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CLAIMS PAYING ABILITY RATING	Initial Rating 9.2007	Update 9.2008	Update 9.2009	Update 3.9.2010	Update 28.9.2011	Update 16.10.2012	Update 18.10.2013
Long-term Rating:	iA	iA	iA	iA	iA+	iA+	iA+
Outlook:		stable	stable	positive	stable	stable	stable

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

„BCRA – Credit Rating Agency (BCRA)” affirms the long-term claims paying ability rating to „Allianz Bulgaria” AD: iA+ (outlook – stable). The officially adopted methodology by BCRA for assignment of 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.

The main characteristics of the general insurance market in Bulgaria during the period (06.2012 – 06.2013) are:

➤ The descending trend retains in the realized Gross premium income (GPI) on direct insurance in 2012 (an annual drop of 1.9%), whereas in the first term of 2013 there is a slight growth on an yearly basis (1.7%).

➤ The growth potential of the insurance market remains high – the levels of insurance density and penetration continue to decrease.

➤ An improvement of the financial results of the general insurance companies. The sector ended up 2012 with a positive result from insurance activity (8 851 thousand leva), compared to the loss for the previous year (-3 082 thousand leva). During the first term of 2013 the insurance profit is bigger by 13.4% compared to the same period of the previous year. Net financial result also improved in 2012, also as of 06.2013 on an yearly basis.

➤ The descending trend of the market share of the leading companies discontinued: they improved their positions and as of the end of 2012 they occupied 66.3% at the general insurance market (65.9% a year earlier), and as of the middle of 2013 – 68.7% (67.5% as of 06.2012).

➤ The car insurances continue to dominate at the general insurance market. In 2012 their share decreased slightly to 70.9% (compared to 72.2% for 2011), whereas in first six months of 2013 there was a slight increase (to 71.6%, 70.6% a year earlier).

In 2013 the shareholding capital of „Allianz Bulgaria” AD increased from 18 030 thousand leva to 36 217 thousand leva. The increase is determined to cover all the capital requirements set by the mother company. „Allianz Bulgaria Holding” continues to be the major shareholder. The company's management continues to manage the company complying the written strategy. The policy of the company continues to be directed towards keeping the market share of the company, maintenance of the balanced product and client portfolio, maintenance of very good profitability

and a constant control of the expenses. The company continues to apply a strict policy regarding the taken risks based on the group risk policy of Allianz SE.

During the period 6.2012-6.2013 the market share of the company decreased to 8.7% (10.2% as of June 2012). To greatest extent the decrease of GPI of the company in 2012 is due to the income which shrank from registered premiums „Fire and natural disasters”, „Insurance vehicles, without rails vehicles” (which is the leading insurance of the company) – there is a slight decrease in GPI on direct insurance (0.2%) compared to the decline of 6.7% for the adjusted sector, which led to an increase of the market share. During the first half of the year of 2013 GPI on a bigger part of the insurances registered a decline compared to the same period of the previous year. The structure of the portfolio of ZAD „Allianz Bulgaria” does not undergo considerable changes. The company continues to maintain considerably lower share of the insurance „Motor Third Party Liability” compared to the average for the competitors whereas „Autocasco” registered higher levels. The rating company continues to register a bigger share of the property insurances compared to the other leading insurers. In 2012 gross and net claims ratio of ZAD „Allianz Bulgaria”, registered an increase compared to 2011. During the first half of the year of 2013, however, a decline of the indicator was observed which determines the favourable position of the company in a comparative aspect. In 2012 Net acquisition ratio registered an increase, but as of the first half of the year of 2013 it improved and its value was lower than the average for the leading companies. The Combined Expense Ratio registered a slight growth but it remains lower compared to the average for the competitive group. In a comparative aspect ZAD „Allianz Bulgaria” took a favourable position by value of the combined expense ratio in 2012, as well as of the first half of the year of 2013, as on average for the peer group the analyzed indicator registered a loss from insurance activity.

During the period of update considerable changes haven't occurred in the reinsurance policy. In accordance with the requirements of Allianz Group, ZAD „Allianz Bulgaria” continues to conclude contracts with reinsurers with a minimum credit rating A (by the scale of S&P).

