

*December 2010*

***ZD „Bul Ins” AD***

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	Initial Rating	Update	Update
<b>CLAIMS PAYING ABILITY RATING</b>	12.2008	12.2009	23.12.2010
<b>Long-term rating:</b>	<b>iBBB</b>	<b>iBBB</b>	<b>iBBB</b>
<b>Outlook:</b>	<b>Stable</b>	<b>Stable</b>	<b>Positive</b>
<b>Short-term rating:</b>	<b>ia-2</b>	<b>ia-2</b>	<b>ia-2</b>

**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 the credit ratings 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).

**Bulgarian Credit Rating Agency** has reaffirmed the long-term claims paying ability rating iBBB to ZD „Bul Ins” AD and short-term rating ia-2; the outlook changes from „stable” to „positive”. BCRA uses the methodology of assignment of claims paying ability rating which is officially adopted ([http://www.bcra-bg.com/files/method\\_6.pdf](http://www.bcra-bg.com/files/method_6.pdf)).

To elaborate the credit report and to award the rating BCRA uses information from FSC, National Statistical Institute, BCRA's database, consultants and other public information sources.

During the past period the Bulgarian economy continued being under the influence of the impacts of global crisis. The main factors which influence on the development of the insurance sector are as follows: the shrunk consumption of the households under the pressure of the increasing unemployment and decrease of the incomes, as well as negative expectations of the crisis development. The decline of the car sales, decrease of the lease purchases and restricted credits from the banks exercise negative influence on the demand of the general insurance products.

Decline in Gross Premium Written on direct insurance is available in 2009 (3.8% compared to

2008), as well as during the first half-year of 2010. As of 30.09.2010 the decreasing trend intensified and a decline is registered by 6.2% compared to the same period of 2009. Due to the anticipating decrease of Gross Premium Written on general insurance in comparison with the Gross Domestic Premium, the values of the insurance penetration decrease. The values of insurance density encounter a decline as well. In consequence of the good results from investment activity at the end of 2009, the companies, operating in the sector, registered Positive Net Financial Result amounting to BGN 26 689 thousand (BGN -6 310 thousand in the previous year); as of 30.09.2010 the company reached to BGN 9 933 thousand (BGN 31 212 thousand for the same period of 2009).

The market concentration hasn't changed significantly. There are six market leaders which hold **75%** of the market: ZAD „Bulstrad”, „DZI-General insurance”, ZAD „Armeets” AD, ZAD „Allianz Bulgaria”, ZD „Bul Ins” and ZK „Lev Ins” AD. The vehicle insurances continue playing a leading role at the general insurance market in Bulgaria.

During the past period no changes in the shareholding and management structure of ZD „Bul Ins” AD. The main purpose of the company is directed to keep its market position and Gross Premium Written, due to the deteriorated environment and the total decline of the services market.

During the period under review the activity of ZD „Bul Ins” AD continues being focused entirely on the field of vehicle insurances. In 2009 the company registered a decline in the sum of realized Gross Premium Written, anticipating strongly the average for the Sector, as result of which its market share decreased – from 10.11% (2008) to 9.0% (2009).

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZD „Bul Ins” AD</b> <b>iBBB (outlook: positive)</b> <b>December 2010</b>
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During the nine-month period of 2010 the company realized a growth on yearly basis in the sum of Premium Written (during continuous market shrinkage), however, the company hasn't gained the levels before the crisis. The most significant decline is reviewed with the Premium Written on insurance „Auto Casco” in unison with the total trend in the Sector. The realized Premium Written decreased highly on insurance „Other financial losses”. Gross Premium Written increased most significantly on insurance „Third party liability for vehicles”; the increase is 49.7% in 2009, however, the growth exceeded 130 % on yearly basis during the nine-month period. The growth of the total Gross Premium Written is due to the increased income on this insurance, whereas the amount of the realized Gross Premium Written on the other insurances hasn't underwent significant changes. The paid insurance compensations hold 98 % of the calculated compensations in the insurance-technical plan, which shows the risk development is favourable for the insurance portfolio as whole. During the period under review the company retained stable levels of the Net Claims Ratio; as of 9.2010 it registered the lowest values of the reviewed indicator among the group of the leading companies. The values of the Commission Ratio also holded the levels of the previous period; they are about the average for the competitive group. The ascending trend is retained with the Expense Ratio; ZD „Bul Ins” AD registered significantly higher values compared to the average for the other leading companies operating at the general insurance market. The Combined Expense Ratio of the company continues following the insreasing trend; its value as of 9.2010 is an indicator for approximately low profit from insurance activity.

