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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
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
Long-term rating:	iA+	iA+	iA+	iA+
Outlook:	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 ZAD „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).

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.

The political turmoil and destabilization of the banking system after the middle of the previous year (2014) reinforced the negative effects of weak demand and low economic activity over the remainder of 2014.

The economy of Bulgaria marked a significant growth in the first quarter of 2015, the main driver was exports, and (growth) continued in the second quarter,

but at a slightly slower pace. The business climate after August (over the next 3 months) for part of the sector is expected to be beneficial, while for others - the forecasts are more reserved. The increase in electricity prices rose to discontent among producers as possible consequences would lead to a reduction in economic growth and adverse changes in conditions of the labor market.

Bulgaria can be determined with a low economic activity for the previous year (2014) and recovery for the first half of 2015 which is expected to persist through the remainder of the year, but at a lower pace.

The banking system events in 2014 led to the emergence of a potential threat to banking institutions to deepen the banking crisis and the involvement of a larger number of participants in this sector. Despite the increased risk in the financial system caused by the removal of one of the main players and the risk of dropping the second, the banks in Bulgaria maintained its stability. For the first half of 2015, the banking environment can be described as stable, as evidenced by the high capital adequacy and liquidity of assets and growth in deposits. There was a reduction in the negative rate of change of loans, and the share of classified loans also marked a decrease, contributing to an improvement in the balance sheets of banks in the country.

During the period 2012-2014, the general insurance sector operated in an unfavorable economic environment resulting from the effects of the global crisis on the economy of Bulgaria. There were reported weak signs of recovery - the downtrend was interrupted in Gross Premium Income in recent years and a slight revenue growth was reported. At the end of 2014, however, a negative result from an insurance activity was reported and minimum total profit for the sector; 10 companies reported a negative financial result for the year. Recovery was felt in the middle of this year but still weak.

The main factors hindering the development of general insurance companies remained still uncertain recovery of the Bulgarian economy from the crisis, and the weak economic activity and reduced domestic consumption. The sector maintained a high growth potential, given the low levels of insurance penetration and density. Despite the growing number of companies, market concentration maintained high. A main share in the aggregate portfolio of the insurance sector continued to be occupied by the motor insurances with a share of less than 70%.

For the period of updating there were no changes in the shareholding or management structure of ZAD "Allianz Bulgaria". The company's management continued to manage the company in accordance with the written strategy. The company's policy remained directed on maintaining the market share of the company, a balanced product and client portfolio, a very good profitability level and ongoing cost control. During 2014, the downtrend was reverse in the realized GPP by the company, as a growth of 10.5% was realized with a decrease in the adjusted sector¹ of 0.2% compared to 2013. It was due to the increased revenue growth in insurance premiums of "Road vehicles, excluding railway vehicles" (a growth of 16.2% compared to 2.9% a year earlier). Another type of insurance with its contribution to the overall increase of the premium income is "Fire and natural disasters." After the reported decline of 12.4% in the previous 2013, at the end of 2014 an increase of 14.1% yoy was reported in market share by 1.1 p.p. to 15.6%.

The market share of the company reported a growth – from 9.0% at the end of 2013 to 9.9% for 2014.

In the structure of the portfolio of ZAD „Allianz Bulgaria” in 2014 the share of „Road vehicles, excluding railway vehicles” insurance continued to report an increase reaching 45.3%. Given the fact that the company occupied the second position /as of the end of 2014/ by market share in this type of insurance, the enhancement of the concentration with the reported increase of its share in the structure of the portfolio of

types of insurance may be taken as a bearer of an increased risk, especially with the concrete claims from the events as of July 2014. This trend was strengthened with data as of June 2015 with an increase to 46.0%. Despite the slight decrease with the other type of vehicle insurance – „Third Motor Party Liability”, the share of vehicle insurances in total at the end of 2014 for a consecutive year reported a growth (by 2.3 p.p.) of the previous year increasing to 60.2%, and this of the property ones decreased slightly from 24.2% in 2013 to 24.1% at the end of 2014.

The share of vehicle insurances decreased insignificantly by 0.3 p.p. during the first half of 2015 compared to the end of 2014, as the decrease was mainly in line of the share of the insurance „Third Motor Party Liability” – by 1.3 p.p., whereas „Autocasco” reported an increase by 0.7 p.p. The share of the property insurances reported stabilization about 24% suspending the downtrend for last periods. Together with the increased share of the vehicle insurances, however, the share of the main business directions in the first half of 2015 reported stabilization about 84%.

During 2014, gross and net claims ratio of ZAD „Allianz Bulgaria”, reported a large increase compared to the previous 2013. The increase was mostly in line of „Fire and natural disasters”, „Property claims”, (that reported a considerable decrease during the previous year) and „Autocasco”. This increase in property insurances was due to the catastrophic events occurred in 2014 (floods and hailstorms) and to a large claim on „Fire and natural disasters” insurance – occurred and announced in 2014, that is 96.9% reinsured. With the increase of net claims ratio in 2014, ZAD „Allianz Bulgaria” exceeded considerably the average levels by this indicator for the competitive group – by 22.6%, unlike the previous years, when it was always under the average levels for these companies.

During the first half of 2015, however, the indicator reported a drop from the achieved high level and its value of 59.0% was much closer /only with 2.8 p.p. higher/ to the average for the reference group compared to the end of 2014.

In 2014, net acquisition ratio reported a weak decrease reaching 24.8%, after two consecutive years of growth, but as of the first half of 2015 increased again and was higher than the average for the competitive group. The expense ratio decreased steadily for third consecutive year and maintained values that were much more favourable in a comparative aspect. As a result of large growth of net claims ratio for 2014, for first time over the last years, the combined expense ratio exceeded 100% /112.1%/, despite the decrease in other components of the indicator. For the first half of 2015, it fell down again below 100%, though slightly – to 99.7%, as a result of the decrease of net claims ratio from

¹ The general insurance sector adjusted with data of the rated company.

