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ZD „Bul Ins” AD

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<i>Claims Paying Ability Rating</i>	Initial Rating	Update
	12/2008	12/2009
<i>Long-term rating</i>	iBBB	iBBB
<i>Outlook</i>	stable	stable
<i>Short-term rating</i>	ia-2	ia-2

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 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 has reaffirmed the long-term claims paying ability rating BBB with a stable outlook and short-term rating ia-2 to Bul Ins AD. The officially adopted by BCRA methodology of awarding of claims paying ability rating to 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 from the rated insurance company, FSC, National Statistical Institute, BCRA's database, consultants and other sources of public information.

In the period under review the Bulgarian insurance companies operate in a deteriorating environment due to the intensifying effects of the international crisis upon the Bulgarian economy. As of 30.09.2009 the total GDP in the General Insurance Sector registered a downturn by 1.57 % compared to the same period of 2008. The vehicle insurances continued playing a leading role and the size of GDP decreased insignificantly. The downturn is due to the decreased Autocasco's Incomes by 10.3%, compensated by the increase on „Third Party Liability, related to the ownership of Motor vehicles” by 21.8%. The high market

concentration kept its levels. As of the end of 2008 six leading companies occupied the share of 68.4% in the General Insurance business. As of 30.09.2009 their share went up to 68,9%, though on yearly base the change was not significant. The expected effects resulting from the changed operating environment for the insurance companies are as follows: contraction of insurance services market in short-term aspect (as a result of the highly decreased amount of houses and vehicles purchases, as well as the common decreased purchasing ability of the consumers); additional intensification of the competitive struggle between insurers; restricted profitability of the company investment activity in the Sector (as a result of the instability of the financial markets and investment of the technical reserves in portfolios with a low investment risk). **BCRA reaffirms its assessment for the risk from the condition of the Sector as moderate.**

During the past period no changes occurred in the Company's shareholding structure. In view of the total downturn of the market services, the main purpose of the Company is to retain its market position and to increase the GDP till reaching the levels of the end of 2008. The introduction of the claims liquidity system „Smart claims” is accomplished. After the end of 2009 the Company obtained an additional license by FSC and entered the marine insurance concluding an insurance contract for the boats of Border Police. The Company's activities in the scope of “General Third Party Liability related to professional risks” enlarge and Bul Ins offer a range of 35 products, related to this type of insurance. **BCRA assesses**

the risk from shareholding structure and management as relatively low.

In 2008 ZD „Bul Ins” AD registered a 5.8 % growth in BPP. As of 30.09.2009 there was a downturn within 18%, determined by the common contraction of the Autocasco segment. It reflected upon the company market share which decreased by 1.66 % year on year to 8.16%. Despite in „Autocasco”, there was a significant downturn in the realized GDP and in insurances „Third Party Liability, related with the ownership and utilization of vehicles” and „Other financial losses”. As of 09.2009 in insurance „Other claims of property” there was a growth of 25% on yearly base in conformity with one of the management purposes for 2009, and the premium income on „Total third party insurance” increase by over 72% compared to the same period of the last year. ZD „Bul Ins” AD continue executing policy of very high retention levels. In 2008 the levels of the gross and net claims ratios decrease significantly. As of 30.09.2009 the levels of the Net Commission Ratio are similar to the average of the competitive group, in comparison with the previous periods in which the value of the indicator for the rated company significantly surpassed the average. The Combined Expense Ratio keep favourable values despite the registered growth. BCRA retains the risk from operating efficiency of the company moderate.

During the period under review the Company follows its reinsurance policy and the retention levels remain unchanged relatively. ***BCRA retains the risk from re-insurance relatively low.***

For the period 30.09.2008-30.09.2009 ZD „Bul Ins” gained one hundred percent coverage of its reserves. The Technical Reserves Coverage Portfolio is structured in accordance with the requirements of the Insurance Code. During the 9-month period of 2009 the size of the Company investment portfolio decreased by 16.1% compared to the same period of 2008, and the downturn is determined by the decreased BPP. The portfolio structure doesn't undergo significant changes. Wholly, ZD „Bul Ins” kept the adopted conservative approach in its investment policy, but despite that it realized profitability over the average for the market. ***BCRA retains the risk from the Company investment activity relatively low.***

In 2008 ZD „Bul Ins” AD registered growth of 5.8% in the GDP. During the 9-month period of 2009, however, there was a downturn within 18% due to the total contraction of the Autocasco segment. The Net Earned Income follows the dynamics of the GDP, but the downturn is significantly lower and it amounts to 9.7%. In 2008 in line of its insurance activity „Bul Ins” AD gained a

significant Positive Net Financial Result, which reflected upon the Return on Equity (27%). During the 9-month period of 2009 the rated Company generated sensitively higher profit compared to the same period of the previous year, which is determined by both insurance and investment activity. Wholly, the received premiums are a volatile quantity – as of 12.2008 they represented ~85% of the GDP, and as of 09.2009 this proportion increased to 94.5%. In 2008 the gross and net claims ratios decreased compared to 2007, but as of 30.09.2009 there was a growth on yearly base in both indicators – respectively 2.95 and 4.34 %. In 2008 the Company's equity increased by profit capitalization of last year. In 2009 the Company increased the registered shareholding capital with a part of the realized profit during the last year (BGN 2 millions) and allocated dividends amounting to 7,864 millions BGN. The Coverage Ratio continues occupying favorable values. In 2008 the indicators Operative and Financial Leverage decreased sensitively. Despite that ZD „Bul Ins” registers higher levels of leverage compared to the average for the companies from the competitive group. During the period under review the values of the Liquidity ratios continued following the descending trend but remained at relatively favorable levels. ***BCRA retains the risk from the company financial condition moderate.***

Indicator	9.2009	2008	9.2008	2007
GDP	84 429	155 002	103 255	146 573
Change in %	-18.23%	5.75%	1.77%	17.25%
Net Premium Product	83 063	153 360	102 617	145 678
Net Earned Income	94 306	148 615	104 427	140 465
Net Profit	5 685	9 864	5 439	58
Retention	98%	99%	99%	99%
Gross Claims Ratio	44%	45%	41%	52%
Net Claims Ratio	45%	44%	41%	52%
Expense Ratio	30%	25%	30%	23%
Commission Ratio	22%	23%	24%	27%
Combined Ratio	97%	93%	94%	102%
	34	36	32	26
Equity	351	530	105	604
Technical	81	95	86	85
Reserves	446	355	136	548

<i>Operating leverage</i>	407%	528%
<i>Financial Leverage</i>	237% 261% 268%	322%
<i>Liquidity Ratio</i>	3% 2% 3%	4%
<i>Return on Equity</i>	27%	0%
<i>Return on Shareholding capital</i>	52%	0%

During the period under review ZD „Bul Ins” keeps its entire good financial condition.

RATIONVALE