

IC Allianz Bulgaria

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CLAIMS PAYING ABILITY RATING*	Update	Monitoring	Update
Date of Rating Committee:	24.10.2016	16.05.2017	28.11.2017
Date of Publication:	25.10.2016	18.05.2017	30.11.2017
Long-term rating:	BBB-	BBB-	BBB-
Outlook:	Negative**	Stable	Positive
National-scale long-term rating:	AA (BG)	AA (BG)	AA (BG)
Outlook:	Stable	Stable	Positive

* To become familiar with the full rating history, please, see the table at the bottom of the document.

** The assigned „negative“ outlook is not a result from the deterioration of the indicators of ZAD Allianz Bulgaria AD, and of the applied rating ceiling that is determined by the sovereign rating and outlook (at the time of updating, the assigned rating to Republic of Bulgaria is long-term rating: BBB-(ns), outlook: „negative“, short-term rating: A-3 (ns) – see http://www.bcra-bg.com/files/rating_en_287.pdf).

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

BCRA assigns AD the following ratings to IC Allianz Bulgaria:

- Long-term claims paying ability rating: **BBB-**, outlook: „**positive**“;
- National-scale long-term rating: **AA (BG)**, outlook: „**positive**“.

The officially adopted methodology by BCRA for assigning a claims paying ability rating is used: http://www.bcra-bg.com/files/file_202.pdf.

The report has been prepared and the rating – assigned, based on information, made available by the rated insurance company, the Financial Supervision Commission, the National Statistical

Institute, BCRA’s database, consultants and other sources of public information.

Political Environment

With full EU membership in 2007, Bulgarian governments lose their main incentive to pursue a reform policy. The country continues to be in a monitoring regime, with no significant progress in any of Bulgaria’s problematic areas in the last years, which are mainly about fighting corruption and improving the functioning of the judiciary.

The complicated international situation also puts the country in serious trouble. The dependencies of a large part of the Bulgarian political and business elite from Russia and Turkey are evident. The war in Syria, on the other hand, puts Bulgaria at risk of a refugee wave. This strengthens nationalist and xenophobic attitudes, and the subject of refugees quickly finds place in political rhetoric.

Similar attitudes (nationalist and xenophobic) are also observed among EU member states. Some of them have a negative attitude towards the allocation of refugees by quota in each country and stand against this decision. If these disagreements get worse, they can lead to serious conflicts and division within the community

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Economic Environment

In 2015, the economy reports a real growth of 3.6% – the highest value for the years after the financial crisis as among the main forces are domestic consumption and exports of goods and services. In 2016, the growth rate of economy slows down but remains close to the reported a year earlier – 3.4%, as among the groups with the largest contribution remains exports, and consumption of households and imports of goods and services slow down to half of the growth rates which the corresponding groups report in the previous year.

The flow of direct investments in the country doubles in 2015 (to 5.6% of GDP) compared to the reported in 2014 (2.7% of GDP). In 2016, Direct Investment Flows reduce (to 1.5% of GDP), as the investments in share instruments come to barely 37.3% of the reported a year earlier, and the debt instruments continue to report a tide which triples compared to a year earlier.

The observed positive changes after 2013 in the labour market remain. With a descending trend in unemployment rate in the last three years, as of end-2016 the officially registered unemployment rate by the National Employment Agency reaches 8.0% (10.0% at the end of 2015) of the active population in the country. According to the data of the NSI (Labour Force Survey) unemployment rate of the population over the age of 15 years also follows this dynamics reaching 7.6% on average for 2016 compared to 9.2% for 2015.

The income on average for the economy increases in 2016 (up to 950 BGN/month), as nominal growth slows down (to 6.3%) compared to the reported a year earlier (8.8%), and growth in average income over the year fluctuates between 9-10%.

