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ORDINANCE OF THE MINISTER OF FINANCE¹⁾

of 12 April 2016

on specific accounting principles of insurance and reinsurance undertakings

Pursuant to Article 81(2) (6) (a) of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330 with amendments²⁾), it is ordered as follows:

Chapter 1

General provisions

§ 1. The Ordinance lays down specific accounting principles of insurance and reinsurance undertakings, such as:

- 1) establishment of technical provisions;
- 2) the scope of information disclosed in the notes, principles for drawing up consolidated financial statements of capital groups, such as the scope of information disclosed in consolidated financial statements of capital groups as well in the reports on their activities.

§ 2. Whenever the Ordinance refers to:

- 1) Act – it shall mean the Accounting Act of 29 September 1994;
- 2) Act on insurance and reinsurance activity – it shall mean the Act of 11 September 2015 on insurance and reinsurance activity (Journal of Laws item 1844);
- 3) Branch I – it shall mean Branch I of the Annex to the Act on insurance and reinsurance activity;

¹⁾ The Minister of Finance manages the government administration department – public finance, pursuant to § 1(2) (2) of the Ordinance of the Prime Minister of 17 November 2015 on the detailed scope of activity of the Minister of Finance (Journal of Laws item 1900).

²⁾ Amendments to the consolidated text of the aforementioned Act were published in the Journal of Laws of 2013 item 613, of 2014 items 768 and 1100, and of 2015 items 4, 978, 1045, 1166, 1333, 1844 and 1893.

- 4) Branch II – it shall mean Branch II of the Annex to the Act on insurance and reinsurance activity;
- 5) cedent– it shall mean the insurance or reinsurance undertaking referred to in Article 3(1) (3) of the Act on insurance and reinsurance activity;
- 6) reinsurer – it shall mean an insurance or reinsurance undertaking pursuing the reinsurance activity referred to in Article 4(2) and (5) of the Act on insurance and reinsurance activity, or the special purpose vehicle referred to in Article 3(1) (44) of the Act on insurance and reinsurance activity;
- 7) insurance contract – it shall mean an insurance contract and a suretyship contract;
- 8) reinsurance – it shall mean reinsurance and retrocession;
- 9) reinsurance contract – it shall mean a reinsurance contract and a retrocession contract;
- 10) inward reinsurance – it shall mean inward reinsurance and inward retrocession;
- 11) inward reinsurance contract – it shall mean an inward reinsurance contract and an inward retrocession contract;
- 12) outward reinsurance – it shall mean outward reinsurance and outward retrocession;
- 13) outward reinsurance contract – it shall mean an outward reinsurance contract and an outward retrocession contract;
- 14) leading co-insurer – it shall mean an insurance undertaking chosen amongst parties to a co-insurance contract to perform the activities laid down in the contract on its own behalf and on behalf of other co-insurers;
- 15) written premiums – it shall mean amounts of premiums:
 - a) in respect of insurance contracts being due during the reporting period, notwithstanding whether such amounts were charged – in the case of Branch I insurance classes,
 - b) being due for the whole liability period notwithstanding its duration, in respect of insurance contracts having been concluded during the reporting period, irrespective whether such amounts being charged – in the case of Branch II insurance classes, provided that the duration of the liability period was specified,
 - c) in respect of insurance contracts , being due during the reporting period notwithstanding whether such amounts were charged – in the case of Branch II insurance classes, provided that the duration of the liability period is not specified,
 - d) in respect of inward reinsurance contracts – the amounts referred to in points (a)-(c) shall apply, subject to the provisions of relevant reinsurance contracts;
- 16) earned premium – it shall mean a premium written during the reporting period reduced by balance of premiums provision at the end of the reporting period and increased by the premiums provision at the beginning of the reporting period;

- 17) gross premiums, gross written premiums, gross earned premiums, gross claims, other gross income, other gross technical costs, gross technical provisions, gross loss ratio – these shall mean, as appropriate, items before taking into account the reinsurers share;
- 18) premiums net of reinsurance, written premiums net of reinsurance, earned premiums net of reinsurance, claims net of reinsurance, other income net of reinsurance, other technical costs net of reinsurance, technical provisions net of reinsurance, loss ratio net of reinsurance – these shall mean, as appropriate, items net of reinsurance;
- 19) acquisition costs – it shall mean costs related to concluding and renewing insurance contracts and reinsurance contracts, including
 - a) direct costs, such as:
 - commissions paid to insurance intermediaries,
 - remuneration and other benefits of the employees being in charge of sales
 - costs of medical examinations,
 - costs of certificates and expertise to assess the insurance risk,
 - costs of issuing the respective policies,
 - costs of including the insurance contract in an insurance portfolio,
 - costs of including the reinsurance contract in a reinsurance portfolio,
 - ceding undertakings' commissions and profit participation,
 - b) indirect costs, such as:
 - costs of advertisement and promotion of insurance products,
 - general costs related to the verification of applications and the issuing of the respective policies;
- 20) loss adjustment cost and subrogation vindication costs – it shall mean direct and indirect costs related to the carrying out of the activities referred to in Article 4(2) (2), Article 4(7) (3), Article 4(8) (2), (3) and (5), and Article 4(9) (1) and (2) of the Act on insurance and reinsurance activity, such as: remuneration with surcharges, costs of expertise and certificates related to the assessment of the damage incurred, costs of the process of loss adjustment, claim settlement, subrogation and vindication proceedings;
- 21) costs of investment activity – it shall mean internal and external costs arising out of investment activity performed by the insurance or reinsurance undertaking, such as: investment management costs, bank commissions, brokerage house commissions, and depreciation and costs of maintenance of land and buildings, except for depreciation and costs of maintenance of land and buildings used for own purposes;
- 22) administrative costs – it shall mean costs of insurance or reinsurance activity not included in acquisition costs, claims, loss adjustment and subrogation vindication costs, costs incurred to secure grants, or investment costs related to the collection of premiums, the management of the portfolio of insurance contracts, reinsurance

contracts and the general management of the insurance or reinsurance undertaking, such as: depreciation, costs of maintenance of offices and land and buildings, postal and telecommunications costs, costs of extraneous services, costs of consumables (energy and materials), the depreciation of tangible and intangible assets, remuneration including benefits, travelling and advertising costs, except for advertising costs related to an insurance product; administrative costs shall not include costs related to performing the activities laid down in Article 4(10) and (11) of the Act on insurance and reinsurance activity – the costs shall be recognised as other operating costs;

23) technical rate – it shall mean an interest rate used to calculate:

- a) technical provisions in life insurance and Branch I reinsurance,
- b) provisions for capitalised value of annuities in non-life insurance and Branch II reinsurance;

24) capital sum, subject to paragraph 2:

- a) for whole life insurance – it shall mean the sum insured,
- b) for insurance where a claim is payable at the end of the insurance term – it shall mean the sum insured the amount of which is payable at the end of the insurance term,
- c) for deferred annuities – it shall mean the capitalised annuity value at the start of annuity payments;

25) loss ratio – it shall mean a relation of claims with the change in provisions for outstanding claims to the earned premium; when calculating the loss ratio, loss adjustment costs, subrogation vindication costs and costs incurred to secure grants as well as subrogation, salvage and secured grants shall be included;

26) accounting classes – in the case of:

- a) Branch I – it shall mean all insurance classes,
- b) Branch II – it shall mean, as appropriate, the following accounting classes:
 - 01 accident and health (classes 1 and 2),
 - 02 motor, third party liability (class 10),
 - 03 motor, other classes (class 3),
 - 04 marine, aviation and transport (classes 4, 5, 6 and 7),
 - 05 fire and other damage to property (classes 8 and 9),
 - 06 third party liability (classes 11, 12 and 13),
 - 07 credit and suretyship (classes 14 and 15),
 - 08 assistance (class 18),
 - 09 legal costs (class 17),

- 10 miscellaneous/others (class 16);
- 27) parent company, subsidiary, co-subsidiary, associate, subordinate, affiliate – these shall mean, as appropriate, the entities within the meaning of Article 3(1) (37) and (39)-(43) of the Act;
- 28) capital group – it shall mean the capital group within the meaning of Article 3(1) (44) of the Act;
- 29) related parties – it shall mean the related entities within the meaning of international accounting standards adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ EC L 243, 11 September 2002, p. 1; OJ Polish special edition, Ch. 13, Vol. 29, p. 609 as amended);
- 30) shares, financial assets, adjusted purchase price, financial assets held for trading, granted loans and own receivables, financial assets held to maturity, financial assets available for sale, fair value – these shall mean, as appropriate, the terms laid down in Article 3(1) (4) and (24), Article 28(8a) of the Act, and in § 6-9 and § 15 of the Ordinance of the Minister of Finance of 12 December 2001 on detailed rules for recognition, measurement methods, scope of disclosure and manner of presentation of financial instruments (Journal of Laws item 1674, of 2004 item 266, of 2005 item 2146, of 2008 item 1508 and of 2015 item 1850);
- 31) main branch and branch of a foreign insurance or reinsurance undertaking – these shall mean, as appropriate, the main branch and the branch within the meaning of Article 3(1) (11) and (22) of the Act on insurance and reinsurance activity;
- 32) controlling company – it shall mean an insurance or reinsurance undertaking being the principal place of activity within the meaning of the Act of 2 July 2004 on freedom of economic activity (Journal of Laws of 2015 item 584 as amended³⁾);
- 33) investments of free funds of the insurance undertaking – it shall mean Branch I investments of the insurance undertaking not covering technical provisions;
- 34) investments of free funds of the reinsurance undertaking – it shall mean Branch I investments of the reinsurance undertaking not covering technical provisions;
- 35) cost of claims calculated for a calendar year of damage for the purpose of the assessment referred to in § 37(1) – it shall mean gross settled claims increased by provisions for outstanding claims in respect of damage incurred until the balance sheet data; when calculating claims, loss adjustment costs shall be included, while subrogation and salvage, related vindication costs, grants and costs incurred to secure such grants shall not be included;
- 36) grant – it shall mean a special purpose grant secured by the insurance undertaking to settle some claims due to agricultural producers in respect of drought damage within the meaning of the Act of 7 July 2005 on insurance of agricultural crops and livestock (Journal of Laws of 2015 items 577, 892 and 1844);

³⁾ Amendments to the consolidated text of the aforementioned Act were published in the Journal of Laws of 2015 items 699, 875, 978, 1197, 1268, 1272, 1618, 1649, 1688, 1712, 1844 and 1893, and of 2016 items 65 and 352.

- 37) costs incurred to secure grants – it shall mean costs related to preparing a grant application and settling the grant, in particular remuneration with surcharges, costs of extraneous services, costs of preparation of grant settlement reports and costs incurred in adjusting IT systems necessary for proper grant servicing;
- 38) insurance classes and types – these shall mean the insurance classes and types referred to in Article 5 of the Act on insurance and reinsurance activity;
- 39) balance of inward reinsurance settlements – it shall mean a written inward reinsurance premium reduced by settled inward reinsurance claims, bonuses and rebates paid to ceding undertakings, and ceding undertakings' commissions and profit participation;
- 40) balance of outward reinsurance settlements – it shall mean a premium net of reinsurance reduced by settled claims net of reinsurance, paid bonuses and rebates net of reinsurance, and reinsurance commissions and profit participation;
- 41) investments covering technical provisions – it shall mean the investments referred to in Article 28(10) of the Act.

2. In all the cases referred to in paragraph 1(24), bonus allocations shall not be taken into account. The capital sum in the insurance contracts referred to in paragraph 1(24), where the period of premium payment is shorter than the term of the insurance contract, shall mean the value of a life insurance provision for the risk of death or survival calculated at the end of the period of premium payment.

§ 3. 1. The provisions of the Ordinance on life insurance (classes 1-5 of Branch I) shall also apply to the insurance referred to in classes 1, 2, 10-13 of Branch II, taking into account existing differences due to the nature of the insurance.

2. If available information enables a Branch II insurance undertaking to conclude that insurance contracts may give rise to periodically settled claims in the form of annuities or if periodically settled claims in the form of annuities arise, a provision for capitalised value of annuities shall be created by applying an actuarial method as provided for life insurance (classes 1-5 of Branch I) in accordance with § 42.

§ 4. The main branches and branches of foreign insurance and reinsurance undertakings shall apply the accounting practices set out by their controlling company, provided that they do not conflict with the provisions of the Act.

Chapter 2

Book keeping of insurance and reinsurance undertaking's accounts , insurance and reinsurance documentation

§ 5. 1. The insurance or reinsurance undertaking's accounts shall be kept in accordance with the provisions of the Act.

2. In the case of the activity referred to in class 3 of Branch I, assets of insurance capital funds created from insurance premiums and invested as provided for in the insurance contract shall be separated.

3. The insurance undertaking shall, on a regular basis, keep records of primarily:

- 1) as part of its insurance activity:

- a) concluded insurance contracts,
 - b) reported damage (claims),
 - c) subrogation and salvage under insurance contracts,
 - d) insurance capital funds;
- 2) as part of its reinsurance activity – concluded inward reinsurance contracts;
 - 3) as part of its insurance or reinsurance activity – concluded outward reinsurance contracts.
4. The reinsurance undertaking shall, on a regular basis, keep records of primarily:
- 1) concluded inward reinsurance contracts;
 - 2) concluded outward reinsurance contracts.
5. The insurance and reinsurance undertaking shall update, so as to enable previous entries to be verified, accounting books and registers at least at the end of each month.
6. The main branches of foreign insurance undertakings shall keep the records referred to in paragraph 3.
7. Branches of foreign insurance undertakings shall be exempt from the obligation to keep the registers as referred to in paragraph 3, provided that the foreign insurance undertaking is obliged, pursuant to provisions in force in the controlling company's country, to collect information at least to the extent set out in the Ordinance.
8. The main branches of foreign reinsurance undertakings shall keep the registers referred to in paragraph 4.
9. Branches of foreign reinsurance undertakings shall be exempt from the obligation to keep the registers referred to in paragraph 4, provided that the foreign reinsurance undertaking is obliged, pursuant to provisions in force in the controlling company's country, to collect information at least to the extent set out in the Ordinance.

