S&P Global Ratings

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Powszechny Zaklad Ubezpieczen S.A.

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Powszechny Zaklad Ubezpieczen S.A.

Anchor	a-	+	Modifiers	0	=	SACP	a-		
Business Risk	**Strong**		Governance	Neutral		**Support**	**0**	=	**A-/Stable/--**
Competitive position	Very strong								
IICRA	Moderately high		Liquidity	Exceptional		Group support	0		
Financial Risk	**Strong**								
Capital and earnings	Very strong		Comparable ratings analysis	0		Government support	0		
Risk exposure	Moderately high								
Funding structure	Neutral								**Financial strength rating**

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

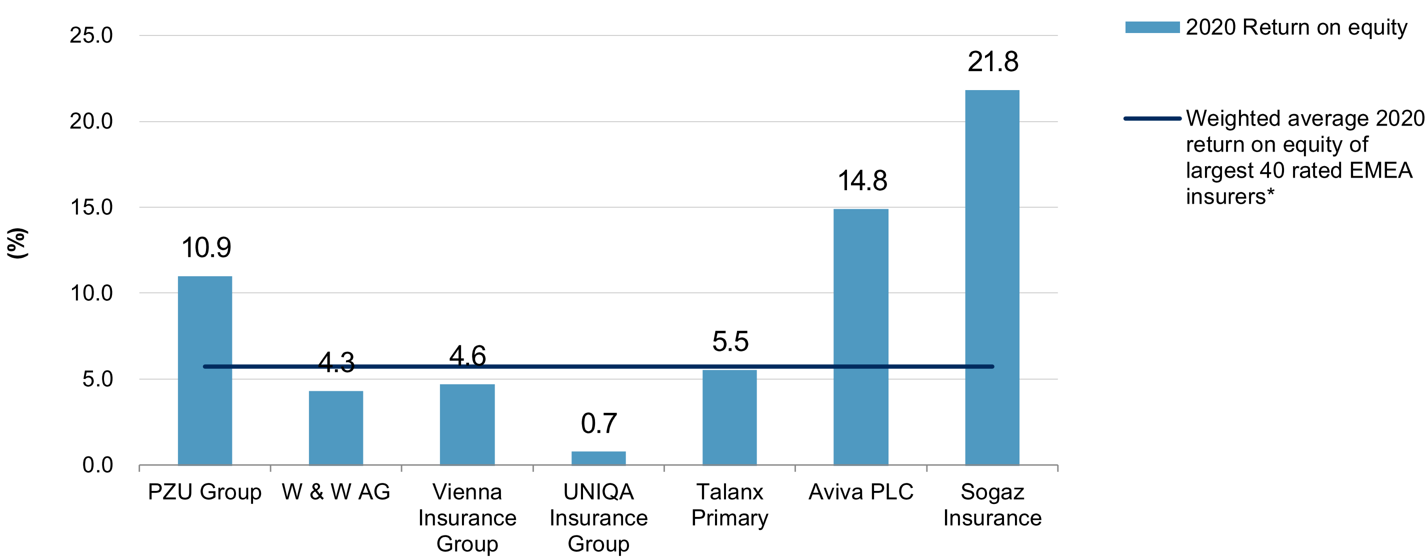
Key strengths	Key risks
Powszechny Zaklad Ubezpieczen (PZU, the group) is the largest financial conglomerate in Poland with a leading position in life and non-life insurance as well as asset management business, further enhanced by its investments in the Polish banking sector.	Potential earnings volatility stemming from material stakes in Bank Polska Kasa Opieki S.A. (Bank Pekao; BBB+/Stable/A-2) and Alior Bank S.A. (BB/Stable/B)
Well-diversified insurance portfolio enhanced by scale advantages and supported by a large own agency network and strong brand reputation in Poland.	Limited geographic diversification, with the majority of business and earnings concentrated in Poland.
Sizable capital buffer at the 'AAA' level as per our risk-based capital model, supported by the group's underwriting discipline, which allows good ongoing business profitability.	

