

June 2011

## ZD „Bul Ins” AD

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CLAIMS PAYING ABILITY RATING	Initial Rating	Update	Update	Update
	12.2008	12.2009	23.12.2010	01.06.2011
Long-term rating:	iBBB	iBBB	iBBB	iBBB+
Outlook:	Stable	Stable	Positive	Positive
Short-term rating:	ia-2	ia-2	ia-2	ia-2

Bulgarian Credit Rating Agency (BCRA) is the third qualified rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

**BCRA upgrades the long-term claims paying ability rating of ZD „Bul Ins” AD from iBBB to iBBB+ and retains the short-term rating ia-2 and the positive outlook. BCRA uses the officially adopted methodology for assignment of claims paying ability rating of insurance companies ([http://www.bcra-bg.com/files/file\\_106.pdf](http://www.bcra-bg.com/files/file_106.pdf)).**

In elaborating the report and assigning the rating, the information, provided by the rated bank, BNB, NSI, BCRA's database, consultants and other sources of public information is used.

During the past period the Bulgarian economy continued being under the effects of the global crisis. The main factors, exercising an influence on the development of insurance sector, are as follows: the narrowed consumption of the households under the pressure of the increased unemployment and reduction of incomes, the continuing decline of car sales also in 2010, as well as the restricted credits.

In 2010 the downward trend in Gross Premium Written of the companies in the Sector continued. GPW in direct insurance decreased by 5.1% compared to 2009. Values of the insurance penetration and insurance density also decreased. The companies in the general insurance sector registered Negative Net Financial Result, despite the profit from investment activity. As of the end of 2010

a mild change was observed in the market concentration – six leading companies occupied 67.1% of the market of the general insurance sector: ZAD „BULSTRAD VIENNA INSURANCE GROUP”, „DZI-General insurance”, ZAD „Armeec” AD, ZD „Bul Ins”, ZAD „Allianz Bulgaria” and ZK „Lev Ins” AD (68.5% in 2009). The car insurances continue playing a leading role at the general insurance market.

During the update period considerable changes haven't occurred in the structure of the Company management. ZD „Bul Ins” continues following its policy to expand the coverage keeping the existing branch network. Since February 2011 the Company has an additional license for two new types of insurances – „Aircrafts” insurance and „Third-party liability related to possession and use of aircrafts” insurance.

In 2010 ZD „Bul Ins” AD gained a significant growth in the realized Gross Premium Written; the result is that the Company increased its market share – from 9.1% as of 12.2009 to 10.5% as of 12.2010.

Compared to the end of 2009 some changes occurred in the insurance portfolio of the Company. Premium Written in „Land vehicles (rail vehicles exclusive)” insurance registered a considerable decline - 11.0%. The decline of GPW in this insurance follows the general trend in the insurance sector, however, there is a considerably lower decline in it compared to the average for the other companies (17.8%). Decrease in the realized Premium Written is available with „Other damages to property” - 7.2%; it is about the average for the Sector (6.9%). During the analyzed period Premium Written in Third-party liability related to possession and use of cars insurance increased the most: in

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZD „Bul Ins” AD</b> <b>iBBB+ (outlook: positive)</b> <b>June 2011</b>
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2010 the growth was 76.6%. The growth of total GPW is due to the increase of GPW in this insurance (which has a higher risk profile), however, we estimate as a positive factor the fact that the contracts in this insurance are concluded mainly out of Sofia where the claims are considerably lower.

During the update period ZD „Bul Ins” accelerated its market presence in particular insurances, which reflected on the increase of the total market share of the Company to 10.5% at the end of 2010 (9.1% in 2009) and it occupied the fourth position by amount of Gross Premium Written among the companies at the general insurance services market (6<sup>th</sup> position at the end of the past year). The company activity continues being concentrated in the field of the car insurances, which formed 96.0% of the insurance portfolio in 2010; the share of Land vehicles (exclusive rail vehicles) insurance in the portfolio of Bul Ins decreased (by 13.5 %) on account of the growth of the share of higher risk insurance „Third-party liability, related to possession and use of motor vehicles” – by 14 %. This trend is characteristic for the whole general insurance market in the period of crisis.