§ 6. 1. Register of concluded insurance contracts should be kept so as to obtain at least the following information on the insurance contract:

- 1) insurance class and type to which the insurance contract relates;
- 2) particulars of the insurance contract (policy number, policy registration date, policy issuance date, contract date);
- 3) particulars of a policyholder and, in the case of individual contracts, particulars of an insured person and authorised persons under the insurance contract;
- 4) particulars of an insurance intermediary if the insurance contract is concluded through such an intermediary;
- 5) the insurance term, the premium due or its calculation method and the sum insured or the sum guaranteed, or – in the case of insurance contracts with an insurance capital fund – the value of units of the fund(s) to which the insured person is entitled.

2. Concluded co-insurance contracts should be separated in the register and should contain particulars of a leading co-insurer.

3. In the case of co-insurance contracts, data on the amount of the premium due and the sum insured or the sum guaranteed referred to in paragraph 1(5) shall be recorded insofar as attributable to the insurance undertaking and, if the undertaking is jointly and severally liable, also data on the total amount of the premium and all liabilities arising out of the contract.

4. In the case of the insurance covered by general contracts referred to in § 7(3) (3), insurance contracts may be collectively recorded, provided that the information referred to in paragraph 1 and data allowing for determining liabilities of the insurance undertaking are recorded separately for each policyholder.

5. In the case of group insurance contracts, the data referred to in paragraph 1(5) shall be recorded separately for each insured person.

§ 7. 1. The written premium shall be recorded based on a document confirming the conclusion of the insurance contract, including annexes to concluded insurance contracts which include premium calculation, hereinafter referred to as "insurance documents".

2. Insurance documents shall set out at least:

- 1) parties to the insurance contract;
- 2) liabilities of the insurance undertaking;
- 3) the insurance term;
- 4) the sum insured or the sum guaranteed;
- 5) the premium due.

3. General lists of insurance documents may apply:

- 1) if an insurance document is issued once the premium is paid in full;
- 2) in settlements with insurance intermediaries – separately for each intermediary;
- 3) in settlements with policyholders in respect of insurance covered by general contracts – separately for each policyholder.

4. General lists of insurance documents shall be drawn up by insurance classes and types.

5. Insurance documents, including appendices and additional documents, related to the insurance contract should be issued in chronological order so as to prevent their double registration.

6. Blank policy prints and other security printed matter confirming the conclusion of the insurance contract should be inventoried at least every financial year and any differences in the number of the prints should be settled in the same financial year.

7. The premium should be recorded so as to allow for identifying the insurance contract to which the premium relates.

§ 8. Register of concluded inward reinsurance contracts should be kept so as to obtain at least the following information:

- 1) particulars of the reinsurance contract (type, number of the contract);
- 2) particulars of the ceding undertaking and particulars of a broker if the contract is concluded through such a broker;
- 3) the date of registration of the reinsurance contract, the date of entry into force of the contract and the term of the contract;
- 4) insurance classes and types covered by the contract;
- 5) data to determine the share and maximum liability of the insurance or reinsurance undertaking in the inward reinsurance contract;
- 6) data to determine, as at the balance sheet date, the balance of settlements with each ceding undertaking under the inward reinsurance contract.

§ 9. Register of concluded outward reinsurance contracts should be kept so as to obtain at least the following information:

- 1) the type and number, if any, of the outward reinsurance contract;
- 2) particulars of reinsurers and their shares in cession, and particulars of the broker if the contract is concluded through such a broker;
- 3) the date of registration of the inward reinsurance contract, the date of entry into force of the contract and the term of the contract;
- 4) insurance classes and types covered by the outward reinsurance contract;
- 5) data to determine the own share and maximum liability of the insurance or reinsurance undertaking in the outward reinsurance contract;
- 6) data to determine, as at the balance sheet date, the balance of settlements with each ceding undertaking under the outward reinsurance contract.

§ 10. The information put in register referred to in § 8 and § 9 shall be kept based on the reinsurance contract and, issued thereunder, relevant settlement documents (technical accounts) or other documents setting out at least:

- 1) parties to the contract;
- 2) types of risks covered by the contract;
- 3) the term of the contract;
- 4) data to determine reinsurance cover and
- 5) necessary data to determine the share of the insurance or reinsurance undertaking in the contract, in particular with respect to technical provisions and profit distribution under the contract, if terms and conditions of the contract so provide.

§ 11. 1. Registers of reported damage (claims) shall be kept so as to obtain at least the following information separately for each damage:

- 1) the registration date and number of damage, the date of damage and the reporting date of damage (claim);
- 2) particulars of the insurance contract to which damage relates;
- 3) insurance class and type to which damage relates;
- 4) particulars of an injuring party if known;
- 5) the value or assessed value of the claim;
- 6) the value of the claim settled (in part or in full) and the date of settlement;
- 7) the value of the claim outstanding recognised in a provision for outstanding claims.

2. Registers should be kept so as to draw up, as at the balance sheet date, a list of the damage reported to the insurance undertaking referred to in § 12(3), broken down into calendar years in which the damage is reported and calendar years in which the damage occurs.

3. Registers of the damage referred to in paragraph 1 shall be kept exclusively for direct activity.

§ 12. 1. Damage documentation, which bears the registration number of damage, shall be prepared for each damage.

2. Damage documentation shall include numbered documents concerning an event and a related damage report, documents describing heads of damage and details of inpayments and outpayments related to damage.

3. As at the balance sheet date, the following shall be drawn up separately for each insurance class, subject to paragraph 5:

- 1) a list of damage reported in the reporting period, including the following for each damage:
 - a) the registration number of damage,
 - b) the reporting date of damage,
 - c) the date of damage,
 - d) amounts paid in the current reporting period due to the damage,
 - e) the value of the provision for outstanding claims in respect of reported damage created at the end of the reporting period;
- 2) a list of damage reported in previous reporting periods and outstanding by the end of the previous reporting period, including the following for each damage:
 - a) the registration number of damage,
 - b) the reporting date of damage,
 - c) the date of damage,

- d) the value of the provision for outstanding claims in respect of reported damage created at the end of the previous reporting period,
- e) amounts paid in the current reporting period and
- f) the value of the provision for outstanding claims in respect of reported damage created at the end of the reporting period.

4. Insurance undertakings, which do not calculate the provision for outstanding claims by applying an individual method in the list of reported damage, shall, as appropriate, present the total value of the provision for outstanding claims created for such damage separately for each damage, instead of the value of the provision for outstanding claims in respect of reported damage.

5. As at the balance sheet date, a list of damage, in respect of which the insurance undertaking refused to settle the claim in part or in full and a creditor took legal proceedings, shall be drawn up in addition to the list referred to in paragraph 3.

6. The list referred to in paragraph 5 shall include:

- 1) separately for each damage:
 - a) the registration number of damage,
 - b) the reporting date of damage,
 - c) the date of damage,
 - d) the amount of the claim in dispute,
 - e) costs of legal proceedings;
- 2) in total for damage in respect of which the insurance undertaking refused to settle the claim in part or in full – the value of a provision for disputes in respect of reported damage.

§ 13. 1. Registers of subrogation and salvage should be kept only for direct activity and so as to obtain at least the following information:

- 1) the registration number and value of damage to which subrogation or salvage relates;
- 2) particulars of:
 - a) a debtor – in the case of subrogation,
 - b) the object of salvage – in the case of salvage;
- 3) the value of claims;
- 4) the value of obtained subrogation and salvage.

2. The registers should be kept so as to determine the value of subrogation and salvage related to specific damage, and to determine the value of subrogation and salvage broken down into calendar years, in which damage is reported, and calendar years, in which damage occurs, to which subrogation and salvage relate.

3. The registers of subrogation and salvage referred to in paragraph 1 shall be kept only by Branch II insurance undertakings.

§ 14. 1. The insurance undertaking, which pursues the activity referred to in class 3 of Branch I, shall keep registers of funds separately for each insurance capital fund.

2. Registers of the fund shall be kept to determine the value of net assets per accounting unit of the fund and, where the investment risk is borne by the insurance undertaking, the value of a liability per unit, as appropriate.

3. Income and costs, and assets and liabilities of a specific fund shall not be compensated together with other income and costs, and assets and liabilities of the insurance undertaking.

4. In the case of life insurance, records of the fund shall be kept so as to determine the value of the investment referred to in § 43 if the investment risk is borne by the policyholder.

5. The registers shall be kept so as to determine the amount of separate fund assets and changes in the amount of the assets in the reporting period, including to determine at least the following for each fund:

- 1) the value of premiums received by the insurance undertaking and allocated to the fund prior to deducting any charges from an account of units, and the value of investment income – as part of the income of the fund;
- 2) the value of charges deducted from the premium, the value of charges deducted from the fund, the value of the fund's investment management costs – as part of the income of the fund;
- 3) levels of and changes in assets and liabilities of the fund, in particular with respect to investments of the fund;
- 4) the value of assets of the insurance undertaking to be allocated to the insurance capital fund if the guaranteed rate of return on investments of the fund is higher than the one actually achieved by the insurance undertaking in the reporting period.

6. The registers should be kept so as to determine the purchase value of units allocated to each insured person, the current value of the units and the redemption value of the units.

§ 15. 1. In Branch II insurance, deferred acquisition costs borne in the reporting period shall be subject to time settlement based on principles for creating the provision for unearned premiums.

2. In Branch II reinsurance, the deferred portion of acquisition costs borne in the reporting period shall be subject to time settlement based on principles for creating the provision for unearned premiums.

3. The deferred acquisition costs referred to in paragraphs 1 and 2 shall be recognised as assets in the balance sheet.

4. If the insurance contract is terminated, deferred acquisition costs related to the contract shall be recognised as costs in the same month in which the insurance contract is terminated.

§ 16. 1. In Branch I insurance and Branch I reinsurance, deferred acquisition costs borne in the reporting period shall be subject to time settlement.

2. The deferred acquisition costs referred to in paragraph 1 shall be recognised as assets in the balance sheet insofar as not taken into account when calculating the life insurance provision.

3. In Branch I insurance and Branch I reinsurance, acquisition costs shall be subject to time settlement by applying only actuarial methods.

4. If the insurance contract is terminated before its term ends, deferred acquisition costs related to the contract shall be recognised as costs in the same month in which the insurance contract is terminated.

5. Where the investment risk is borne by the policyholder, acquisition costs shall not be deferred in life insurance if no frequency and amount of the premium paid is specified for such insurance.

§ 17. 1. With reference to transactions dealing with:

- 1) the merger of the insurance undertaking and another insurance undertaking or the acquisition of another insurance undertaking by the insurance undertaking,
- 2) the merger of the reinsurance undertaking and another reinsurance undertaking or the acquisition of another reinsurance undertaking by the reinsurance undertaking

– the provisions of Chapter 4a of the Act shall apply.

2. As regards to transactions dealing with the transfer of the insurance portfolio referred to in Article 298 of the Act on insurance and reinsurance activity or the transfer of the reinsurance portfolio referred to in Article 305 of the Act on insurance and reinsurance activity, provisions on the acquisition of another insurance undertaking by the insurance undertaking or the acquisition of another reinsurance undertaking by the reinsurance undertaking, as appropriate, shall apply, subject to paragraphs 3-6.

3. At the date of acquisition of the insurance portfolio or the reinsurance portfolio by the insurance undertaking, technical provisions shall be valued according to principles in place in the acquiring insurance undertaking. Resulting differences shall increase or decrease, as appropriate, goodwill or negative goodwill resulting from the acquisition.

4. At the date of acquisition of the reinsurance portfolio by the reinsurance undertaking, technical provisions shall be valued according to principles in place in the acquiring insurance undertaking. Resulting differences shall increase or decrease, as appropriate, goodwill or negative goodwill resulting from the acquisition.

5. Goodwill resulting from the acquisition of the insurance portfolio or the reinsurance portfolio shall be redeemed in proportion to time limits for the release of acquired technical provisions, but no longer than 5 years. When justified by the special nature of acquired receivables, the insurance or reinsurance undertaking may extend the time limit for the redemption of goodwill to 20 years.

6. If, as a result of events which occur after the date of transfer of the insurance portfolio or the reinsurance portfolio, or received information, the balance sheet value of assets and liabilities determined as at the date of transfer of the insurance portfolio or the reinsurance portfolio is found to be incorrect, goodwill or negative goodwill should be appropriately adjusted by the end of the financial year following the year in which the insurance portfolio or the reinsurance portfolio is transferred, provided that the entity expects to recover the

adjustment value from future economic benefits. Otherwise, the adjustment shall be recognised as other operating income or costs, as appropriate.

§ 18. 1. In the case of the adjustment of communication losses as a result of events outside the territory of the Republic of Poland, a debit document submitted in the form set out in the Rules of Procedure, which are referred to in the Multilateral Agreement referred to in Article 2(1) (15) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Journal of Laws of 2013 item 392, of 2014 item 827, and of 2015 items 1273, 1691, 1844 and 2281), may be accounting evidence being a basis for keeping records of an economic event.

2. In the case of direct loss adjustment carried out in accordance with the provisions of an agreement concluded by insurance undertakings, the debit document submitted in the form set out in that agreement may be accounting evidence being a basis for keeping records of the economic event.

Chapter 3

Specific accounting practices for investments of the insurance and reinsurance undertaking

§ 19. 1. The insurance and reinsurance undertaking shall, in compliance with the principle of prudence, value the following investments as at the balance sheet date, subject to paragraph 2:

- 1) financial assets held for trading and financial assets available for sale if the fair value may be reliably determined – at fair value;
- 2) financial assets held for trading and financial assets available for sale if the fair value may not be reliably determined:
 - a) in the case of financial assets with fixed maturity – at adjusted purchase price, taking into account impairment losses,
 - b) in cases other than those referred to in point (a) – at purchase price, taking into account impairment losses;
- 3) financial assets held to maturity – at adjusted purchase price, taking into account impairment losses;
- 4) granted loans and own receivables – at adjusted purchase price, taking into account impairment losses;
- 5) shares in subordinates – by applying an equity method;
- 6) land and buildings – at purchase price or production cost, reduced by the value of redemption accumulated as at the balance sheet date, taking into account impairment.