PZU will continue to use its very solid position in Poland, the Baltic states, and Ukraine to source profitable growth in insurance and asset management. In our view, the group is currently benefiting from an upswing in retail and commercial property insurance, with moderate price increase. In addition, the group continues to see good premium inflows for its life business as well as robust demand in health insurance and strong growth in health services revenue. PZU's asset management has also had high inflows in the last year. S&P Global Ratings believes that PZU's comparably favorable business mix, excellent distribution capabilities, and good reputation position the company well to source growth in domestic as well as in international markets. This should further support premium volumes, as demonstrated by its moderate 5.1% growth to PLN12.3 billion (about €2.7 billion) over the six months to June 30, 2021. We expect that PZU will continue to leverage its solid balance sheet strength to tap profitable growth opportunities in 2021-2022.

Underwriting discipline was key for PZU's resilient performance in 2020 and first-half 2021. This was reflected in the group's strong insurance underwriting results in 2020, with a non-life combined ratio of 87.4% and life margin of 19.7%. This partly offset weaker contributions from its bank investments which were burdened by a sizable goodwill impairment of PLN1.3 billion in 2020. Overall, it managed to deliver a solid return on equity (ROE) of 10.9%, which was comfortably above the performance of similarly rated insurance companies in Europe, the Middle East, and Africa (EMEA). PZU continued to generate strong earnings in first-half 2021 with net income of PLN1.67 billion (about €365 million) which was at the level of half-year 2020 income when disregarding banking impairments and 13% above its half-year 2019 results. This strong result was supported by a continued strong non-life result, the limited impact of COVID-19 on its life portfolio, and good development in its investment results. We expect this performance will be continued in 2021-2022, backed by sound underwriting results in non-life and the limited impact of the pandemic on life, protected by good reinsurance protection, its stable investment portfolio, and gradually improving banking contributions. We believe PZU will report net income of at least PLN2.2 billion in 2021-2022, with ROE of 11%-14%.

Chart 1

PZU's 2020 ROE Remained Materially Above The Profitability Of The Largest 40 EMEA Insurers



* Weighted-average 2020 ROE of top-40 rated EMEA insurers was 5.7%. ROE--Return on equity.
EMEA--Europe, Middle East and Africa. Source: S&P Global Ratings.
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A very sound capital position at the end of 2020 and in first-half 2021 remains one of the key rating strengths. PZU's balance sheet remained resilient and its capital position remained robust above the 'AAA' level according to our risk-based capital model at the end of 2020. Although the group suspended its 2020 dividend payment, in accordance with a cross-market request of the Polish insurance regulator, it resumed dividend payments in 2021 and we expect the group will pay dividends in accordance with its dividend policy going forward. We expect that the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two to three years.

Outlook: Stable

The stable outlook reflects our view that the group can sustain its leading business position in Poland, as well as the strength and stability of its capital position and insurance earnings, thereby enabling it to withstand potential further deterioration of the economic environment. In addition, we anticipate that PZU's banking and asset management businesses will continue to generate satisfactory earnings.

Downside scenario

We consider a negative rating action remote in the next 12-24 months. However, we could take a negative rating action if, contrary to our current expectations, the group:

- Materially and consistently underperformed its domestic and international insurance peers;
- Substantially increased business or investment risk exposures, leading to higher capital requirements and materially increased risk of earnings volatility; or
- Experienced a material balance-sheet loss that reduced capital below our 'AA' benchmark and brought into question the effectiveness of PZU's risk management.

Upside scenario

In the next 12-24 months, we could consider a positive rating action if the group's:

- Capital adequacy remained consistently at, or above, the 'AA' benchmark, while continuing to sustainably pass our hypothetical foreign currency sovereign stress test;
- Banking investments were successfully adapted to the changed business cycle and lower interest rate environment to allow further material growth of profit contributions to PZU; and
- Insurance performance remained resilient, with the non-life combined ratio at or below 92% and the life business margin at about 20%. In this scenario, we would expect combined insurance and banking contributions leading to reported net income after tax exceeding PLN2.6 billion.

