down to PLN 791.2 million. The lower decline in net profit was caused by the decrease of financial costs associated with the repayment, on 22 April 2010, of liabilities on sell-buy back transactions in the amount of PLN 4,806.8 million concluded to finance the interim dividend payment in 2009.

As at 31 March 2011, consolidated equity, according to IFRS, was PLN 13.734,7 million compared to PLN 12.053,3 million as at 31 March 2010. As at 31 March 2011, return on equity (ROE) was 23.9%, down by 3.8 pp compared with the same period in 2010. Vis-a-vis 31 December 2010, consolidated equity increased by PLN 934.8 million (7.3%), while ROE increased from 20.3% by 3.6 p.p.

Financial assets as at 31 March 2011 and 31 March 2010 were PLN 47,411.9 million and PLN 47,409.5 million, respectively. Compared to 31 December 2010, net assets increased by PLN 2,066.9 million from PLN 45,345.0 million. This change was mainly due to the increase of treasury debt securities portfolio.

Other liabilities (other than technical provisions) were PLN 7,892.0 million and PLN 9,452.8 million, respectively, as at 31 March 2011 and as at 31 March 2010. The decline by PLN 1,560.8 million was caused primarily by the decrease of liabilities to credit institutions associated with the repayment, on 22 April 2010, of liabilities on sell-buy back transactions in the amount of PLN 4,806.8 million concluded to finance the interim dividend payment in 2009. This reduction was offset to a significant extent by the increase in liabilities under investment contracts with guaranteed and fixed terms and conditions. Compared to 31 December 2010, other liabilities increased by PLN 1,844.3 million.

11. 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 2010.

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

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

Calculation of shareholder funds to cover the solvency margin	31 March 2011	31 December 2010	31 March 2010	31 December 2009
PZU equity	**12,409,924**	**11,902,186**	**10,895,053**	**10,411,542**
Intangible assets	(63,192)	(63,526)	(51,713)	(49,560)
Value of shares in insurance companies held by the PZU insurance capital group	(6,741,493)	(6,599,272)	(7,838,738)	(7,463,664)
Deferred income tax assets	(277,533)	(276,036)	(208,609)	(213,126)
Contribution of other insurance companies in the PZU insurance capital group to PZU's shareholder funds:	**5,080,265**	**4,630,089**	**6,353,698**	**5,576,452**
PZU Życie SA 100.00%	5,067,373	4,534,446	6,368,093	5,584,807
Own funds	6,727,364	6,232,554	7,951,069	7,223,775
Solvency margin	1,659,991	1,698,108	1,582,976	1,638,968
Surplus of shareholder funds to cover the solvency margin	5,067,373	4,534,446	6,368,093	5,584,807
UAB DK PZU Lietuva 99.76%	13,785	12,313	4,598	6,792
Own funds	42,049	40,117	35,474	39,638
Solvency margin	28,231	27,774	30,865	32,830
Surplus of shareholder funds to cover the solvency margin	13,818	12,343	4,609	6,808
PrJSC PZU Ukraine 100.00%	(5,672)	76,701	(10,852)	(11,654)
Own funds	11,173	93,131	3,471	1,697
Solvency margin	16,845	16,430	14,323	13,351
Surplus/shortage of equity to cover the solvency margin	(5,672)	76,701	(10,852)	(11,654)
Other insurance companies	4,779	6,629	(8,141)	(3,493)
PZU shareholder funds	**10,407,971**	**9,593,441**	**9,149,691**	**8,261,644**
PZU solvency margin	1,333,798	1,338,798	1,333,798	1,338,798
PZU indemnity capital	444,599	446,266	444,599	446,266
Surplus of shareholder funds to cover the solvency margin	**9,074,173**	**8,254,643**	**7,815,893**	**6,922,846**
Surplus of shareholder funds to cover the indemnity capital	**9,963,372**	**9,147,175**	**8,705,092**	**7,815,378**

12. Segment Reporting

IFRS 8 requires that operating segments be identified based on internal reports, which are regularly reviewed by the bodies responsible for the allocation of resources to individual segments and for evaluating their performance.

By using the criterion of products and services offered by the consolidated PZU Group companies, the following operating segments were identified:

- property and casualty insurance;
- life insurance;
- pension insurance.

Considering the unique nature of the individual segments, no segments were combined.

The accounting principles used for segment reporting purposes are the same as those described in clause 0.

Financial data of the pension insurance segment did not reach the limits defined in item 13 of IFRS 8, but due to their separate nature and the internal financial reporting system used in the PZU Group, they were presented separately.

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

- Poland;
- Lithuania;
- Ukraine.

All economic transactions concluded between both operating and geographic segments are concluded at arm's length.

Profit and loss account by operating segments 1 January – 31 March 2011	Property and casualty insurance	Life insurance	Pension insurance	Not allocated (consolidation adjustments and other)	Consolidated value
Gross externally written insurance premium	2,316,671	1,660,213	-	-	3,976,884
Gross insurance premium written between segments	222	-	-	(222)	-
Reinsurers' share in gross written insurance premium	(110,544)	(1,691)	-	-	(112,235)
Net written premium, including:	**2,206,349**	**1,658,522**	**-**	**(222)**	**3,864,649**
Net externally written insurance premium	2,206,127	1,658,522	-	-	3,864,649
Net insurance premium written between segments	222	-	-	(222)	-
Change in the balance of the net provision for unearned premiums	(295,646)	3,221	-	(90)	(292,515)
Net earned premium	**1,910,703**	**1,661,743**	**-**	**(312)**	**3,572,134**
Revenue from commissions and fees	-	-	66,008	12,265	78,273
Net investment income (external operations)	196,688	175,627	3,429	30,161	405,905
Net investment income (operations between segments)	213	107	-	(320)	-
Net result on the realization of investments and impairment charges	(80,029)	(25,477)	-	(24,038)	(129,544)
Net change in the fair value of assets and liabilities measured at fair value	17,311	156,332	-	24,055	197,698
Other operating revenue	31,398	19,195	4	154,336	204,933
Claims and change in technical provisions	(1,193,609)	(1,210,288)	-	41	(2,403,856)
Claims and movements in insurance liabilities ceded to re-insurers	3,028	-	-	-	3,028
Net insurance claims	**(1,190,581)**	**(1,210,288)**	**-**	**41**	**(2,400,828)**
Claims and change in measurement of investment contracts	-	-	-	(35,639)	(35,639)
Acquisition costs	(368,394)	(73,360)	(11,082)	(17,679)	(470,515)
Administrative costs	(151,066)	(152,321)	(20,325)	(5,249)	(328,961)
Other operating expenses	(60,367)	(31,789)	(116)	(39,032)	(131,304)
Operating profit (loss)	**305,876**	**519,769**	**37,918**	**98,589**	**962,152**
Financial expenses	609	-	-	(905)	(296)
Gross profit (loss)	**306,485**	**519,769**	**37,918**	**97,684**	**961,856**
Income tax	(63,936)	(97,870)	(7,315)	(1,500)	(170,621)
Net profit (loss)	**242,549**	**421,899**	**30,603**	**96,184**	**791,235**

Profit and loss account by operating segments 1 January – 31 March 2010	Property and casualty insurance	Life insurance	Pension insurance	Not allocated (consolidation adjustments and other)	Consolidated value
Gross externally written insurance premium	2,199,304	1,605,469	-	-	3,804,773
Gross insurance premium written between segments	566	-	-	(566)	-
Reinsurers' share in gross written insurance premium	(86,315)	(537)	-	-	(86,852)
Net written premium, including:	**2,113,555**	**1,604,932**	**-**	**(566)**	**3,717,921**
Net externally written insurance premium	2,112,989	1,604,932	-	-	3,717,921
Net insurance premium written between segments	566	-	-	(566)	-
Change in the balance of the net provision for unearned premiums	(275,194)	1,832	-	5	(273,357)
Net earned premium	**1,838,361**	**1,606,764**	**-**	**(561)**	**3,444,564**
Revenue from commissions and fees	-	-	54,942	7,690	62,632
Net investment income (external operations)	189,993	222,217	5,060	23,430	440,700
Net investment income (operations between segments)	364	(243)	-	(121)	-
Net result on the realization of investments and impairment charges	39,458	63,105	-	32,711	135,274
Net change in the fair value of assets and liabilities measured at fair value	43,073	239,213	-	51,545	333,831
Other operating revenue	11,557	23,437	403	(9,503)	25,894
Claims and change in technical provisions	(1,356,394)	(1,095,745)	-	47	(2,452,092)
Claims and movements in insurance liabilities ceded to re-insurers	(22,172)	-	-	-	(22,172)
Net insurance claims	**(1,378,566)**	**(1,095,745)**	**-**	**47**	**(2,474,264)**
Claims and change in measurement of investment contracts	-	-	-	(62,787)	(62,787)
Acquisition costs	(335,623)	(76,926)	(12,234)	(17,519)	(442,302)
Administrative costs	(175,543)	(167,771)	(20,963)	1,027	(363,250)
Other operating expenses	(59,268)	(34,566)	(39)	22,748	(71,125)
Operating profit (loss)	**173,806**	**779,485**	**27,169**	**48,707**	**1,029,167**
Financial expenses	(47,019)	-	-	-	(47,019)
Gross profit (loss)	**126,787**	**779,485**	**27,169**	**48,707**	**982,148**
Income tax	(27,000)	(143,742)	(5,131)	1,137	(174,736)
Net profit (loss)	**99,787**	**635,743**	**22,038**	**49,844**	**807,412**

1 January – 31 March 2011 and as at 31 March 2011	Property and casualty insurance	Life insurance	Pension insurance	Not allocated (consolidation adjustments and other)	Consolidated value
Segment assets, including:	**22,723,107**	**27,118,593**	**378,304**	**3,420,560**	**53,640,564**
Deferred income tax assets	899	-	2,751	12,338	15,988
Entities measured by the equity method	-	-	-	-	-
Liabilities	**16,083,344**	**19,861,863**	**44,828**	**3,915,851**	**39,905,886**
Capital expenditures during the period*	6,942	6,139	-	1,777	14,858
Depreciation in the period*	(20,563)	(14,353)	(113)	(6,916)	(41,945)
Asset impairment charges*	-	-	-	-	-
Reversals of asset impairment charges*	1,717	2,637	-	-	4,354

