

<b>ZAD „Allianz Bulgaria” AD</b>	<b>Vesela Velichkova, Lead Financial Analyst</b> v.velichkova@bcra-bg.com
	<b>Kalina Dimitrova, Financial Analyst</b> k.dimitrova@bcra-bg.com

<b>CLAIMS PAYING ABILITY RATING*</b>	<b>Update</b> <b>24.10.2016</b>
<b>Long-term rating:</b>	<b>BBB-</b>
<b>Outlook:</b>	<b>Negative**</b>
<b>National-scale long-term rating:</b>	<b>AA (BG)</b>
<b>Outlook:</b>	<b>Stable</b>

\* To become familiar with the full rating history, please, see the table at the end 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](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 ZAD Allianz Bulgaria AD:**

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

During 2015, the economy of the country reported a 3.0% real growth, as the greatest contribution has

the export of commodities and services sustained by an increase in the ultimate consumption. The reported GDI’s growth is nearly twice higher than the achieved for the past two years (1.6% for 2014 and 1.3% for 2013). During the first half of 2016, an increase was observed in the importance of the domestic consumption for the growth of economy.

The foreign investments flow reached 3.6% of GDP, after hesitations about 3.1-3.3% over the past three years. A considerable increase in the reinvested profit during the past year and an increase of the investments in the share capital is observed. The investors, however, remain on alert as the investment levels remain considerably lower than the years before the crisis. For the first half year of 2016, the foreign investments reduced slightly compared to the same period of the previous year – they reduced to 2.0% of GDP (2.2% of GDP as of Q2 2015).

The favourable changes at the labour market remained – the unemployment ratio (as well as the continuous unemployment as a percent of the active population) kept their downtrend following 2013. During 2015, the average unemployment rate amounted to 9.2% (11.5% in 2014).

Since early 2014, deflationary processes have been observed and they reached their peak at the

	<p><b>CLAIMS PAYING ABILITY RATING</b>  <b>ZAD Allianz Bulgaria” AD</b>  Long-term Rating: <b>BBB-</b> (<i>outlook: negative</i>)  National-scale rating: <b>AA (BG)</b> (<i>outlook: stable</i>)  <b>October 2016</b></p>
<p><b>95, Evlogi Georgiev, fl. 1</b>  <b>Sofia 1142</b></p>	<p><b>phone: (+359 2) 987 6363</b>  <b>www.bcra-bg.com</b></p>

beginning of 2015 and remained the same at the end of the year. According to the winter forecast of EC, the deflation will be maintained in 2016 as well, as the change foreseen in the price level is to be about -0.1%. EC expects the factors acting in the direction of decrease in the price level to be cleared, and in 2017 the country to move to a situation of low inflation

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 2015 and the first half of 2016, the banking environment can be described as stable, as evidenced by the high capital adequacy and liquidity of assets and growth in deposits. A favourable factor is the interruption of the uptrend of the classified loans that is partly connected with the preparation of the banks for implementation of assets review. The announced on 13.08.2016 results from the assets quality review and stress tests for stability of the banks in Bulgaria show that the banking sector is stable, well capitalized and a public support to the banks with resources financed by the state budget is not needed.

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

- Strengthening the uptrend in the income on written gross premiums over the past three years;
- High level of market concentration - 73.7% of the GPI in the sector (as of 06.2016) is formed by the seven biggest companies (71.5% for 2014);
- High share of the car insurance in the structure of the aggregate insurance portfolio (71.7% as of 06.2016).

The major factors hindering the development of the general insurance companies continue to be uncertain recovery of the Bulgaria's economy from the crisis and pursuing low economic activity, decreased domestic consumption and uncertainty concerning the future revenues of the households. The sector keeps high growth potential, having in mind the low levels of insurance density and penetration.

During the updating (06.2015-06.2016) any changes haven't occurred in the shareholding structure of ZAD Allianz Bulgaria. Changes have been made in the Management Board as Mr. Atanas Jurukov was resigned, and Milen Ivanov was elected on the same position. Atanas Yurukov is elected Procurator of the company. Strategically, the company continues to strive to maintain a market share in the conditions of increasing competitiveness, balanced product and client's portfolio, application of modern technologies to achieve greater efficiency in the activity.

During 2015, ZAD Allianz Bulgaria reported GDP growth of 10.9% compared to the previous year that slightly exceeded the adjusted sector<sup>1</sup> (9.3%). It led to an increase in the company market share by 0.1 p.p. to 10.0%. By 0.8 p.p. to 14.5% the market share on the main company's insurance increased – „Autocasco“, whereas the other car insurance – „Third Motor Party Liability“ reported a decline in the market share (from 3.5% in 2014 to 3.4% in 2015). The company steps back slightly also in the property insurance where „Fire and natural disasters“ insurance reported a decline by 1.2 p.p. to 14.4%, and „Other property claims“ insurance – by 0.6 p.p. to 17.3%.

During the first half of 2016, ZAD Allianz Bulgaria continued to increase its gross premium income with rate leaving behind the average for the adjusted sector (9.3% compared to 4.4% in the sector). As a result its market position retained its uptrend reaching 9.7% (9.2% for the corresponding period of the previous year). During this period, the market presence of „Autocasco“ improved (by 1.2 p.p. to 15.0%), while „Third Motor Party Liability“ reported a decline from 3.2% to 3.1%. The property insurance increased as the market share in the two leading insurances reached 33.2% compared to 31.4% a year earlier.