2. Investments, whose risk is borne by the policyholder, shall be valued by the insurance undertaking, which pursues life insurance activity, at fair value.

3. Deposit receivables from ceding undertakings shall be valued at the amount due set out in accordance with terms and conditions of the reinsurance contract, taking into account, if a

deposit is a financial instrument, the valuation of the instrument as well. The deposit shall be valued taking into account any impairment losses.

4. When determining the impairment of financial assets, the insurance and reinsurance undertaking shall take into account the financial standing of entities, in which the assets are invested, and primarily a decrease in the value of net assets of the entities, which occurred between their acquisition date and the balance sheet date, attributable to financial assets held by the insurance or reinsurance undertaking. When determining the impairment of financial assets covered by guarantees, the financial standing of a guarantor shall be taken into account as well.

§ 20. 1. The insurance and reinsurance undertaking managing accordingly portfolios of financial assets held for trading, held to maturity, available for sale, and of granted loans and own receivables, shall take particular account of current and projected operating and investment income and expenses, maturities of liabilities under concluded insurance contracts and inward reinsurance contracts based on its investment strategy and, in the case of the insurance referred to in class 3 of Branch I, with respect to life insurance contracts with the insurance capital fund, based on the principles set out in the rules for investing from the insurance capital fund referred to in Article 23(1) (3) of the Act on insurance and reinsurance activity.

2. The insurance and reinsurance undertaking managing accordingly portfolios of financial assets held for trading, held to maturity, available for sale, and of granted loans and own receivables, shall take particular account of current and projected operating and investment income and expenses, maturities of liabilities under concluded inward reinsurance contracts based on its investment strategy.

§ 21. 1. The insurance and reinsurance undertaking shall classify short-term investments as investments which, with respect to their degree of liquidity, may be realised within less than one year and which the insurance or reinsurance undertaking intends to realise within such a period.

2. Long-term investments shall include investments other than those referred to in paragraph 1.

§ 22. 1. The insurance and reinsurance undertaking shall recognise differences in respect of the revaluation of the investments referred to in § 19(1) as investment income or costs, as appropriate, subject to paragraphs 2 and 3.

2. Differences in respect of the revaluation of investments classified as financial assets available for sale, which are not taken into account when calculating technical provisions, shall be recognised directly as equity in item "revaluation reserve" in accordance with § 21(2) (2) of the Ordinance of the Minister of Finance of 12 December 2001 on detailed rules for recognition, measurement methods, scope of disclosure and manner of presentation of financial instruments, subject to paragraph 4.

3. Differences in respect of the revaluation of investments classified as shares in subordinates shall be recognised as equity in item "revaluation reserve", subject to Article 35(4) and (5) of the Act.

4. Impairment losses for investments established in the reporting period shall be recognised in the financial result of the insurance or reinsurance undertaking.

5. A detailed manner of presentation of investment income and costs of the insurance or reinsurance undertaking shall be set out in paragraphs 6, 7, 15, 16 and 19 of Annex 2 to the Ordinance.

§ 23. 1. In the case of realisation of investments, which are the same or deemed to be the same because of the similarity of their nature or intended purpose, the insurance and reinsurance undertaking shall value the disposal of the assets successively at prices (costs) of the assets which the undertaking acquired (created) earlier, or at average prices fixed as the weighted average of prices (costs) of a specific asset.

2. When valuing investments, the insurance and reinsurance undertaking shall apply valuation principles to a specific portfolio of investments which are the same or deemed to be the same because of the similarity of their nature.

§ 24. 1. Both realised and unrealised investment income and investment costs, which are recognised in the financial result of the financial year, shall be presented by Branch I insurance undertakings and Branch I reinsurance undertakings in a life insurance technical account, subject to paragraph 2.

2. Income from investments of free funds of the insurance or reinsurance undertaking shall be transferred from the life insurance technical account to profit and loss account and recognised in item "investment income net of costs, transferred from the life insurance technical account".

3. The income referred to in paragraph 2 shall be reduced by related investment costs.

§ 25. 1. Investment income and costs, which are recognised in the financial result of the financial year, shall be presented by Branch II insurance undertakings and Branch II reinsurance undertakings in the profit and loss account, subject to paragraph 2.

2. Investment income, which is taken into account when calculating the provision for capitalised value of annuities and a provision for bonuses and rebates for the insured, shall be transferred from the profit and loss account to a technical account and presented in item "investment income net of costs, transferred from the profit and loss account".

3. The income referred to in paragraph 2 shall be reduced by related investment costs.

§ 26. Both realised and unrealised foreign exchange differences, which are related to investment activity, shall be recognised by the insurance and reinsurance undertaking analogously to realised and unrealised investment income and costs.

§ 27. 1. The insurance and reinsurance undertaking shall keep records of investments and related income and costs so as to:

- 1) determine the value of particular types of investments covering technical provisions and other investments, subject to paragraph 2;
- 2) determine the value of the particular types of investments referred to in § 19(1);
- 3) determine the particular types of investment income and costs referred to in paragraphs 1 and 2 which are recognised in the technical account, the profit and loss account and as equity of the insurance undertaking, as appropriate.

2. A Branch I and II reinsurance undertaking shall keep records of its investments and related income and costs so as to determine the value of:

- 1) particular types of investments covering technical provisions for Branch I reinsurance;
- 2) particular types of investments covering technical provisions for Branch II reinsurance;
- 3) other investments.

§ 28. 1. The insurance and reinsurance undertaking shall treat means of an organisational fund as funds of other special funds and shall hold them in a separate bank account.

2. The means referred to in paragraph 1 may only be used by the insurance undertaking to cover expenses related to the establishment of administration of the insurance undertaking and the organisation of a network of its representative offices.

3. The means referred to in paragraph 1 may only be used by the reinsurance undertaking to cover expenses related to the establishment of administration of the reinsurance undertaking and the organisation of a network of its representative offices.

4. A manner of creating the organisational fund and disbursing its funds shall be specified in the articles of association of the insurance or reinsurance undertaking.

5. Means in respect of a deposit paid by the foreign insurance or reinsurance undertaking to the main branch shall be recognised off-balance-sheet, unless the funds are assets.

6. Income earned by the main branch from the means referred to in paragraph 5 shall, as appropriate, increase the value of the deposit, unless the articles of association of the main branch provide otherwise.

§ 29. In matters not covered by this Chapter, specific accounting practices for investments of insurance and reinsurance undertakings shall be subject to the rules set out in the Ordinance of the Minister of Finance of 12 December 2001 on detailed rules for recognition, measurement methods, scope of disclosure and manner of presentation of financial instruments.

Chapter 4

Particular standards relating to the establishment of technical provisions

§ 30. 1. The insurance undertaking shall create technical provisions to cover current and future liabilities which may arise out of concluded insurance contracts and inward reinsurance contracts.

2. The insurance undertaking shall create technical provisions to cover current and future liabilities which may arise out of concluded inward reinsurance contracts.

§ 31. 1. Technical provisions shall include the following types of provisions:

- 1) the provision for unearned premiums;
- 2) the provision for unexpired risks;
- 3) provisions for outstanding claims, including the provision for capitalised value of annuities;

- 4) equalisation provisions;
- 5) the life insurance provision;
- 6) life insurance provisions if the investment risk is borne by the policyholder;
- 7) provisions for bonuses and rebates for the insured;
- 8) provisions for premium repayment to members;
- 9) other technical provisions specified in the articles of association of the insurance or reinsurance undertaking.

2. The insurance and reinsurance undertaking shall hold documentation to enable relevant calculations of technical provisions to be replicated.

§ 32. 1. The technical provisions from direct insurance business shall be calculated in accordance with the provisions of relevant insurance contracts based on calculations and assessments by the insurance undertaking.

2. The technical provisions from inward reinsurance business shall be calculated in accordance with the provisions of relevant reinsurance contracts based on calculations, assessments and information presented by ceding undertakings, and calculations and assessments by the insurance or reinsurance undertaking.

§ 33. 1. The technical provisions from direct insurance business shall be created by applying the following methods:

- 1) actuarial method – consists in calculating the provision separately for each insurance contract or each damage, or collectively for the whole insurance portfolio or a portion thereof based on insurance mathematics, financial mathematics and statistics;
- 2) methods other than the actuarial method:
 - a) individual method – consists in calculating the exact value of the provision separately for each insurance contract or each damage, and, if it is impossible to calculate the exact value of the provision, in applying a reliable assessment thereof.
 - b) lump method – consists in calculating the provision collectively for the whole insurance portfolio or a portion thereof as a fixed (lump-sum) rate of the premium, the value of settled claims or the value of the technical provision; the lump method may be applied only if the individual method may not be applied or if the amounts calculated in this manner are approximate to the amounts obtained by applying the individual method; the lump-sum rate should be established according to the principle of continuity and may not be changed unreasonably.

2. The technical provisions from Inward reinsurance business shall be created in accordance with the provisions of relevant reinsurance contracts by applying the following methods:

- 1) actuarial method – consists in calculating the provision separately for each reinsurance contract or each damage, or collectively for the whole reinsurance portfolio or a portion thereof based on insurance mathematics, financial mathematics and statistics;
- 2) methods other than the actuarial method:

- a) individual method – consists in calculating the exact value of the provision separately for each reinsurance contract or each damage, and, if it is impossible to calculate the exact value of the provision, in applying a reliable assessment thereof.
- b) lump method – consists in calculating the provision collectively for the whole reinsurance portfolio or a portion thereof as a fixed (lump-sum) rate of the premium or the value of settled claims or the value of the technical provision; the lump method may be applied only if the individual method may not be applied or if the amounts calculated in this manner are approximate to the amounts obtained by applying the individual method; the lump-sum rate should be established according to the principle of continuity and may not be changed unreasonably.

3. If available information does not enable the insurance or reinsurance undertaking to determine the value of inward reinsurance technical provisions by applying the methods referred to in paragraph 2, the technical provisions shall be created in the amount documented by ceding undertakings.

4. An equalisation provision shall be created by applying the following methods:

- 1) in the case of direct insurance:
 - a) for Branch II insurance classes, except for class 14 – the method referred to in § 40(3) and (4),
 - b) for class 14 of Branch II – the methods referred to in Annex 7 to the Ordinance;
- 2) in the case of inward reinsurance:
 - a) for Branch II reinsurance, except for class 14 – the method referred to in § 40(5),
 - b) for the reinsurance referred to in class 14 of Branch II – the methods referred to in Annex 7 to the Ordinance.

§ 34. 1. A provision for unearned premiums from direct insurance business shall be created individually for each insurance contract as a written premium allocated to subsequent reporting periods proportionally to a period in which the premium is written. In the case of insurance contracts whose risk is not spread evenly over the insurance term, however, the provision shall be created proportionally to an expected risk in subsequent reporting periods.

2. A provision for unearned premiums from inward reinsurance business shall be created individually for each reinsurance contract as a written premium allocated to future reporting periods proportionally to a period in which the premium is written. In the case of reinsurance contracts whose risk is not spread evenly over the term of insurance contracts subject to reinsurance, however, the provision shall be created proportionally to an expected risk in subsequent reporting periods.

3. Life insurance undertakings and reinsurance undertakings, which pursue the reinsurance activity referred to in Branch I, may take into account the provision for unearned premiums when calculating the life insurance provision.

4. Life insurance undertakings shall create the provision for unearned premiums from direct insurance business separately for those insurance contracts in which the provision for unearned premiums is not included in the life insurance provision.

5. Life insurance undertakings, which pursue the reinsurance activity referred to in Branch I, and reinsurance undertakings, which pursue the reinsurance activity referred to in Branch I, shall create the provision for unearned premiums from inward reinsurance business separately for those reinsurance contracts in which the provision for unearned premiums was not included in the life insurance provision.

§ 35. 1. The provision for unexpired risks shall be created to supplement the provision for unearned premiums. The provision shall be used to cover future claims and costs arising out of inward reinsurance contracts.

2. In Branch II insurance, the provision for unexpired risks shall be the difference between an expected value of future claims and costs from direct insurance business of the insurance undertaking, and the total amount of the provision for unearned premiums and possible future unearned premiums which are expected according to already concluded insurance contracts.

3. In Branch II reinsurance, the provision for unexpired risks shall be the difference between an expected value of future claims and costs from inward reinsurance business of the insurance or reinsurance undertaking, and the total amount of the provision for unearned premiums and possible future unearned inward reinsurance premiums which are expected according to already concluded insurance contracts subject to reinsurance.

4. In Branch I insurance and Branch I reinsurance, the provision for unexpired risks shall be calculated by applying actuarial methods.

§ 36. 1. The provision for outstanding direct insurance claims shall be created in the amount corresponding to the established or expected ultimate value of future claim settlements in respect of damage incurred by the date as of which the provision is calculated, increased by loss adjustment costs. In particular, it shall cover damage which:

- 1) is reported to the insurance undertaking by the date as of which the provision is created and for which the amount of claims is calculated or when available information allows for assessing the amount of claims;
- 2) is reported to the insurance undertaking by the date as of which the provision is created and available information does not allow for assessing the amount of claims;
- 3) is incurred, but not reported to the insurance undertaking by the date as of which the provision is created.

2. If available information enables the Branch II insurance undertaking to establish that claims under insurance contracts of class 14 or 15 may be reported, a provision for the damage referred to in paragraph 1(3) shall be created.

3. When calculating the provision for the damage referred to in paragraph 1(3), the insurance undertaking shall take into account the current process of loss adjustment in a specific insurance class, including the number and size of damage reported in subsequent reporting periods, following the period as of which the provision is created.