* applies to intangible assets and property, plant and equipment

1 January – 31 December 2010 and as at 30 December 2010	Property and casualty insurance	Life insurance	Pension insurance	Not allocated (consolidation adjustments and other)	Consolidated value
Segment assets, including:	**21,333,554**	**26,191,364**	**347,159**	**2,798,480**	**50,670,557**
Deferred income tax assets	940	-	3,320	12,385	16,645
Entities measured by the equity method	-	-	-	-	-
Liabilities	**14,963,924**	**19,385,748**	**43,443**	**3,477,516**	**37,870,631**
Capital expenditures during the period*	102,566	97,788	326	10,156	210,836
Depreciation in the period*	(90,114)	(61,118)	(532)	(18,607)	(170,371)
Asset impairment charges*	(2,137)	(915)	-	-	(3,052)
Reversals of asset impairment charges*	3,623	8,073	-	-	11,696

* applies to intangible assets and property, plant and equipment

1 January – 31 March 2010 and as at 31 March 2010	Property and casualty insurance	Life insurance	Pension insurance	Not allocated (consolidation adjustments and other)	Consolidated value
Segment assets, including:	**23,182,112**	**27,280,525**	**381,486**	**1,733,377**	**52,577,500**
Deferred income tax assets	749	-	4,090	19,236	24,075
Entities measured by the equity method	-	-	-	-	-
Liabilities	**19,186,083**	**18,927,614**	**36,806**	**2,373,748**	**40,524,251**
Capital expenditures during the period*	29,091	32,452	2	7,977	69,522
Depreciation in the period*	(21,851)	(16,138)	(139)	(4,995)	(43,123)
Asset impairment charges*	(827)	-	-	-	(827)
Reversals of asset impairment charges*	566	7,804	-	-	8,370

* 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)	-
Revenue from commissions and fees	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 measured 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

As at 31.12.2010	Poland	Lithuania	Ukraine	Not allocated (consolidation adjustments and other)	Consolidated value
Other non-current assets other than financial instruments*	1,084,751	9,533	7,043	(1,849)	1,099,478
Deferred income tax assets	15,705	-	940	-	16,645
Assets	**50,726,758**	**228,924**	**187,409**	**(472,534)**	**50,670,557**

* applies to intangible assets and property, plant and equipment

1 January – 31 March 2010 and as at 31 March 2010	Poland	Lithuania	Ukraine	Not allocated (consolidation adjustments and other)	Consolidated value
Gross externally written insurance premium	3,748,215	35,178	21,380	-	3,804,773
Gross insurance premium written between segments	1,840	-	-	(1,840)	-
Revenue from commissions and fees	62,632	-	-	-	62,632
Net investment income	436,478	2,871	1,351	-	440,700
Net result on the realization of investments and impairment charges	135,203	71	-	-	135,274
Net change in the fair value of assets and liabilities measured at fair value	332,692	1,139	-	-	333,831
Other non-current assets other than financial instruments*	1,102,290	9,347	7,606	(2,051)	1,117,192
Deferred income tax assets	23,326	-	749	-	24,075
Assets	**52,590,182**	**244,875**	**77,963**	**(335,520)**	**52,577,500**

* applies to intangible assets and property, plant and equipment

13. Commentary to Segment Reporting

13.1. Property and casualty insurance

As of 1 January 2011, a change was made in which written premium revenues are recognized on the date of signing the insurance contract, instead of the insurance liability starting date, as described in clause **Błąd! Nie można odnaleźć źródła odwołania.**.

The change has not affected the consolidated financial result or consolidated net assets of the PZU Group.

Gross written premiums recognized after the agreement date and liability date in the property and casualty insurance segment in Q1 2011 and Q1 2010 were, respectively:

Premiums recognized according to the policy date:

Gross written premium by product groups	1 January – 31 March 2011	1 January – 31 March 2010	% change
TPL motor insurance, including:	689,373	633,324	8.8%
- individual*	580,595	523,003	11.0%
- corporate	108,778	110,321	-1.4%
MOD insurance, including:	581,620	538,001	8.1%
- individual*	416,342	359,781	15.7%
- corporate	165,278	178,219	-7.3%
Total motor insurance	1,270,994	1,171,325	8.5%
Insurance against fire and other damage to property	621,437	605,607	2.6%
Other liability insurance (groups 11, 12, 13)	185,494	179,988	3.1%
ADD and other insurance **	178,984	188,232	-4.9%
Total property and casualty insurance without motor insurance	985,915	973,827	1.2%
Total PZU	**2,256,909**	**2,145,152**	**5.2%**
Foreign companies and exclusions from consolidation	59,762	54,152	10.4%
Total non-life segment	**2,316,671**	**2,199,304**	**5.3%**

** including SMEs*

*** this item includes loan guarantees and other financial insurance, assistance, travel, maritime, railway and air insurance.*

Premiums recognized according to the insurance liability date:

Gross written premium by product groups	1 January – 31 March 2011	1 January – 31 March 2010	% change
TPL motor insurance, including:	750,304	688,971	8.9%
- individual*	627,922	575,382	9.1%
- corporate	122,382	113,589	7.7%
MOD insurance, including:	591,356	537,095	10.1%
- individual*	418,434	355,950	17.6%
- corporate	172,922	181,144	-4.5%
Total motor insurance	1,341,661	1,226,066	9.4%
Insurance against fire and other damage to property	651,771	635,583	2.5%
Other liability insurance (groups 11, 12, 13)	221,808	207,930	6.7%
ADD and other insurance **	173,607	198,588	-12.6%
Total property and casualty insurance without motor insurance	1,047,186	1,042,102	0.5%
Total PZU	**2,388,847**	**2,268,168**	**5.3%**
Foreign companies and exclusions from consolidation	59,984	54,718	9.6%
Total non-life segment	**2,448,831**	**2,322,886**	**5.4%**

** including SMEs*

*** this item includes loan guarantees and other financial insurance, assistance, travel, maritime, railway and air insurance.*

The increase in gross written premium by PLN 117.4 million (+5.3%) in the property and casualty insurance resulted from higher motor insurance sales, in particular in the mass client segment. The high sales resulted primarily from price hikes in motor insurance, which translated in higher average premiums, but also from the situation on the insurance markets (most of the competitors increased their prices more than PZU, which contributed to the better pricing position of PZU).

In addition to motor insurance, premiums increased as compared to the previous year also in property insurance, mainly in residential insurance (+PLN 7.3 million, 7.3% growth rate), building insurance (+PLN 3.1 million, 33.1% growth) and other liability insurance, mainly physicians liability insurance (+PLN 4.2 million, 23.7% growth) and professional liability insurance (+PLN 3.4 million, 271.4% growth)

The lower premiums acquired in accident and other insurance is related mainly to the decrease in the insurance of cash loan borrowers (a decline of PLN 4.7 million, i.e. 73.8% yoy) and financial insurance (decline of PLN 4.3 million, i.e. 80.8%).

As of 2011, the rules for classifying gross written premium have changed, which however does not affect net earned premium, since the recognition is deferred through provision for unearned premiums.

In Q1 2011, net claims paid in the property insurance segment were 1,190.6 million, down by PLN 188.0 million (-13.6%) from Q1 2010. This was due to improved loss ratio in motor and agricultural products (due to a milder winter).

A visible reduction of disbursements was recorded in MOD and motor TPL insurance for corporate clients as a result of a smaller portfolio and changes in the underwriting policy (recuperation of the insurance portfolio). In motor insurance for mass clients, claims paid decreased in motor TPL insurance, while increasing in MOD insurance. Loss ratios improved in both TPL and MOD insurance for mass clients. Lower disbursements in property, agricultural and other TPL insurance are mainly due to snow damage in 2010. At the same time, in 1Q 2011, claims under agricultural insurance associated with winter damage to plants arose, for which a provision of PLN 80.0 million was established.

Investment income for Q1 2011 and Q1 2010 was PLN 134.2 million and PLN 272.9 million, respectively. The decrease by PLN 138.7 million was mainly due to a lower growth of stock prices and the detrimental trend on the treasury securities market.

Acquisition cost in the property and casualty insurance segment in Q1 2011 and Q1 2010 was PLN 368.4 million and PLN 335.6 million, respectively. The recorded increase in acquisition costs was related to:

- higher sales;
- changes in the management of the sales network;
- growing contribution of more expensive distribution channels (such as agents and multiagencies) at the expense of automatic renewals.

In Q1 2011, administrative costs decreased by PLN 24.5 million (13.9%), mainly due to the continuation of the restructuring processes implemented in the PZU Group. In addition to the staff reduction process completed in 2010, the Company is implementing the fixed cost optimization program, which has contributed to the reduction of expenses associated with, among others, maintenance of IT systems, administrative materials and services and maintenance of properties.

Starting from the beginning of 2011, PZU introduced a new methodology for allocating indirect costs, activity-based costing (ABC), which is based on the company's organizational structure and its internal processes. The ABC costing methodology results in shifts between accounting categories (including acquisition costs, administrative costs) and insurance products, but does not affect the financial result in any way. The ABC methodology facilitates a more precise recognition of product costs and provides more accurate information on the technical profitability of individual products. In particular, introduction of this methodology will reduce administrative costs, increase indirect acquisition cost and slightly raise the claims handling costs. This report contains comparable data for 2010 calculated using the new allocation method.

Operating profit in the property and casualty insurance segment in Q1 2011 and Q1 2010 was PLN 305.9 million and PLN 173.8 million, respectively. The increase of PLN 132.1 million (76.0%) resulted mainly from lower claims (catastrophic losses in property and agricultural insurance and a higher loss ratio in motor insurance) and an increase in net earned premium.

These factors contributing to the improvement of the operating result in property and casualty insurance in Q1 2011 and absence of the interim dividend financing costs associated with the repayment of liabilities on the sell-buy back transaction (PLN 47.0 million) increased the segment's net result by 143.1% up to PLN 242.5 million.

13.1.1.Impact of non-recurring events on operating results

No non-recurring events took place in the property insurance segment in Q1 2011. In the comparable period of the previous year, claims related to high snowfall occurred; at that time, net claims of approximately PLN 161 million were paid or provisioned.

13.1.2.New products

As of 1 March 2011, changes were introduced in motor insurance tariffs for individuals and SMEs.

With regard to property insurance, as of 1 February 2011, a new version of PZU DOM and PZU DOM Plus residential insurance was launched, which includes, among others, the PZU Pomoc w domu (assistance at home) insurance. Additionally, since the beginning of 2011, the "Bądź z Nami 2011" (Be With Us 2011) promotion campaign is conducted to support the sale of new residential insurance, in particular apartment and house insurance.