Key Assumptions

- The Polish economy, after contracting in 2020, is expected to grow by about 4.5%-5.5% over 2021-2022.
- Unemployment rate to remain in the 3%-4% range over 2021-2022.
- Inflation to stay in the 2%-4% range over 2021-2022.

Powszechny Zaklad Ubezpieczen S.A.--Key Metrics

	2022f	2021f	§H1 2021	2020	2019	2018	2017	2016
Gross premiums written (Mil. PLN)	~ 25.200	~ 24.500	12,353	23,866	24,191	23,470	22,847	20,219
Change in gross premium written (%)	1-4	1-4	5.1	(1.3)	3.0	2.3	13.0	10.6

Powszechny Zaklad Ubezpieczen S.A.--Key Metrics (cont.)								
	2022f	**2021f**	**§H1 2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Net income (mil. PLN)	> 2.200	> 2.200	1,671.0	1,912.0	3,295.0	3,213.0	2,896.0	1,935.0
Return on shareholder equity (%)	11-14	11-14	18.7	10.9	21.2	21.8	21.0	14.9
P/C net combined ratio (%)*	88-92	~ 90	89.4	87.4	88.9	87.6	90.4	95.7
Fixed-charge coverage	~ 40	~ 40	N.A.	41.0	44.8	35.3	45.2	54.1
Financial leverage (%)**	< 14	< 14	N.A.	12.7	14.2	28.7	28.7	22.8
S&P Global Ratings capital adequacy	At least very Strong	At least very Strong	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

* Our calculation of P/C net combined ratio is based on PZU annual report data where Baltics and Ukraine operations do not distinguish between non-life and life operations, as such, the ratio might slightly differ from the one published by PZU. § Based on the company's reported half year 2021 data. ** Includes only debt issued by insurance operations. f--Forecast under Standard & Poor's base-case scenario. PLN--Polish zloty.

Business Risk Profile: Strong

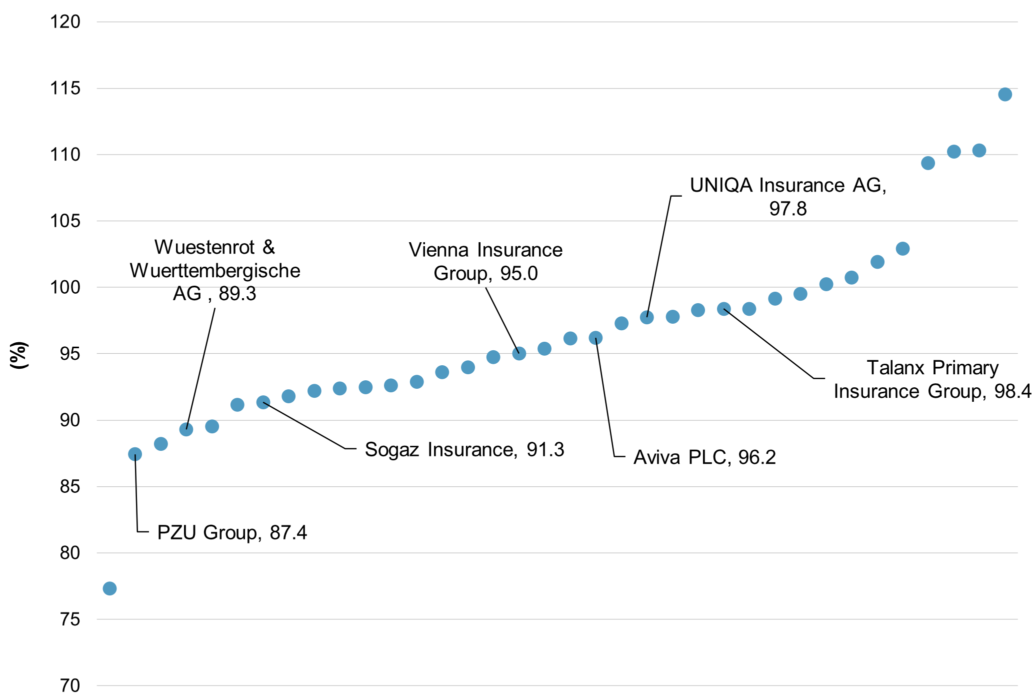
PZU is the largest financial conglomerate in Poland. It is the largest insurer in Poland, and has insurance operations throughout all three Baltic states and Ukraine. At the end of 2020, the group's gross premium written (GPW) totaled PLN23.9 billion (about €5.2 billion). Its asset manager is among the largest in Poland, which complements the group's overall business strength. In addition, PZU is a strategic investor in the Polish banking sector. In 2017, the group bought 20% of the shares in Bank Pekao, the second-largest bank in Poland. Furthermore, since 2016, the group has owned a 32% stake in midsize Alior Bank in Poland.

