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**Summary:**  
**PZU**

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**Table Of Contents**

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Rationale

Outlook

## Summary:

# PZU

### Local Currency

**Credit Rating:** A-/Negative/--

## Rationale

The ratings on Polish non-life insurer Powszechny Zakład Ubezpieczeń S.A. and Polish life insurer Powszechny Zakład Ubezpieczeń na Życie S.A. reflect the companies' status as core entities of Poland-based composite insurance group PZU. The ratings are supported by the group's strong competitive position, very strong operating performance, and strong capitalization. The ratings are constrained, however, by the heightened risk of intervention into company operations by PZU's largest shareholder, the State Treasury of the Republic of Poland.

PZU has a strong competitive position, driven by its significant position in the Polish insurance market, unrivaled distribution capabilities, and high recognition among the Polish population. The group is to some extent exposed to the fortunes of the Polish economy, however.

PZU's operating performance is very strong, 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 strong capitalization.

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

## Outlook

The negative outlook reflects increased uncertainty about shareholder influence on the group. This was recently highlighted by the appointment of a new CEO and complete renewal of the management board at a time when PZU had embarked on an ambitious strategic plan to modernize its systems and culture, the successful delivery of which Standard & Poor's considers to be critical to PZU's continued market leadership and credit profile. Meanwhile, Standard & Poor's acknowledges that PZU's management remains publicly committed to the reforms initiated by PZU at the end of 2005, and has confirmed its intention to maintain the current strategic direction.

As a consequence, the outlook may be revised to stable if the above concerns are alleviated, subject to also meeting the following expectations of Standard & Poor's:

- PZU is expected to continue to demonstrate a very strong operating performance through the cycle, with an average net combined ratio of 95% and ROE well in excess of 15%; and
- PZU is expected to maintain strong capitalization, with capital adequacy within the 'AA' (very strong) range according to Standard & Poor's risk-based capital model, strong quality of capital, sufficient reinsurance protection, and adequate reserving.

Conversely, the ratings may be lowered if capital management or the dividend policy change, or if the modernization

and restructuring project initiated in 2004 is halted.

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