The paid insurance compensations are 72% of the calculated expenses of insurance-technical guidelines, which is an indicator about favorable development of risk about the insurance portfolio as a whole. During the period under review Net Claims Ratios of the Company remained stable and considerably lower compared to the average for the competitive group. The values of the Commission Ratio are retained at the levels of the past year and nearly to the average of the competitive group. The decrease of Expense Ratio is considered as a positive factor, though its value remains higher compared to the average for the other leading companies. Combined Expense Ratio continues following the increasing trend, its value is an indicator for relatively low profit from insurance activity. By this indicator the company is in a favorable position in a comparative plan.

During the period under review ZD „Bul Ins” retained its re-insurance policy and retention levels remained relatively unchangeable. The Company continues using re-insurance contracts with re-insurance companies being rated with high assessments.

During the update period ZD „Bul Ins” has a full coverage of its reserves. The portfolio for coverage of the technical reserves of the Company is structured complying with the requirements of the Code of Insurance. In 2010 the size of the investment portfolio of the Company decreased by 6% compared to 2009; the decline was determined by the change in the structure of the total assets. As of 31.12.2010 ZD „Bul Ins” realized Net Income from investment activity amounting to BGN 2 581 thousand (BGN 3 606 thousand for 2009). During the first quarter of 2011 the value of investment portfolio increased insignificantly on yearly basis (0.62%); the Company realized Net Income from investment activity from BGN 691 thousand (BGN 749 thousand for the same period of 2010), received mainly from re-estimation of the shares of the investment funds. As a whole, ZD „Bul Ins” keeps a balanced conservative strategy in its investment activity and retains the adopted policy of prudence and risk avoidance. As a result of that, the Company realized lower incomes in 2010 compared to the average for the other companies in the Sector.

In 2010 ZD „Bul Ins” registered a growth of 3.8% in Gross Premium Written in the conditions of shrinking market (decline of 6.5% is registered in the Sector). Net Earned Income increased by 2.3%, whereas the decline in the Sector amounted to 11.4%. The result from insurance activity retained positive, though it is lower compared to the previous year, whereas the other insurance companies registered an increasing loss as a whole. Return on own capital decrease on yearly basis, despite it retains higher levels compared to the average for the Sector, as well as average for the other leading companies.

During the first quarter of 2011 significant growth of GPP was observed on yearly basis – 22.3%. The Company continues generating positive result from insurance activity, as well as Net profit.

The growth of Coverage Ratio is a positive factor during the analyzed period.

Leverage levels increase considerably and continue exceeding the average for the other leading companies. The decreasing trend of Liquidity Ratio of Technical Reserves and of Reserve for forthcoming payments is retained.

**Main financial indicators**

<i>Indicator</i>	<i>3.2011</i>	<i>2010</i>	<i>3.2010</i>	<i>2009</i>	<i>2008</i>
Gross Premium Income	42 999	135 810	35 149	130 830	155 002
Change in %	22.33%	3.81%	21.82%	-15.59%	5.75%
Net Premium Income	42 348	133 808	34 689	128 816	153 360
Net Earned Income	33 255	131 824	35 209	128 882	148 615
Net Profit	1 200	3 485	2 386	5 775	9 864
Retention	98%	99%	99%	98%	99%
Gross Claims Ratio	50%	47%	47%	46%	45%
Net Claims Ratio	53%	49%	48%	45%	44%
Expense Ratio	27%	24%	24%	30%	25%
Commission Ratio	18%	26%	23%	24%	23%
Combined Ratio	99%	99%	95%	98%	93%
Own capital	33 538	32 338	36 827	34 441	36 530
Technical reserves	105 333	95 785	94 883	92 283	95 355
Operating leverage	-	408%	-	374%	407%
Financial leverage	314%	296%	258%	268%	261%
Liquidity Ratio	3%	3%	3%	3%	2%
Return on own capital	7%	11%	18%	16%	33%

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