Despite some slowdown in the decline of the prices in early 2016, in the second half and first 2 months of 2017 deflation remains at levels of about 1.1%-1.4% average annual, measured by HICP. The reasons for continuous deflation are due to changes in the prices of about half of the group of the index. Largest impact causes the changes in the group Transportation whose contribution fluctuates between 0.9-1.4 p.p. for April 2015 – February 2017.

Public Finance

A slight improvement is observed in the state budget of the country in 2015 that also continues in 2016.

Despite gradual growth in the state debt in the last three years, its stabilization at certain levels after March 2016 and restraint from issuing an external debt in the Budget Act for 2017 give grounds to expect a certain decline in its level in the current year. In addition, in 2017, three maturities take place, which are substantial by values (total 2.6 billion BGN) – the largest of which is on international capital markets programme (1.9 billion BGN).

The level of the state debt continues to be a positive factor for Bulgaria (29.1% of GDP as of March 2016, as its level remains unchanged by the end of the year) compared to the EU indicators. The leverage, on average, for the EU is about 83.3% of GDP as of September 2016, and for the Eurozone it amounts to 90.1% of GDP. Only Estonia and Luxemburg stand before Bulgaria, respectively, by 9.6% and 21.5% of GDP as of September 2016, followed by Romania (36.2%) and Latvia (37.9%).

Banking system

On 13.08.2016 were disseminated the results from the conducted Asset Quality Review (AQR) and Stress Tests (ST) for stability of the banks in Bulgaria. The results show that the banking sector is stable, well capitalized and public support to banks with funds from the state budget is not necessary.

General insurance market in Bulgaria

The general insurance market in Bulgaria during the period of updating is characterized by:

- Strengthening the uptrend in written gross premiums income;
- High growth potential (in view of relatively low levels of insurance density and insurance penetration);
- High level of market concentration – in 2016 72.3% of Gross Premium Income (GPI) in the sector is formed by the seven largest companies (70.7% for 2015);
- High percent of motor insurances in the structure of aggregate insurance portfolio -

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70.0% at the end of 2016 (68.4% at the end of 2015).

Main changes in the regulatory framework:

- In April 2016, the FSC adopted Ordinance (No. 51 of 28.04.2016) on own funds and solvency capital requirements of insurance and reinsurance undertakings, and groups of insurance and reinsurance undertakings;
- In December 2016, the FSC adopted Ordinance No. 53 of 23.12.2016 for the requirements of reporting, evaluation of assets and liabilities and formation of technical reserves of the insurance and reinsurance undertakings and the Guarantee Fund, and Ordinance No.54 of 30.12.2016 for the registers of the Guarantee Fund for exchange and protection of information and for the issuance and reporting of the compulsory insurances under Items 1 and 2 of Art. 461 of the Insurance Code;
- FSC had a session on 13.02.2017 and adopted Ordinance amending and supplementing Ordinance No. 13-41 of 12.01.2009 for documents and order for drawing them up in case of road traffic accidents and the procedure of communication between the Ministry of the Interior, the FSC and the Guarantee Fund;
- FSC had a session on 07.04.2017 and adopted Ordinance amending and supplementing Ordinance No. 49 of 16.10.2014 on the compulsory insurance pursuant to Items 1 and 2 of Art. 249 of the Insurance Code and on the Procedure of Settlement of Claims for Compensation of Damages Caused to Motor Vehicles.

The major factors hindering the development of general insurance companies continue to be slow recovery of the Bulgaria's economy from the crisis and low economic activity and determined by this insecurity with regard to future households revenues. The sector keeps high growth potential concerning relatively low levels of insurance density and insurance penetration.

The results from the conducted Asset Quality Review (AQR) and Stress Tests (ST) of the insurance companies in the country published on 03.02.2017 bespeak for the stability of the rated company.

During the period of updating, there are not changes in the size of the shareholding capital of IC Allianz Bulgaria and it remains 36 217 160 BGN distributed in 7 243 432 number of shares, each with a nominal value of 5 BGN. The shareholding structure also does not have any substantial changes.

