

July 10, 2008

Research Update:

Polish Insurance Group PZU's Core Entities Outlook To Stable; 'A-' Ratings Affirmed

Primary Credit Analyst:

Charis Adu-Kwapong, London (44) 20-7176-7062;charis_adu-kwapong@standardandpoors.com

Secondary Credit Analyst:

David Laxton, London (44) 20-7176-7079;david_laxton@standardandpoors.com

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Rationale

On July 10, 2008, Standard & Poor's Ratings Services revised its outlook on non-life insurer Powszechny Zaklad Ubezpieczen S.A. (PZU S.A.) and life insurer Powszechny Zaklad Ubezpieczen na Zycie S.A. (PZU Zycie), core entities of Poland-based composite insurance group PZU, to stable from negative. At the same time, the 'A-' long-term counterparty credit and insurer financial strength ratings were affirmed.

The ratings are supported by the group's strong competitive position, very strong operating performance, and strong capitalization. These are offset by the execution risk associated with implementing the modernization and restructuring program initiated in 2005 and PZU's limited ability to invest in assets of appropriate duration or stronger credit quality for the life insurance liabilities.

Outlook

The stable outlook reflects Standard & Poor's view that the risk of major shareholder intervention in the running of PZU's operations has fallen. The Polish government is PZU's largest shareholder, and the reduced perception of risk of direct intervention stems from the government's increasing emphasis on market-oriented reform. This view is also supported by the more-cooperative tone the government has adopted in the ongoing negotiations to resolve the ownership dispute with Eureka.

Clear evidence of progress in implementing key aspects of the modernization program, with execution supported by the major shareholder, could result in the outlook being revised to positive.

Conversely, the outlook may be revised to negative if capital management or the dividend policy change and if management is not allowed to implement key aspects of the modernization and restructuring strategy initiated in 2005. Negative rating action could also result if Standard & Poor's believes major shareholder intervention is proving detrimental to the company's operations.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Powszechny Zaklad Ubezpieczen S.A.		

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Powszechny Zakład Ubezpieczeń na Życie S.A.

Counterparty Credit Rating

Local Currency

A-/Stable/--

A-/Negative/--

Financial Strength Rating

Local Currency

A-/Stable/--

A-/Negative/--

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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