In casualty insurance, as of 1 March 2011, PZU launched the Wojażer - PZU Pomoc w Podróży insurance (Voyager – PZU Travel Assistance) which comprises medical treatment insurance and assistance for people traveling in Poland and abroad.

The insurance may be extended as needed to include additional assistance services and additional risks. At the same time, 5 products were withdrawn from the offer, since their coverage has now been included in the Wojażer - PZU Pomoc w Podróży product.

In the compulsory subsidized insurance for agricultural crops, new rules were introduced for concluding this insurance in the Spring 2011 season.

From January to March 2011, no new products for corporate clients were launched. The only changes that took place in that period were product modifications as required by the Office of Competition and Consumer Protection.

13.2. Life insurance

Gross written premium by product groups – life insurance	1 January – 31 March 2011	1 January – 31 March 2010	% change
Group insurance	1,067,354	1,041,149	2.5%
Individual insurance, including:	592,859	564,320	5.1%
- insurance continued individually	456,114	447,182	2.0%
- other individual insurance	136,745	117,138	16.7%
Total	**1,660,213**	**1,605,469**	**3.4%**

Gross written premium by payment type – life insurance	1 January – 31 March 2011	1 January – 31 March 2010	% change
Regular premium	1,624,114	1,584,487	2.5%
Single premium	36,099	20,982	72.0%
Total	**1,660,213**	**1,605,469**	**3.4%**

The increase in gross written premium by PLN 54.7 million (3.4%) was to the same extent due to developments in group insurance (+PLN 26.2 million, yoy growth 2,5%) and individual insurance (+PLN 28.5 million, yoy growth 5.1%).

In group insurance, this was the effect of:

- growing number of insureds (yoy growth 1.2%) and higher average premium (yoy growth 2.5%) in group protection insurance,
- higher premium obtained from employee pension plans (yoy growth 7.5%),
- higher premium in health insurance concluded in the group form (yoy growth 7.8%),

At the same time, lower sale volumes of group endowment insurance through the bancassurance channel were recorded (-21.4% yoy).

In individually continued insurance, premium growth was achieved mainly by up-selling additional insurance (20.6% yoy growth).

In individual insurance, premium increased as a result of:

- high sales of the Plan na Życie (Plan for Life) savings and investment product with a protective element and regular premium;
- introduction of PZU Ochrona Rodziny (PZU Protection of Family), a new protection product with regular premium;
- another subscription of the Świat Zysków (World of Profits) single premium insurance product and subscription of an individual structured product through the bancassurance channel (this product filled the gap resulting from lower sales of group bancassurance products).

The increase was partially offset by the gradual phasing-out of the portfolio of endowment insurance agreements concluded in the 1990s.

In Q1 2011, net claims paid and change in technical provisions amounted to PLN 1,210.3 million, up by PLN 114.5 million compared to Q1 2010. This change resulted from increased benefits and a decrease in provisions in Q1 2011 compared to the increase in Q1 2010. Key factors contributing to the level of this item include:

- slower growth of technical provisions in unit-linked insurance as a result of a worse situation on capital markets (-PLN 45.7 million);
- comparable rate of conversion of whole life agreements into yearly renewable term agreements in group protection insurance (the effect of releasing provisions in Q1 2011 was PLN 217.7 million compared to PLN 223.2 million in Q1 2010);
- controlled loss ratio consistent with expectations in protective group insurance resulting mainly from the higher frequency of events resulting from portfolio growth (especially riders). Additionally, claims in group protection insurance are not equally distributed between quarters, which however balances in longer periods;

- higher rate of reaching the endowment age in individual endowment insurance products concluded in 1990s and in group unit-linked bancassurance products (+PLN 42.6 million).

Investment income in Q1 2011 and Q1 2010 amounted to PLN 306.6 million and PLN 524.3 million, respectively. The PLN 217.7 million decrease of investment income resulted from worse situation in the capital markets compared to 2010 – lower growth rate of listed equity prices and unfavorable trend in the treasury securities market – as opposed to the strong growth of both equity prices and bond valuations in Q1 2010.

The decrease of investment income was additionally caused by decrease of interest income as a result of decreased value of the debt securities portfolio, term deposits and reverse repo transactions resulting from the dividend payout by PZU Życie in 2010.

Acquisition expenses in the life insurance segment in Q1 2011 and in Q1 2010 were PLN 73.4 million and PLN 76.9 million, respectively. The PLN -3.6 million (-4.6%) change resulted both from lower commissions and indirect acquisition expenses. The Company recorded decrease of commission costs primarily in bancassurance risk products and individual risk products (phasing-out of the endowment portfolio from the 1990s). These decreases were partly balanced out by increase of commissions paid in group risk products (increase pro rata to portfolio growth) and increase of commissions for the regular premium savings and investment product with a risk component, Plan na Życie, (high first-year commission) resulting from a high sales growth rate.

In Q1 2011 the life insurance segment recorded a decrease of administrative expenses by PLN 15.5 million (9.2%), which resulted from cost-saving measures (inter alia reduction of headcount in PZU Życie during 2010 and optimization of fixed costs).

Other net operating income and expenses in the life insurance segment in the first quarter of 2011 and 2010 were PLN -12.6 million and PLN -11.1 million, respectively. The PLN 1.5 million change in the balance of other net operating income and expenses resulted from higher expenditures on prevention activity, among other factors.

Operating profit in the life insurance segment in Q1 2011 decreased PLN 259.7 million (33.0%) compared to the corresponding period of 2010, primarily as a result of lower investment income.

13.2.1.Impact of non-recurring events on operating results

In the life insurance segment, both in the first quarter of 2011 and in 2010, no non-recurring events took place which could significantly impact the segment's operating result.

13.2.2.New products

In Q1 2011 PZU Życie extended the forms of sale of riders to type P individually continued insurance and type P Plus employee insurance to include mailing.

At the beginning of 2011 PZU Życie extended its individual insurance offering to include the PZU Ochrona Rodziny risk insurance. The product provides comprehensive cover for family members – parents and their children. As the insurance is offered as a bundle the client can easily match its shape to his/her own insurance needs. The agreement is available to clients who have selected individual products.

PZU Życie's response to continuing market interest in safe products offering profit potential was to offer the Świat Zysków structured insurance. Świat Zysków is an alternative or complements other investment products. In Q1 2011 two further subscription issues of the product with diversified investment strategies were carried out. Individual structured insurance is all the time available in PZU Życie's offering and further subscriptions are planned for the next quarters.

13.3. Investment contracts

Investment contracts executed by PZU Life are presented in the "Not allocated (consolidation adjustments and other)" segment. Investment contract accounting is conducted by applying the deposit method, as a consequence of which investment contract volumes do not constitute income according to IFRS.

Volumes under investment contracts by product group	1 January – 31 March 2011	1 January – 31 March 2010	% change
Group	131,523	12,300	969.3%
Individual, including:	253,486	219,059	15.7%
- individually continued	-	-	x
- other individual	253,486	219,059	15.7%
Total	**385,009**	**231,359**	**66.4%**

Volumes obtained on investment contracts	1 January – 31 March 2011	1 January – 31 March 2010	% change
Regular payments	1,987	1,832	8.5%
Single payment	383,022	229,527	66.9%
Total	**385,009**	**231,359**	**66.4%**

Volumes obtained on investment contracts in the first quarter of 2011 and 2010 were PLN 385.0 million and PLN 231.4 million, respectively. The PLN 153.6 million (66.4%) increase resulted primarily from higher sale of insurance in cooperation with Bank Millennium – endowment insurance ("Mega Zysk") and unit-linked insurance („Program Inwestycyjny Prestige") as well as higher sales of the Pewny Zysk endowment investment product distributed by sales and service outlets.

13.4. Activity in the area of Open-End Pension Funds

Revenues from fees and commissions in the pension insurance segment for Q1 2011 and Q1 2010 amounted to PLN 66.0 million and PLN 54.9 million, respectively. The PLN 11.1 million (20.1%) growth resulted mainly from increase of fees on premiums as the Social Security Company (ZUS) transferred higher premiums than in the corresponding period of 2010 and increase of management fees in connection with higher net assets of the Fund.

The decrease of acquisition expenses by PLN 1.2 million (9.4%) resulted, among other things, from lower commission costs and other acquisition expenses. PTE PZU's administrative expenses dropped PLN 0.6 million (3%), which resulted mainly from lower other costs of OFE PZU's operations, lower personnel costs and reduced costs of leased space.

Operating profit increased PLN 10.7 million (39.6%), which is attributable to: increase of revenues from fees and commissions, decrease of operating expenses and decrease of net income from financial investments.

As at the end of March 2011, approx. 2,201.8 thousand persons were members of the PZU Open-End Pension Fund (OFE PZU), which constitutes 14.4% of the total number of members of all existing open-end pension funds and gives OFE PZU third place 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 53.5 thousand, i.e. 2.5% (while the total number of members of all open-end pension funds increased by 4.9%).

At the end of March 2011 the total value of net assets of all OFEs in the market amounted to PLN 228,693.36 million and increased 19.3% in relation to the end of Q1 2010. OFE PZU's assets grew in this period by 18.1% to PLN 31,522.38 million. The increased assets were affected by premiums received from ZUS and by investment results. In the period from January to March 2011 ZUS transferred to OFE PZU premiums in the amount of PLN 827.99 million, nearly 30.3% more than in the corresponding period of 2010 (according to KNF data), and the rate of return amounted to 1.03%. Compared to 31 December 2010, the net assets of all funds in the market increased PLN 7,231.8 million and the net assets of OFE PZU increased PLN 1,009.9 million.

14. Macroeconomic environment

Monthly data on business activity in Q1 2011 indicate that a relatively high GDP growth rate in the range of 4% y-o-y will be maintained during this period, compared to 4.5% y-o-y in 4Q2010. Strong growth of retail sales in February, in nearly all categories, and continuing relatively high growth rate in March, reduced the concerns as regards maintaining the increased consumption growth rate from H2 2010. In Q1 2011 the upward trend in industrial production has strengthened in relation to the previous three months period, although its annual growth rate slightly weakened (monthly on average to 9.1% y-o-y in relation to 9.8% y-o-y in 4Q2010). After the clear January drop of construction and installation production adjusted for seasonal fluctuations (-2.2% m-o-m) in February and March it decisively improved – by 1.6% m-o-m and 3.1% m-o-m, respectively.

