

„DZI – General Insurance” EAD

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Claims Paying Ability Rating	Initial Rating 25.05.2015	Update 19.05.2016
Long-term Rating:	iA	iA+
Outlook:	stable	stable

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BCRA assigns the long-term claims paying ability rating iA+ (outlook: stable) to „DZI – General Insurance” EAD. The officially adopted methodology by BCRA for assigning claims paying ability ratings to insurance companies is used: (http://www.bcra-bg.com/files/file_202.pdf).

To elaborate the rating report and assign the rating, information is used from the rated insurance company, the Supervision Financial Commission, the National Statistical Institution, database of BCRA, consultants and other sources of public information.

During 2015, the economy of the country reported a 3.0% real growth, as 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 last two years (1.6% for 2014 and 1.3% for 2013).

During the period under review, the foreign investments flow reached 3.6% from 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 the 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.

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

Since early 2014, deflationary processes have been observed and they reach their peak at the beginning of 2015 and remain the same at the end of the year. According to the winter forecast of EC, the deflation will be maintained in 2016 as well, as the change foreseen in the price level is to be about -0.1%.

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

- Strengthening the uptrend in the income on written gross premiums over the last 3 years;
- High growth potential (with view of low levels of the insurance density and insurance penetration);
- High level of market concentration - 70.7% of the GPI in the sector 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 (68.4%).

The major factors hindering the development of the general insurance companies remain 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.

	CLAIMS PAYING ABILITY RATING „DZI – GENERAL INSURANCE” EAD iA+ (outlook: stable) May 2016
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During the period of update (2015) there haven't been any changes in the shareholding structure of „DZI – General Insurance“ and an ultimate owner of 100% of the capital remains KBC Insurance NV, Belgium, part of KBC Group. During May 2015 a change has occurred in the composition of the Supervisory Board: Mr. Nedyalko Chandarov has resigned and Grigorii Vazov has been elected. There haven't been any changes in the Management Board.

During 2015, the GPI of „DZI – General Insurance“ increase by 10.6% as this rate grows faster than the average for the adjusted sector¹ (9.4%). As a result the market share of the company increases slightly – from 9.96% in 2014 to 10.06% in 2015. The insurance “Autocasco” is leading in its insurance portfolio with a share of 43.5% for the last year (41.3% for 2014), followed by „Third Party Liability“ (30.8% for 2015). The weight of the car insurance in the portfolio of „DZI – General Insurance“ remains unchanged over the last year compared to 2014. The share of the property insurance increases considerably. In a comparative aspect, the concentration in the insurance portfolio of the company is close to the average for the other leading companies.

The claim indicators of „DZI – General Insurance“ is characterized by volatility. After the growth in 2014, a decrease is reported in the coming year as the gross claims ratio reaches 49.8% (62.0% for 2014), and the net claims ratio decreases by 2.4 p.p. to 50.3%. The net claims ratio of the company is close to the average for the other leading companies.

During 2015, for the first time within the past five years „DZI – General Insurance“ reports a value below 100% of the combined expense ratio (99.3%) This is an indicator for generating an insurance profit. The indicator level is higher compared to the average for the other leading companies that, however, is strongly influenced to a decrease of one of the companies.

The reinsurance programme of the company for 2016 hasn't had considerable changes compared to the past year. The retention level does not change significantly compared to 2014, and over the past years it is about 94%.

During 2015, the amount of the investment portfolio of „DZI – General Insurance“ increases compared to the end of the last year by 5.2%. In a comparative

aspect, the reported growth is less than the adjusted sector (14.0%). The increase is mainly due to the increased investments in government securities by 35.7%, while the growth of the bank deposits is low (0.9%). The share of the quick liquid assets continues to exceed the average value of the adjusted sector. The company is characterized by relatively small share of the incomes from reestimation of the investment assets in the total investment income which is a positive factor. The achieved profitability of the investment portfolio for second consecutive year exceeds the average for the other companies in the sector.

The portfolio for covering the technical reserves is structured according to the requirements for diversification of the assets given in the Insurance Code and provides with full coverage of the reserves.

During 2015, the net earned income of „DZI – General Insurance“ reports growth of 9.6% that increases faster compared to the other companies in the sector (1.0%). The net profit increases by 41.3% on a yearly basis reaching BGN 8 823 thousand. The increase of the financial result reflects improvement of the return on equity that increases from 8.7% in 2014 to 12.1% in 2015.

“DZI-General Insurance“ continues to be characterized by very high solvency. The operating leverage over the last four years varies in comparatively narrow margins as its increases weakly in 2015. Its level maintains considerably lower in comparison with the average for the other leading companies. The financial leverage doesn't report any change over the last year compared to the last year. Unlike 2014, its level is little higher compared to the average for the competitive group in 2015.

The company continues to maintain high liquidity in a comparative aspect. The three liquidity indicators during 2015 increase on a yearly basis, as the liquidity of the technical reserves and of the reserve for upcoming payments remains higher compared to the sector, and the other leading companies. The quick liquidity is lower than the average for the sector but higher than the average for the competitive group.

¹ Adjusted with the data of the rated company.

Main Financial Indicators:

Indicator / Year:	2015	2014	2013	2012	2011
Gross Premium Income (thousand BGN):	158 067	142 926	141 561	148 196	169 117
<i>Annual Change Rate</i>	10.6%	1.0%	-4.5%	-12.4%	-2.0%
Нетен Спечелен Приход (хил.лв.)	141 904	129 509	133 128	148 851	150 931
<i>Net Earned Income (thousand BGN)</i>	9.6%	-2.7%	-10.6%	-1.4%	-10.3%
Net Profit (thousand BGN)	8 823	6 243	7 343	12 435	12 440
Result from Insurance Activity	935	-2 867	-1 092	-902	-2 383
Gross Claims Ratio	49.8%	62.0%	49.3%	58.2%	49.9%
Net Claims Ratio	50.3%	52.7%	52.5%	58.2%	54.2%
Expense Ratio	11.2%	12.4%	13.6%	12.3%	14.5%
Acquisition Ratio	37.8%	37.2%	34.7%	30.1%	32.9%
Combined Ratio	99.3%	102.2%	100.8%	100.6%	101.6%
Operating Leverage	187%	179%	182%	186%	140%
Financial Leverage	267%	267%	251%	237%	194%
Liquidity Ratio of Technical Reserves	113%	97%	89%	96%	92%
Liquidity Ratio of upcoming payments	173%	145%	131%	140%	140%