During the period 06.2012-06.2013 the amount of the general investment portfolio of ZAD „Allianz Bulgaria” increased by 21.5% on an average decrease in the volume of the portfolio of the other companies in the general insurance sector by 4.1%. Its structure is changed, as the share of the high liquid assets increased, mainly in line of the increase of the investments in government securities. Despite that the total share of government securities and bank deposits in the portfolio remains lower than the average for the

other companies in the sector. The share of the stocks increased in line of the increased investments in mutual funds. The amount of the investments in properties did not change considerably and this of the investments in daughter companies maintains unchanged, which led to a decrease of their shares due to the increase of the overall portfolio. The share of the investment properties, despite its decrease, remains considerably higher than the average for the other companies in the sector. A decline in the relative share was observed with the corporate bonds, as of 6.2013 they took an insignificant part of the portfolio. The achieved profitability¹ of the investments portfolio during the period of update was lower than the average for the other companies in the sector. The investment incomes are dependent slightly on the reevaluation of securities which is a positive factor from rating point of view, with view of its lower volatility. A major part of them is formed by interest and coupon payments and renting of investment properties.

In 2012 ZAD „Allianz Bulgaria” AD reported a decline of 4.8% in gross registered premiums compared to an average decline for the other companies in the sector of 1.6%. There is a growth in Net earned income of 6.0%. The profit from insurance activity and the financial result are lower compared to the previous year. The company has much better liquidity than the average for the leading insurers. The Return on equity is much higher than the average for the peer group.

During the first term of 2013 the company registered a decline of 13.7% in GPI on an yearly basis (a decline of 3.8% for the adjusted sector). The decrease is barely 1.3% in Net earned income. A high growth in the result from insurance activity and net financial result.

During the period under review the solvency border decreased and the own funds of the company decreased with the fixed intangible assets increased abruptly, this is the reason the Coverage ratio continues to increase. ZAD „Allianz Bulgaria” AD continued to report low values of the leverage compared to the average values for the other insurance companies. In a comparative aspect the rated company continues to maintain much more favourable values of the Liquidity ratio of the technical reserves and Liquidity ratio of the reserve for future payments compared to the average for the other insurance companies, as well as for the sector.

In the update period ZAD „Allianz Bulgaria” maintains its stable financial state by realizing a positive result from investment and insurance activity. Both portfolios (insurance and investment) are better diversified and compared to these of the other leading companies in the sector. The indicators for insurance activity take more favourable values than these of the fire

¹ Calculated by the method TTM.

 BCRA CREDIT RATING AGENCY	CLAIMS PAYING ABILITY RATING ZAD „Allianz Bulgaria” AD iA+ (outlook: stable) October 2013
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competitors. The increase of the shareholding capital in 2013 improved more the factual solvency of the company. ZAD „Allianz Bulgaria” continues to be characterized with very higher liquidity compared to the other general insurance companies. The negative influence upon the assigned rating of the company could be the continuous decrease of GPI and yielding of a market share. Some growth in financial and operating leverage could have a positive impact upon the rating.

Main Financial Indicators:

Показател	6.2013	6.2012	2012	2011	2010
GDI	58 680	68 002	135 282	142 041	141 687
<i>Change rate year on year</i>	-13.7%	-4.0%	-4.8%	0.2%	0.0%
Net Earned Income	47 569	48 173	95 332	101 467	97 195
<i>Change rate year on year</i>	-1.3%	-4.1%	-6.0%	4.4%	-9.1%
Result from insurance activity	5 581	-1 544	5 859	6 811	5 946
<i>Change rate year on year</i>	n.a.	n.a.	-14.0%	14.6%	-25.8%
Net profit	6 892	1 137	9 898	11 987	11 168
<i>Change rate year on year</i>	506.2%	-85.9%	-17.4%	7.3%	1.4%
Gross Claims Ratio	43.1%	68.9%	55.7%	42.9%	44.6%
Net Claims Ratio	50.8%	65.8%	56.5%	49.9%	53.6%
Combined Expense Ratio	88.3%	103.2%	93.9%	92.7%	93.9%
Operating Leverage	n.a.	n.a.	162%	96.0%	175.0%
Financial Leverage	n.a.	n.a.	153%	170.0%	165.0%
Liquidity Ratio	15.7%	6.1%	12%	3.2%	6.7%
Return on equity	25.8%	9.9%	18.9%	22.5%	21.3%