In Q1 2011 the consumption growth rate is likely to turn out slightly lower than in 4Q2010. The NBP market analysis in Q1 2011 has confirmed that capital expenditures in big enterprises increase. Also the data on deposits and loans in enterprises encourage hopes for certain moderate increase of private investments in this period. Public investments still clearly grow. In Q1 2011 economic growth should be still supported by the positive contribution of inventories and the scale of the negative impact of net exports on GDP should be smaller than in 4Q2010.

One can assess that the situation in the labor market in Q1 2011 has improved, despite increase of the average unemployment rate to 13.1%, 0.1 p.p. more than in the corresponding period last year. Still relatively high unemployment rate was caused by increase of professional activity and decrease of funds from the Labor Fund, resulting in reduction of subsidized jobs. However the average employment growth rate in enterprises in Q1 2011 significantly increased and was the highest since 3Q2008, amounting to 4.0% y-o-y. At the same time the growth rate of salaries in the enterprise sector remained moderate at the level of 4.3% y-o-y, unchanged from 4Q2010. However improvement of income-related consumption determinants was hindered by increasing inflation. The growth rate of real salaries in enterprises dropped in Q1 2011 to 0.5% y-o-y, compared to 1.4% y-o-y in 4Q2010. The consumer price index (CPI) increased in Q1 2011 on average to 3.8% y-o-y from 2.9% y-o-y one quarter before – mainly as a result of the global upward trend in fuel and food prices and increase of VAT rates. Also all base inflation measures, including net inflation (CPI without food and energy prices) have increased from 1.3% y-o-y in 4Q2010 to 1.7% y-o-y in Q1 2011. This was accompanied by clear increase of inflation expectations, so far without remuneration pressures. In Q1 2011 the Monetary Policy Council started a monetary policy tightening cycle, increasing the basic interest rates by 25 basis points in January. The reference rate increased to 3.75%.

The average yield on Polish treasury bonds in Q1 2011 was visibly higher than in 4Q2010, reflecting the processes on global bond markets which responded to the clear improvement of prospects for economic recovery and increase of inflation. At the same time equity prices grew during the period. Between the end of the previous year and the end of March, the WIG index grew 2.6%, and the WiG-20 index 2.7%. The PLN exchange rate in Q1 2011 was quite unstable. However PLN weakened in relation to EUR in Q1 2011 compared to the previous quarter. The EUR/PLN rate increased on average by approx. 0.5%, and between the end of 2010 and the end of Q1 2011 the scale of this weakening was higher and amounted to 1.3%. At the same time PLN strengthened in relation to US dollar, reflected in the decrease of the USD/PLN exchange rate in Q1 2011 on average by 5.0% and by 4.8% at the end of the quarter.

15. Management Board’s position on previously published result forecasts

PZU did not publish any standalone or consolidated result forecasts.

16. Specification of factors which may affect the financial results in the subsequent quarters

16.1. Property and personal insurance

It is possible that amended laws on the rules of valuation of capitalized annuity provisions in property and personal insurance which may be enacted still this year will result in a need to increase the level of prudence in valuating capitalized annuity provisions and, as a consequence, may require an increase in such provisions.

In connection with the coming into force, on 19 July 2010, of the Act on Pursuing Claims in Group Proceedings (Journal of Laws no. 7 of 2010, item 44), which facilitates the pursuit of indemnification by individuals, there is a risk that the number and value of claims reported by clients and injured persons will increase.

16.2. Life insurance

The most significant risk factors which may affect PZU Życie's results in the next quarters of 2011 include:

- Potential increase of competition in group insurance resulting from strengthening role of brokers in this segment and the requirement to invite tenders for group insurance by entities subject to the requirements of the Public Procurement Law;
- Changes in the financial intermediation market, stopped growth of popularity of independent financial consulting and resulting reduction in the number of sales channels for PZU Życie's products;
- 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 Company's level of technical rates and the European Embedded Value level;

16.3. Pension funds

The most significant factors which may affect PTE PZU's results in 2011 include:

- Further legislative changes, if any, impairing revenues and, to a lesser extent, decreasing costs,
- Active acquisition activity in the transfer market taken by competitive companies in H2 2011 until the statutory ban on acquisition is enacted may have negative impact on the value of the Fund's assets.

17. Significant events after the end of the reporting period

17.1. Selection of a PZU CEO and Management Board Members for the new term of office

This issue is described in item 23.3.

17.2. Planned amendments to PZU's Articles of Association

On 4 May 2011, at the request of the State Treasury, the PZU Management Board convened an Extraordinary Shareholder Meeting for 1 June 2011 the objective of which will be to adopt a resolution on amending PZU's Articles of Association.

The proposed amendments to PZU's Articles of Association pertain to the following issues:

- editorial amendments removing from the Articles of Association any transitory regulations pertaining to the periods before and after PZU entered the regulated market;
- restriction of the shareholders' voting right and adoption of the principles for aggregating and reducing votes;
- manner of appointing the Supervisory Board;
- specification of the entity whose rights under the shares are not restricted and the entity which will use the entitlement to name candidates for the PZU Supervisory Board.

The voting right restriction applies only to the shareholders who would intend to obtain a block of shares and exercise their voting right under the shares giving them a more than 10% stake in PZU's share capital. The proposed change affects the stability of exercise of the voting rights under the shares, which in turn discourages any actions leading to speculative trading in PZU shares, especially those that could lead to temporary investment decisions.

This change does not prevent the possibility of a strategic investor entering PZU, but links special rights to the largest block of shares held by a single investor. This entitlement is transitory and will expire upon fulfillment of the specified conditions.

17.3. Further restructuring of employment in the PZU Group

This issue is described in item 23.4.

17.4. Proposed distribution of the net profit earned in 2010 and change in PZU's dividend policy

This issue is described in item 20.

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

In the 3-month period ended 31 March 2011, PZU did not issue, redeem or repay any debt securities or equity securities.

19. Granting of loan sureties or guarantees by PZU or its subsidiaries

In the 3-month period ended 31 March 2011, neither PZU nor its subsidiaries granted any loan sureties or guarantees 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.

20. Dividends

With respect to profit for 2010 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 11 May 2011, the PZU Management Board adopted a resolution on PZU's dividend policy. The following assumptions for the dividend policy were made:

- the basis for determining the dividend to be paid by PZU SA for the relevant financial year will be the PZU SA Capital Group's consolidated financial result consistent with IFRS;
- the dividend amount:
  - may not be lower than 50% or higher than 100% of the consolidated net profit presented in the consolidated financial statements consistent with IFRS;
  - may not be higher than PZU's unconsolidated net profit presented in the unconsolidated financial statements consistent with PAS;
  - may not cause a decrease in PZU's shareholder funds below 250% of the solvency margin;
  - may not cause a decrease in the PZU Group's financial strength below a level equivalent to the AA rating under Standard & Poor's methodology;
  - should take into account additional capital needs of PZU over a 12-month time horizon following the adoption of the PZU Group's consolidated financial statements for the relevant year by the PZU Management Board.
- the shareholder funds and the solvency margin must be calculated in compliance with the prudential requirements established for the Polish insurance market.

Also on 11 May 2011, the PZU Management Board adopted a resolution on proposed distribution of the 2010 net profit of PLN 3,516,709 thousand by proposing that:

- PLN 2,245,160 thousand be disbursed as a dividend for the shareholders;
- PLN 1,271,549 thousand be allocated to reserve capital.

The final decision on the distribution of profit earned in 2010 will be made by PZU's Shareholder Meeting. If the Shareholder Meeting accepts the proposed distribution of the profit presented by the PZU Management Board, the dividend per share will be PLN 26.00.

21. Information on the shareholders of PZU

21.1. List of PZU shareholders with at least 5% of the votes at the Shareholder Meeting

As at the date of submission of this interim report, PZU's shareholder structure, taking into consideration the shareholders with at least 5% of the votes at the PZU Shareholder Meeting is as follows:

No.	Shareholder's name	Number of shares and votes	Percentage share in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	39,020,483	45.1875 %
2	Other shareholders	47,331,817	54.8125 %
Total		**86,352,300**	**100.0000 %**

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

In the period from 1 January 2011 to the date of submission of this interim report, no material changes have taken place in the ownership structure of significant shareholdings in the issuer's company.

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

No.	Corporate authority / Full name	Number of shares/rights to shares as at the date of submission of this interim report (i.e. 12 May 2011)	Number of shares/rights to shares as at the date of submission of the annual report for 2010 (i.e. 16 March 2011)	Resulting change during the period between the two dates
	Management Board			
1	Andrzej Klesyk	-	-	-
2	Witold Jaworski	-	-	-
3	Przemysław Dąbrowski	-	-	-
4	**Tomasz Tarkowski (*)**	80	80	-
	Group Directors			
1	Rafał Grodzicki	-	-	-
2	Dariusz Krzewina	-	-	-
3	Mariusz J. Sarnowski	-	-	-
4	**Krzysztof Dominik Branny**	30	30	-
	Supervisory Board			
1	Marzena Piszczek	-	-	-
2	Waldemar Maj	30	30	-
3	Piotr Kamiński	-	-	-
4	Grażyna Piotrowska-Oliwa	-	-	-
5	Zbigniew Ćwiąkalski	-	-	-
6	Krzysztof Dresler	-	-	-
7	Dariusz Filar	-	-	-
Total		**140**	**140**	-

* Tomasz Tarkowski held the position of Group Director from 1 February to 21 April 2011 and was appointed to the PZU Management Board on 21 April 2011.

22. 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 before the President of the Office for Competition and Consumer Protection (UOKiK), proceedings before the Financial Supervision Commission (KNF) and 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 Life.

PZU and PZU Life 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 Life, 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 2011 and until the date of submission of 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 and the value of which or the total value of which, as applicable, was at least 10% of PZU's equity.

As at 31 March 2011, the total value of all 21,001 cases pending before courts, arbitration bodies or public administration authorities and involving the PZU Group companies was PLN 1,392,235 thousand, of which PLN 968,296 thousand concerned liabilities and PLN 423,939 thousand concerned receivables of the PZU Group companies, i.e. 7.80% and 3.42% of PZU's equity, respectively, according to PAS.

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

On 9 April 2010, the Court of Arbitration served PZU Life with a statement of claim filed by CSC Computer Sciences Polska Sp. z o.o. ("CSC") against PZU Life to pay a total of EUR 8,437 thousand in connection with the implementation of the GraphTalk system in PZU Life. As a result of subsequent amendments to the statement of claim, CSC currently pursues payment of a total of PLN 37,144 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 Life 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 Life's opinion, CSC's claims are either groundless or have never been proven.