In our view, the insurance sector in Poland remained resilient following initial uncertainties associated with the pandemic. The sector showed resilient revenue development, continued strong underwriting profitability, and relatively stable investment results, which resulted in healthy overall profits in 2020 as well as in first-half 2021. PZU's leading positions in Poland, with a market share of about 34% in non-life insurance and 44% in life through its entities Powszechny Zaklad Ubezpieczen S.A. (A-/Stable/--), Towarzystwo Ubezpieczen Wzajemnych Polski Zaklad Ubezpieczen Wzajemnych (A-/Stable/--), Link4 Towarzystwo Ubezpieczen S.A. (not rated), and Powszechny Zaklad Ubezpieczen na Zycie S.A. (A-/Stable/--), enables to the group to source attractive performance from its insurance operations. Furthermore, its stake in Polish banks provides investment income, while providing longer term opportunity to develop significant bancassurance operations in Poland. We believe that PZU's large insurance market share allows some scale advantages against direct domestic competitors. In addition, its competitive edge is further driven by an established domestic reputation, with a strong brand, unrivalled tied-agent network across Poland, and a broad product range.

The group's insurance operations have remained resilient in terms of premium development. Its operating performance in 2020 was affected by goodwill write off on banks, while its underwriting performance in non-life and life insurance remained very strong. We consider that PZU's resilient underwriting performance in 2020 relates to its track record of prudent underwriting and its more diversified portfolio compared with its domestic competitors.

Chart 2

PZU's 2020 Combined Ratio Remained Low Compared To Its Peers
2020 P/C net combined ratio of 40 largest rated EMEA insurance companies



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In our view, its diversified product offering gives the group considerable pricing power, enabling it to withstand softer market cycles in motor lines. During first-half 2021, underwriting performance in non-life remained stable with combined ratios below 90%, on the back of prudent underwriting with no material non-life COVID-19 claims, still some lockdown-related frequency benefits in some retail lines, and good cost control. We note that in life insurance, higher COVID-19 induced mortality materially reduced the margin in group life insurance to around 10% compared with prepandemic margins of 20% and above. This reduction in first-half 2021 was mainly offset by higher overall investment results. We expect that the life margin will only gradually improve in the following quarters. This said, we consider that PZU will deliver net income of at least PLN2.2 billion in 2021-2022, with ROE in the range of 11%-14%.