During the analyzed period, changes are made to the Management Board (MB). In November 2016, a decision of the Supervisory Board is taken to release Maxim Sirakov and Milen Ivanov from their positions as the change is registered with the Commercial Register in February 2017. Andrey Alexandrov (approved by FSC on 23.12.2016) and Atanas Uzunov (approved on 07.01.2017) are elected as their replacements. On 24.01.2017, a joint meeting of the Management Board and the Supervisory Board was held and Andrey Alexandrov is elected executive director of the company. In July 2017, Pavlin Petkov is elected a member of the MB. Following these changes, the MB is currently composed of Alexander Aleksandrov (Executive Director), Plamen Yalamov (Executive Director), Orlin Penev (Executive Director), Atanas Uzunov (Member) and Pavlin Petkov (Member).

In November 2016, a decision is taken for electing Stefan Stefanov as a member of the Supervisory Board (SB) replacing Elena Hristova. At the moment the SB: Atanas Tabov, Lyuba Pavlova and Stefan Stefanov.

In the organizational structure of the company a great number of changes are made as the structure has been into force since the beginning of July 2017.

In 2016, IC Allianz Bulgaria reports growth of 3.9% of gross premium income, which, as in the previous year, exceeds the adjusted sector. This leads to an increase in the market share of the company by 0.1 p.p. to 10.1%. The market share of the main insurance for the company continues to increase - "Autokasko" (by 0.6 p.p. to 15.1%) while the other car insurance continues to increase, while the other vehicle insurance - Third Motor Party Liability - reports a slight decline in the market share (from 3.4% for 2015 to 3.2% in 2016). The market share of "Fire and natural disasters" is almost unchanged, while the market share of "Other property damages", the increase is by 10.2 p. p. to 27.5%.

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In the first half of 2017, IC Allianz Bulgaria continues to increase its gross premium income on an annual basis - the increase is by 11.3% compared to the first half of 2016, slightly lower than the average increase for the adjusted sector (12.4%). As a result, its market position also declines slightly (from 9.7% to 9.6%). During this period, the company's market presence with regard to Autokasko improves (by 0.5 p.p. to 15.5%), while Motor Third Party Liability reports stabilization of the level of the market share of 3.1%. Property insurance reports a decline - up to 22.4%, compared to 33.2% a year earlier.

With regard to the portfolio structure, the uptrend remains the same in the share of Autocasco, which reaches 47.5% (44.6% in 2015) and 50.1% for the first half of 2017. The share of Third Motor Party Liability remains stabilized at levels slightly above 12%. For the last two years, the share of "Fire and Natural Disasters" has decreased, but in the first half of 2017, slight growth is observed (2.5 p.p. to 19.7%). The weight of "Other property damages" over the last three years is just above 5%, but in the first half of 2017 is only 1.2%.

Overall, the concentration in the company's portfolio changes slightly and remains slightly lower than the average for the other leading companies.

The net claims ratio slightly increases in 2016 on an annual basis (2.4 p.p.), while in the first half of the year there is a slight decline. Comparatively, they are slightly higher than the average for the direct competitors. Similar is the dynamics of net acquisition ratio - a slight increase in 2016 and a decline in the first half of 2017, as the competitive group is characterized with slightly better levels. The expense ratio of IC Allianz Bulgaria continues to report considerably more favorable levels in a comparative aspect.

In 2016, the company reports for a second consecutive year combined expense ratio below 100%, which is an indicator for insurance profit, and its value is about the average for the competitive group. Its level is favorable in the first half of 2017, when the competitive group reports a slightly higher value.

In performing its reinsurance activity, IC Allianz Bulgaria continues to act in accordance with the criteria of FSC and adopted international standards as well as in accordance with the rules and principles defined by Allianz Group for providing a

qualitative reinsurance program. The rated entity provides reinsurance coverage for its main types of insurance.