Together with the rejoinder to the statement of claim, PZU Life filed a counterclaim against CSC in which PZU Life demanded payment of PLN 71,890 thousand as a refund of the remuneration collected by CSC under the agreement entered into with PZU Life 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 Life's claim in its entirety, indicating the absence of grounds to accept PZU Life's claim.

Furthermore, on 21 December 2010, PZU Life 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.

22.2. Procedure conducted by the Office for Competition and Consumer Protection ("UOKiK") against PZU Life

On 1 June 2005, the President of the Office for Competition and Consumer Protection started, at the request of a few applicants, an anti-monopoly procedure in the matter of a suspicion of PZU Life'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 UOKiK imposed a fine on PZU Life in the amount of PLN 50,384 thousand for hindering clients from taking advantage of the offers of the company's competitors.

The PZU Life Management Board does not agree with the factual findings or with the legal arguments presented in the decision. The PZU Life Management Board is of the opinion that in rendering the decision UOKiK did not take into consideration the entire evidentiary material and made an incorrect legal qualification, and, as a consequence, groundlessly assumed that PZU Life has a dominating position on the market.

PZU Life 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 UOKiK were formulated in the appeal. On 31 May 2010, the Court rejected PZU Life's appeal based on the circumstance that the decision issued by the President of UOKiK on 25 October 2007 was improperly delivered to PZU Life and thus the prescription period for the submission of PZU Life'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 Life's appeal against the amount of the imposed penalty. On 6 May 2011, PZU Life filed an appeal against this judgment.

23. Other information

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

PZU and PZU Life are subject to regular evaluations by rating agencies. Ratings awarded to PZU and PZU Life 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 of the date of this interim report, PZU and PZU Life 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. On 5 July 2010, Standard & Poor's Ratings Services upheld this rating.

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)	5 July 2010	A (stable)	16 July 2009
Credit rating	A (stable)	5 July 2010	A (stable)	16 July 2009
PZU Life				
Financial strength rating	A (stable)	5 July 2010	A (stable)	16 July 2009
Credit rating	A (stable)	5 July 2010	A (stable)	16 July 2009

23.2. Decrease of the share capital of the PZU Group's insurance companies in Ukraine

On 10 March 2010 and 21 April 2010, PZU Ukraine and PZU Ukraine Life, respectively, received reports from the Ukrainian insurance regulatory authority on breaching license requirements by failing to adjust the amount of their net assets to the regulatory requirements pursuant to which net assets of an insurance company may not be lower than its share capital.

Accordingly, in 2010 the share capital of both companies was increased and the second stage of the capital restructuring process in both companies was the redemption of treasury stock for share retirement.

On 27 December 2010, the Extraordinary Shareholder Meetings of PZU Ukraine and PZU Ukraine Life adopted resolutions to redeem:

- 29,207,233 shares for a price lower than their par value (UAH 10), i.e. for UAH 7.19 per share;
- 167,989 shares for a price lower than their par value (UAH 100), i.e. for UAH 21.43 per share.

On 18 January 2011, PZU entered into:

- an agreement with PZU Ukraine to sell 29,207,233 shares for a price of UAH 7,19 per share, for a total value of UAH 210,000 thousand (the equivalent amount of USD 26,448 thousand (PLN 75,380 thousand) was received on 31 January 2011);
- an agreement with PZU Ukraine Life to sell 139,991 shares for a price of UAH 21.43 per share, for a total value of UAH 3,000 thousand (the equivalent amount of USD 378 thousand (PLN 1,077 thousand) was received on 31 January 2011).

On 2 February 2011, under the above agreements, PZU transferred the title to the shares to their buyers.

The remaining 27,998 PZU Ukraine Life shares earmarked for redemption were purchased from another shareholder, i.e. from PZU Ukraine (under an agreement entered into on 18 January 2011). As a result of this transaction, PZU did not lose the controlling stake in PZU Ukraine Life.

On 25 March 2011, the Extraordinary Shareholder Meetings of PZU Ukraine and PZU Ukraine Life adopted resolutions to redeem shares and decrease the share capital in:

- PZU Ukraine – redemption of the purchased 29,207,233 shares with a par value of UAH 10.00 each for the total par value of UAH 292,072 thousand and decrease in the company's share capital by the same amount, from UAH 308,226 thousand to UAH 16,154 thousand;
- PZU Ukraine Life – redemption of the purchased 167,989 shares with a par value of UAH 100.00 each for the total par value of UAH 16,799 thousand and decrease in the company's share capital by the same amount, from UAH 33,000 thousand to UAH 16,201 thousand.

Amendments to the articles of association of PZU Ukraine and PZU Ukraine Life resulting from the decrease in their share capital were registered on 28 March 2011, but the registration process ending in the issuance of a certificate by the regulatory authority is planned to be completed in May 2011.

23.2.1.Capital shortage in PZU Ukraine Life

PZU Ukraine Life, due to the decrease in its share capital and a subsequent significant increase in the EUR/UAH exchange rate, ceased to satisfy the requirement of a minimum share capital set by the Ukrainian Insurance Act for life insurance companies at EUR 1,500 thousand (equivalent to UAH 16,823 thousand at the EUR/UAH exchange rate of 31 March 2011, which meant a capital shortage of UAH 622 thousand as at that date).

On 18 April 2011, during a meeting of the PZU Ukraine and PZU Ukraine Life Supervisory Boards, a plan was presented for mutual recapitalization of both companies by an amount of approx. UAH 8,000 thousand, i.e. PZU Ukraine will subscribe for PZU Ukraine Life shares and vice versa. The deal will allow the fulfillment of license requirements without any additional commitment of PZU funds.

Extraordinary Shareholder Meetings of PZU Ukraine and PZU Ukraine Life have been convened for 27 May 2011 with the agenda including the adoption of resolutions in this matter.

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

23.3.1.PZU Management Board

As at 31 December 2010, 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.

In connection with the elapse, on 27 June 2011, of the three-year term of office of the current PZU Management Board, the PZU Supervisory Board adopted a resolution on 2 February 2011 to commence a qualification procedure for the position of CEO of PZU and six Members of the PZU Management Board for the new term of office. The Members of the PZU Management Board to be selected were to be responsible for the following task areas: retail business, corporate business, investments, finances, operations, claims handling and IT.

On 15 March 2011, the PZU Supervisory Board appointed Andrzej Klesyk to the PZU Management Board for the new term of office and entrusted him with the further discharge of the function of CEO of PZU.

On 21 April 2011, the PZU Supervisory Board made another decision on the composition of the PZU Management Board for the new term of office.

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

- Tomasz Tarkowski – as the PZU Management Board Member overseeing the claims handling area (with additional appointment for the current term of office as of 21 April 2011);
- Bogusław Skuza – as the PZU Management Board Member overseeing the corporate business area;
- Ryszard Trepczyński – as the PZU Management Board Member overseeing the investments area;
- Marcin Halbersztadt – as the PZU Management Board Member overseeing the IT area (with additional appointment for the current term of office as of 15 May 2011).

Moreover, the mandate for the following two current PZU Management Board Members was confirmed for the new term of office:

- Przemysław Dąbrowski – overseeing the finance area;
- Witold Jaworski – overseeing the retail business area.

In accordance with the decision of the PZU Supervisory Board, Bogusław Skuza and Ryszard Trepczyński were appointed to the PZU Management Board for the new term of office from 1 July 2011.

The other persons were appointed for the term of office starting on 28 June 2011 or on the day following the date of the Ordinary Shareholder Meeting of PZU approving the unconsolidated and consolidated financial statements of PZU for 2010 in the event the Ordinary Shareholder Meeting of PZU is held after 27 June 2011.

The term of office is joint and covers full three consecutive financial years. The first full financial year is 2012.

23.3.2.PZU Supervisory Board

As at 31 December 2010, the PZU Supervisory Board composition was as follows:

- Marzena Piszczek Chairwoman of the Supervisory Board;
- Zbigniew Ćwiąkalski Deputy Chairman of the Supervisory Board;
- Grażyna Piotrowska-Oliwa Secretary of the Supervisory Board;
- Waldemar Maj Member of the Supervisory Board;
- Piotr Kamiński Member of the Supervisory Board;
- Krzysztof Dresler Member of the Supervisory Board;
- Dariusz Filar Member of the Supervisory Board.

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

23.3.3.PZU Group Directors

As at 31 December 2010, the following persons were the PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Dąbrowski;
- Mariusz Sarnowski;
- Krzysztof Branny.

On 2 January 2011, Przemysław Dąbrowski submitted his resignation from the position of PZU Group Director. On 24 January 2011, the PZU Management Board dismissed him from this position and appointed Tomasz Tarkowski as PZU Group Director starting from 1 February 2011.

On 21 April 2011, due to his appointment to the PZU Management Board, Tomasz Tarkowski ceased to discharge the duties of PZU Group Director.

With the exception of Tomasz Tarkowski, all the other PZU Group Directors were also Members of the PZU Life Management Board.

23.4. Employment restructuring in PZU and PZU Life

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

The employment restructuring process involves, among other issues, centralization of previously dispersed functions in several centers located in several big cities across Poland and increased specialization of newly hired employees, focusing primarily on the following areas: operations, finance, claims handling and the PZU Group network.

In 2010, the change process within the framework of group layoffs covered 6,045 employees, of whom 2,439 were handed documents terminating their employment agreements.

During the 3 months ended 31 March 2011, layoffs in PZU and PZU Life were effected, due to their small scale, as individual layoffs rather than group layoffs (as was the case in 2010). The change process during the 3 months ended 31 March 2011 covered approximately 90 employees, of whom 33 were handed documents terminating their employment agreements.

Due to the planned scale of layoffs in the upcoming months of 2011, on 11 May 2011 the PZU and PZU Life Management Boards announced their intention to effect new group layoffs.

Pursuant to the provisions of the Act of 13 March 2003 on special rules for termination of employment for reasons not attributable to employees (Journal of Laws No. 90 of 2003 Item 844), the level of group layoffs and the rules of their conduct will be consulted with the social side.

It is estimated that the change will cover up to 3,316 persons, of which net layoffs, i.e. a decrease in the headcount at PZU and PZU Life in 2011, are assumed to reach the total number of 1,212 persons. The employment restructuring process in 2011 is associated with continuation of activities commenced earlier and will involve, among other things, further integration of distinct teams fulfilling similar tasks in PZU and PZU Life, implementation of IT tools and optimization of processes allowing the achievement of higher work performance norms (measures) as well as further centralization of certain functions in the central units.