The structure of the portfolio of the company remains dominated by „Autocasco“ insurance, whose share continued to increase reaching 44.6% in 2015 and 49.0% during the first half of 2016. The second insurance by importance is „Fire and natural disasters“, whose weight decreased reaching 17.2% as of June 2016. The share of the other car insurance – „Third Motor Party Liability“ – retained 12.6% in 2015, also during the first half of 2016 (13.7% in 2014). Compared with the other leading companies ZAD Allianz Bulgaria continues to keep a higher share of „Autocasco“ in its

<sup>1</sup> Adjusted with the data of the rated company.

portfolio, whereas the weight of „Third Motor Party Liability“ is significantly lower. The concentration in the company’s portfolio remained a bit lower than the average for the other leading companies.

During 2015, and the first half of 2016 the net claims ratio of ZAD Allianz Bulgaria decreased on a yearly basis reaching 54.9% in 2015 and 57.5% as of 06.2016, but remained higher compared to the average for the other leading companies.

The net acquisition ratio reported a slight growth in 2015, whereas during the first half of 2016 there was a 0.4 p.p. decline compared to the same period of the previous year. The values achieved by the company are higher compared to the average for the direct competitors. In expense ratio, however, the company has a favourable position.

During 2015, the combined expense ratio declined below 100% (95.2%, compared to 112.1% in 2014), which indicates realization of positive result from insurance activity. During the first half of 2016, the dynamics was also favourable with a value of 93.7% of the indicator. In a comparative aspect for 2015, its level is close to the average for the reference group, and for the first half of 2016 it is a bit better.

In performing its reinsurance activity, ZAD Allianz Bulgaria continues to function in compliance with the criterion of the Financial Supervision Commission and the adopted international standards, as well in accordance with the set rules and principles by Allianz Group for provision of quality reinsurance programme. The rated company provides a reinsurance coverage for its main types of insurances.

The size of the investment portfolio of the company increased by 15.1% in 2015 compared to the

previous one. The state securities continued to be leading and their volume increased by 12.1%, reaching a share of 66.0% of the portfolio (55.3% a year earlier). A decline of 16.1% is reported by the deposits in banks, and their share at the end of the period was 5.4% (7.4% as of 12.2014). During the first half of 2016, the main change has been connected to the continuation of the uptrend in the state securities. They increased by 23.8% on a yearly basis to 67.5% of the portfolio. The deposits in the banks increased by 124.2% on a yearly basis (11.2% compared to the end of 2015), as of June 2016 they formed 5.6% of the investment portfolio of the company. Its size increased by 19.5% on a yearly basis (6.8% compared to the end of 2015).

The investment profitability achieved by ZAD Allianz Bulgaria in 2015 was lower compared to the realized for the previous year but it still puts the company in a favourable position as this trend remained the same during the first half of 2016.

During 2015, the net earned income of the company reported growth of 20.1% on a yearly basis, and during the first half of 2016 – 15.5% compared to the same period of the previous year. The company generated a net profit in 2015 in the amount of 10 450 thousand leva, compared to a loss of 5 607 thousand leva for the previous year. During the first half of 2016, the net profit amounted to 5 505 thousand leva, which is growth of 44.6% on a yearly basis. The operating and financial leverages decline in 2015 which made them closer to the average for the reference group. The liquidity ratios for technical reserves and of the reserve for upcoming payments increased during the analyzed period and were higher in a comparative aspect, while the trend is opposite with quick liquidity.

**Main Financial Indicators:**

	<b>06.16</b>	<b>06.15</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Gross Premium Income (thousand leva)	77 640	71 011	157 076	141 683	128 238
<i>Change on a yearly basis (%)</i>	9.3%	11.2%	10.9%	10.5%	-5.2%
Net Premium Income (thousand leva)	60 920	54 944	133 755	109 804	96 699
Net Earned Income (thousand leva)	67 311	58 270	124 760	103 883	94 905
Net Financial Result (thousand leva)	5 505	3 806	10 450	-5 607	13 385
Retention	78.5%	77.4%	85.2%	77.5%	75.4%
Net Claims Ratio	57.5%	59.0%	54.9%	80.5%	52.6%
Expense Ratio	10.4%	14.5%	13.5%	6.8%	11.9%
Acquisition Ratio	25.8%	26.2%	26.7%	24.8%	25.1%

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZAD Allianz Bulgaria” AD</b> Long-term Rating: <b>BBB-</b> ( <i>outlook: negative</i> ) National-scale rating: <b>AA (BG)</b> ( <i>outlook: stable</i> ) <b>October 2016</b>
	<b>95, Evlogi Georgiev, fl. 1</b> <b>Sofia 1142</b>

Combined Expense Ratio	93.7%	99.7%	95.2%	112.1%	89.6%
Equity (thousand leva)	61 172	47 421	55 249	44 669	62 332
Technical Reserves (thousand leva)	126 538	116 452	120 622	93 049	90 026
Operating Leverage	110%	123%	226%	233%	152%
Financial Leverage	207%	246%	231%	270%	149%
Liquidity Ratio of technical reserves	96.8%	83.0%	87.8%	72.0%	97.7%
Liquidity Ratio of the reserve for upcoming payments	172.5%	144.7%	170.7%	128.4%	197.6%
Return on Equity	22.2%	-16.8%	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	