

ZAD „Allianz Bulgaria” AD	Delyan Pehlivanov, Lead Financial Analyst d.pehlivanov@bcra-bg.com
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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	Update 13.10.2014
Long-term:	iA	iA	iA	iA	iA+	iA+	iA+	iA+
Outlook:	Stable	Stable	Stable	Positive	Stable	Stable	Stable	Stable

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 – 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 assigning a claims paying ability rating is used (http://www.bcra-bg.com/files/file_202.pdf).

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

As of the time of elaborating the report the economy of Bulgaria continued to be under the effects of the European financial and economic crisis, and the economic activity was still weak. In 2013 the uptrend of the domestic consumption discontinued as it remained low due to the increasing unemployment rate and uncertainty in the expectations of the business and the households with regards to the exit of the economy from the crisis. The slow recovery of the economic growth of Bulgaria is also determined by the influence of external factors. Despite the basic trade partner, the EU, emerged from the recession, the economy growth for

2013 was hardly 0.1%¹, and in total the Eurozone registered a drop of 0.4%. During the last year the economy of Bulgaria registered a slow and fluctuating recovery, which highly depended on the volume of export, predominantly, by the recovery rates of EU’s economy, the increasing unemployment, low domestic consumption and investment activity, and minimum inflation.

In the period 2012-2013 the general insurance sector operated in an unfavourable economic environment, as a result from the effects of the global crisis on the Bulgaria’s economy. However, it showed signs of recovery – the sustainable downtrend was discontinued in Gross Premium Income for the past years, and income increased, also a positive technical result and increased net profit were reported in comparison to the past year. The main factors, hindering the development of the general insurance companies, still remained the uncertain recovery of the Bulgaria’s economy from the crisis and the concomitant weak economic activity and reduced domestic consumption. The sector retained its high growth potential with a view of low levels of insurance penetration and density. Despite the growing number of companies, the market concentration remained high. A major share of the aggregate insurance portfolio in the sector continued to be held by car insurances with a share ~ 70%.

In the update period there were no changes occurred in the shareholding structure or management

¹ By data of Eurostat.

structure of ZAD „Allianz Bulgaria”. The company’s management continues to manage the company in accordance with the adopted strategy. The company’s policy remained with a focus on retaining the market share of the company, maintaining a balanced product and client’s portfolio, maintaining a very good profitability and constant expenditure control.

In 2013 there was a decline by 5.2% in GPP realized by the company (a 6.5% growth of the adjusted sector² compared to 2012). To a great extent, it is due to the continuing decline of revenues from written premiums on „Fire and natural disasters”. During the first half of 2014 the written premiums grew up by 8.8% compared to the same period of 2013 in comparison with a 5.7% growth of the adjusted sector.

During the period 6.2013-6.2014 the market share of the company retained relatively unchanged - 8.9% (8.7% as of June 2013). To a great extent, the decline of GPP of the company in 2013 was due to the shrank income of written premiums on „Fire and natural disasters”. The leading insurance – „Insurance of road vehicles, without rail vehicles” reported a growth of 3.1% in GPP on direct insurance compared to a decline of 2.0% for the adjusted sector. The share of the car insurances continued to increase in the first half of 2014 compared to the same period of 2013 - by 3.5 p.p. - as the increase is predominantly in line of the share of „Insurance of road vehicles, without rail vehicles” (2.6 p.p.) The share of the property insurances registered stabilization of about 25% ceasing the downtrend in the past periods. Along with the increased share of the car insurances, however, the share of the main business directions in the first half of 2014 registered a stable growth.

In 2013 Gross and Net Claims Ratios of ZAD „Allianz Bulgaria” registered a decline compared to the past year of 2012. The decrease was in line of the following insurances: „Fire and natural disasters” and „Property Damage”. With a view of the reported decrease of Net Claims Ratios, „Allianz Bulgaria” decreased by this indicator below the average value in the competitive group. Net Acquisition Ratio grew up for second consecutive year and it is higher than the average in the competitive group. The Expense Ratio decreased and its value is more favourable in a comparative aspect. „Allianz Bulgaria” occupied the best position by value of Combined Expense Ratio in comparison with the leading insurance companies in 2013, and as of the end of the semi-annual period of 2014.