The employment restructuring process in 2011 will predominantly affect the following areas: operations, finance, administration, HR and payroll, claims and benefits handling, networks, both in the field and in the PZU and PZU Life Head Offices.

The persons who were laid off or refused to accept their proposed amended terms and conditions of employment in 2010 or in Q1 2011 received severance conditions surpassing the conditions stipulated by law under such circumstances (Act of 13 March 2003 on special rules for termination of employment for reasons not attributable to employees (Journal of Laws No. 90 of 2003 Item 844)). The amounts of additional severance pays will depend on the amount of remuneration of the respective employees and their years in service in the PZU Group. The amounts of possible additional benefits to be paid to employees covered by the group layoff process in 2011 will be the subject matter of negotiations between the employer and the trade unions.

The total restructuring expenses charged in the period from 1 January to 31 March 2011 to the provision were PLN 13,770 thousand (in the whole of 2010: PLN 147,750 thousand).

As at 31 March 2011, the provision for restructuring expenses was PLN 61,483 thousand (as at 31 December 2010: PLN 75,253 thousand, as at 31 March 2010: PLN 158,763 thousand, as at 31 December 2009: PLN 158,763 thousand), i.e. in the period from 1 January to 31 March 2011 the provision decreased by PLN 13,770 thousand (in the whole of 2010: by PLN 83,510 thousand).

23.5. KNF's inspections in PZU

On 12 January 2011, KNF commenced an inspection in PZU which lasted until 22 February 2011. The scope of the inspection covered the following matters: organization & management and accounting. On 30 March 2011, PZU received an inspection report and, on 13 April 2011, provided KNF with its reservations and explanations to the inspection report.

On 8 April 2011, PZU received 7 post-inspection recommendations concerning the KNF inspection conducted between June and August 2009 and covering the following areas: technical provisions and claims handling. KNF set the time limit for the implementation of the recommendations at 30 September 2011.

24. Transactions with related entities

24.1. 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 2011, 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.

24.2. Turnovers and balances of transactions executed with related entities

Balances and turnovers resulting from trading transactions between the PZU Group and related entities in the period from 1 January to 31 March 2011 and as at 31 March 2011	Gross written premium: in property and personal insurance	Gross written premium: in life insurance (including the volumes from unit-linked contracts)	Other income	Costs	– including charges for receivables made in the current period	Receivables: gross value	Receivables: revaluation charges	Receivables: net value	Liabilities	Contingent assets	Contingent liabilities
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	-	-

Balances and turnovers resulting from trading transactions between the PZU Group and related entities in 2010 and as at 31 December 2010	Gross written premium: in property and personal insurance	Gross written premium: in life insurance (including the volumes from unit-linked contracts)	Other income	Costs	– including charges for receivables made in the current period	Receivables: gross value	Receivables: revaluation charges	Receivables: net value	Liabilities	Contingent assets	Contingent liabilities
Significant investor (Eureko B.V.) 3/	-	-	21	-	-	-	-	-	-	-	-
Key management staff of the primary units 1/	-	-	-	-	-	-	-	-	-	-	-
Other related entities 2/	784	-	31,377	25,012	-	11,575	(10,306)	1,269	3,498	-	-

Balances and turnovers resulting from trading transactions between the PZU Group and related entities in the period from 1 January to 31 March 2010 and as at 31 March 2010	Gross written premium		Other income	Costs	– including charges for receivables made in the current period	Receivables			Liabilities	Contingent assets	Contingent liabilities
	in property and personal insurance	in life insurance (including the volumes from unit-linked contracts)				gross value	revaluation charges	net value			
Significant investor (Eureko B.V.) 3/	-	-	14	-	-	90	-	90	-	-	-
Key management staff of the primary units 1/	-	-	-	-	-	-	-	-	-	-	-
Other related entities /2	178	-	2,644	4,020	-	12,371	(11,291)	1,080	2,342	-	-

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 affiliates not subject to consolidation whose complete list is presented in item 1.2.

3/ Income and receivables from Eureko pertain to the fee due PZU for the provision of selected data and financial reports to Eureko.

As at 31 March 2011 and 31 December 2010, the main line item under the balance of receivables from other related entities is receivables with interest 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 for the total gross value of PLN 10,306 thousand (31 March 2010: PLN 11,291 thousand) which, due to non-performance of the agreements, were fully covered by a revaluation charge as at all balance sheet dates.

24.3. 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, shares sold by the State Treasury were transferred to and registered in the accounts of their buyers, as a result of which the State Treasury’s stake in PZU’s share capital fell below the 50% threshold.

Despite this, however, for the purposes of presenting the turnovers and balances of transactions executed with related entities it is assumed that after 11 May 2010 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 affiliates of the State Treasury” should be construed only as commercial law companies and state-owned companies which are subsidiaries, co-subsidiaries or affiliates 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 affiliates 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 affiliates of the State Treasury were predominantly property and personal 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 affiliates of the State Treasury executed and settled on terms and conditions available to unrelated clients.

Subsidiaries, co-subsidiaries and affiliates of the State Treasury	**1 January – 31 March 2011**	**1 January – 31 March 2010**
Gross written premium in property and personal insurance	23,751	35,232
Gross written premium in life insurance	2,647	10,230
Volumes from unit-linked contracts of PZU Life	-	-
Total	**26,398**	**45,462**

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

Bank Powszechna Kasa Oszczędności BP SA	**1 January – 31 March 2011**	**1 January – 31 March 2010**
Gross written premium of PZU	8,986	13,833
Gross written premium of PZU Life	2,647	10,230
Volumes from unit-linked contracts of PZU Life	-	-
Total	**11,633**	**24,063**

Bank Ochrony Środowiska SA	**1 January –**	**1 January –**

	31 March 2011	31 March 2010
Gross written premium of PZU	19	34
Gross written premium of PZU Life	-	-
Volumes from unit-linked contracts of PZU Life	-	-
Total	**19**	**34**

Bank Gospodarstwa Krajowego SA	**1 January – 31 March 2011**	**1 January – 31 March 2010**
Gross written premium of PZU	57	-
Gross written premium of PZU Life	-	-
Volumes from unit-linked contracts of PZU Life	-	-
Total	**57**	**-**

Bank Gospodarki Żywnościowej SA	**1 January – 31 March 2011**	**1 January – 31 March 2010**
Gross written premium of PZU	375	781
Gross written premium of PZU Life	-	-
Volumes from unit-linked contracts of PZU Life	-	-
Total	**375**	**781**

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

1. Interim balance sheet

PLN thousands

ASSETS	31 March 2011	31 December 2010	31 March 2010	31 December 2009
I. Intangible assets, including:	**63,192**	**63,526**	**51,713**	**49,560**
- goodwill	-	-	-	-
II. Investments	**25,151,224**	**23,832,035**	**27,193,562**	**26,765,773**
1. Real estate	596,132	599,551	603,211	600,110
2. Investments in subordinated entities, including:	7,003,153	6,860,409	8,087,353	7,710,649
- investments in subordinated entities measured using the equity method	6,976,796	6,834,051	8,068,600	7,691,903
3. Other financial investments	17,544,646	16,363,674	18,490,789	18,442,095
4. Deposit receivables from ceding companies	7,293	8,401	12,209	12,919
III. Net assets of the life insurance business where the policyholder bears the investment risk	**-**	**-**	**-**	**-**
IV. Receivables	**1,855,374**	**1,543,565**	**1,511,731**	**1,355,331**
1. Receivables on direct insurance	1,253,652	1,190,674	1,148,700	1,083,279
1.1. From subordinated entities	254	246	482	322
1.2. From other entities	1,253,398	1,190,428	1,148,218	1,082,957
2. Receivables on reinsurance	59,463	121,352	56,310	26,174
1.1. From subordinated entities	488	100	24,153	-
1.2. From other entities	58,975	121,252	32,157	26,174
3. Other receivables	542,259	231,539	306,721	245,878
1.1. Receivables from the state budget	9,379	9,268	89,404	81,704
1.2. Other receivables	532,880	222,271	217,317	164,174
a) from subordinated entities	26,406	5,607	36,658	2,923
b) from other entities	506,474	216,664	180,659	161,251
V. Other asset components	**251,988**	**280,422**	**251,034**	**245,572**
1. Tangible asset components	105,182	114,133	121,206	117,772
2. Cash	146,806	166,289	129,828	127,800
3. Other asset components	-	-	-	-
VI. Prepayments, accruals and deferred income	**681,258**	**630,271**	**632,943**	**631,971**
1. Deferred income tax assets	-	-	-	-
2. Capitalized acquisition costs	491,241	462,058	463,905	432,102
3. Posted rents and interest	-	-	-	-
4. Other prepayments and accruals	190,017	168,213	169,038	199,869
Total assets	**28,003,036**	**26,349,819**	**29,640,983**	**29,048,207**

Interim balance sheet (continued)

