

December 2016

ZD “Bul Ins” AD

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CLAIMS PAYING ABILITY RATING*	Update 23.12.2016
Long-term rating:	BB
Outlook:	stable
National-scale long-term rating:	BBB (BG)
Outlook:	stable

* To become familiar with full rating history, please, see the chart at the bottom of the document.

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 to ZD “Bul Ins” AD the following ratings:

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

The methodology that BCRA has adopted officially is used for assigning ratings of the ability of insurance companies to pay claims (http://www.bcrabg.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 3.6% real growth – the highest level after the

financial crisis, as the greatest contribution has the export of commodities and services sustained by an increase in the ultimate consumption. The reported GDI real growth is nearly twice higher than the achieved for the past two years (1.6% in 2014 and 1.3% in 2013). In the first half of 2016, there was an increase in the importance of internal consumption for economy growth.

The foreign investments flow reaches 3.7% of GDP, after hesitations about 3.1-3.3% over the past 3 years. A considerable increase in the reinvested profit during the past year and an increase of 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 of 2016, the foreign investments reduced slightly compared to the same period of the past year – they declined to 2.0% of GDP (2.1% of GDP as of Q2 2015).

The favourable changes at the labour market remain the same – the unemployment rate (as well as the continuous unemployment as a percent of active population) keep their downtrend after 2013. During 2015, the average unemployment rate amounted to 9.2% (11.5% for 2014).

Since early 2014, deflationary processes have been observed and they reached their peak at the beginning of 2015 and remained the same by the end of the year. According to the spring forecast of EC, the deflation will be maintained in 2016 as well, as the change expected in the price level is to be

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about -0.7% at the end of the year. EC foresees the factors decreasing the price level to be removed, 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 system is characterized by retention of the ascending trend of the generated profit, retention of the sustainable growth in attraction of deposits that together with the decline in lending determines accumulation of liquidity in the system. 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 income on written gross premiums over the past three years;
- High level of market concentration - 73.7% of 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 February 2016, the shareholding capital of ZD "Bul Ins" was increased with 16 000 thousand BGN,

and as of the end of the second quarter of 2016 it amounted to 44 580 thousand BGN, of which 32 580 thousand BGN were paid. The changes in the shareholding structure are unimportant.

At the end of 2015, there was a change in the Board of Directors (registered in the Commercial Register in February 2016). Evgenia Tasova was replaced by Krum Krumov. At present, the composition of Board of Directors includes Petrozar Petkov, Stoyan Prodanov, Jaume Boronat and Krum Krumov.

During 2015, the gross premium income (GPI) of ZD Bul Ins AD reported a decline of 4.7% compared to the past year as the other companies in the sector reported growth of 10.8% for. As a result of this, the share of the company reduced from 8.35% in 2014 to 7.27% in 2015. The decline affects the two main insurances: GPI on „Autocasco“ reported a decline of 8.9% which determines the loss of a market share to 4.6% (5.7% in 2014). „Motor Third Party Liability“ reported a decline in the premium income for the year in the size of 4.1%, and the loss of the market share is 1.7 p.p. to 14.6%.

During the first quarter of 2016, the company realized a considerable growth of 29.9% of GPI, compared to 2.3% for the adjusted sector¹. The increase affects almost entirely the main „Motor Third Party Liability“, on which the premium income increased by 41.0%. Respectively, its market share increased to 20.7% (15.5% for the same period of the past year). GPI on „Autocasco“ reported a decline of 4.1%, and the market share reduced by 0.5 p.p. to 4.3%.

In the structure of the insurance portfolio of ZD "Bul Ins" "Motor Third Party Liability" retains markedly predominant, and its share increased from 74.8% in 2014 to 75.3% in 2015 and 84.0% for the first half of 2016. The weight of the other car insurance - "Autocasco" - remained almost unchanged in 2015. (a decline of 0.9 p.p. to 19.5%) and a more significant decrease was reported in the first half of 2016 when the share of insurance reached 14.1 %. The property insurance remains poorly developed in the company's portfolio by 1.1% in 2014, 2015, and in the first half of 2016 reduced to 0.8%.

In a comparative aspect, ZD Bul Ins AD continues to be characterized by a considerably lower share of „Autocasco“ in its portfolio compared to the average for the other leading portfolio companies. In the opposite direction is the comparison with direct competitors on

¹ Adjusted with the data of the rated company.

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„Motor Third Party Liability“, where the insurance share for the company is more than twice higher than the average for the competitive group.

During 2015, a significant increase was observed in gross claims ratios which reached 105.5% (compared to 51.8% in 2014), but the net claims ratios changed slightly (to 41.3%, in 2014 to 39.4 %). In the first half of 2016, positive dynamics were observed: the gross ratios decreased significantly yoy (from 112.5% in the first half of 2015 to 45.3% in the same period of 2016), the net claims ratios reported a decline as well. In a comparative aspect, ZD "Bul Ins" AD continued to occupy a favorable position regarding the net claims ratios compared to its direct competitors in 2014 as well.