In 2016, the size of the company's investment portfolio rises by 7.0% on an annual basis. The increase is mainly due to the increased government securities (growth of 15.4%). To some extent, this growth is mitigated by the decline in real estate (14.2%) and deposits in banks (37.1%). These changes do not lead to significant changes in the structure of the investment portfolio, and it continues to be dominated by government securities, whose share increases from 66.0% at the end of 2015 to 71.1% a year later.

The uptrend in the size of the investment portfolio increases in the first half of the year, as the reported increase compared to the end of 2016 comes to 13.3%. The main reason for the increase continues to be the largest investments in government securities (by 18.9%). Structurally, there are no substantial changes.

The investment profitability achieved by the company in 2016 is substantially lower compared to the previous years and the adjusted sector. In the first half of 2017 the dynamics on an annual basis remains unfavourable.

In 2016, IC Allianz Bulgaria realizes growth in net earned income for a third consecutive year which comes to 7.4%. The increase in the first half of 2017 is 10.3%. As it was said, the company generates an insurance profit whose size (5 655 thousand BGN) is close to the reported for 2015. The result from insurance activity for the first half of 2017 is in the amount of 5 638 thousand BGN, which is growth of 33.1% on an annual basis. The net profit for 2016 reports a decline of 21.7% compared to 2015 (to the size of 8 185 thousand BGN), and in the first half of 2017 the dynamics is favourable (growth of 22.2% to 5 638 thousand BGN).

In 2016, the company reports a little higher operating leverage in comparison with the average for the competitive group, while the financial leverage is close to the average for the group.

Overall, the company continues to be characterized by good liquidity, higher in a comparative aspect. An exception is the ratio for quick liquidity.

CLAIMS PAYING ABILITY RATING

IC Allianz Bulgaria

Long-term rating: **BBB-** (outlook: *positive*)

National-scale rating: **AA (BG)** (outlook: *positive*)

November 2017

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Main Financial Indicators

<u>Indicator / Year:</u>	06.2017	12.2016	2015	2014	2013
Gross Premium Income (thousand BGN):	86 381	163 131	157 076	141 684	128 238
Change on a yearly basis (%)	-47.0%	3.9%	10.9%	10.5%	-5.2%
Net Earned Income (thousand BGN):	74 244	133 930	124 760	103 883	94 905
Change on a yearly basis (%)	-44.6%	7.4%	20.1%	9.5%	-0.4%
Net Profit (thousand BGN)	6 727	8 185	10 450	-5 607	13 385
Result from Insurance Activity	5 638	5 655	5 970	-12 553	9 900
Gross Claims Ratio	71.0%	53.8%	54.3%	84.2%	47.7%
Net Claims Ratio	56.5%	57.3%	54.9%	80.5%	52.6%
Expense Ratio	12.1%	11.5%	13.5%	6.8%	11.9%
Acquisition Ratio	23.8%	27.0%	26.7%	24.8%	25.1%
Combined Ratio	92.4%	95.8%	95.2%	112.1%	89.6%
Operating Leverage	104%	208%	226%	233%	152%
Financial Leverage	197%	215%	231%	270%	149%
Liquidity Ratio	3.2%	5.6%	3.4%	6.2%	7.6%
Return on Equity	14.1%	13.3%	21.0%	-10.8%	20.5%

**Rating History:

The ratings displayed in the chart are assigned under the previous Methodology for rating of the ability of insurance companies to pay claims, respectively with the applied rating scale and are not directly comparable with the ratings assigned after the entry into force of the current methodology on 04.07.2016.

CLAIMS PAYING ABILITY RATING	Initial Rating 09.2007	Update 09.2008	Update 09.2009	Update 03.09.2010	Update 28.09.2011
Long-term rating:	iA	iA	iA	iA	iA+
Outlook:	Stable	Stable	Stable	Positive	Stable
CLAIMS PAYING ABILITY RATING	Update 16.10.2012	Update 18.10.2013	Update 13.10.2014	Update 08.10.2015	Monitoring 05.07.2016
Long-term rating:	iA+	iA+	iA+	iA+	iA+ (under review)
Outlook:	Stable	Stable	Stable	Stable	