PLN thousands

LIABILITIES AND EQUITY	31 March 2011	31 December 2010	31 March 2010	31 December 2009
I. Equity	**12,409,924**	**11,902,186**	**10,895,053**	**10,411,542**
1. Share capital	86,352	86,352	86,352	86,352
2. Unpaid share capital (negative figure)	-	-	-	-
3. Treasury stock (negative figure)	-	-	-	-
4. Reserve capital	2,060,279	2,060,272	1,252,251	1,252,214
5. Revaluation reserve	6,485,915	6,238,853	7,696,056	7,312,998
6. Other reserve capital	-	-	-	-
7. Profit (loss) brought forward	3,516,709	-	1,759,978	-
8. Net profit (loss)	260,669	3,516,709	100,416	2,510,379
9. Charges to net profit during the financial year (negative figure)	-	-	-	(750,401)
II. Subordinated debt	**-**	**-**	**-**	**-**
III. Technical provisions	**14,183,259**	**13,963,010**	**13,390,634**	**13,132,664**
IV. Reinsurers’ share in technical provisions (negative figure)	**(773,576)**	**(786,825)**	**(744,702)**	**(754,456)**
V. Estimated recoveries and salvage (negative figure)	**(62,855)**	**(74,577)**	**(72,877)**	**(78,996)**
1. Gross estimated recoveries and salvage	(64,775)	(76,834)	(75,109)	(81,416)
2. Reinsurer's share in estimated recoveries and salvage	1,920	2,257	2,232	2,420
VI. Other provisions	**343,647**	**328,726**	**549,975**	**542,531**
1. Provisions for pension benefits and other compulsory employee benefits	217,574	214,018	227,915	229,550
2. Deferred income tax provision	22,621	4,057	127,105	117,652
3. Other provisions	103,452	110,651	194,955	195,329
VII. Liabilities on reinsurers’ deposits	**-**		**-**	**-**
VIII. Other liabilities and special funds	**1,598,903**	**674,552**	**5,365,931**	**5,478,601**
1. Liabilities on direct insurance	277,317	259,626	193,354	154,698
1.1. To subordinated entities	1,002	2,358	842	819
1.2. To other entities	276,315	257,268	192,512	153,879
2. Liabilities on reinsurance	61,597	27,969	69,291	17,667
2.1. To subordinated entities	-	2	24,595	-
2.2. To other entities	61,597	27,967	44,696	17,667
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-	-
4. Liabilities to credit institutions	80,386	122	4,795,188	4,748,213
5. Other liabilities	1,032,619	245,071	174,956	432,169
5.1. Liabilities to the state budget	35,232	10,930	7,493	15,435
5.2. Other liabilities	997,387	234,141	167,463	416,734
a) to subordinated entities	37,355	36,270	4,297	11,279
b) to other entities	960,032	197,871	163,166	405,455
6. Special purpose funds	146,984	141,764	133,142	125,854
IX. Prepayments, accruals and deferred income	**303,734**	**342,747**	**256,969**	**316,321**
1. Cost accruals	289,278	327,663	245,550	303,209
2. Negative goodwill	-	-	-	-
3. Deferred income	14,456	15,084	11,419	13,112
Total liabilities and equity	**28,003,036**	**26,349,819**	**29,640,983**	**29,048,207**

Interim balance sheet (continued)

PLN thousands

	31 March 2011	31 December 2010	31 March 2010	31 December 2009
Book value	12,409,924	11,902,186	10,895,053	10,411,542
Number of shares	86,352,300	86,352,300	86,352,300	86,352,300
Book value per share (in PLN)	143.71	137.83	126.17	120.57
Diluted number of shares	86,352,300	86,352,300	86,352,300	86,352,300
Diluted book value per share (in PLN)	143.71	137.83	126.17	120.57

2. Interim statement of off-balance sheet line items

PLN thousands

Off-balance sheet line items	31 March 2011	31 December 2010	31 March 2010	31 December 2009
1. Contingent receivables, including:	**8,410,533**	**8,155,430**	**7,075,674**	**6,895,117**
1.1. Guarantees and sureties received	4,528	4,528	3,399	3,699
1.2. Other	8,406,005	8,150,902	7,072,275	6,891,418
2. Contingent liabilities, including:	**56,979**	**81,229**	**46,616**	**46,239**
2.1. Guarantees and sureties given	7,183	8,543	6,158	7,714
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	**223,747**	**227,978**	**230,818**	**231,158**
6. Other off-balance sheet line items	**-**	**-**	**-**	**-**

Shareholder funds	10,407,971	9,593,441	9,149,691	8,261,644
Solvency margin	1,333,798	1,338,798	1,333,798	1,338,798
Surplus (deficiency) of shareholder funds to cover the solvency margin	9,074,173	8,254,643	7,815,893	6,922,846
Technical provisions	14,118,484	13,886,176	13,315,525	13,051,248
Assets covering the technical provisions	18,904,804	17,687,287	14,489,268	14,245,034
Surplus (deficiency) assets covering the technical provisions	4,786,320	3,801,111	1,173,743	1,193,786

3. Interim technical property and personal insurance account

PLN thousands

Technical property and personal insurance account	1 January - 31 March 2011	1 January - 31 March 2010
I. Premium income (1-2-3+4)	**1,858,658**	**1,786,366**
1. Gross written premium	2,256,909	2,145,152
2. Reinsurers' share in written premium	97,359	77,560
3. Changes in the balance of unearned premium provision and gross provision for unexpired risk	338,739	303,299
4. Reinsurers' share in the change in the balance of unearned premium provision	37,847	22,073
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	**65,607**	**62,887**
III. Other net technical income	**30,033**	**31,572**
IV. Claims (1+2)	**1,156,325**	**1,345,163**
1. Net claims paid	**1,213,800**	1,350,479
1.1. Gross claims paid	1,268,678	1,368,490
1.2. Reinsurers' share in claims paid	54,878	18,011
2. Change in the balance of net outstanding claims provision	(57,475)	(5,316)
2.1. Change in the balance of gross outstanding claims provision	(108,234)	(36,955)
2.2. Reinsurers' share in the change in the balance of outstanding claims provision	(50,759)	(31,639)
V. Changes in the balance of other net technical provisions	**-**	**-**
1. Changes in the balance of other gross technical provisions	-	-
2. Reinsurers' share in the change in the balance of other technical provisions	-	-
VI. Net premiums and rebates jointly with the change in the balance of provisions	**1,821**	**(1,824)**
VII. Insurance activity expenses	**481,880**	**487,367**
1. Acquisition expenses, including:	353,234	322,126
- change in the balance of capitalized acquisition expenses	(29,183)	(31,803)
2. Administrative expenses	137,221	161,866
3. Reinsurance commissions and share in reinsurers' profits	8,575	(3,375)
VIII. Other net technical expenses	**121,042**	**107,674**
IX. Changes in the balance of loss ratio (risk) equalization provisions	**-**	**-**
X. Technical result on property and personal insurance	**193,230**	**(57,555)**

4. Interim non-technical profit and loss account

PLN thousands

Non-technical profit and loss account	1 January - 31 March 2011	1 January - 31 March 2010
I. Technical property and personal insurance or life insurance result	193,230	(57,555)
II. Investment income	297,191	290,696
1. Investment income on real estate	1,528	1,785
2. Investment income on subordinated entities	-	-
2.1. On shares	-	-
2.2. On loans and debt securities	-	-
2.3. On other investments	-	-
3. Other financial investment income	205,101	195,860
3.1. On shares, other variable income securities, participation units and investment certificates in mutual funds	113	-
3.2. On debt securities and other fixed income securities	198,870	191,575
3.3. On term deposits in credit institutions	3,925	1,287
3.4. On other investments	2,193	2,998
4. Gain on investment revaluation	-	2,179
5. Gain on investment realization	90,562	90,872
III. Unrealized investment gains	54,514	49,213
IV. Net investment income after including costs, transferred from the technical life insurance account	-	-
V. Investment activity expenses	128,896	23,671
1. Real estate maintenance expenses	1,308	1,052
2. Other investment activity expenses	4,901	2,659
3. Loss on investment revaluation	-	2,124
4. Loss on investment realization	122,687	17,836
VI. Unrealized investment losses	27,069	10,657
VII. Net investment income after including costs, transferred to the technical property and personal insurance account	65,607	62,887
VIII. Other operating income	26,488	9,214
IX. Other operating expenses	24,117	62,549
X. Operating profit (loss)	325,734	131,804
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Gross profit (loss)	325,734	131,804
XIV. Income tax	63,297	27,059
a) current	50,426	18,091
b) deferred	12,871	8,968
XV. Other compulsory reductions in profit (increase in losses)	-	-
XVI. Share in net profits (losses) of subordinated entities measured using the equity method	(1,768)	(4,329)
XVII. Net profit (loss)	260,669	100,416

Net profit (loss)	260,669	100,416
Weighted average number of common shares	86,352,300	86,352,300
Profit (loss) per common share (PLN)	3.02	1.16
Weighted average diluted number of common shares	86,352,300	86,352,300
Diluted profit (loss) per common share (PLN)	3.02	1.16

5. Interim statement of changes in equity

PLN thousands

Statement of changes in equity	1 January - 31 March 2011	1 January - 31 March 2010
I. Equity at the beginning of the period (opening balance)	**11,902,186**	**10,411,542**
a) changes in the accepted accounting principles (policy)	-	-
b) corrections of errors	-	-
I. a. Equity at the beginning of the period (opening balance), after reconciliation with comparable data	**11,902,186**	**10,411,542**
1. Share capital at the beginning of the period	**86,352**	**86,352**
1.1. Changes in share capital	-	-
a) increases	-	-
b) decreases	-	-
1.2. Share capital at the end of the period	**86,352**	**86,352**
2. Contributions due to share capital at the beginning of the period	-	-
2.1. Changes in 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	**2,060,272**	**1,252,214**
4.1. Changes in reserve capital	7	37
a) increases (by virtue of):	7	37
- from revaluation reserve – by sale and liquidation of fixed assets	7	37
b) decreases	-	-
4.2. Reserve capital at the end of the period	**2,060,279**	**1,252,251**
5. Revaluation reserve at the beginning of the period	**6,238,853**	**7,312,998**
- changes in the accepted accounting principles (policy)	-	-
5.1. Changes in revaluation reserve	247,062	383,058
a) increases (by virtue of):	326,227	469,745
- valuation of financial investments	326,227	469,745
b) decreases (by virtue of)	79,165	86,687
- sale of fixed assets	7	37
- valuation of financial investments	79,158	86,650
5.2. Revaluation reserve at the end of the period	**6,485,915**	**7,696,056**
6. Other reserve capital at the beginning of the period	-	-
6.1. Changes 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 2011	1 January - 31 March 2010
7. Profit (loss) carried forward at the beginning of the period	**3,516,709**	**1,759,978**
7.1. Profit carried forward at the beginning of the period	**3,516,709**	**1,759,978**
a) changes in the accepted accounting principles (policy)	-	-
b) corrections of errors	-	-
7.2. Profit carried forward at the beginning of the period, after reconciliation with comparable data	3,516,709	1,759,978
a) increases	-	-
b) decreases	-	-
7.3. Profit carried forward at the end of the period	**3,516,709**	**1,759,978**
7.4. Loss carried forward at the beginning of the period	**-**	**-**
a) changes in the accepted accounting principles (policy)	-	-
b) corrections of errors	-	-
7.5. Loss carried forward at the beginning of the period, after reconciliation with comparable data	-	-
a) increases	**-**	**-**
b) decreases	-	-
7.6. Loss carried forward at the end of the period	**-**	**-**
7.7. Profit (loss) carried forward at the end of the period	**3,516,709**	**1,759,978**
8. Net result	**260,669**	**100,416**
a) Net profit	260,669	100,416
b) Net loss	-	-
c) Charges to profits	**-**	**-**
II. Equity at the end of the period (closing balance)	**12,409,924**	**10,895,053**