PZU's premiums remained relatively resilient in 2020, even though the company's GPW between 2019-2015 showed strong organic growth of around 32%. Although motor lines experienced slightly higher competition than in previous years, non-life premiums remained relatively stable due to good development in property lines and some increase in life and health insurance premiums. These trends continued in first-half 2021, when PZU reported moderate organic growth of 5.1%, supported by price increases in property lines and life insurance, while health insurance continued to observe strong demand. Furthermore, it also saw generally higher inflows into its asset management. We expect that the group will in the following quarters continue to benefit from its comparably more diversified premium structure with a higher proportion of property business than peers, as well as from its leading position in group life and its health offerings. This should help to offset the impact of higher competition in motor lines on premiums volumes in the medium term. In addition, we also expect that it will leverage its superior digital capabilities through its direct carrier Link 4 on its extensive pool of retail clients to protect motor premiums and its margins. We expect that in life insurance the group will further extend its reach by advancing distribution cooperation with Bank Pekao and Alior bank. In addition, the group continues developing new offers to unlock further growth in health and asset management businesses. Overall, we expect premium growth will moderate in the coming quarters, to 1%-4% in 2021-2022.

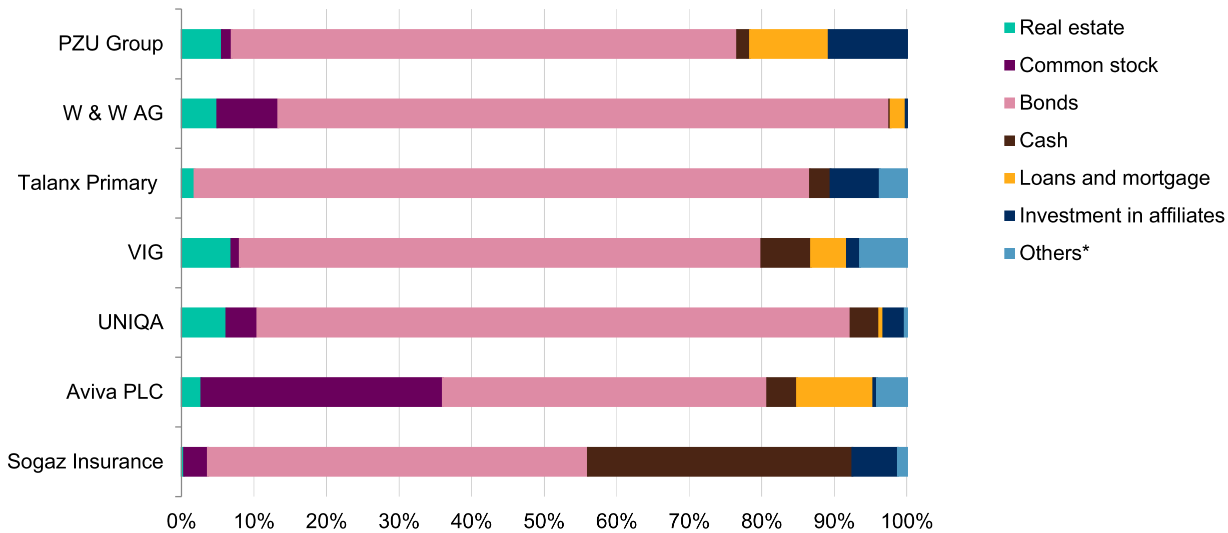
Financial Risk Profile: Strong

PZU's balance sheet remained resilient and its capital adequacy position remained above 'AAA', according to our risk-based capital model, at year-end 2020. This was further supported by a robust Solvency II ratio of 236% on Dec. 31, 2020, based on a standard formula and no use of transitional adjustments. In our view, the absence of dividends in 2020, under regulatory guidance, provided further capital buffers. The group resumed dividend payments in 2021, in accordance with its strategy, and we expect this to continue in the coming years. That said, we expect that PZU's continued good earnings will provide some ongoing capital generation. In our view, the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two to three years, even in case of higher capital markets volatility, a higher-than-expected increase in claims frequencies, a longer period of higher competition in motor lines on the domestic market, or the emergence of growth opportunities.