 BCRA CREDIT RATING AGENCY	CLAIMS PAYING ABILITY RATING ZAD „Allianz Bulgaria” AD iA+ (outlook: stable) October 2014	
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extremely high reported values for the company at the end of 2014.

Herewith ZAD „Allianz Bulgaria” was below the average again for the group in the middle of 2015 by value of combined expense ratio in comparison with the lead insurers.

During the period of updating, there were not taken any significant changes from rating point of view in the reinsurance policy. The insurance limits and premiums were changed in part of the contracts. The retention level increased slightly. In compliance with the requirements of Allianz Group, ZAD “Allianz Bulgaria” continued to sign contracts with reinsurers having an assigned rating minimum A (based on the rating scale of S&P).

At the end of 2014, the amount of the total investment portfolio of ZAD "Allianz Bulgaria" decreased by 1.4% year on year as other companies in the general insurance sector reported an insignificant growth in the volume of the portfolios – 0.5%. In its structure the investments in shares and participations на IF reported the largest change – a growth of 32.7% compared to 2013 and growth of the percent share with 3.8 p.p. to 15.0% from the investment portfolio. The total share of government securities and bank deposits in the portfolio (62.8%) remained lower than the average for other companies in the adjusted sector (65.8%). At the end of 2014, the investments in subsidiaries remained the same as absolute amount and low growth in % share, but as of June 2015 the participation of the company in subsidiaries, joint companies and associates, and other companies with equity have already been terminated, due to consolidation of participations at holding level.

The gained profitability of the investment portfolio in 2014 for first time over the last five years was higher than the average for other companies in the sector. The increase of the net result from investment activity compared to the previous year was a growth of 19.5% year on year, as the income from investments (interests, dividends and rents) had the biggest participation in the achieved positive change, as well the reduction of the net negative difference from revaluation of investments.

The portfolio covered completely the technical reserves of the company and was formed in accordance with the requirements for diversification of the assets for their coverage determined in the Insurance Code. It is structured with a relatively low risk level.

During the first half of 2015, GPP realized by the company increased by 11.2% in comparison with a reported lower increase for the sector (6.2%). The net earned income reported a growth of 17.5% compared to the first half of 2014. There was a decrease in the gross claims ratio and an increase of the expense ratio and decrease of the result from insurance activity generated by ZAD „Allianz Bulgaria” in comparison with the same period for the previous year. The return on equity was negative as a result of the reported loss for 2014. During the period of updating, the registered and paid-in capital remained without any achange. At the end of the period, the levels of financial and operating leverage remained under the average for the comparative group. The liquidity ratio of the technical reserves and liquidity ratio of the reserve for upcoming payments decreased but remained higher than the average for the adjusted sector and for the competitive group.

During the period of updating, ZAD „Allianz Bulgaria” a positive change with the growth of GPP that was faster compared to the average compared and there was an increase of the market share.

A positive result was realized from investment activity that as profitability was over the average for the sector. As a bearer of a possible risk in future could be taken increased concentration of the investment portfolio of the company, even though with a low risk level, mainly from point of view of the expected profitability from it with achieved levels at present.

The company retains its financial condition relatively good compared to other main competitive companies in the sector. The result from insurance activity at the end of 2014 was strongly negative due to catastrophic events and high claims, as in this relation only one of the other insurance companies in the competitive group did not report a negative result. At the end of the period under consideration, financial recovery signs were reported as of the half of 2015, as well the indicators for insurance activity improved maintaining more favourable levels than those of the direct competitors and sector.

The factual solvency of the company maintained good levels. ZAD„Allianz Bulgaria” continued to be characterized with very higher liquidity compared to other general insurance companies.

Main Financial Indicators:

Indicator / Period:	06.2015	06.2014	2014	2013	2012	2011	2010
Gross Premium Income (thousand leva):	71 011	63 848	141 684	128 238	135 282	142 041	141 687

<i>Change on an yearly basis (%)</i>	11.2%	-54.9%	10.49%	-5.2%	-4.8%	0.2%	0.0%
Net Earned Income (thousand leva):	58 270	49 574	103 883	94 905	95 332	101 467	97 195
<i>Change on an yearly basis (%)</i>	17.5%	-52.3%	9.5%	-0.4%	-6.0%	4.4%	-9.1%
Net Profit (thousand leva)	3 806	6 254	-5 607	13 385	9 898	11 987	11 168
Result from insurance activity	200	3 489	-12 553	9 900	5 859	7 423	5 946
Gross Claims Ratio	66.0%	73.0%	84.2%	47.7%	55.7%	42.94%	44.63%
Net Claims Ratio	59.0%	63.5%	80.5%	52.6%	56.5%	49.94%	53.58%
Expense Ratio	14.5%	5.0%	6.8%	11.9%	15.2%	25.71%	20.40%
Acquisition Ratio	26.2%	24.5%	24.8%	25.1%	22.2%	17.04%	19.91%
Combined Ratio	99.7%	93.0%	112.1%	89.6%	93.9%	92.68%	93.88%
Operating Leverage	123%	86%	233%	152%	162%	180%	175%
Financial Leverage	246%	171%	270%	149%	153%	159%	165%
Liquidity Ratio	4.1%	4.8%	6.2%	7.6%	11.6%	4.58%	6.65%
Return on equity	-16.8%	20.1%	-10.8%	20.5%	18.8%	22.5%	21.3%