4. Some part of the provision, which covers loss adjustment costs, should be created separately for each insurance class.

5. When calculating the provision referred to in paragraph 1, discounts or deductions arising out of the adoption of the current value of damage shall not be used if the insurance

undertaking expects that the ultimate loss adjustment and claim settlement cost will be higher, subject to § 3(2) and § 46.

6. A provision for annuities of insurance classes 1-4 of Branch I shall be created as part of the life insurance provision.

7. The provision for outstanding claims, except for assessed subrogation, salvage and grants, shall be recognised as balance sheet liabilities gross of reinsurance and net of reinsurance.

§ 37. 1. When determining the ultimate value of future claim settlements in a specific insurance class, the Branch II insurance undertaking shall assess the value of expected future returns of costs of the undertaking as a result of taking over claims against third parties (subrogation), the ownership of insured property (salvage) and grants.

2. The assessment referred to in paragraph 1 shall be reliably performed with respect to damage incurred by the balance sheet date, subject to the principle of prudent valuation, based on comparative analyses of existing and projected amounts of settled claims, returned claims and received subrogation and taken-over salvage.

3. When assessing the value of subrogation, salvage and grants, the Branch II insurance undertaking shall take into account subrogation and salvage vindication costs and costs incurred to secure grants.

4. When assessing the value of future returns of costs of the undertaking as a result of taking over claims against third parties and the ownership of insured property and when activity in a specific insurance class has been pursued for over 3 years, the share of the total amount of received and assessed subrogation and salvage in the claim settlement cost in a specific year of damage shall not exceed the arithmetical mean of the share of received subrogation and salvage in the claim settlement cost from three consecutive years of damage which immediately precede the year for which arrangements are made.

5. The assessment referred to in paragraph 4 shall be performed separately for each year of damage.

6. Subrogation claims, which are not covered by the assessment referred to in paragraph 1, shall be recognised, in accordance with the principle of prudent valuation, as soon as they are received.

7. The value of received subrogation, salvage and grants shall be deducted from the value of settled claims.

8. The value of assessed subrogation, salvage and grants shall be recognised as balance sheet liabilities.

§ 38. 1. A provision for outstanding inward reinsurance claims shall be created in the amount corresponding to the established or expected ultimate value of future payments due to ceding undertakings in respect of the insurance or reinsurance undertaking's share in claims which are not settled by ceding undertakings.

2. The future payments referred to in paragraph 1 shall also include amounts set as compensation for ceding undertakings' loss adjustment costs.

3. The future payments referred to in paragraph 1 shall relate to damage incurred by the date as of which the provision is created by the insurance or reinsurance undertaking. In particular, it shall cover damage which:

- 1) is reported by ceding undertakings to the insurance or reinsurance undertaking by the date as of which the provision is created and for which the amount of the insurance or reinsurance undertaking's liability is calculated or when available information allows for assessing the amount of the insurance or reinsurance undertaking's liabilities;
- 2) is reported by ceding undertakings to the insurance or reinsurance undertaking by the date as of which the provision is created and available information does not allow for assessing the amount of the insurance or reinsurance undertaking's liabilities;
- 3) is incurred, but not reported by ceding undertakings to the insurance or reinsurance undertaking by the date as of which the provision is created.

4. When calculating the provision referred to in paragraph 1, discounts or deductions arising out of the adoption of the current value of damage shall not be used if the insurance or reinsurance undertaking expects that the ultimate loss adjustment and claim settlement cost will be higher, subject to § 3(2) and § 32(2).

5. A provision for inward reinsurance annuities of insurance classes 1-4 of Branch I shall be created as part of the life insurance provision.

§ 39. 1. In the case of life insurance, the value of the provision for outstanding claims should be equal to the amount due to insured or authorised persons, increased by claim settlement costs.

2. In the case of Branch I reinsurance, the value of the technical provision for outstanding claims should be equal to the amount due to ceding undertakings in accordance with the provisions of relevant reinsurance contracts.

3. If the reinsurance contract provides for the reinsurance undertaking's share in the ceding undertaking's loss adjustment costs, the amount referred to in paragraph 2 shall also include the amount set as compensation for the ceding undertaking's loss adjustment costs.

§ 40. 1. The equalisation provision shall be created by:

- 1) Branch II insurance undertakings;
- 2) Branch II reinsurance undertakings;
- 3) Branch I and II reinsurance undertakings.

2. The equalisation provision shall be created in the amount to ensure the equalisation of future fluctuations in the loss ratio net of reinsurance.

3. A direct insurance equalisation provision shall be created for insurance classes, subject to § 41, in which material fluctuations in the loss ratio net of reinsurance occur. Fluctuation in the loss ratio shall be considered as material if four consecutive changes in the loss ratio net of reinsurance, which are calculated on an annual basis, corresponding to 5 consecutive financial years preceding the year on which the provision is created, include at least two decreases in the loss ratio net of reinsurance by over 20% or two increases in the loss ratio net of reinsurance by over 25% of its value.

4. The insurance undertaking shall create the equalisation provision separately for each insurance class on the last day of the financial year, provided that the earned premium in this class was greater than zero in each of the last 5 financial years preceding a specific year. The provision for a specific insurance class shall be created in the amount so that, when the provision changes, the loss ratio for a specific financial year – calculated for the amount of claims adjusted by the change in the provision – is equal to the weighted average, where the weight is the earned premium, of loss ratios in a specific insurance class from the last 5 financial years preceding a specific year, calculated without taking into account changes in the equalisation provision. If the insurance undertaking has operated for less than 6 years, the equalisation provision for a specific insurance class shall not be created. The decrease in the provision for a specific insurance class shall not exceed its current amount and the increase in the provision shall not exceed 5% of the earned premium net of reinsurance in the class for which the provision is created. Furthermore, the value of the equalisation provision shall not exceed 30% of claim settlements net of reinsurance in a specific financial year in a given insurance class. If the earned premium in the financial year in a specific insurance class is equal to zero, the provision in this class shall be completely released that year.

5. Insurance undertakings, which pursue reinsurance activity, and reinsurance undertakings shall create an inward reinsurance equalisation provision as provided for in paragraphs 2-4 for the accounting classes, as appropriate, laid down in § 2(1) (26) (b), subject to § 41.

§ 41. 1. The insurance undertaking and the reinsurance undertaking, which pursues the activity referred to in class 14 of Branch II, shall create the equalisation provision for covering a negative technical result achieved in this insurance class in the financial year or the equalisation provision for a higher-than-average loss ratio achieved in this insurance class in the financial year, prior to taking into account the change in equalisation provisions.

2. The provision shall be created according to one of the methods, which are laid down in Annex 7 to the Ordinance, selected by a manager of the entity.

3. Methods of creating provisions should be selected based on statistical information resources available in the entity, provided that the insurance undertaking and the reinsurance undertaking, which have pursued the activity referred to in class 14 of Branch II for less than 5 financial years, shall create the provision referred to in paragraph 1 by applying Method 1 or 2 as laid down in Annex 7 to the Ordinance, while using, as appropriate, averages increasing according to the insurance period.

§ 42. 1. The life insurance provision shall be created, subject to the principle of prudence, in the amount determined by applying a prospective actuarial method, subject to paragraph 2, taking into account:

- 1) all liabilities arising out of concluded insurance contracts, including in particular:
 - a) claims guaranteed in the insurance contract and the guaranteed surrender value,
 - b) optional claims payable under terms and conditions of the insurance contract,
- 2) contract servicing costs and claim settlement costs

– however, when creating it, the insurance undertaking's future income from premiums payable under concluded insurance contracts shall be taken into account.

2. A retrospective method may be applied, provided that the resulting value of the provision is no less than the value of the provision calculated by applying a prospective method or when the prospective method for a specific insurance contract may not be applied.

3. All the costs, taken into account indirectly or directly, referred to in paragraph 1(2) shall not be lower than the expected amount of future expenses assessed in accordance with the principle of prudence.

4. Life insurance provisions shall be created individually for each insurance contract. The provisions may be calculated collectively for certain classes of insurance contracts, provided that the resulting value is nearly the same as when applying the individual method, subject to paragraph 8.

5. The insurance undertaking shall, at least once every 5 years, calculate the life insurance provision gross of reinsurance and net of reinsurance for all insurance contracts by applying the individual method as at the same day, subject to paragraph 8.

6. When calculating the life insurance provision, the insurance undertaking shall take into account the probability of unfavourable factors in future periods which may affect the change in the provisions and investments covering them.

7. If the insurance contract provides for surrender guarantees, the life insurance provision, which is created for this contract, shall not be lower than the guaranteed surrender value.

8. The provisions of paragraphs 4 and 5 shall not apply to the life insurance provision created in connection with the occurrence of non-individual risks concerning the whole portfolio of life insurance contracts or a portion thereof.

9. The provisions of paragraphs 1-8 shall apply, as appropriate, when calculating an inward reinsurance life insurance provision.

§ 43. If the investment risk is borne by the policyholder, life insurance provisions shall be created in the amount of an investment made in accordance with the provisions of the concluded life insurance contract.

§ 44. 1. Provisions for bonuses and rebates for the insured under direct insurance contracts shall be created, while taking into account all expected amounts by which future claims will be increased or by which future premiums will be decreased in accordance with the concluded insurance contract.

2. In the case of life insurance, a method of calculating the provision for bonuses and rebates for the insured should be consistent with assumptions used when calculating the life insurance provision and should take into account the current method of granting bonuses and rebates.

3. The provision for bonuses and rebates for the insured under inward reinsurance contracts shall be created for reinsurance contracts which provide for the reinsurer's share in bonuses and rebates paid or allocated by the ceding insurance undertaking to insured or authorised persons in accordance with concluded insurance contracts.

§ 45. 1. The provision for premium repayment to society members shall be created by:

1) insurance undertakings operating as a mutual insurance undertaking;

2) reinsurance undertakings operating as a mutual reinsurance undertaking.

2. In the case of mutual insurance undertaking, the provision for premium repayment to society members shall be created up to the amount of a positive technical result, provided that the obligation of premium repayment arises out of the insurance contract.

3. The provision referred to in paragraph 2 shall be created by insurance classes separately for each year of conclusion of insurance contracts.

4. In the case of insurance contracts concluded based on mutual insurance principles, the provision referred to in paragraph 2 shall be created in relation to insurance contracts concluded based on mutual insurance principles.

5. In the case of mutual reinsurance undertaking, the provision for premium repayment to society members shall be created up to the amount of the positive technical result, provided that the obligation of premium repayment arises out of the reinsurance contract.

6. The provision referred to in paragraph 5 shall be created by accounting classes separately for each year of conclusion of reinsurance contracts.

7. In the case of reinsurance contracts concluded based on mutual insurance principles, the provision referred to in paragraph 5 shall be created in relation to reinsurance contracts concluded based on mutual insurance principles.

§ 46. 1. Technical rates used by the insurance undertaking shall not be higher than 80% of the weighted average rate of return on investments covering technical provisions in the last 3 financial years which is calculated by applying the method laid down in Annex 8 to the Ordinance, however, the rate of return on foreign-currency investments shall be taken into account in the case of foreign-currency liabilities under insurance contracts.

2. The technical rate used by the insurance undertaking when valuing liabilities:

- 1) shall not be higher than the relevant technical rate used by the insurance undertaking on the date of conclusion of the insurance contract out of which the liabilities arise;
- 2) shall not be higher than the maximum technical rate applicable on the date of conclusion of the contract with respect to newly concluded insurance contracts, both in the case of PLN and foreign-currency liabilities.

3. The maximum technical rate shall be fixed and published by a supervisory authority by 31 January each year. The method of fixing the maximum technical rate shall be as laid down in Annex 9 to the Ordinance.

4. The maximum technical rate, which is published in a specific year, shall apply since 1 May that year, subject to paragraph 5.

5. The maximum technical rate, which is published in a specific year, shall not apply when calculating technical provisions concerning the insurance undertaking's liabilities arising after 30 April that year as a result of:

- 1) amending terms and conditions of insurance contracts concluded by that date, provided that the contracts allowed for such amendments; in particular:
 - a) an increase in the sum insured,

- b) premium indexation,
 - c) conversion into non-contributory insurance;
- 2) increasing the number of the insured under a group life insurance contract.

6. The limitation on used technical rates referred to in paragraphs 1 and 2 shall not apply to:

- 1) single-premium life insurance contracts whose term does not exceed 8 years,
- 2) life insurance contracts with the insurance capital fund

– however, used technical rates shall not be higher than average annual rates of return on investments covering technical provisions relating to the contracts, which are fixed for the last 36 months or the entire activity period, where the Branch I insurance undertaking has pursued insurance activity for less than 36 months.

7. The limitation on used technical rates referred to in paragraphs 1 and 2 shall also not apply to creating provisions for capitalised value of annuities in Branch II insurance, however, technical rates used in Branch II shall not be higher than the rate of return on investments covering provisions for capitalised value of annuities, which is fixed for the last 36 months or the entire activity period, where the Branch II insurance undertaking has pursued insurance activity for less than 36 months. The rate shall be calculated as laid down in Annex 8 to the Ordinance, subject to the replacement of the last 3 financial years with the last three periods of 12 months preceding the date as of which the provision for capitalised value of annuities is calculated.

8. Insurance undertakings may use technical rates lower than the maximum technical rate published by the supervisory authority.

§ 47. 1. Adopted principles for creating and methods of calculating technical provisions as well as assumptions about data and statistical ratios used when calculating provisions should be applied continuously and may not be changed unreasonably.

2. In the case of life insurance, principles for calculating the share in profit due in respect of the concluded insurance contract should be applied uniformly throughout the term of the insurance contract.

§ 48. Technical provisions net of reinsurance shall be calculated by insurance and reinsurance undertakings in accordance with the provisions of relevant reinsurance contracts.

§ 49. 1. Using the Zillmer method is possible for all types of insurance contracts where the life insurance provision may be calculated by using a net premium, except for term death insurance contracts, and accident and sickness insurance contracts.

