

ZAD „Allianz Bulgaria” AD

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	Initial Rating	Update	Update
RCPA	09/2007	8/2008	9/2009
Long-term rating :	iA	iA	iA
Outlook :	stable	stable	stable
Short-term rating :	ia-1	ia-1	ia-1

Bulgarian Credit Rating Agency is the only Bulgarian agency listed as eligible by the Financial Supervision Commission and its credit ratings are acknowledged for the aims of article 75, paragraph 2 of the Insurance Code equally with **Moody's, Standard & Poor's and Fitch**. Up to now BCRA has rated most of the leading insurance companies. In 2004 BCRA adapted the Claims paying ability rating methodology for insurance companies from their partner ICRA (An associate of Moody's Investors Service).

BCRA retains long-term credit rating of claims paying ability iA (outlook: stable) and short-term ia-1 of ZAD „Allianz Bulgaria”. The officially adopted methodology of claims paying ability rating of insurance companies is used (http://www.bcra-bg.com/files/method_6.pdf).

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

During the observed period there is a stable trend on Bulgarian general insurance market to increase of annual GDP - **20.8 %** for 2008. Values of insurance density and insurance penetration also go up. As a result of the global crisis impact upon Bulgarian economy during the half-year of 2009, GDP increases weakly by **0.39%** on a yearly basis. Vehicle insurances continue having a leading role on the market. Their share in total GDP increases to **70.1%** as of 31.12.2008 (65.7% in 2007). For the first half-year of 2009 this share is **69.8%**. The high intensity of competition determines frequent changes in market shares of the insurance companies, where the smaller-sized companies in the branch, reacting more aggressive and flexible, succeed to go ahead than a part of the leaders. As of the end of 2008 six companies occupied 68.4% of the market in the

general insurance sector: ZAD „Bulstrad”, „DZI-General Insurance”, ZK „Lev Ins”, ZAD „Allianz Bulgaria” AD, ZAD „Armeets” AD and ZD „Bul Ins”. At the end of the first 6-month period of 2009 their share increased to 69,5%. At the present time the insurance sector functions on conditions of intensifying global financing and economical crisis, which slow its growth down and they shall cause contraction of insurance services market in short-term aspect as a result of highly decreased amount of purchases of houses and automobiles, as well as total reduced purchasing ability of the consumers. Other expected effect is to achieve comparatively low profitableness of investment portfolio as a result of financial markets instability and investment of technical reserves in portfolios with low investment risk. **BCRA defines the risk from the state of sector as moderate.**

In 2008 the increasing trend in realized GDP of ZAD „Allianz Bulgaria” is retained as the growth is about 11%. The increase is mainly in respect with vehicles insurances and insurances of vessels and “Rail vehicles”. During the first 6-month period the company generated GDP within 71 million leva – it is a drop by ~ 18% on a yearly basis. This is a result of the company policy to insurance mainly brand new automobiles whose import drastically went down in 2009, as well as ceased contract with Parahodstvo Bulgarian Marine Fleet. Net Claims Ratios of the rated company are kept at levels such as these of the last year. Significant downturn in insurance claims „Motor Third Party Liability” and “Other financial loses” is observed and growth in insurances of properties. Net Commission Ratio continues decreasing and mark values under the average of the group. The expense ratio is kept at stable levels and its values are significantly under the average for the group of leading companies. ZAD „Allianz Bulgaria” marked significantly lower values

of combined expense ratio compared to the average for the group. During the first half-year of 2009 except ZAD "Allianz Bulgaria" only ZD „Bul Ins" AD marked main activity profit, but significantly lower compared to this of ZAD „Allianz Bulgaria". **BCRA retains the risk from operating effectiveness at relatively low levels.**

ZAD "Allianz Bulgaria" continues concluding reinsurance contracts with various reinsurance companies having high credit rating assignment (min. rating A by the scale S&P for short-term business and A+ for long-term business), in order to control exposing to losses as a result of the happening of insurance event. There aren't significant changes in the company program. The overall levels of self retention of the company in 2008 slightly increased and are within 76%.

BCRA retains its assignment for risk level from reinsurance activity as relatively low.

The investment portfolio of the company is structured with relatively low level of risk. As of the end of 2008 ZAD "Allianz Bulgaria" achieved net incomes of investment activity amounting to ~601 thousand leva., formed mainly by coupon payments on debt securities. With a view to the changes happened on the market of investment tools, the portfolio is restructured and as of 30.06.2009 the share of bank deposits is significantly increased. As a result of negative differences of revaluation, the low portion of shares decreased more. The share of investment properties is kept stable for whole observed period. Positive profitability of 1 % is achieved in the situation of economic crisis and instability of financial markets with managing the investments as of the end of the observed period.

BCRA retains its assignment for existing risk from investment activity as relatively low.

During the period of actualization there aren't changes observed in the structure of company shareholding capital. Majority shareholder of the company continues being „Allianz Bulgaria Holding". Company Management systems continue being improved. Control system on clients' complaints is introduced and it helps with analyzing and assessing the company from clients' point of view. To analyze clients preferences CRM system (Customer Related Marketing) is used which is connected to maintained company clients data base. BCRA retains the very good assessment of management of ZAD „Allianz Bulgaria".

In 2008 the company marked: increasing rate of GDP, amounting to 10.6%; high growth in insurance activity profit; significant downturn in the net profit, defined by investment activity of the company; retaining the gross and net claims ratios

at the levels of last year; increasing levels of operating and financial leverage.

During the first 6-month period of 2009 the company marked on a yearly basis: downturn in Gross Income Earned within 18%; downturn of about 32% in the generated profit of insurance activity; ~37% downturn in the net profit; growth in gross levels, as well as in levels of net claims ratios.

During the analyzed period the actual profitability significantly continues surpassing the border of profitability which we assess positively.

Main Financial Indicators:

Indicator	6.2009	6.2008	2008	2007
Gross Direct Premium:	74373	90452	165031	149183
Growth rate (year on year)	-17.8%	15.4%	10.6%	5.9%
Net Direct Premium :	55328	64826	125161	108494
Net Premium Earned:	55886	62193	124307	100150
Net Profit	3955	6245	9070	15805
Self retention	74%	72%	76%	73%
Gross Claims Ratios	49%	32%	38%	38%
Net Claims Ratio	60%	57%	57%	57%
Expense Ratio	18%	18%	16%	18%
Commission Ratio	17%	18%	19%	21%
Combined Ratio	95%	93%	93%	96%
Networth	48749	40045	43320	50142
Net Technical Reserves	114324	110238	114618	97666
Operating Leverage			287%	200%
Financial Leverage	235%	275%	265%	195%
Liquidity Ratio	4%	6%	3%	4%
RONW	8%	16%	21%	32%
Return on equity	22%	35%	50%	88%

As a whole BCRA БАРР considers that during the period under review ZAD „Allianz Bulgaria" continues demonstrating good financial state.