Although capital markets rebounded quickly in second-half 2020 and remained favorable in first-half 2021, we believe that asset risks remain elevated for the international insurance sector in 2021 and beyond. PZU's invested assets are to a large extent in fixed income securities mainly invested in Poland's sovereign bonds (local currency: A/Stable/A-1, foreign currency: A-/Stable/A-2) which remained resilient during the 2020 and first-half 2021. In our view, banking equity investments, which makes up around 11% of group overall investments, make the group more susceptible to capital and earnings volatilities, as evidenced during 2020. Furthermore, PZU's stakes in banks make its risk framework more complex than pure insurance players. That said, the group's risk management capabilities are gradually maturing and may lead to further improvement in coherence and consistency of risk management across the group.

Chart 3

PZU Investment In Affiliates (Bank Pekao And Alior Bank) Represents Comparably High Amount Of Invested Assets
2020 invested assets breakup



*Investment in investment funds, and other investments. Source: S&P Global Ratings.
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The group is less leveraged than its international peers. Following the 2019 senior bond repayment, the group materially reduced leverage. We believe the group's very robust capital position, good liquidity, and conservative capital structure help safeguard its funding capacity in case of need. This said, PZU's year-end 2020 financial leverage remained at about 12.7%. Continued resilient performance and low interest payments resulted in a very favorable fixed-charge coverage ratio of about 41x at year-end 2020. At current levels, the group retains ample debt capacity, if needed.

Other Key Credit Considerations

Governance

In our view, governance is neutral at the current rating level. PZU has credible strategic planning and conservative financial management. We have seen, in the past, instances of fast and unexpected changes of CEOs and some of the board members. This development does not raise immediate concerns regarding the governance of the company. The changes had a relatively limited overall impact on the company's ongoing operational stability. Furthermore, new CEOs have not radically changed the company's business strategy, as evidenced by the evolution of its new strategy PZU 2021-2024.

Liquidity

We regard PZU's liquidity as exceptional and don't expect liquidity constraints will keep it from meeting its obligations, given the substantial amount of liquid assets held by the group. In addition, expanding operations are providing constant cash inflows. Although most of the P/C business is short tail, larger risks are heavily reinsured, so that larger claims are not a significant drag on the cash position. Further, in our opinion, PZU's material stakes in banks gives it access to additional liquidity, if needed.

Group support

PZU Banking remains one of the pillars of the group's recently updated longer term business strategy 2021-2024. The group is the largest investor in the Polish banking system, being the anchor investor in Bank Pekao and Alior Bank. We consider both banks to be moderately strategic for the group. We consider that the group has the means to support the banks if needed and will uphold its commitment to do so. Due to the already high stand-alone credit profile of Bank Pekao (BBB+/Stable/A-2), we do not include any rating uplift derived from its group status to PZU. For Alior Bank (BB/Stable/B), the issuer credit rating benefits from a one-notch uplift because of likely support from PZU.

Government

We consider PZU to be a government-related entity (GRE) with an important role for the Polish economy and a strong link with the Polish government, which is the group's largest and dominant shareholder, owning a 34.2% stake. Moreover, in our view, PZU, with its large and widespread agent network, plays a key role in providing insurance products to the non-urban areas of Poland. Overall, we consider that there is a moderately high likelihood that the government of Poland would provide timely and sufficient extraordinary support to PZU in the event of financial distress. Due to PZU's already high stand-alone credit profile, we do not include any rating uplift derived from the insurer's status as a GRE.

Accounting considerations

PZU prepares its financial accounts in accordance with International Financial Reporting Standards.