2. Direct and indirect costs related to obtaining and concluding the insurance contract, and costs related to an optional increase in the premium by the policyholder during the term of the insurance contract shall be subject to time settlement by Zillmer method.

3. The maximum surcharge, by which the net premium may be increased, shall be equivalent to 3.5% of the total capital distributed over the entire period of premium payment by applying assumptions used when calculating the life insurance provision.

4. The increased premium referred to in paragraph 3 shall not be higher than a premium paid by a client.

5. When the Zillmer method is used for calculation of acquisition costs, the amount of the cost shall not be higher than a gross written premium in the first policy year.

6. If the Zillmer method is used and for calculation life insurance provision and achieved amount is negative, it shall be assumed that its value is equal to "0".

7. The insurance contracts subject to reinsurance, which are referred to in paragraph 1, shall be governed by paragraphs 2-6.

§ 50. If, when calculating technical provisions, resulting values are negative, it shall be assumed for further calculations that their value is equal to "0", except for the result of including assessed subrogation, salvage and grants in the provision for outstanding claims.

Chapter 5

Specific principles for drawing up financial statements of the insurance and reinsurance undertaking

§ 51. 1. Insurance undertakings shall draw up the life insurance technical account and a non-life insurance technical account by insurance classes.

2. Insurance and reinsurance undertakings shall draw up a technical insurance account with respect to inward reinsurance by accounting classes.

§ 52. 1. Insurance undertakings shall separately recognise income and expenses from direct activity and inward reinsurance, income and expenses from outward reinsurance, and income and expenses from other operating activity as cash flows from operating activity.

2. Reinsurance undertakings shall separately recognise income and expenses from inward reinsurance, income and expenses from outward reinsurance, and income and expenses from other operating activity as cash flows from operating activity.

3. The insurance or reinsurance undertaking shall recognise income and expenses from particular types of investments as cash flows from investment activity. The insurance or reinsurance undertaking shall recognise income and expenses related to the acquisition, realisation of assets other than investments, as appropriate, as income and expenses from other operating activity or as cash flows from financial activity.

4. The insurance or reinsurance undertaking shall recognise income and expenses related to financing its activity as cash flows from financial activity:

1) internal financing, including:

- a) income from shares issued,
- b) capital add-ons, and

2) external financing, including:

- a) credits,
- b) loans,

c) debt securities issued.

5. Acquisition expenses and administrative expenses shall be recognised in full as expenses from:

- 1) direct activity and inward reinsurance – in the case of the insurance undertaking;
- 2) inward reinsurance – in the case of the reinsurance undertaking.

§ 53. The notes to the financial statements of the insurance or reinsurance undertaking, which are drawn up in accordance with Annex 4 to the Ordinance, shall form an integral part of the financial statements of the insurance or reinsurance undertaking.

§ 54. 1. Explanations to the scope of information disclosed in the financial statements of the insurance or reinsurance undertaking, which is laid down in Annex 3 to the Act, shall be as laid down, as appropriate, in explanatory notes:

- 1) to balance sheet items – Annex 1 to the Ordinance;
- 2) to the life insurance technical account, the non-life insurance technical account and the profit and loss account – Annex 2 to the Ordinance;
- 3) to a cash flow statement – Annex 3 to the Ordinance.

2. The scope of information to the report on activity of the insurance or reinsurance undertaking shall be as laid down in Annex 6 to the Ordinance.

§ 55. 1. The insurance undertaking, which is formed by the merger of two insurance undertakings, shall draw up the financial statements as at the date of the merger.

2. The insurance undertaking, which acquires another insurance undertaking, shall draw up the financial statements as at the date of the acquisition of another insurance undertaking.

3. The insurance undertaking to which:

- 1) the insurance or reinsurance portfolio of another insurance undertaking is transferred,
- 2) the reinsurance portfolio of the reinsurance undertaking is transferred

– shall draw up the financial statements as at the date of the transfer of the insurance or reinsurance portfolio.

4. The reinsurance undertaking, which is formed by the merger of two reinsurance undertakings, shall draw up the financial statements as at the date of the merger.

5. The reinsurance undertaking, which acquires another reinsurance undertaking, shall draw up the financial statements as at the date of the acquisition of another reinsurance undertaking.

6. The reinsurance undertaking, to which the reinsurance portfolio of another reinsurance undertaking or the insurance undertaking is transferred, shall draw up the financial statements as at the date of the transfer of the reinsurance portfolio.

§ 56. Korporacja Ubezpieczeń Kredytów Eksportowych S.A. shall provide the financial statements with an attached report on the status of the separate bank account referred to in

Article 10(1) of the Act of 7 July 1994 on export insurance guaranteed by the State Treasury (Journal of Laws of 2015 items 489 and 1844).

Chapter 6

Consolidated financial statements of the capital group

§ 57. The insurance or reinsurance undertaking, which is a parent company established in the territory of the Republic of Poland, shall draw up the annual consolidated financial statements of the capital group.

§ 58. 1. The consolidated financial statements shall comprise, subject to paragraph 5:

- 1) a consolidated balance sheet and off-balance-sheet items;
- 2) a consolidated technical insurance account, subject to paragraph 4;
- 3) a consolidated profit and loss account;
- 4) a consolidated cash flow statement;
- 5) a consolidated statement of changes in equity;
- 6) the notes, including introduction to the consolidated financial statements as well as additional information and explanations.

2. The annual consolidated financial statements shall be accompanied by an activity report of the capital group drawn up, as appropriate, in accordance with Article 49(2), (2a) and (3) of the Act, provided that the information referred to in Article 49(2) (5) of the Act shall mean information on treasury shares held by the parent company, entities in the capital group and persons acting on their behalf.

3. The activity report of the capital group should take into account the scope of information laid down in Annex 6 to the Ordinance.

4. The notes to the consolidated financial statements of the capital group should reflect the scope of information laid down in Annex 5 to the Ordinance.

5. If the parent company as well as subsidiaries and co-subsidiaries pursue insurance or reinsurance activity in different insurance branches, the life insurance technical account and the non-life insurance technical account shall be separately drawn up in the consolidated financial statements.

6. The consolidated financial statements shall be drawn up in accordance with Annex 3 to the Act, with the proviso that:

- 1) in the consolidated balance sheet, the following items shall also be recognised separately:
 - a) in assets – "goodwill of subordinates"
 - b) in liabilities:
 - in item A – "foreign exchange differences on translation of subordinates" broken down into foreign exchange gains and losses,
 - "negative goodwill of subordinates",

- "minority interest";
- 2) in a consolidated non-life insurance technical account and in a consolidated life insurance technical account, the following shall also be recognised separately:
 - a) income and costs of subordinates,
 - b) in items "non-life insurance technical result" and "life insurance technical result" – item "technical result of subordinates";
- 3) in the consolidated profit and loss account, the following shall also be recognised separately:
 - a) income and costs of subordinates,
 - b) items:
 - "write-down on goodwill of subordinates",
 - "write-down on negative goodwill of subordinates",
 - "profit/loss on shares in subordinates accounted for using the equity method",
 - "minority profit/loss";
- 4) in the consolidated statement of changes in equity, the following items shall also be recognised separately:
 - a) "foreign exchange differences on translation of subordinates",
 - b) "write-offs on net profit during the financial year (negative value)".

§ 59. 1. Insurance or reinsurance undertakings covered by the consolidated financial statements, in particular subsidiaries and co-subsidiaries, should apply the same methods of valuing assets and liabilities and drawing up financial statements in accordance with accepted accounting practices (policy) of the insurance or reinsurance undertaking which is the parent company.

2. In matters not covered by this Chapter, the consolidated financial statements of the capital group shall be drawn up subject to, as appropriate, the principles laid down in regulations issued pursuant to Article 81(2) (3) of the Act.

Chapter 7

Transitional and final provisions

§ 60. The Ordinance shall apply for the first time to financial statements for the financial year beginning in 2016.

§ 61. 1. Financial statements of insurance and reinsurance undertakings for the financial year beginning in 2015 shall be governed by the existing provisions.

2. The maximum technical rate, which is fixed and published by the supervisory authority in accordance with the existing provisions, shall apply to financial statements of insurance and reinsurance undertakings for the financial year beginning in 2016.

3. The provisions of § 46(6) and (7) shall apply for the first time to financial statements of insurance undertakings for the second quarter of the financial year beginning in 2016.

§ 62. The Ordinance shall enter into force 14 days after the date of its publication.⁴⁾

Minister of Finance: *P. Szalamacha*

⁴⁾ This Ordinance was preceded by the Ordinance of the Minister of Finance of 28 December 2009 on specific accounting practices in insurance and reinsurance undertakings (Journal of Laws item 1825, and of 2015 item 1849) which shall cease to apply upon the entry into force of this Ordinance in accordance with Article 484(2) of the Act of 11 September 2015 on insurance and reinsurance activity (Journal of Laws item 1844).

Annexes to the Ordinance of the Minister of Finance of
12 April 2016 (item 562)

Annex 1

**EXPLANATORY NOTES TO BALANCE SHEET ITEMS OF THE
INSURANCE AND REINSURANCE UNDERTAKING**

1. Item B.I "land and buildings" in the asset section shall include both land and buildings held for investment purposes, and land and buildings used for own purposes.
2. Item B.III.2 "debt securities and other fixed-income securities" in the asset section shall include securities issued by credit institutions, other private institutions or public institutions with a guaranteed rate of income regardless of whether their interest is determined according to a fixed or variable rate. The item shall not include debt securities and other fixed-income securities which are issued by subordinates. The securities shall be recognised in item B.II.2 in the asset section of the balance sheet.
3. Item B.III.3 "investment pool shares" in the asset section shall include funds of the insurance or reinsurance undertaking entrusted to other entities for joint investment. If funds of the insurance undertaking are entrusted to its subordinates, the shares shall be recognised, as appropriate, in item B.II.3 in the asset section of the balance sheet. If funds of the reinsurance undertaking are entrusted to its subordinates, the shares shall be recognised, as appropriate, in item B.II.3 in the asset section of the balance sheet.
4. In item B.III.4 "loans secured by a mortgage" in the asset section, the insurance undertaking shall recognise loans whose main collateral is the established mortgage, even if loans are additionally secured by policies. In the item, the reinsurance undertaking shall recognise loans whose main collateral is the established mortgage.
5. Item B.III.5 "other loans" in the asset section shall include:
 - 1) loans secured by financial institutions;
 - 2) loans for the insured whose main collateral is a policy;
 - 3) other loans.
6. Item B.III.6 "term investments with credit institutions" in the asset section shall include term deposits with banks as well as other deposit takers and lenders. The item shall not include bank debt titles to deposits, e.g. deposit certificates, savings bonds – the securities shall be recognised, as appropriate, in item B.II.2 or item B.III.2 in the asset section of the balance sheet if they represent an investment with subordinates. Funds on bank accounts, which are not deposited for a specific term, shall be recognised in item E.II in the asset section of the balance sheet, even if they bear interest.
7. Item B.III.7 "other investments" in the asset section of the balance sheet shall include investments other than those in items B.III.1-6. The item shall include, among others, abnormal deposits which do not represent an investment with the subordinate. If the value of investments, which are recognised in item B.III.7 in the asset section of the balance sheet, exceeds a total of 2% of item B "investments" in the asset section of the balance sheet, it should be recognised separately in the notes to the financial statements, taking into account its value and structure by type.

8. In item B.IV "deposit receivables from ceding undertakings", the insurance or reinsurance undertaking, which takes on the risk, shall recognise amounts due from ceding undertakings and corresponding to granted guarantees to settle liabilities arising out of concluded inward reinsurance contracts, deposited with ceding undertakings or with third parties, or retained by the entities. Deposit receivables shall not be combined with other amounts due to the insurance or reinsurance undertaking, which takes on the ceding undertaking's risk, and compensated together with liabilities of the insurance or reinsurance undertaking which takes on the ceding undertaking's risk. Securities or other financial assets, which are deposited with ceding undertakings or third parties as collateral for the settlement of liabilities under concluded inward reinsurance contracts and owned by the insurance or reinsurance undertaking, which takes on the risk, shall be recognised by the undertaking in the balance sheet and shall have their nature separately specified.
9. Item C "net life insurance assets where the investment risk is borne by the policyholder" in the asset section of the balance sheet shall include net assets for the account and risk of the policyholder. The item shall include assets whose value is used to calculate profit from unit-linked insurance contracts and which are used to cover liabilities calculated based on specific indices or other baselines. Funds of the insurance undertaking, which are invested together with funds making up insurance capital funds, shall be recognised in item B in the asset section of the balance sheet.
10. Item D.III.2 "other receivables" in the asset section shall include primarily receivables arising out of operations of an average adjuster performed on behalf of other insurance or reinsurance undertakings.
11. Balances of co-insurance settlements shall be recognised together with direct insurance settlements and appropriately separated in the notes to the financial statements.
12. Item E.II "cash" in the asset section shall also include bills of exchange, third-party cheques, etc., cash-in-transfer, i.e. cash transferred from hand to the insurance (reinsurance) undertaking's bank account, or cash transferred between two own bank accounts, third-party cheques to be cashed, transferred by the bank by the moment of recognising the insurance (reinsurance) undertaking's bank account, or bills of exchange.
13. Item F.II "deferred acquisition costs" in the asset section shall include the acquisition costs deferred.
14. Item F.III "accrued interest and rent" in the asset section shall include interest and rent which are accrued as at the balance sheet date, not matured or due and not included in the value of investments.
15. In item A.I "share capital" in the liability section, branches of foreign insurance and reinsurance undertakings shall recognise their capital drawn from the equity of the foreign insurance or reinsurance undertaking, as appropriate, and recognised by the undertaking as the share capital of the branch.
16. Item A.III "revaluation reserve" in the liability section shall include, among others, the difference arising out of the revaluation of financial assets available for sale. In the case of debt securities classified as financial assets available for sale, the item shall include differences between the fair value and the adjusted purchase price. Differences between the adjusted purchase price and the purchase price of debt securities, and in the case of

previously revalued debt securities – the revaluation value, as appropriate, shall be recognised directly as investment income in item II.2.2 or II.3.2 of the life insurance technical account, or in item II.2.2 or II.3.2 of the profit and loss account.

