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Claims paying ability rating*	Monitoring 06.01.2017	Update 21.02.2017
Long-term rating:	BBB-	BBB-
Outlook:	negative	stable
Long-term national-scale rating:	AA+ (BG)	AA+ (BG)
Outlook:	stable	stable

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

“BCRA – CREDIT RATING AGENCY” (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) 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 other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

BCRA assigns to „DZI – General insurance“ EAD the following ratings:

- **Long-term claims paying ability rating: BBB-, outlook: „stable“;**
- **Long-term national-scale rating: AA+ (BG), outlook: „stable“.**

The methodology - officially adopted, approved and entered into force on 06.07.2016, by BCRA for assigning rating of the ability of insurance companies to pay claims is in use (http://www.bcra-bg.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 FSC, the NSI, BCRA’s database, consultants and other public sources.

During 2015, the economy of the country reported a 3.6% real growth – the highest value after the financial crisis, as the major growth factors are

export of commodities and services and growth in final consumption. The marked growth in GDP was twice higher than the achieved for the last two years (1.6% in 2014, 1.3% in 2013). In the first half of 2016, there was an increase in importance of the domestic consumption for economic growth.

The FIF (foreign investments flow) reached 3.7% of GDP after hesitations of about 3.1%-3.3% over the last three years. A significant increase in the reinvested profit after the last year, and in investments in the share capital. The investors, however, remained cautious as the levels of the investments remained considerably lower compared to the years before the crisis. For the first half of 2016, the foreign investments reduced slightly compared to the same period of the last year – declined to 2.0% of GDP (2.1% of GDP as of Q2 2015).

The favourable changes in the labour market remained the same – unemployment rate (as well as continuous unemployment rate as a percent of the active population) maintained their downtrend after 2013. In 2015, the average unemployment rate was 9.2% (11.5% in 2014).

Since early 2014, deflationary processes have been detected and reached their peak in early 2015 and remained the same at the end of the year. According to the EC spring forecast, there will be deflation in 2016 as well, as the expected

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price level change is about -0.7% at the end of the year. EC foresees the factors causing a decline in the price level to be removed, and in 2017 the country to switch to a situation of low inflation.

The 2014 banking system events led to the emergence of a potential threat to banking institutions to deepen the banking crisis and involvement of a larger number of participants in the sector. Despite the increased risk in the financial system raised by the removal of one of the main players and the risk of dropping the second, the banks in Bulgaria maintained its stability. 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 public support to the banks with funds given by the public budget is not needed.

The general insurance market in Bulgaria during the period of updating is characterized by:

- Strengthening the uptrend in written gross premiums income over the last three years;
- High level of market concentration - 72.7% of GPI in the sector (as of 09.2016) is formed by the seven largest companies (71.5% in 2014);
- High share of car insurances in the structure of the aggregate insurance portfolio (69.7% as of 09.2016).

The major factors hindering the development of the general insurance companies continued to be uncertain recovery of the Bulgaria's economy from the crisis and low economic activity, decreased domestic consumption and uncertainty concerning future revenues of the households. The sector maintained high growth potential, having in mind the low levels of insurance density and penetration.

The published results (on 03.02.2017) from the assets review and stress-tests of the insurance companies in the country are evidentiary for the stability of the rated company.

In June 2016, the capital of "DZI - General Insurance" was increased in the amount of 15 000 001 BGN through new 2 142 858 shares, each with par value of 7 BGN. The shares were subscribed by "DZI - General Insurance" EAD which remains the sole owner of the company's

capital. The final owner of the capital remains KBC Insurance NV, Belgium, part of KBC Group. The compositions of the Management and Supervisory Boards did not change during the updating period.

During 2015, Gross Premium Income (GPI) of "DZI - General Insurance" reported a growth of 10.6%, which slightly exceeded the achieved by the adjusted sector for the same period (9.5%). The increase is mainly related to Autocasco insurance, and GPI of the same insurance grew by 16.5%. The second most insurance "Motor Third Party Liability" also increased (4.2%), and the third most important insurance "Fire and Natural Disasters" also reported growth (9.5%). The market share of the company during the period remained unchanged (10.1%).

During the nine-month period of 2016, GPI of the company grew by 7.6% year on year, close to the reported of the adjusted sector (7.7%). Autocasco insurance reported a growth (19.0%), as a result of which the market share of the company increased reaching 15.5%. Fire and Natural Disasters also increased (5.0%), while Motor Third Party Liability (MTPL) reported a decline of 5.0%. The market share of the company as of 09.2016 is 10.3% (at the same level as a year earlier).

The structure of the insurance portfolio during the analyzed period was characterized by an uptrend in the share of Autocasco insurance which reached 43.5% for 2015 and 47.6% for the nine month-period of 2016. Motor Third Party Liability reduced to 30.8% for 2015 and 26.8% for the nine-month period of 2016.

