

ZAD „Allianz Bulgaria” AD

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RCPA	Initial Rating 09/07	Update 08/08	Update 09/09	Update 03/09/10
Long-term rating :	ia	ia	ia	ia
Outlook :		stable	stable	positive
Short-term rating :		ia-1	ia-1	ia-1

Bulgarian Credit Rating Agency (BCRA) 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 Bulgarian Insurance Code equally along with these of Moody's, Standard & Poor's and Fitch. BCRA has already rated most of the leading local insurance companies. In 2004 BCRA adapted the Claims paying ability rating methodology for insurance companies from ICRA (An associate of Moody's Investors Service).

BCRA retains a long-term claims paying ability rating ia and short-term credit rating ia-1 to ZAD "Allianz Bulgaria" AD, changing the outlook from stable to positive. The officially adopted methodology for assignment of claims paying ability rating to insurance companies is used by BCRA (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 Bulgarian economy continued being under the effects of the global crisis during the past period. The basic factors influenced upon the development of the insurance sector are as follows: narrow households' consumption under the effect of the growing unemployment and the decrease of incomes, as well as the negative expectations for crisis development. The decline on the car sales, the decline on lease purchases and limited amount of granted bank loans influenced negatively on the demand of general insurance products. GDP on direct insurance registered a downturn in 2009 which intensified during the half-year of 2010. Due to the fair results of investment activity at the end of 2009 the companies, operating in the Sector, registered Positive Net Financial Result amount in amount of BGN 26 689 (compared to BGN -

6 310 in past year); it grew up by reaching BGN 15 267 during the first half year (compared to BGN 8 849 for the same period of 2009r). The commenced recovery of the financial markets is the main reason for this value of the Net Financial Result. As of the end of the period no significant change has occurred in the market concentration; 6 leading companies occupied **68.6%** of the market. The car insurances continue playing a leading role with share of 70.9% in the Sector. **BCRA assesses the risk from the state of the Sector as being relatively high.**

During the period under review no changes have occurred in the shareholding structure of ZAD "Allianz Bulgaria" AD. Allianz Bulgaria Holding continues being the major shareholder of the company. No changes have occurred in the membership of the Supervisory Council and Board of Managers. The company activity is implemented in accordance with defined and adopted development and business plan with clearly formulated purposes strategies. **BCRA estimates the risk resulting from the shareholding structure and management of ZAD "Allianz Bulgaria" as being low.**

In 2009 GDP on general insurance realized by ZAD "Allianz Bulgaria" registered an anticipating downturn in the Gross Direct Premium (14.1%) against market shrinkage of ~ 5%. Insurance "Autocasko" registered the biggest decrease. We observe a decline with the insurances „Watercraft", „Third party liability for vehicles" and „Other financial losses". GDP in the other lines is retained at the same levels of 2008. During the half-year of 2010 GDP on direct general insurance realized by ZAD „Allianz Bulgaria" has decreased by 0.87% with an average market decline of 5.67%; as a result the market share of the rated company increased. The share of the automobile business in the company insurance portfolio retained leading as of 12.2009 – 50.69% (50.59% as of 12.2008) and 42.53% as of 06.2010. As of 06.2010 the company portfolio continued

being better diversified compared to the portfolios of the companies from the competitive group; the total share of the leading business directions is significantly lower compared to this of the other leading companies.

Comparatively, the Claims Ratios gained by ZAD Allianz Bulgaria in 2009 slightly exceeded the average for the competitive group. The Net Claims Ratios are retained at the levels of the previous year. At the end of the first half-year of 2010 the Claims Ratios decreased by 4 % and were below the average for the other insurance companies. At the end of 2009 the Expense Ratio remained at the levels of the past year, whereas during the half-year of 2010 it decreased by 3 %. At the end of 2009 the value of the Combined Expense Ratio of ZAD „Allianz Bulgaria” remained unchangeable against the past year, whereas it decreased by 4.2 % on yearly basis during the half-year of 2010. **BCRA retains the risk from operating efficiency of the company at relatively low levels.**