17. Item B "subordinated liabilities" in the liability section shall include liabilities which, in the event of the insurance or reinsurance undertaking's liquidation or bankruptcy, are repaid once all other creditors of the insurance or reinsurance undertaking are satisfied.
18. Item C "technical provisions" in the liabilities section shall include technical provisions gross of reinsurance.
19. Item C.I "provision for unearned premiums and provision for unexpired risk" in the liability section shall include the provision for unearned premiums jointly with the provision for unexpired risks. The provision for unexpired risks shall be recognised in the notes to the statements. In the item, life insurance undertakings and Branch I reinsurance undertakings shall recognise the provision for unearned premiums which is not included in item C.II in the liability section of the balance sheet.
20. In item C.IV "provisions for bonuses and rebates for the insured" in the liability section, the insurance undertaking shall recognise amounts provided for insured or authorised persons under the insurance contract in the form of a share in profits or returns insofar as not recognised in item H.I.1 "liabilities to policyholders" in the liability section or item C.II "life insurance provisions" in the liability section. In item C.IV "provision for bonuses and rebates for the insured" in the liability section, the insurance undertaking, which pursues reinsurance activity, shall recognise the provision for bonuses and rebates for the insured under inward reinsurance contracts.

In item C.IV "provisions for bonuses and rebates for the insured" in the liability section, the reinsurance undertaking shall recognise the provision for bonuses and rebates for the insured under inward reinsurance contracts.
21. Item C.V "equalisation provisions" in the liability section shall include equalisation provisions for hedging against fluctuations in the loss ratio in future financial years.
22. Item C.VII "other technical provisions specified in the articles of association" in the liability section shall include other technical provisions specified in the articles of association of the insurance or reinsurance undertaking which are not included in items C.I-C.VI and C.VIII in the liability section.
23. Item C.VIII "life insurance provision where the investment risk is borne by the policyholder" in the liability section shall include technical provisions created to cover liabilities corresponding to the value of investments where the value of the policy depends on the rate of return on the investments referred to in paragraph 9 or where the rate of return on the policy depends on specific indices. Additional technical provisions for life insurance, which are created to cover death risk, operating costs and other risks (such as bonuses paid at maturity or guaranteed benefits which are equivalent to a waiver of rights under the insurance contract by the insured), shall be recognised in item C.II in the liability section.
24. Item F.III "other provisions" in the liability section shall include all other provisions which are not included in the previous items.

25. In item G "reinsurers' deposit liabilities" in the liability section, the ceding insurance and reinsurance undertaking shall recognise liabilities as funds received or deducted from the reinsurer under reinsurance contracts. The amounts shall not be combined with other liabilities to and compensated together with receivables from the reinsurer. Cash guarantees of the reinsurer, which are owned by the reinsurer, shall be recorded in the ceding undertaking's books in off-balance-sheet accounts and shall be recognised in the financial statements in off-balance-sheet item 1.1 "received guarantees and suretyships".
26. In item H "other liabilities and special funds" in the liability section, except for item H.VI "special funds" in the liability section, liabilities shall be recognised in the notes, broken down into PLN and foreign-currency liabilities.
27. In item H.V.2 "other liabilities" in the liability section, liabilities arising out of the operations, which are laid down in Article 4(10) and (11) of the Act on insurance and reinsurance activity, shall be recognised in the notes as well.
28. Item H.VI "special funds" in the liability section shall include funds created by operation of both law and resolutions of a general meeting. The funds shall include primarily a provident fund, the organisational fund and any employee funds.
29. Technical provisions (item C in the liability section), reinsurers' share in technical provisions (item D in the liability section), other provisions (item F in the liability section), reinsurers' deposit liabilities (item G in the liability section) and reinsurance liabilities (item H.II in the liability section) shall be recognised in the notes.
30. Reinsurance undertakings shall not be subject to paragraph 5(2), paragraphs 9, 11, 23 and 27.

Annex 2

EXPLANATORY NOTES TO THE LIFE INSURANCE TECHNICAL
ACCOUNT, THE NON-LIFE INSURANCE TECHNICAL ACCOUNT AND THE
PROFIT AND LOSS ACCOUNT OF THE INSURANCE AND REINSURANCE
UNDERTAKING

1. All items of technical insurance accounts and the profit and loss account must include comparative data for the corresponding period of the previous financial year.
2. Item I.1 "gross written premiums" of the life insurance technical account and the non-life insurance technical account shall include the premium amounts referred to in § 2(1) (15) of the Ordinance. The item should include, among others:
 - 1) premiums, which are accrued in respect of insurance cover provided in the reporting period, to be actually settled in later reporting periods,
 - 2) single life insurance premiums, including annuity premiums, single premiums resulting from provisions for bonuses and rebates for the insured if insurance contracts so provide,
 - 3) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from policyholders for expenses borne by the insurance undertaking,
 - 4) in the case of co-insurance, the insurance undertaking's portion of premiums in accordance with the co-insurance contract,
 - 5) reinsurance premiums due from ceding undertakings, including by way of entry in the ceding undertaking's portfolio, after deduction of unused insurance premiums withdrawn from the portfolio to the benefit of ceding insurance undertakings

– however, the premiums shall be recognised jointly with all additional amounts and supplements for outstanding periods, after deduction of contra entries, returns, any discounts and rebates.
3. Item I.2 "reinsurers' share in gross written premium" of the life insurance technical account and item I.2 "reinsurers' share in gross written premium" of the non-life insurance technical account shall include reinsurance premiums paid or payable to the reinsurer in the reporting period under proportional and non-proportional outward reinsurance contracts concluded by the insurance or reinsurance undertaking. Portfolio entries payable at the time of concluding or amending the reinsurance contract shall increase this amount, while entries payable in respect of portfolio withdrawals shall decrease this amount.
4. Item I.3 "change in gross provisions for unearned premiums and provision for unexpired risk" of the non-life insurance technical account and the life insurance technical account shall include differences between the provision for unearned premiums and the provision for unexpired risks at the end of the reporting period, and at the beginning of the reporting period on a gross basis under direct insurance or inward reinsurance contracts. The item shall include the change in the provisions recognised in item C.I in the liability section of the balance sheet.

5. Item I.4 "reinsurers' share in change in provisions for unearned premiums" of the non-life insurance technical account and the life insurance technical account shall include differences between the provision for unearned premiums and the provision for unexpired risks at the end of the reporting period, and at the beginning of the reporting period net of reinsurance under direct insurance or inward reinsurance contracts. The item shall include the change in the provisions recognised in item D.I in the liability section of the balance sheet.
6. Item II.4 "profit on revaluation of investments" of the life insurance technical account and the profit and loss account shall include, among others, income from the reversal of previously created impairment losses on investments.
7. Item III "unrealised gains on investments" of the life insurance technical account and the profit and loss account shall include, subject to paragraph 6, primarily a positive difference between the balance sheet value and the purchase price (creation cost) of investments, and in the case of previously revalued investments – the revaluation value, as appropriate, except for a positive difference on the revaluation of investments recognised as equity. In the case of debt securities whose valuation differences are not recognised as equity, the item shall include positive differences between the fair value and the adjusted purchase price. Differences between the adjusted purchase price and the purchase price of debt securities, and in the case of previously revalued debt securities – the revaluation value, as appropriate, shall be recognised directly as investment income in item II.2.2 or II.3.2 of the life insurance technical account, or in item II.2.2 or II.3.2 of the profit and loss account.
8. Item IV.1.1 of the non-life insurance technical account or item V.1.1 of the life insurance technical account, "gross settled claims", shall include:
 - 1) all payments made in the reporting period in respect of claims for damage and accidents in the reporting period and preceding reporting periods (including annuities) and life insurance surrenders, including all direct and indirect, external and internal loss adjustment and subrogation vindication costs and costs incurred to secure grants reduced by returns, subrogation and salvage (including salvage from the sale of the damage stock) and grants. Loss adjustment and subrogation vindication costs shall also cover costs of litigious proceedings;
 - 2) the insurance undertaking's share in co-insurance claims in accordance with the co-insurance contract;
 - 3) the insurance or reinsurance undertaking's claims under the inward reinsurance contract settled by ceding undertakings.
9. Item IV.1.2 of the non-life insurance technical account and item V.1.2 of the life insurance technical account, "reinsurers' share in settled claims", shall include claims settled in the reporting period attributable to reinsurers' share under outward reinsurance contracts.
10. Item IV.2 of the non-life insurance technical account and item V.2 of the life insurance technical account, "change in provision for outstanding claims net of reinsurance", shall include:
 - 1) in the case of the Branch II insurance undertaking, the change in provisions in item C.III in the liability section of the balance sheet adjusted for the change in provisions

- net of reinsurance in item D.III in the liability section and for the change in assessed subrogation, salvage and grants in item E in the liability section of the balance sheet;
- 2) in the case of the Branch I insurance undertaking and the reinsurance undertaking, the change in provisions in item C.III in the liability section of the balance sheet adjusted for the change in provisions net of reinsurance in item D.III in the liability section of the balance sheet.
11. Item VI "bonuses and rebates net of reinsurance including change in provisions" of the non-life insurance technical account and item VII "bonuses and rebates including change in provisions net of reinsurance" of the life insurance technical account shall include the following net of reinsurance:
- 1) in the case of direct insurance, bonuses, rebates paid or allocated by the insurance undertaking to insured or authorised persons in accordance with the insurance contract. The item shall also include amounts to be paid in the reporting period, paid or payable to insured or authorised persons, including amounts to increase technical provisions or to decrease future premiums insofar as such amounts are transfers of surplus or profit from all operations or a portion thereof, after deducting amounts included in previous reporting periods which are no longer due and payable. Rebates (discounts) shall include reduced rates or partial premium returns resulting from the experience of individual insurance contracts. Bonuses and rebates (discounts) should be recognised separately if their values are significant;
- 2) in the case of inward reinsurance, the insurance or reinsurance undertaking's share in bonuses and rebates paid or allocated by the ceding insurance undertaking to insured or authorised persons in accordance with the insurance contract, increased by the provision for bonuses and rebates for the insured under inward reinsurance contracts at the end of the reporting period, reduced by the provision for bonuses and rebates for the insured under inward reinsurance contracts at the beginning of the reporting period.
12. Item VII.1 of the non-life insurance technical account and item VIII.1 of the life insurance technical account, "acquisition costs", shall include direct insurance or inward reinsurance acquisition costs incurred in the reporting period, adjusted for the change in deferred acquisition costs and for the value of acquisition costs not yet incurred, relating to the earned premium in the reporting period.
13. Item VIII.3 "reinsurance commissions and profit participation" of the life insurance technical account and item VII.3 "reinsurance commissions and reinsurers' profit participation" of the non-life insurance technical account shall include the value of the item – being a negative figure. Reinsurance commissions shall be subject to time settlement analogously to deferred acquisition costs incurred in respect of the conclusion of insurance or inward reinsurance contracts covered by outward reinsurance contracts.
14. Item VIII of the non-life insurance technical account and item XI of the life insurance technical account, "other technical costs net of reinsurance", shall include primarily:
- 1) sums payable to the Insurance Guarantee Fund;
- 2) sums payable to cover insurance and reinsurance supervision costs;
- 3) membership fees payable to the Polish Insurance Association;

- 4) sums payable to cover activity costs of the Financial Ombudsman and the Office of the Financial Ombudsman;
 - 5) provident fund deductions or provident activity costs if the insurance undertaking does not establish the provident fund;
 - 6) sums payable to the Union of Voluntary Fire-Brigades of the Republic of Poland;
 - 7) negative differences arising out of the settlement of lump sums of claims settled under insurance contracts concluded by the insurance undertaking and settled as part of direct loss adjustment;
 - 8) other expenses net of reinsurance included in the premium calculation;
 - 9) impairment losses on direct insurance and reinsurance receivables;
 - 10) foreign exchange losses on direct insurance and reinsurance.
15. Item IX.3 of the life insurance technical account and item V.3 of the profit and loss account, "loss on revaluation of investments", shall include impairment losses on an investment which are created in the reporting period.
16. Item X "unrealised losses on investments" of the life insurance technical account and item VI "unrealised losses on investments" of the profit and loss account shall include, subject to paragraph 15, primarily a negative difference between the balance sheet value and the purchase price (creation cost) of investments, and in the case of previously revalued investments – the revaluation value, as appropriate, calculated at the beginning of the reporting period, except for a negative difference on the revaluation of investments recognised as equity. In the case of debt securities whose valuation differences are not recognised as equity, the item shall include negative differences between the fair value and the adjusted purchase price.
17. For the preparation of technical insurance accounts by individual insurance classes or accounting classes, administrative costs shall be appropriately settled in accordance with the principles set out in the insurance undertaking's accounting policy. For the preparation of technical insurance accounts by individual accounting classes, administrative costs shall be appropriately settled in accordance with the principles set out in the reinsurance undertaking's accounting policy.
18. In item I "non-life and life insurance technical result" of the profit and loss account, Branch I and II reinsurance undertakings shall disclose the total amount of:
- 1) the life insurance technical result recognised in item XIII of the life insurance technical account and
 - 2) the non-life insurance technical result recognised in item X of the non-life insurance technical account.
19. Item II.5 "profit on realisation of investments" and item V.4 "loss on realisation of investments" of the profit and loss account shall include, as appropriate, positive or negative differences between investment sales income and the prime investment sales cost, including the investment purchase price, and in the case of previously revalued investments – the investment revaluation value, as appropriate, and transaction costs of

the realisation of investments, including amounts recognised as the revaluation reserve. The item shall also include the redemption of securities by an issuer.

