

ZAD „Allianz Bulgaria” AD

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RCPA	Initial Rating 9.2007	Update 9.2008	Update 9.2009	Update 3.9.2010	Update 28.9.2011	Update 16.10.2012
Long-term rating:	iA	iA	iA	iA	iA+	iA+
Outlook:		stable	stable	positive	stable	stable

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„BCRA – CREDIT RATING AGENCY” AD affirms the long-term claims paying ability rating of ZAD „Allianz Bulgaria” AD: iA+ (outlook – stable). The officially adopted methodology by BCRA for assignment of a claims paying ability rating is used (http://www.bcra-bg.com/files/file_202.pdf).

To elaborate the credit report and to award the credit rating, BCRA uses information from the rated insurance company, FSC, National Statistical Institute, BCRA's database, consultants and other sources of public information.

During the update period the economy of Bulgaria continued being under the impact of the global crisis. As of the first half-year of 2012 the growth of GDP (real) retarded and there was a permanent ascending trend of unemployment rate. The basic factors influencing on the condition of the market of insurance services remain the narrowed consumption of the households and low economic activity. As of the end of 2011 the descending trend in the realized GDI maintained, though the rate retarded as GPI on direct insurance decreased by 1.7%¹ compared to 2010. As of the end of June 2012 the drop intensified and reached to 2.6% on an annual basis.

¹ In August 2011 the company "Grawe Bulgaria General Insurance" EAD is transformed via a merger in the sole owner of its capital – „Grazer Wechselseitige Versicherung Aktiengesellschaft". With the aim to achieve comparison between the data, in the sum of GDI for 2010 the incomes of "Grawe Bulgaria General Insurance" EAD were not included.

Though the decline in GPI, as a result of the taken measures by the general insurance companies to optimize the costs and the whole activity, as of the end of 2011 the financial results improved abruptly. The sector ended up the year with a negative financial result from insurance activity, but it decreased by - 3 082 thousand BGN (- 71 262 thousand BGN for 2010 and though the reported decline in the investment income of 14.5%, the profit of the general insurance companies reached to BGN 51 528 thous. (a loss of BGN 16 385 thousand in 2010). As of the end of the half-year of 2012 net financial result registered an increase of 29.2% year on year in the size of BGN 29 320 thous. The trend of yielding of market share of the leading insurance companies also continued in 2011. As of the end of the year there was a change in the market concentration – 65.9%² (67.1% in 2010) the market of the general insurance sector was occupied by six companies. At the end of the second quarter of 2012 considerable changes haven't occurred in the general insurance share of the leading companies compared to the same period of the past year. The car insurances continue playing a key role at the market of the general insurance in Bulgaria. No changes occurred in the legal framework.

During the update period no changes occurred in the structure of the shareholding capital of ZAD „Allianz Bulgaria” AD. The major shareholder in the company continues being „Allianz Bulgaria Holding". No changes occurred in Supervisory Council and Management Board of the company. The management of the company is executed in accordance with the strategy for development with clearly formulated aims. The company's policy is directed to supply of various insurance products with the aim for balanced development of the insurance portfolio.

² Based of direct insurance



CLAIMS PAYING ABILITY RATING
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iA+ (outlook: stable)
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In 2011 the market share of ZAD „Allianz Bulgaria” decreased weakly, though during the first half-year of 2012 the company improved its market position year on year. To a great extent the decline of GDI on direct insurance in 2011 was due to the shrunk income from registered premiums with „Fire and natural disasters”. The company, however, realized significant GDI on active insurance in this department and on the basis of total direct income on the insurance the decline amounted to only just 1.9%. The leading insurance– „Autocasco” registered a growth in GDI on direct insurance compared to the decline for the adjusted sector. A considerable increase is reported with another car insurance „Third party liability for motor vehicles”. The improvement of the market position in the first half-year of 2012 compared to the same period of the past year is due to the narrowed GDI totally for the other companies in the sector (2.8%); ZAD „Allianz Bulgaria” retained its realized income at the level as of the end of the half-year year of 2011. The most considerable change in the structure of the portfolio of ZAD „Allianz Bulgaria” in 2011 is related to the increased share of „Third party liability for motor vehicles”. The increased share of another car insurance – „Autocasco” – is low, though it retained the largest weight in the portfolio of the company. The share of property insurance decreased, mainly in line „Fire and natural disasters”. The share of the basic business directions in the first half-year of 2012 decreased. It retained unchangeable on an annual basis. During the analyzed period the favorable position of ZAD „Allianz Bulgaria” in comparative aspect retained the same with regard to the structure of the portfolio.