In the update period (06.2009-06.2010) no significant changes have occurred in the reinsurance policy. In order to determine its own reinsurance policy, ZAD „Allianz Bulgaria” operates in accordance with the criteria of Financial Supervision Commission and international adopted standards, as well as in accordance with the principles and rules for providing a good quality reinsurance programme and reliable distribution of the reinsurance contracts, determined by Allianz Group. **BCRA retains its assessment for the risk level from reinsurance activity as being relatively low.**

During the period under review the size of investment portfolio of ZAD Allianz Bulgaria has decreased by 14.3% (against average growth for the other companies from the Sector „General insurance” -12.8%). The portfolio structure undergoes significant changes. Due to the reduction of the investments in the bank deposits by 61.0%, their share in the portfolio decreased to 16.2% (35.6% as of the end of the half-year of 2009). The investments in government securities grew up by 28.1% and in the middle of 2010 they occupied 36.6% from the investment assets of the company (24.4% at the beginning of the period.). The total value of the investments in bank deposits and government securities decreased by 24.7% and their relative share

decreased to 52.8% (compared to 60.1% at the beginning of the period under review). No significant changes have occurred in the value of the other investment assets. The Investment incomes continued being slightly depending on reevaluation of securities and most of them are formed by interest and coupon payments and rents of investment properties. The portfolio is formed in accordance with the requirements for diversification of the assets for coverage of the technical reserves defined in the Code of Insurance; it is structured with relatively low risk level and positive profitability was realized at the end of the period in its management approaching to the average profitability of the other companies from Sector „General insurance”. **BCRA retains its assessment for the existing risk from investment activity as being relatively low.**

In 2009 ZAD „Allianz Bulgaria” registered a downturn by 14.1% in the realized GDP, whereas the market has been shrunk by ~5%, as a whole. The Net Earned Income followed similar dynamics. The Net Profit registered a significant growth (21.5%), determined by the investment activity of the company; however, the profit from insurance activity went down (15.7%), which is due to the shrinkage of the rated company activities. The Claims Ratios remained stable. The levels of the Operating and Financial Leverage brought down (mainly due to the increase of the equity in regard to the undistributed profit). During the first half-year of 2010 the company registered a downturn in Gross Earned Income within 4.6% against an average downturn for the market – 6.21%. The Net Earned Income also decreased – 7.6%. Significant growth is witnessed in the generated profit from insurance activity (68.5%), determined by the lower Net Claims Ratios (56%) against the same period of the previous year (60%). The Net Profit registered growth, which is due to the insurance and investment activity as well. In comparative aspect „Allianz Bulgaria” registered lowest values of the Operating and Financial Leverage during the period under review. In 2009 the Liquidity Ratios registered a slight increase, however, as of 06.2010 their values decreased on yearly basis. Despite that ZAD „Allianz Bulgaria” registered favorable values in comparative aspect.

Main Financial Indicators:

Indicator	6.2010	6.2009	2009	2008
Gross Direct Premium:	70 926	74 373	141 757	165 031
Growth rate % (yr on yr)	-5%	-18%	-14%	11%
Net Direct Premium:	45 429	55 328	104 520	125 161
Net Earned Income:	51 637	55 886	106 946	124 307
Net Profit	6 524	3 955	11 018	9 070
Retention	64.1%	74.4%	73.7%	75.8%
Gross Claims Ratio	45.6%	48.0%	44.6%	48.8%
Net Claims Ratio	56.2%	59.5%	57.40%	57.3%
Expense Ratio	15.4%	18.3%	16.13%	16.0%
Commission Ratio	19.0%	17.1%	18.98%	19.1%
Combined Ratio	90.6%	94.8%	92.51%	92.4%
Equity	50 900	48 749	54 929	43 320
Net Technical Reserves	91 636	114 324	100 040	114 618
Operating Leverage			195%	287%
Financial Leverage	180%	235%	182%	265%
Liquidity Ratio	4%	4%	4%	3%
Return on Equity			20%	21%
Return on shareholding capital			61%	50%

BCRA estimates that the risk from the financial state of the Company decreased to relatively low.