

**„DZI – General insurance”  
EAD**

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CREDIT RATING*	Monitoring 06.01.2017
Long-term credit rating:	BBB-
Outlook:	negative
National-scale long-term rating:	AA+ (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.

**The used methodology is officially adopted by BCRA for assigning claims paying ability rating to insurance companies ([http://www.bcra-bg.com/files/file\\_202.pdf](http://www.bcra-bg.com/files/file_202.pdf)). It was approved and entered into force on 06.07.2016.**

The update of the methodology is made with the aim of making precise the rating of the assigned entities, as it could be supplemented through assigning a national-scale credit rating in Bulgaria which will improve additionally the possibility of comparison between the entities that BCRA rates in the country. This possibility is especially beneficial in countries whose credit rating is relatively low, as far as this rating serves as a rating ceiling which reduces the possibility to differentiate the profitability of individual entities.

In accordance with the provisions of the European Securities and Markets Authority (ESMA) № 1060/2009, BCRA placed "under review" the ratings of all rated entities (on 06.07.2016), because when updating a methodology the agency should conduct an individual review of the assigned rating and, if necessary, to make changes in the methodology. Information about that and about the amended methodology was published at the website of BCRA (<http://www.bcra-bg.com>), where it could be found at present.

As a continuation of the above mentioned, on 06.01.2017 the Rating Committee of BCRA reviewed the ratings of „DZI – General Insurance“ EAD.

Summary of the Minutes of the Rating Committee:

The members of the Rating Committee discussed the influence of the changes in the rating methodology on the ratings assigned to „DZI – General insurance” EAD, taking into account the individual risk profile of the company. They reviewed as well the changes in the financial condition of the company during the nine-month period of 2016. The company reports growth of 7.6% in gross premium income (GPI), close to the average for the other companies in the sector (7.7%). In the structure of the insurance portfolio „Autocasco“ remains a leading insurance with a share of 47.6% (43.0% for the same period of the past year). The concentration in the portfolio (measured through the weight of the main types of insurances) remains close to the average for the other leading companies. The net claims ratios decrease slightly on a yearly basis and are lower compared to the average for the direct competitors. The combined expense ratio reports a decline on a yearly basis as the gained value is below 100% which is an indicator for a realized profit from insurance activity. Its level is close to the average for the other leading companies. During the period, the company generates a net profit in the amount of 10 195 thousand BGN, by 68.3% higher compared to the same period of 2015. The liquidity levels remain very good.

Based on what was said above, the members of the Rating Committee took a decision to suspend the status “Under review” of the company’s rating and to assign the following ratings:

	<p><b>„DZI – General Insurance“ EAD</b>  Long-term claims paying ability rating: <b>BBB-</b>  (outlook: <b>negative</b>)  National-scale long-term rating: <b>AA+ (BG)</b>  (outlook: <b>stable</b>)  <b>January 2017</b></p>
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- Long-term claims paying ability rating: **BBB-**, outlook: „**negative**“<sup>\*\*\*</sup>;
- National-scale long-term rating: **AA+ (BG)**, outlook: „**stable**“.

\*\* The change in the long-term claims paying ability rating and in the outlook (from „stable“ to „negative“) is not a result of deterioration of the indicators of „DZI – General insurance“ EAD, and is a consequence of the rating ceiling used, that is assigned by the sovereign rating and outlook (as of the time of review, the assigned rating by BCRA to Republic of Bulgaria<sup>1</sup> is long-term rating: BBB-(ns), outlook: „negative“, short-term: A-3 (ns), where the insurer is registered and does business. An upgrade of the sovereign rating and/or a change in the outlook, in case of maintaining/improving the condition of „DZI – General insurance“ EAD, will lead to upgrade of the long-term claims paying ability rating of the insurance company“.

To produce the rating, BCRA uses information from the FSC, the Bulgarian National Bank, National Statistical Institute, its own database, consultants, etc.

<sup>1</sup> [http://www.bcra-bg.com/files/rating\\_287.pdf](http://www.bcra-bg.com/files/rating_287.pdf)

**Main financial indicators:**

<u>Indicator / Year:</u>	<b>09.2016</b>	<b>09.2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Gross Premium Income (thousand BGN):</b>	123 029	114 359	158 067	142 926	141 561	148 196
<i>Change year on year</i>	7.6%	-27.7%	10.59%	1.0%	-4.5%	-12.4%
<b>Net Earned Income (thousand BGN):</b>	117 587	106 128	141 904	129 509	133 128	148 851
<i>Change year on year</i>	10.8%	-25.2%	9.6%	-2.7%	-10.6%	-1.4%
<b>Net profit (thousand BGN)</b>	<b>10 195</b>	<b>6 058</b>	<b>8 823</b>	<b>6 243</b>	<b>7 343</b>	<b>12 435</b>
Result from insurance activity	5 610	-386	935	-2 867	-1 092	-902
Gross Claims Ratio	51.8%	52.0%	49.8%	62.0%	49.3%	58.16%
Net Claims Ratio	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 in the chart are assigned under the previously used Methodology for assigning a corporate credit rating and are not directly comparable with the ratings assigned after the entry into force of the current methodology (as of July 2016).

<b>Claims paying ability rating</b>	<b>Initial Rating 25.05.2015</b>	<b>Update 19.05.2016</b>	<b>Monitoring 05.07.2016</b>
<b>Long-term rating:</b>	<b>iA</b>	<b>iA+</b>	<b>iA+ (under review)</b>
<b>Outlook:</b>	<b>stable</b>	<b>stable</b>	