During the period under review the company retained its re-insurance policy and the retention levels remained approximately unchangeable. The company continues using re-insurance contracts with reinsures with a high credit rating assessment.

For the period of 30.09.2009-30.09.2010 ZD „Bul Ins” has covered its reserves fully. The cover portfolio of the company technical reserves is structured in compliance with the requirements of the

Code of Insurance. During the past period the portfolio structure haven't underwent significant changes. The relative share of the corporate bonds is increased gradually at expense of slight decrease of the shares of the government securities and bank deposits. As whole ZD „Bul Ins” retains the established conservative approach in its investment activity and the share of the high liquidity assets in the assets of the portfolio structure continues being higher compared to the average for the other companies. Though the large share of the investments in low risk assets, assuming low levels of profitability, having profit of the favorable market situation as of 30.09.2010 the company realized higher profitability of its incomes compared to the average for the other companies in the Sector.

In 2009 ZD „Bul Ins” registered a decline in Gross Premium Written, which anticipated significantly the average for the Sector. The Net Earned Income follows similar dynamics. Though the shrinkage of the activity Positive Result from insurance activity is generated, however, it is lower compared to the gained in the previous year. Net profit is lower on yearly basis as well; however, the decline is restricted due to the result from investment activity. The Swift liquidity increased on yearly basis, however, it continues being lower compared to the average for the competitive group. Though the Return on equity decreased, it is significantly higher compared to average for the leading insurance companies, as well as for the Sector as well. During the nine-month period of 2010 the company gained a growth of realized Gross Premium Written on direct insurance, as well as in Net Earned Income. The negative trend of the profit from insurance activity is retained; a significant decline is available on yearly basis (89.7%). The Net Financial Result decreased highly; decline is defined by the decrease of the insurance result. During the period under review no change in the registered and paid-in capital. The dynamics of the equity is defined entirely by the current financial result with a view of that the company allocates dividends for second consecutive year.

**Main Financial Indicators**

	9.2010	2009	2008	2007
Gross Premium Written	91 884	130 830	155 002	146 573
change %	9%	-16%	6%	17%
Net Premium Written	90 670	128 816	153 360	145 678
Net Premium Earned	99 094	128 882	148 615	140 465
Net Profit	2 486	5 775	9 864	58
<i>Retention</i>	98.7%	98.5%	98.9%	99.4%
<i>Gross Claims Ratio</i>	45%	53%	45%	52%
<i>Net Claims Ratio</i>	44.9%	44.6%	44.15%	52%
<i>Expense Ratio</i>	32.1%	29.7%	25.2%	22.8%
<i>Commission Ratio</i>	22.7%	23.5%	23.2%	26.7%
<i>Combined Ratio</i>	99.7%	97.8%	92.5%	101.8%
Equity	31 339	34 441	36 530	26 604
Technical reserves	90 344	92 283	95 355	85 548
<i>Operating Leverage</i>		374%	407%	528%
<i>Financial Leverage</i>	288%	268%	261%	322%
<i>Liquidity Ratio</i>	4.2%	3.1%	2.3%	4.2%
<i>Return on Equity</i>	7.9%	16.8%	27.0%	0.2%
<i>Return on Shareholding capital</i>	11.8%	27.5%	51.9%	0.3%

**During the period under review ZD „Bul Ins” AD continues being characterized with a fair financial state.**