During 2015, a considerable decline was observed in the net acquisition ratio to 10.7% (compared to 21-22% for the past few years), as the dynamics are due to considerable by size reinsurance commissions. During the first half of 2016, slight growth on annual basis was reported in the indicator but despite this its level remained low in both historical and comparative aspect.

The combined expense ratio reported a decline by 5.7 p.p. to 78.8%, as that is a consecutive year in which the company realized a positive result from insurance activity. In the first quarter of 2016, the combined expense ratio reported growth of 8.5 p.p. on a yearly basis, but still remained below 100% which is considered to be a positive factor. ZD Bul Ins continued to take a favourable position by combined expense ratio compared to the reference group.

During 2015, the retention level of the company drastically reduced by 44.82 p.p. to 50.82% which is the lowest level in a historical aspect. This decrease is as a result of the increased assigned premium income of reinsurers which exceeded 56 million BGN, compared to on average below 4 500 thousand BGN annually for past three years.

During 2015, there were some changes in the structure of the investment portfolio of the company. Investments in shares and participations of investment funds decreased highly – from 3 641 thousand BGN (a share of 10.8%) at the end of 2014 to barely 88 thousand BGN (0.2%) a year later. The investments in securities increased: the annual

growth is repeated and their share in the portfolio increased from 2.7% to 21.9%. In the first half of 2016, the main change observed in the investment portfolio concerned the category „other debt securities“, whose volume increased multiple times during those six months reaching 48.5% of total portfolio.

At the end of 2015, the share of high liquid securities in the portfolio of the company exceeded the average for the adjusted sector, but six months later it is considerably lower. The investment profitability of the company was negative at the end of 2015, and as of June 2016.

During 2015, ZD Bul Ins AD reported a decline of 37.9% of net earned income which (as it was noted) was determined by the considerable size of the premiums ceded to reinsurers. This trend remained the same in the first half of 2016 when the decline amounted to 34.2% on a yearly basis. During 2015, the company gained a positive result from insurance activity which is by 15.0% lower than the reported for the past year. In the first half of 2016, the insurance result reported a decline of 71.6%, but remained positive. During the past year, the company generated a net profit in the amount of 189 thousand BGN, compared to 2 377 thousand BGN for the past year. In the first half of 2016, the net profit reported a decline of 62.8% compared to the same period of the past year.

Over the past few years, the company is characterized by a higher level of operating leverage compared to the average for the other leading companies, but in 2015 reported a considerable decline for the indicator which decreased below the average for the reference group. The financial leverage remains lower in a comparative aspect for fourth consecutive year.

The liquidity indicators improved on a yearly basis at the end of 2015, and as of June 2016. In a comparative aspect, compared to the adjusted sector and reference group their levels remained lower. An exception is the quick liquidity ratio whose level was higher than the average for the other leading insurers at the end of 2015.

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Main financial indicators:

Indicator /Year:	06.2016	06.2015	2015	2014	2013	2012
Gross Premium Income (thousand BGN):	78 142	60 174	114 207	119 814	106 662	104 026
<i>Change on a yearly basis (%)</i>	29.9%	-8.6%	-4.7%	12.3%	2.5%	-24.9%
Net Earned Income (thousand BGN):	31 797	48 353	68 066	109 588	108 871	110 543
<i>Change on a yearly basis (%)</i>	-34.2%	-12.3%	-37.9%	0.7%	-1.5%	-20.4%
Net profit (thousand BGN)	1 062	2 853	189	2 377	1 374	962
Result from insurance activity	2 054	7 235	14 404	16 953	3 376	7 260
Gross Claims Ratio	45.3%	112.5%	105.5%	51.8%	57.2%	51.22%
Net Claims Ratio	37.5%	43.0%	41.3%	39.4%	58.3%	46.13%
Expense Ratio	49.0%	37.0%	26.8%	23.5%	16.8%	24.87%
Acquisition Ratio	7.0%	5.0%	10.7%	21.6%	21.8%	22.43%
Combined Ratio	93.5%	85.0%	78.8%	84.5%	96.9%	93.43%
Operating leverage	55%	112%	168%	271%	286%	302%
Financial leverage	106%	145%	144%	175%	167%	195%
Liquidity Ratio	4.6%	4.2%	5.3%	3.5%	4.9%	3.30%
Return on equity	-3.3%	7.8%	0.4%	5.9%	3.6%	2.8%

***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 12.2008	Update 12.2009	Update 23.12.2010	Update 01.06.2011	Update 22.06.2012
Long-term rating:	iBBB	iBBB	iBBB	iBBB+	iBBB+
Outlook:	stable	stable	positive	positive	stable
CLAIMS PAYING ABILITY RATING	Update 19.09.2013	Update 20.10.2014	Update 19.10.2015	Monitoring 05.07.2016	
Long-term:	iBBB+	iBBB+	iBBB+	iBBB+ (under review)	
Outlook:	stable	stable	stable		