20. Item VIII "other operating income" of the profit and loss account shall include primarily:

- 1) other financial income;
- 2) income from operations of the average adjuster;
- 3) income from acquisition activity for the benefit of voluntary pension funds;
- 4) income from direct loss adjustment;
- 5) other operating income.

21. Item IX "other operating costs" of the profit and loss account shall include primarily:

- 1) other financial costs;
- 2) costs related to operations of the average adjuster;
- 3) costs related to acquisition activity for the benefit of voluntary pension funds;
- 4) costs of direct loss adjustment;
- 5) the tax referred to in the Act of 15 January 2016 on tax on certain financial institutions (Journal of Laws item 68);
- 6) other operating costs.

22. Reinsurance undertakings shall not be subject to paragraph 2(1)-(4), paragraph 8(1) and (2), paragraph 14(1), (4), (6) and (7), paragraph 20(3) and (4), and paragraph 21(3) and (4).

Annex 3

EXPLANATORY NOTES TO THE CASH FLOW STATEMENT OF THE
INSURANCE AND REINSURANCE UNDERTAKING

1. Income from gross premiums shall include:
 - 1) in the case of the insurance undertaking, income earned in the reporting period from direct insurance or the insurance undertaking's share in inward reinsurance without taking into account premium returns which shall be recognised in item A.II.1.1 of the cash flow statement;
 - 2) in the case of the reinsurance undertaking, income earned in the reporting period from the reinsurance undertaking's share in inward reinsurance without taking into account premium returns which shall be recognised in item A.II.1.1 of the cash flow statement.
2. Income from gross premiums (item A.I.1.1) and acquisition expenses (item A.II.1.3) shall be recognised separately, even if settlements with insurance intermediaries are made per balance.
3. In item A.I.1.2 "income from subrogation, salvage and claim refunds":
 - 1) the insurance undertaking shall recognise income from subrogation, salvage, claim refunds and grants not reduced by costs of subrogation, salvage and claim refunds and costs incurred to secure grants;
 - 2) the insurance and reinsurance undertaking shall recognise income from its share in subrogation, salvage and claim refunds received by ceding undertakings in accordance with the provisions of reinsurance contracts.
4. In item A.I.2.1 "reinsurers' payments due to their share in claims":
 - 1) the insurance undertaking shall recognise amounts actually received from reinsurers due to their share in claims paid by the insurance undertaking under direct insurance contracts, including amounts earmarked for compensation for loss adjustment costs, unless they are a portion of reinsurance commission;
 - 2) the insurance and reinsurance undertaking shall recognise amounts actually received from reinsurers due to their share in claims paid by the insurance or reinsurance undertaking under inward reinsurance contracts.
5. Reinsurers' payments due to their share in claims (item A.I.2.1) and income from reinsurance commissions and share in reinsurers' profits (item A.I.2.2) shall be recognised separately, even if settlements with reinsurers are made per balance.
6. Item A.I.2.3 "other income from outward reinsurance" shall include deposits received from reinsurers.
7. Item A.II.1.2 "gross settled claims" shall include amounts actually paid by:
 - 1) the insurance undertaking due to loss adjustment (claim settlement) and other events covered by the insurance contract;

- 2) the insurance or reinsurance undertaking to ceding undertakings due to the execution of risks or the occurrence of events covered by the reinsurance contract.
8. Income from shares issued (item C.I.1) shall mean net amounts received – reduced by issuance costs – irrespective of the date on which an increase in the share capital is registered; mutual insurance and reinsurance societies shall recognise payments for participation in the share capital in the item.

Annex 4**SCOPE OF THE NOTES TO THE FINANCIAL STATEMENTS OF THE INSURANCE
AND REINSURANCE UNDERTAKING**

The notes to the financial statements of the insurance and reinsurance undertaking shall include introduction to the financial statements as well as additional information and explanations.

- I. Introduction to the financial statements of the insurance or reinsurance undertaking shall include primarily:
 - 1) the name and registered office of the insurance or reinsurance undertaking and an indication of a competent court or another record-keeping authority, and in the case of the branch or main branch of the foreign insurance or reinsurance undertaking – the name and registered office of the controlling company as well;
 - 2) an indication of the period of the financial statements, the reason if the financial statements are drawn up for a period other than the financial year;
 - 3) an indication that the financial statements contain aggregated data if the insurance or reinsurance undertaking includes internal organisational units which draw up separate financial statements;
 - 4) an indication whether the financial statements are drawn up assuming that the insurance or reinsurance undertaking will continue to operate as a going concern in the foreseeable future and whether there are no circumstances that raise doubt about the undertaking's ability to continue as a going concern;
 - 5) in the case of the financial statements drawn up for the period of the merger of entities or of transfer of the insurance or reinsurance portfolio, an indication that the financial statements are drawn up following the merger or the transfer of the insurance or reinsurance portfolio, and in the case of the merger – an indication of the settlement method applied;
 - 6) changes in accounting practices introduced in the financial year, including in valuation methods, and reasons for their introduction if they have a significant impact on the financial statements, indicating the financial result difference they caused;
 - 7) changes in the method of drawing up the financial statements introduced with respect to the previous financial statements, providing reasons for their introduction and consequences for presenting the economic and financial standing of the insurance or reinsurance undertaking;
 - 8) information on:
 - a) the type of the error referred to in Article 54(3) of the Act,
 - b) the amount of an adjustment relating to prior periods if the insurance or reinsurance undertaking adjusted the error;
 - 9) information on significant events in the insurance or reinsurance undertaking following the balance sheet date and not included in the financial statements;

- 10) information on significant events in the insurance or reinsurance undertaking relating to previous years, included in the financial statements for the financial year;
 - 11) information on significant events relating to the financial year, having a significant impact on the structure of balance sheet items and the financial result;
 - 12) figures ensuring the comparability of data in the financial statements for the previous year with the statements for the financial year;
 - 13) information on the remuneration of a statutory auditor or an entity authorised to audit financial statements which is paid or payable for the financial year separately for:
 - a) a mandatory audit of the annual financial statements,
 - b) other assurance services,
 - c) tax consultancy services,
 - d) other services.
- II. The notes and explanations shall include information needed to better understand the financial and economic standing as well as the financial result and solvency of the insurance or reinsurance undertaking, in particular:
- 1) with respect to investments of the insurance or reinsurance undertaking:
 - a) allocation of investments, which are financial assets, listed in the balance sheet to:
 - financial assets held for trading,
 - granted loans and own receivables,
 - financial assets held to maturity,
 - financial assets available for sale,
 - b) the purchase price (creation cost) of investments – where investments are recognised in the balance sheet at fair value, the fair value of investments – where investments are recognised in the balance sheet at purchase price, the value of previous write-downs – in the case of partially redeemed or permanently impaired investments; with respect to investments in land and buildings, their fair value shall be valued at least once every 5 years,
 - c) investments of affiliates broken down into: investments in subsidiaries, investments in co-subsiidiaries, investments in associates and investments in the parent company – separately for each entity,
 - d) domestic and foreign investments, including EU and other investments, specifying securities admitted to public trading on a regulated market, fully marketable, non-listed and non-traded over-the-counter securities, securities issued or guaranteed by the State Treasury or international organisations whose member is the Republic of Poland, and investments issued or guaranteed by local government units; foreign investments shall mean investments localised abroad. The localisation of investments shall be, in the case of:

- land and buildings – their location,
 - investments listed on regulated markets – their issuer's country.
 - other investments – the place of their realisation which means, in particular:
 - – for debt securities, loans and receivables and other fixed-income financial instruments – the issuer's country, a borrower's country, the debtor's country,
 - – for shares and other financial instruments giving the right to participate in the capital of a company – the registered office of the company,
 - – for units and investment certificates in investment funds or in other mutual funds – a fund manager's country,
 - e) foreign-currency investments if their share in the total investments of the insurance or reinsurance undertaking is significant,
 - f) specification of loans not secured by insurance policies if their share in the total investments of the insurance or reinsurance undertaking is significant,
 - g) specification of investments included in item "other investments" if their share in the total investments of the insurance or reinsurance undertaking is significant,
 - h) information on the interest rate risk on investments,
 - i) information on the credit risk on investments, in particular information on the assessed maximum amount of loss to which the entity is exposed, without taking into account the fair value of any held or granted collateral in case of the creditor's failure, providing information on the concentration of the risk;
- 2) with respect to deposits with ceding undertakings:
- a) domestic and foreign deposits, including EU and non-EU deposits,
 - b) deposits with affiliates of the insurance or reinsurance undertaking;
- 3) with respect to other assets, the notes should include information on treasury shares purchased, transferred or redeemed in the reporting period;
- 4) with respect to reinsurers' deposit liabilities:
- a) PLN and foreign-currency liabilities,
 - b) liabilities to affiliates of the insurance or reinsurance undertaking and other entities,
 - c) liabilities to entities established outside the territory of the Republic of Poland, including in the territory of a EU and non-EU Member State;
- 5) with respect to subordinated liabilities:
- a) the value and currencies of individual loans,
 - b) interest terms and conditions and maturities of loans;

- 6) with respect to receivables and liabilities, the following should be disclosed:
 - a) the value of outward reinsurance receivables and liabilities,
 - b) the value of inward reinsurance receivables and liabilities,
 - c) the value of impairment losses on receivables by balance sheet items,
 - d) breakdown of receivables and liabilities by balance sheet items whose contractual maturity as at the balance sheet date is up to 3 months (inclusive), over 3 months up to 1 year (inclusive), over 1 year, and the value of outstanding receivables and liabilities,
 - e) receivables and liabilities to entities established outside the territory of the Republic of Poland, including in the territory of a EU Member State,
 - f) a list of contingent liabilities and liabilities secured by assets of the insurance or reinsurance undertaking, indicating its type, including separately for affiliates;
- 7) data on the accounting of derivatives securing the value of assets covering technical provisions, including a description of collaterals, a description of financial instruments designated as hedging instruments and principles for their valuation as at the balance sheet date;
- 8) with respect to equity, the notes shall include:
 - a) data on the ownership structure of the share capital, and the number and nominal value of subscribed shares, indicating preference shares,
 - b) proposed profit distribution or loss coverage for the financial year,
 - c) information on changes in the value of the deposit for the main branches, including as at the beginning of the financial year, increases and decreases in the reporting period and as at the end of the financial year;
- 9) with respect to technical provisions, the following should be disclosed:
 - a) the provision for unexpired risks, irrespective of its amount,
 - b) provisions for outstanding claims by accounting classes, including separately:
 - for the Branch II insurance undertaking, provisions for damage incurred in the reporting period, assessed subrogation, salvage and grants included in the provision and in an income statement,
 - for the Branch I insurance undertaking and the reinsurance undertaking, provisions for damage incurred in the reporting period,
 - c) in the case of applying discounts or deductions when calculating the provision for capitalised value of annuities – by accounting classes, as appropriate, provisions prior to taking into account discounts and deductions, a description of applied methods, in particular used technical rates and criteria adopted for determining how long the full loss adjustment will take,

- d) the accounting unit of insurance capital funds as at the balance sheet date and the change in the reporting period – in the case of the insurance undertaking which pursues the activity referred to in class 3 of Branch I,
 - e) the provision for premium repayment to members in the case of the mutual insurance and reinsurance society,
 - f) data on the accounting of derivatives securing the value of technical provisions, including a description of collaterals, a description of financial instruments designated as hedging instruments and principles for their valuation as at the balance sheet date;
- 10) with respect to other assets and liabilities, amounts should be disclosed if their share in the balance sheet total of the insurance or reinsurance undertaking is significant;
- 11) with respect to life insurance and life reinsurance, gross written premiums in the reporting period should be disclosed, broken down into direct insurance and inward reinsurance, indicating premiums:
- a) from individual insurance (including in respect of individual continuation of group insurance) and group insurance,
 - b) from single-premium insurance (including perpetual insurance) and periodic-premium insurance,
 - c) from bonus and non-bonus insurance,
 - d) from capital insurance, including: insurance with the insurance capital fund (including separately if the investment risk is borne by the policyholder), and from investment insurance of class 1 of Branch I, indicating the portion of premiums not relating to insurance cover.
 - e) in the case of mutual insurance societies, gross written premiums in respect of contracts concluded with non-members of the mutual insurance society and gross settled claims in the reporting period as well as acquisition costs and administrative costs broken down into direct insurance and inward reinsurance, the balance of inward reinsurance settlements and the balance of outward reinsurance settlements;
- 12) with respect to non-life insurance and non-life reinsurance, gross written premiums, gross earned premiums in the reporting period, gross settled claims (including loss adjustment costs and costs incurred to secure grants, and subrogation, salvage and grants separately for direct insurance), and acquisition costs and administrative costs broken down into direct insurance and inward reinsurance by accounting classes, the balance of inward reinsurance settlements and the balance of outward reinsurance settlements by accounting classes;
- 13) gross written premiums from direct insurance under contracts concluded outside the Republic of Poland, including those concluded in the territory of EU Member States;
- 14) information on the course of loss adjustment processes (in the case of Branch II insurance – by accounting classes): information on the average time of loss adjustment and information on the size of damage incurred in the reporting period in respect of insurance contracts concluded in this period (including claims settled in

respect of the damage and the provision for outstanding claims created at the end of the financial year);

- 15) with respect to tax settlements, a list of the main items differentiating the item of income tax from the gross financial result (including in respect of technical activity, in respect of extraordinary gains and losses), income tax affecting the financial result for a specific financial year, broken down into current and deferred tax, information on the value of assets and a created provision for deferred income tax as a result of temporary differences between the book value of assets and liabilities, and their tax value and tax loss that may be settled in the future;
- 16) with respect to investment income and costs, separation of the income and costs from insurance investments of insurance capital funds, including separately investments whose risk is borne by the policyholder;
- 17) with respect to costs – direct insurance or inward reinsurance commissions included in the financial year, including: acquisition commissions, insurance renewal commissions, premium collection commissions, and insurance and reinsurance servicing commissions; data on the structure of: acquisition costs, administrative costs, loss adjustment and subrogation vindication costs, investment costs broken down into internal and external costs, including:
 - a) internal costs, including material and energy consumption, personnel costs (remunerations, insurance and other benefits, depreciation and others)
 - b) external costs, including external services (separately commissions, advertising costs);
- 18) where values and amounts are significant (significant figures or consequences for the insurance or reinsurance undertaking), information on income, costs and results of activity, which is discontinued in the financial year or to be discontinued in the subsequent year, should be disclosed;
- 19) information on remunerations, including profit participation, paid to members of the Management Board and of supervisory authorities of the insurance or reinsurance undertaking, and on loans granted to such persons;
- 20) information on transactions with members of the Management Board and of supervisory authorities of the insurance or reinsurance undertaking, and with entities in which they are shareholders or partners if their voting rights represent, be it directly or indirectly, at least 33% of all voting rights at a general meeting of shareholders;
- 21) information on transactions with companies related by capital;
- 22) information on significant transactions (including their amounts) entered into by the insurance or reinsurance undertaking under terms and conditions other than market terms and conditions with related parties – including information on the nature of the transactions. Information on individual transactions may be grouped by their type, except where information on individual transactions is necessary to understand their impact on the economic, financial standing and the financial result of the insurance or reinsurance undertaking;

23) information on the nature and economic purpose of contracts concluded by the insurance or reinsurance undertaking, not included in the balance sheet to the extent necessary to assess their impact on the economic, financial standing and the financial result of the insurance or reinsurance undertaking.