Compared to the other leading companies in the sector "DZI - General Insurance" continues to be characterized by a higher share of Autocasco insurance and lower of MTPL. The portfolio concentration is at the level of the reference group.

The gross and net claims ratios of the company dropped in 2015 and this trend also continued during the nine-month period of 2016. In a comparative aspect in 2015, the net claims ratios were close to the average for the competitive group, and during the nine-month period of 2016 they were by 3.6 p.p. lower which is considered to be a positive factor.

The decline of the net claims ratios together with the decline of the expense ratio contributed for the

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decline of the combined expense ratio in 2015 and in the nine-month period of 2016, as its level decreased to levels below 100%, which is an indicator for a realized insurance profit, unlike the last two years when the company generated a loss from insurance activity. Despite the decline of the combined expense ratio, its level remained higher compared to the average for the reference group at the end of 2015, and as of September 2015 was by 1.0 p.p. more favourably.

During the period of updating, there were not any considerable changes observed in the retention level of „DZI – General insurance“ and it remained at levels of about 93-94%.

For the nine-month period of 2016, the size of the investment portfolio of the company increased by 4.6% compared to 2015, compared to a decline of 0.3% for the adjusted sector. The increase of the investment assets is with regard to government securities¹ and deposits in banks which prevail in the portfolio structure. The considerable share of high liquid assets maintains and it remains considerably higher compared to the adjusted sector². For 2015, the company realized investment profitability which is considerably higher than the adjusted sector, while for the nine-month period of 2016 it was lower.

The descending trend in net earned income of „DZI – General insurance“ was halted in 2015, when it reported growth of 9.6%, and continued during the nine-month period of 2016 with an annual increase of 10.8% (2.7% on average for the other companies in the sector). As stated, the company generated a positive result from insurance activity for 2015 and the nine-month period of 2016. The net financial result was positive, in the size of 8 823 thousand BGN for 2015 and 10 195 thousand BGN for the nine-month period of 2016.

As of September 2016, the liquidity ratios of the technical reserves and of the reserve for forthcoming payments of the company were higher compared to the adjusted sector and the competitive group. The quick liquidity ratio was lower than the average for the adjusted sector but higher compared to the average for the other leading companies.

„DZI – General insurance“ is characterized by a very good financial performance and management during the reviewed period. Besides that, as part of KBC Group the company gets strong support from the ultimate shareholder which gives good reason for assigning a rating of the ability of insurance companies to pay claims with a stable outlook, exceeding the assigned to the Republic of Bulgaria „negative“ outlook (please, see http://www.bcra-bg.com/files/rating_287.pdf).

¹ It includes only issued and guaranteed securities by the government.

² Adjusted with the data of the rated company.

Main financial indicators:

Indicator / Year:	09.2016	09.2015	2015	2014	2013	2012
Gross Premium Income (thousand BGN):	123 029	114 359	158 067	142 926	141 561	148 196
<i>Change on a yearly basis</i>	7.6%	-27.7%	10.6%	1.0%	-4.5%	-12.4%
Net Earned Income (thousand BGN):	117 587	106 128	141 904	129 509	133 128	148 851
<i>Change on a yearly basis</i>	10.8%	-25.2%	9.6%	-2.7%	-10.6%	-1.4%
Net profit (thousand BGN)	10 195	6 058	8 823	6 243	7 343	12 435
Result from insurance activity	5 610	-386	935	-2 867	-1 092	-902
Gross Claims Ratios	51.8%	52.0%	49.8%	62.0%	49.3%	58.16%
Net Claims Ratios	50.5%	53.1%	50.3%	52.7%	52.5%	58.19%
Expense Ratio	9.4%	11.0%	11.2%	12.4%	13.6%	12.35%
Acquisition Ratio	35.3%	36.3%	37.8%	37.2%	34.7%	30.07%
Combined Ratio	95.2%	100.4%	99.3%	102.2%	100.8%	100.61%
Operating Leverage	131%	150%	187%	179%	182%	186%
Financial Leverage	226%	282%	267%	267%	251%	237%
Liquidity Ratio	5.6%	4.5%	3.4%	3.8%	2.7%	1.85%
Return on equity	16.4%	15.2%	12.1%	8.7%	9.4%	14.1%

***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 25.05.2015	Update 19.05.2016	Monitoring 05.07.2016
Long-term rating:	iA	iA+	iA+ (under review)*
Outlook:	stable	stable	

*The rating is placed „under review“ according to the requirements of the Regulation (EC) No. 1060/2009 due to a procedure on changes in the methodology to the completion of the procedure and review of the ratings assigned under the particular methodology.