To calculate PZU's total adjusted capital in our risk-based capital model, the largest adjustments we made to reported amounts are as follows:

- PZU provides supplementary embedded value disclosures for its life business that we use to analyze the life operating performance.
- With around 32% ownership of Alior Bank, PZU obtained control of the bank and consolidated it in its accounts as of year-end 2015. In our assessment of group capital adequacy, we reflect the market value of the group's shares in the bank.
- With 20% ownership of Bank Pekao, PZU obtained control of the bank and consolidated it in its accounts as of midyear 2017. In our assessment of group capital adequacy, we reflect the market value of the group's shares in the bank.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Top 40 EMEA Insurers Remain Resilient To Lingering Pandemic Risks; Aug 26, 2021
- Ratings On Three Polish Banks Affirmed Upon Resilience To The Pandemic; Outlook On Alior Bank To Stable; June 24, 2021
- Poland, April 05, 2021
- Bulletin: Pekao's Selective Takeover Of The Failing Idea Bank Is Neutral To Its Capitalization And Business Model; Jan 07, 2021
- Bank Polska Kasa Opieki S.A.; Nov 10, 2020
- Alior Bank S.A.; Nov 06, 2020
- Bulletin: PZU Group's Financial Strength Absorbs Goodwill Impairments Despite Strain On 2020 Earnings; Aug 27, 2020
- After Reshuffle, Alior Bank Is Still Challenged To Improve Its Cost Of Risk Coverage, July 3, 2020
- Poland-Based Alior Bank S.A. Outlook Revised To Negative From Stable Amid Economy's Shutdown; 'BB/B' Ratings Affirmed, April 27, 2020
- Poland-Based PZU Group Outlook Revised To Stable From Positive On Weaker Business Conditions; Affirmed At 'A-', April 6, 2020

Appendix

Powszechny Zaklad Ubezpieczen S.A.--Credit Metrics History

	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Total invested assets (mil. PLN)	74,627	71,273	77,038	72,990
Total shareholder equity (mil. PLN)	18,777	16,169	14,925	14,599
Gross premiums written (mil. PLN)	23,866	24,191	23,470	22,847
Net premiums written (mil. PLN)	22,850	23,179	22,715	22,235

Powszechny Zaklad Ubezpieczen S.A.--Credit Metrics History (cont.)

	2020	2019	2018	2017
Net premiums earned (mil. PLN)	23,024	23,090	22,350	21,354
Reinsurance utilization (%)	7.3	7.0	5.5	4.8
EBIT (mil. PLN)	2,833.0	4,260.0	4,120.0	3,707.0
Net income (attributable to all shareholders) (mil. PLN)	1,912.0	3,295.0	3,213.0	2,896.0
Return on revenue (%)	9.4	14.4	16.7	13.5
Return on shareholders' equity (reported) (%)	10.9	21.2	21.8	21.0
P/C: net combined ratio (%)	87.4	88.9	87.6	90.4
P/C: net expense ratio (%)	27.5	26.8	25.8	26.3
Life: Net expense ratio (%)	15.3	15.0	14.4	13.6
EBITDA fixed-charge coverage (x)	41.0	44.8	35.3	45.2
EBIT fixed-charge coverage (x)	35.1	40.2	31.5	42.8
Financial obligations / EBITDA adjusted	0.8	0.6	1.3	1.5
Financial leverage (%)	12.7	14.2	28.7	28.7
Net investment yield (%)*	0.6	2.9	2.7	2.7
Net investment yield including realized capital gains/(losses) (%)*	0.4	2.9	2.3	2.9
Net investment yield including all gains/(losses) (%)*	1.4	3.6	2.5	3.4

*Includes banks' contribution to PZU Group's net result as well as goodwill impairment on the acquisition of Alior Bank and Bank Pekao.
PLN--Polish zloty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 3, 2021)*

Operating Companies Covered By This Report	
Powszechny Zaklad Ubezpieczen S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	A-/Stable/--

Ratings Detail (As Of November 3, 2021)*(cont.)	
Powszechny Zaklad Ubezpieczen na Zycie S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Towarzystwo Ubezpieczen Wzajemnych Polski Zaklad Ubezpieczen Wzajemnych	
Financial Strength Rating	
Local Currency	A-/Stable/--
Related Entities	
Alior Bank S.A.	
Issuer Credit Rating	BB/Stable/B
Bank Polska Kasa Opieki S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Domicile	Poland

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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