In the update period there were not considerable changes in the reinsurance policy. The insurance limits and premiums were slightly changed on part of

contracts. The retention level increased slightly. In compliance with the requirements of Allianz Group, „Allianz Bulgaria” continue to conclude contracts with re-insurance companies that have a credit rating assigned minimum A (S&P’s rating scale).

At the end of 2013 total investment portfolio of „Allianz Bulgaria” increased by 8.2% on a yearly basis. The growth of the portfolios counted to 5.7% on average in the other companies. Its structure changed as the share of high liquid assets increased, predominantly, in line of the deposits in government securities. Thereby, the total share of government securities and bank deposits in the portfolio (63.0%) reached the average for the other companies in the adjusted sector (65.1%). In the first half of 2014 there were not considerable changes in the structure and volume of the investment assets. The profitability gained in the update period remains lower than the average in the adjusted sector. The revenues were not influenced by revaluation of the assets, which is a positive factor from a rating point of view, having in mind their lower volatility. The portfolio covered entirely the technical reserves of the company and was formed in accordance with the diversification of the assets for their coverage, set in the Insurance Code. It was structured with a relatively risk level.

During the first half of 2014 GPP, reported by the company, increased by 8.8% compared to a slight increase in the sector (5.1%). Net Earned Income registered a growth of 4.2% compared to the first half of 2013. A significant growth was reported with Gross Claims Ratio, and the result generated by Allianz Bulgaria from insurance activity decreased in comparison with the same period of the past year. Net Claims Ratio reported also a relative growth. The Return on equity remained over 20% for the past 18 months. In the update period the registered and paid-in capital remained unchanged. The coverage level remained high. The levels of financial and operating leverage remained below the average in the comparative group. The Liquidity Ratio of technical reserves and Liquidity Ratio of upcoming payments reserve became lower but remained higher than the average in the adjusted sector, as well as in the competitive group.

During the update period "Allianz Bulgaria" retained its stable financial condition and realized a positive result from investment, also from insurance activities. Both portfolios (insurance and investment) were more diversified than those of the other leading companies in the sector. The insurance indicators occupied more favorable values than those of direct competitors and sector. The actual solvency of the company remained good. "Allianz Bulgaria" continued to be characterized by much higher liquidity than this of the other general insurance companies. A negative impact on the

² The general insurance sector corrected with data of the assigned company.

	CLAIMS PAYING ABILITY RATING ZAD „Allianz Bulgaria България” AD iA+ (outlook: stable) October 2014
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rating assigned to the company could cause a continuing decline in GPP and ceding a market share. Certain growth of financial and operating leverage would have a positive influence on the rating.

Main Financial Indicators:

	6.2014	6.2013	2013	2012	2011	2010	2009
Gross Premium Income	63 848	58 680	128 238	135 282	142 041	141 687	141 757
Change on a yearly basis (%)	8.8%	-13.7%	-5.2%	-4.8%	0.2%	0.0%	-14.1%
Net Earned Income	49 574	47 569	94 905	95 332	101 467	97 195	106 946
Change on a yearly basis (%)	4.2%	-1.3%	-0.4%	-6.0%	4.4%	-9.1%	6.8%
A result from insurance activity	3 489	5 581	9 900	5 859	7 423	5 946	8 015
Change on an yearly basis (%)	-37.5%	-	69.0%	-21.1%	24.8%	-25.8%	-15.7%
Net Profit	6 254	6 892	13 385	9 898	11 987	11 168	9 070
Change on an yearly basis (%)	-9.3%	506.2%	35.2%	-17.4%	7.3%	1.4%	21.5%
Gross Claims Ratio	73.0%	43.1%	47.7%	55.7%	42.9%	44.6%	44.6%
Net Claims Ratio	63.5%	50.8%	52.6%	56.5%	49.9%	53.6%	57.4%
Liquidity Ratio of technical reserves	90%	118%	98%	92%	94%	89%	78%
Quick Liquidity Ratio	4.82%	15.73%	7.58%	11.57%	4.58%	6.65%	3.62%
Financial Leverage	-	-	149%	153%	162%	165%	182%
Operating Leverage	-	-	152%	162%	183%	175%	195%
Combined Expense Ratio	93.0%	88.3%	89.6%	93.9%	92.7%	93.9%	92.5%
Return on Equity	20.1%	25.8%	20.5%	18.9%	22.5%	21.3%	22.4%