6. Interim cash flow statement

PLN thousands

Cash flow statement	1 January - 31 March 2011	1 January - 31 March 2010
A. Cash flow on operating activity		
I. Proceeds	**2,553,196**	**2,296,805**
1. Proceeds on direct activity and inward reinsurance	2,243,197	2,107,870
1.1. Proceeds on gross premiums	2,202,241	2,081,370
1.2. Proceeds on recoveries, salvage and claim refunds	32,171	23,994
1.3. Other proceeds on direct activity	8,785	2,506
2. Proceeds on outward reinsurance	126,564	48,263
2.1. Payments received from reinsurers for their share in claims paid	122,209	45,730
2.2. Proceeds on reinsurance commissions and profit-sharing	1,197	580
2.3. Other proceeds on outward reinsurance	3,158	1,953
3. Proceeds on other operating activity	183,440	140,672
3.1. Proceeds on emergency adjuster activities	52,954	38,580
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	133	1,371
3.3. Other proceeds	130,353	100,721
II. Expenditures	**2,183,665**	**2,339,239**
1. Expenditures on direct activity and inward reinsurance	1,864,344	1,945,234
1.1. Returns of gross premiums	34,508	32,642
1.2. Gross claims paid	1,112,819	1,161,350
1.3. Acquisition expenditures	264,433	234,661
1.4. Administrative expenditures	394,130	431,270
1.5. Expenditures for claims handling and pursuit of recoveries	31,231	62,215
1.6. Commissions paid and profit-sharing on inward reinsurance	49	130
1.7. Other expenditures on direct activity and inward reinsurance	27,174	22,966
2. Expenditures on outward reinsurance	71,257	66,290
2.1. Premiums paid for reinsurance	56,502	49,332
2.2. Other expenditures on outward reinsurance	14,755	16,958
3. Expenditures on other operating activity	248,064	327,715
3.1. Expenditures on emergency adjuster activities	101,104	113,434
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	14,284	28,214
3.3. Other operating expenditures	132,676	186,067
III. Net cash flow on operating activity (I-II)	**369,536**	**(42,434)**
B. Cash flow on investing activity		
I. Proceeds	**29,187,425**	**27,012,037**
1. Sale of real estate	-	-
2. Sale of shares in subordinated entities	76,457	-
3. Sale of shares in other entities and participation units and investment certificates in mutual funds	291,163	466,708
4. Realization of debt securities issued by subordinated entities and repayment of loans granted to such entities	-	-
5. Realization of debt securities issued by other entities	9,757,394	2,385,649
6. Liquidation of term deposits in credit institutions	17,052,428	11,977,477
7. Realization of other investments	1,995,738	12,175,234
8. Proceeds from real estate	2,884	1,664
9. Interest received	11,292	5,305
10. Dividends received	69	-
11.Other investment proceeds	-	-

Interim cash flow statement (continued)

PLN thousands

Cash flow statement	1 January - 31 March 2011	1 January - 31 March 2010
II. Expenditures	**29,576,271**	**26,966,710**
1. Purchase of real estate	-	-
2. Purchase of shares in subordinated entities	-	-
3. Purchase of shares in other entities and participation units and investment certificates in mutual funds	365,117	360,064
4. Purchase of debt securities issued by subordinated entities and granting of loans to such entities	-	-
5. Purchase of debt securities issued by other entities	9,671,165	1,176,611
6. Purchase of term deposits in credit institutions	17,548,174	12,199,726
7. Purchase of other investments	1,986,071	13,223,855
8. Expenditures on maintenance of real estate	4,708	4,324
9. Other expenditures for investments	1,036	2,130
III. Net cash flow on investing activity (I-II)	**(388,846)**	**45,327**
C. Cash flow on financing activity		
I. Proceeds	**9**	**11**
1. Net proceeds from issuing shares and additional capital contributions	-	-
2. Credits, loans and issues of debt securities	9	11
3. Other financial proceeds	-	-
II. Expenditures	**177**	**2,404**
1. Dividends	49	2,349
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-
3. Purchase of treasury stock	-	-
4. Amortization of credits and loans and the redemption of own debt securities	128	55
5. Interest on credits and loans and issued debt securities	-	-
6. Other financial expenditures	-	-
III. Net cash flow on financing activity (I-II)	**(168)**	**(2,393)**
D. Total net cash flow (A.III+/-B.III+/-C.III)	**(19,478)**	**500**
E. Balance sheet change in cash balance, including:	**(19,483)**	**2,028**
- movement in cash on account of FX gains	5	(1,528)
F. Cash at the beginning of the period	**166,289**	**127,800**
G. Cash at the end of the period (F+/-D), including:	**146,806**	**129,828**
- cash with limited ability to use	77,814	63,802

7. Introduction

This quarterly unconsolidated financial information for PZU was prepared according to PAS for the reasons described in the section Introduction in which the definition of PAS was also presented.

8. Basic accounting rules (policy)

The detailed accounting rules (policy) were presented in the annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2010, prepared in accordance with PAS, signed by the PZU Management Board on 15 March 2011 and for which the statutory auditor issued a clean opinion on the same date („PZU's standalone financial statements for 2010").

PZU's standalone financial statements for 2010 are available on PZU's website at www.pzu.pl in the bookmark entitled „Investor relations / Periodic and current reports".

9. Change of accounting rules (policy)

During the three-month period ended on 31 March 2011 the changes described below to the accounting rules (policy) and to the presentation of financial data in PZU's standalone financial statements were made in comparison with PZU's standalone financial statements for 2010.

9.1. Change in the rules for recognizing gross written premium

Pursuant to the recommendations formulated by the Financial Oversight Commission (KNF), starting on 1 January 2011, a change was made stemming from the interpretation of the clause in Art. 2 section 1 sub-section 15 of the Finance Minister's Regulation of 28 December 2009 on the detailed accounting rules for insurance and reinsurance undertakings (Journal of Laws of 226 of 2009, Item. 1825), entailing the recognition of gross written premium on the date of entering into the insurance agreement instead of the commencement of insurance liability from the concluded insurance contracts (bilaterally deferred via the premium provision). Furthermore, a similar change was made to the date of recognizing commission costs in the technical property and personal account which might restrict signing contracts (without exerting a change in the financial result through a mechanism of two-sided deferral of these costs over time).

This change has not exerted an impact on PZU's financial result or net assets.

9.2. ABC allocation

This change has been described in item **Błąd! Nie można odnaleźć źródła odwołania.** of the notes to the interim consolidated financial statements.

9.3. Impact exerted by changes on comparable data

The influence exerted by these changes (i.e. concerning the rules for recognizing gross written premium and ABC allocation) on the financial data for the comparable period of Q1 2010 (technical account of property and personal insurance and the non-technical profit and loss account) and as at 31 December 2010, 31 March 2010 and 31 December 2009 (balance sheet) has been presented below.

All the changes concerning comparable data in the balance sheet stem from the change to the rules for recognizing gross written premium.

Itemization of the balance sheet line items	31 December 2010 Historical data	Change	31 December 2010 Comparable data
ASSETS			
IV.1.2. Receivables – Receivables on direct insurance – from other entities	1,053,703	136,725	1,190,428
VI.2. Prepayments and accruals – Capitalized acquisition costs	424,144	37,914	462,058
VI.4. Prepayments and accruals – Other prepayments and accruals	206,127	(37,914)	168,213
LIABILITIES	,	,	,
III. Technical provisions	13,623,196	339,814	13,963,010
IX.3. Prepayments and accruals – Accruals of revenues	218,173	(203,089)	15,084

Itemization of the balance sheet line items	31 March 2010 Historical data	Change	31 March 2010 Comparable data
ASSETS			
IV.1.2. Receivables – Receivables for direct insurance – from other entities	1,078,519	69,699	1,148,218
VI.2. Prepayments and accruals – Capitalized acquisition costs	432,674	31,231	463,905
VI.4. Prepayments and accruals – Other prepayments and accruals	200,269	(31,231)	169,038
LIABILITIES			
III. Technical provisions	13,170,401	220,233	13,390,634
IX.3. Prepayments and accruals– Prepayments and accruals of revenues	161,953	(150,534)	11,419

Itemization of the balance sheet line items	31 December 2009 Historical data	Change	31 December 2009 Comparable data
ASSETS			
IV.1.2. Receivables – Receivables for direct insurance – from other entities	971,728	111,229	1,082,957
VI.2. Prepayments and accruals – Capitalized acquisition costs	394,962	37,140	432,102
VI.4. Prepayments and accruals – Other prepayments and accruals	237,009	(37,140)	199,869
LIABILITIES			
III. Technical provisions	12,789,415	343,249	13,132,664
IX.3. Prepayments and accruals – Prepayments and accruals of income	245,132	(232,020)	13,112

The changes concerning comparable data in the technical account of property and personal insurance and in the non-technical profit and loss account have been designated in the table as follows, respectively:

- "premium" – concerning a change to the rules for recognizing gross written premium;
- "ABC" – concerning ABC allocation.

Itemization of line items in the technical account of property and personal insurance	1 January - 31 March 2010 Historical data	Change	1 January - 31 March 2010 Comparable data
I.1. Premium – Gross written premium (premium)	2,268,168	(123,016)	2,145,152
I.3. Premium – Movement in premium provision and gross unexpired risk provision (premium)	426,315	(123,016)	303,299
IV.1.1. Gross claims paid (ABC)	1,353,080	15,410	1,368,490
VII.1. Acquisition costs (ABC) (*)	303,566	18,560	322,126
VII.2. Administrative expenses (ABC)	197,603	(35,737)	161,866
X. Technical result of property and personal insurance	(59,322)	1,767	(57,555)

(*) The change in capitalized acquisition costs in this line item in Q1 2010 was minus PLN 37,712 thousand (previously-reported data) and minus PLN 31,804 thousand (data comparable in these financial statements).

Itemization of the non-technical profit and loss account items	1 January - 31 March 2010 Historical data	Change	1 January - 31 March 2010 Comparable data
I. Technical result on property and personal insurance or technical result on life insurance	(59,322)	1,767	(57,555)
V.1. Investing activity costs – real estate maintenance costs (ABC)	244	808	1,052
V.2. Investing activity costs – Other costs of investing activity (ABC)	1,700	959	2,659

Date	First and last name	Position / Function	
12 May 2011	Andrzej Klesyk	Chairman of the PZU Management Board	.... (signature)
12 May 2011	Przemysław Dąbrowski	Member of the PZU Management Board	.... (signature)