

July 16, 2009

**Research Update:**

# Polish Insurance Group PZU Core Entities Upgraded To 'A' On Lower Risk Of Major Shareholder Intervention; Outlook Stable

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## Research Update:

# Polish Insurance Group PZU Core Entities Upgraded To 'A' On Lower Risk Of Major Shareholder Intervention; Outlook Stable

## Overview

- Standard & Poor's believes that the risk of major shareholder intervention in the running of PZU's operations has receded further and that there is evidence of progress in implementing key aspects of the group's modernization and restructuring strategy.
- We are raising the ratings on Polish non-life insurer Powszechny Zaklad Ubezpieczen S.A. and Polish life insurer Powszechny Zaklad Ubezpieczen na Zycie S.A. to 'A' from 'A-'.
- The stable outlook reflects our expectation that the very strong operating performance, strong capitalization, and competitive position will be maintained.

## Rating Action

On July 16, 2009, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on Polish non-life insurer Powszechny Zaklad Ubezpieczen S.A. (PZU SA) and Polish life insurer Powszechny Zaklad Ubezpieczen na Zycie S.A. (PZU Zycie) to 'A' from 'A-'. The outlook is stable.

## Rationale

The upgrade reflects Standard & Poor's view that the risk of major shareholder intervention in the running of PZU's operations has receded further and that there is evidence of progress in implementing key aspects of the group's modernization and restructuring strategy. This includes actions to address some of the legacy issues, and exploiting distribution and operational opportunities of its portfolio of businesses.

PZU continues to enjoy a strong competitive position, driven by its significant position in the Polish insurance market, unrivaled distribution capabilities, and high brand recognition among the Polish population.

PZU continues to post very strong operating performance, driven primarily by its strong competitive position both in life and non-life business in a growing insurance market. The strength of PZU's operating performance is also supported by its lower product distribution cost base relative to peers.

PZU's capitalization is strong, reflecting an extremely strong capital adequacy ratio according to Standard & Poor's risk-based model, adequate reserving, and a conservative reinsurance program.

The ratings reflect the execution risk relating to the implementation of

the growth and modernization strategy. We believe that implementation of some aspects of the modernization program are made more challenging by PZU being a major employer in Poland and owing to the need for a significant cultural change within the organization. However, Standard & Poor's believes the current management is well placed to implement these initiatives, which is paramount to maintaining PZU's competitive position in the medium term.

PZU invests predominantly in Polish government securities and regulation limits the amount of overseas investment. Consequently, we believe that the ability to invest in assets of appropriate duration for its life insurance liabilities is rather limited and the diversity of PZU's investment portfolio is restricted.

## Outlook

The stable outlook reflects Standard & Poor's expectation that PZU will maintain its strong competitive position and generate very strong operating performance through the cycle and return on equity in excess of 15%. We expect PZU to maintain strong capitalization and strong quality of capital.

The outlook may be revised to negative if there is an adverse change in capital management or dividend policy and if management is not allowed to implement key aspects of the growth and modernization strategy. A negative rating action could also result if Standard & Poor's believes shareholder intervention is proving detrimental to the company's operations. The ratings or outlook on PZU could be revised to reflect any negative rating actions on the local currency ratings on the Republic of Poland.

Standard & Poor's believes there is limited upside potential in the rating over the short term given the anticipated stable business and financial profile of PZU, coupled with the significant investment exposure to Polish government securities.

## Ratings List

Upgraded

|   | To          | From         |
|---|-------------|--------------|
| Powszechny Zaklad Ubezpieczen S.A.          |             |              |
| Powszechny Zaklad Ubezpieczen na Zycie S.A. |             |              |
| Counterparty Credit Rating                  |             |              |
| Local Currency                              | A/Stable/-- | A-/Stable/-- |
| Financial Strength Rating                   |             |              |
| Local Currency                              | A/Stable    | A-/Stable    |

### Additional Contact:

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