III. Reinsurance undertakings shall not be subject to paragraph II(9) (c) and (d), paragraph II(13), (14) and (16).

Annex 5

SCOPE OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE CAPITAL GROUP

- I. The notes to the consolidated financial statements of the capital group should include:
- 1) the name and registered office of the parent company which draws up the consolidated financial statements;
 - 2) data on the ownership structure of the share capital of the parent company, separately specifying the number and value of shares held by the parent company and affiliates; the list should also include information on the percentage of shares, and information on participation in management and in the profit or loss of the companies for the last reporting period;
 - 3) goodwill and negative goodwill separately for each consolidated entity, indicating how they are calculated and what is the amount of depreciation deductions;
 - 4) figures ensuring the comparability of data in the financial statements for the previous year with the financial statements for the financial year;
 - 5) figures on companies related by capital with the entity, concerning:
 - a) permanent financial investments in the companies,
 - b) mutual receivables and liabilities,
 - c) costs and income from mutual transactions,
 - d) off-balance-sheet items related to affiliates,
 - e) other data necessary to draw up the consolidated financial statements;
 - 6) in the case of the consolidated financial statements drawn up for the period of the merger of the affiliate:
 - a) in the case of settlement by acquisition method – the name and description of objects of an acquired company, the number, nominal value and type of shares issued in the merger, the acquisition price, the value of net assets at fair value of the acquired company as at the date of the merger, goodwill or negative goodwill and a description of principles for its depreciation, or
 - b) in the case of settlement by pooling-of-interest method – the name and description of objects of companies deregistered as a result of the merger, the number, nominal value and type of shares issued in the merger, income and costs, gains and losses and changes in equity of merged companies for the period from the beginning of the financial year of the merger to the date of the merger;
 - 7) information on the remuneration of the statutory auditor or the entity authorised to audit financial statements which is paid or payable for the financial year separately for:
 - a) the mandatory audit of the annual consolidated financial statements,

- b) other assurance services,
 - c) tax consultancy services,
 - d) other services.
- II. The notes on individual items of the financial statements of the capital group should include information on:
- 1) joint ventures not subject to consolidation by full or equity method, including:
 - a) the name, activity of a joint venture, percentage share, jointly held assets and incurred liabilities, including contingent liabilities,
 - b) joint venture income and related costs;
 - 2) remunerations, including profit participation, paid to members of the Management Board and of supervisory authorities of companies;
 - 3) loans granted to members of the Management Board and of supervisory authorities of companies;
 - 4) transactions:
 - a) with members of the Management Board and of supervisory authorities of the insurance or reinsurance undertaking, and with spouses or actually cohabitating persons, relatives by consanguinity or affinity to the second degree, adoptees or adoptive parents, persons related by custody or guardianship to any members of the Management Board and of supervisory authorities of the insurance or reinsurance undertaking,
 - b) with entities in which the persons referred to in point (a) are shareholders or partners if their voting rights represent, be it directly or indirectly, at least 33% of all voting rights at the general meeting of shareholders;
 - 5) transactions with companies related by capital and not covered by the consolidated financial statements;
 - 6) significant transactions (including their amounts) entered into by the insurance or reinsurance undertaking, which is the parent company, or by other entities covered by the consolidated financial statements under terms and conditions other than market terms and conditions with related parties, except for intra-capital group transactions – including information on the nature of the transactions; information on individual transactions may be grouped by their type, except where information on individual transactions is necessary to understand their impact on the economic, financial standing and the financial result of the capital group;
 - 7) the nature and economic purpose of contracts concluded by the insurance or reinsurance undertaking, which is the parent company, or by other entities covered by the consolidated financial statements, not included in the consolidated balance sheet to the extent necessary to assess their impact on the economic, financial standing and the financial result of the capital group.

Annex 6**SCOPE OF INFORMATION TO THE REPORT ON ACTIVITY OF THE INSURANCE
AND REINSURANCE UNDRTAKING**

The report on activity of the insurance and reinsurance undertaking should include:

- 1) information on events in the financial year which had a significant impact on the economic and financial standing of the insurance or reinsurance undertaking;
- 2) information on the expected development of the insurance or reinsurance undertaking;
- 3) an indication of risk factors of its insurance or reinsurance activity and a description of possible risks of that activity;
- 4) a presentation of the current and expected financial standing:
 - a) in the case of the insurance undertaking, concerning the sales structure of insurance products, the profitability of investment activity, costs of insurance and reinsurance activity, technical provisions created at the end of the financial year, and in the case of the Branch I insurance undertaking referred to in Article 106ja of the Act of 28 August 1997 on the organisation and operation of pension funds (Journal of Laws of 2016 item 291) – also the extent to which its solvency margin and guarantee capital are covered by the own funds referred to in Article 106jb thereof,
 - b) in the case of the reinsurance undertaking, concerning its reinsurance activity, the profitability of investment activity, costs of reinsurance activity, technical provisions created at the end of the financial year.

Annex 7

METHODS OF CREATING THE EQUALISATION PROVISION IN INSURANCE OF
CLASS 14 OF BRANCH II

Method 1

1. The insurance and reinsurance undertaking shall create the equalisation provision in class 14 to cover the negative technical result in class 14 in a specific financial year.
2. The equalisation provision shall be increased in each financial year of the positive technical result in class 14 by one of the two amounts below, whichever is lower:
 - 1) 75% of the positive technical result in class 14 and
 - 2) 12% of written premiums net of reinsurance in class 14.
3. The equalisation provision shall not be higher than 150% of the maximum annual written premium net of reinsurance in class 14 in the last 5 financial years.

Method 2

1. The insurance and reinsurance undertaking shall create the equalisation provision in class 14 to cover the negative technical result in class 14 in a specific financial year.
2. The equalisation provision shall be increased in each financial year of the positive technical result in class 14 by 75% of the positive technical result in class 14 up to at least the minimum equalisation provision referred to in paragraph 3.
3. The minimum equalisation provision shall be equal to 134% of the average annual written premium net of reinsurance from direct insurance and inward reinsurance in class 14 in the last 5 financial years.

Method 3 (actuarial method)

1. The insurance and reinsurance undertaking shall create the equalisation provision in class 14 to cover the higher-than-average loss ratio in class 14 in a specific financial year.
2. The equalisation provision shall be increased in each financial year of a lower-than-average loss ratio in a reference period by an amount equal to the product of:
 - 1) the earned premium in a specific financial year in class 14 and
 - 2) the difference between the average loss ratio in the reference period and the loss ratio in a specific financial year.
3. The equalisation provision shall be decreased in each financial year of the higher-than-average loss ratio in the reference period by an amount equal to the product of:
 - 1) the earned premium in a specific financial year in class 14 and
 - 2) the difference between the loss ratio in a specific financial year and the average loss ratio in the reference period.

4. Irrespective of loss experience, the equalisation provision shall be increased in each financial year by 3.5% of the provision referred to in paragraph 5, prior to taking into account the change in the equalisation provision in a specific financial year.
5. The equalisation provision shall not be higher than the required equalisation provision equal to the product of:
 - 1) six times the standard deviation of a loss ratio sample in subsequent financial years of the reference period and
 - 2) the earned premium in a specific financial year in class 14.
6. The equalisation provision in class 14 shall not be created if the insurance or reinsurance undertaking shows no negative technical result in class 14 in each financial year in the reference period.
7. The required equalisation provision and its decreases should be reduced if an analysis of the average loss ratio and a cost ratio in the reference period reveals that an insurance or reinsurance premium takes into account a safety margin.
8. The reference period shall be no less than 15 years and no more than 30 years.
9. The "loss ratio" shall mean the "loss ratio net of reinsurance".
10. The "earned premium" shall mean the "earned premium net of reinsurance".
11. The "cost ratio" shall mean a ratio of costs of insurance activity and other technical costs net of reinsurance (items VII and VIII of the non-life insurance technical account – Annex 3 to the Act) to the earned premium.

Method 4 (actuarial method)

1. The insurance and reinsurance undertaking shall create the equalisation provision in class 14 to cover the higher-than-average loss ratio in class 14 in a specific financial year.
2. The equalisation provision shall be increased in each financial year of the lower-than-average loss ratio in the reference period by the amount equal to the product of:
 - 1) the earned premium in a specific financial year in class 14 and
 - 2) the difference between the average loss ratio in the reference period and the loss ratio in a specific financial year.
3. The equalisation provision shall be decreased in each financial year of the higher-than-average loss ratio in subsequent financial years of the reference period by the amount equal to the product of:
 - 1) the earned premium in a specific financial year in class 14 and
 - 2) the difference between the loss ratio in a specific financial year and the average loss ratio in the reference period.
4. The equalisation provision shall not be:
 - 1) increased to an amount higher than the maximum required equalisation provision;

- 2) decreased to an amount lower than the minimum required equalisation provision.
5. The maximum required equalisation provision shall be equal to the product of:
 - 1) six times the standard deviation of the loss ratio sample in subsequent financial years of the reference period and
 - 2) the earned premium in a specific financial year in class 14.
6. The minimum required equalisation provision shall be equal to the product of:
 - 1) three times the standard deviation of the loss ratio sample in subsequent financial years of the reference period and
 - 2) the earned premium in a specific financial year in class 14.
7. The equalisation provision in class 14 shall not be created if the insurance or reinsurance undertaking shows no negative technical result in class 14 in each financial year in the reference period.
8. The reference period shall be no less than 15 years and no more than 30 years.
9. The maximum required equalisation provision, the minimum required equalisation provision and decreases in the equalisation provision should be reduced if the analysis of the average loss ratio and the cost ratio in the reference period reveals that the following conditions are met:
 - 1) the insurance or reinsurance premium takes into account the safety margin;
 - 2) the safety margin is at least one-and-a-half times the standard deviation of the loss ratio sample in subsequent financial years of the reference period.
10. The values referred to in paragraph 9 should be reduced by multiplying them by the quotient of one-and-a-half times the standard deviation of the loss ratio sample in subsequent financial years of the reference period and the safety margin.
11. The "loss ratio" shall mean the "loss ratio net of reinsurance".
12. The "earned premium" shall mean the "earned premium net of reinsurance".
13. The "cost ratio" shall mean a ratio of costs of insurance activity, reinsurance activity and other technical costs net of reinsurance (items VII and VIII of the non-life insurance technical account – Annex 3 to the Act) to the earned premium.

Annex 8

METHOD OF CALCULATING THE WEIGHTED AVERAGE RATE OF RETURN ON
INVESTMENTS COVERING TECHNICAL PROVISIONS IN THE LAST 3 FINANCIAL
YEARS

1. The weighted average rate of return (K) on investments covering technical provisions in the last 3 financial years preceding a specific financial year (S) shall be calculated as follows:

$$K = 50\% \times K1 + 30\% \times K2 + 20\% \times K3,$$

where:

- K1, K2, K3 – shall represent rates of return on investments covering technical provisions which are calculated by applying technical rates – except for provisions relating to the insurance contracts referred to in § 46(6) of the Ordinance, in subsequent financial years, while K1 shall relate to year S-1, K2 – to year S-2, and K3 – to year S-3.

If the insurance undertaking has operated for less than 3 years, the formula above shall apply accordingly, while weights for a period of two years shall be 65% for the last year and 35% for the next-to-last year.

If the result of the calculation carried out in accordance with the formula above is a negative figure, the weighted average rate of return K shall be 0.

2. The rate of return on investments covering technical provisions in a specific financial year shall be calculated as follows:

$$\text{rate of return} = [2 \times L / (A + B - L)] \times 100\%,$$

where:

- L – shall represent income from investments covering relevant technical provisions reduced by investment costs in the financial year,
- A – shall represent investments covering relevant technical provisions as at the beginning of the financial year,
- B – shall represent investments covering relevant technical provisions as at the end of the financial year.

Annex 9**METHOD OF CALCULATING THE MAXIMUM TECHNICAL RATE**

1. The maximum technical rate (J) in a specific financial year (R) shall be calculated as follows:

$$J = 60\% \times (50\% \times I1 + 30\% \times I2 + 20\% \times I3),$$

where:

- I1, I2, I3 – shall represent weighted average annual yields on fixed-interest State Treasury bonds with a maturity of no less than 8 years on the primary market in the last 3 years, while I1 shall represent yield in year R-1, I2 – yield in year R-2, and I3 – yield in year R-3.
2. The term "weighted average annual yield of State Treasury bonds" shall mean the weighted average of yields on primary auctions in the relevant year, where weights shall be nominal values of bonds sold at individual auctions.