In 2011 the descending trend in Gross, as well as in Net Claims Ratio of ZAD „Allianz Bulgaria” retained. During the first half-year of 2012 a considerable growth was observed of Net Claims Ratio in line of the occurred large single claim, which predetermined a unfavorable position of the company in comparative aspect. In 2011 the company retained low levels of Net Combined Ratio compared to the leading companies, as well as compared to the sector, but in first half-year of 2012 the indicator increased, as the reached level exceeded the average for the competitive group. In 2011 the level of Expense Ratio increased considerably, but during the first half-year of 2012 the indicator registered a decline as the gained value is considerably more favorable compared to the average of the competitive group.

In 2011 Combined Expense Ratio retained at a favorable level. For the first half-year of 2012, however, the increased claims and combined ratio reflected on the growth of Combined Expense Ratio. Its level exceeded 100%, which is an indicator for a loss from insurance activity.

During the update period the rated company provided re-insurance coverage for its common types of

insurance, as any significant changes occurred in the re-insurance policy. In accordance with the requirements of Allianz Group, the company signs contracts with reinsurers with an assigned credit rating minimum A (by the scale of S&P).

On an annual basis in 2011 the size of the portfolio of the investment assets of ZAD „Allianz Bulgaria” increased slowly compared to the average growth of the portfolios of the other companies in the general insurance sector. High liquid assets continued forming a basic part of the portfolio, as their total share increased and it is near to the average for the sector. The securities increased considerably. The gained profitability of the investment portfolio is lower than the average for the other companies in the sector. The investment income continued to be slightly dependent from the re-evaluation of the securities. In the first half-year of 2012 the size of the investment portfolio of the company decreased inconsiderably on an annual basis. In comparison with the end of 2011 percentage of government securities and bank deposits decreased, as their total share is considerably lower than the average for the other companies in the sector. The amount of the investments in collective investment schemes increased. For the first half-year of 2012 net income from investment activity of ZAD „Allianz Bulgaria” increased by comparison with the same period of the past year and profitability of the portfolio occupied a value over the average for the other companies in the sector.

In 2011 ZAD „Allianz Bulgaria” registered a slight growth in Gross registered premiums compared to the average decline for the other companies in the sector; a growth in Net Earned Income; considerable growth in the profit of the insurance activity in conditions of loss in the sector as a whole; higher net financial result compared to the past year; higher Liquidity Ratio than the average for the other general insurance companies and better return on equity. During the first half-year of 2012 the company registered year on year a decline in GDI; decrease in net earned income; loss from insurance activity and considerable decline in Net financial result. During the period under review no change occurred in the registered and paid-in capital. The dynamics of the equity was determined entirely by the current financial result, by reason of this as of the end of the half-year there was a decline in its size. The solvency boundary, as well as the own funds of the company, decreased by intangible assets, retained at stable levels, whereas the Coverage ratio remained high. In 2011 operating leverage increased due to the growth in Net Earned Income retaining the size of equity comparatively unchanged. Financial leverage remained at the levels of the past year. ZAD „Allianz Bulgaria” continues registering lower values of both indicators compared to the average values for the other leading

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insurance companies. During the period under review both Liquidity Ratio of technical reserves and Liquidity Ratio of the reserve for upcoming payments increased in comparison with the same period of the past year. In comparative aspect the rated company continued occupying higher values for both indicators compared to the average for the other leading insurance companies, as well as for the sector as a whole.

Main Financial Indicators:

Indicator	6.2012	6.2011	2011	2010	2009
GDI	68 002	70 809	142 041	141 687	141 757
<i>Change rate year on year</i>	-3.96%	-0.20%	0.2%	0.00%	-14.10%
Net Earned Income	48 173	50 243	101 467	97 195	106 946
<i>Change rate year on year</i>	-4.12%	-2.70%	4.4%	-9.10%	-14.00%
Result from insurance activity	-1 544	6 811	6 811	5 946	8 015
<i>Change rate year on year</i>		40.00%	14.55%	-25.80%	-15.70%
Net profit	1 137	8 069	11 987	11 168	11 018
<i>Change rate year on year</i>	-85.91%	23.70%	7.33%	1.40%	21.50%
Gross Claims Ratio	68.86%	42.00%	42.9%	44.60%	44.60%
Net Claims Ratio	65.79%	50.80%	49.9%	53.60%	57.40%
Combined Expense Ratio	103.21%	86.40%	92.7%	93.90%	92.50%
Operating Leverage			96%	175%	195%
Financial Leverage			170%	165%	182%
Liquidity Ratio	6.1%	3.2%	3.2%	6.70%	3.6%
Return on equity	9.9%	24.4%	22.5%	21.3%	22.4%