

ZK „Lev Ins” AD

Elena Toyouva, lead financial analyst
elena.touyova@bcra-bg.com
Delyan Pehlivanov, financial analyst
d.pehlivanov@bcra-bg.com
Denitsa Nikolaeva, financial analyst
d.nikolaeva@bcra-bg.com

Claims Paying Ability Rating	Initial rating 6/2006	Non-solicited Rating 11/2007	Non-solicited Rating 11/2008	Update 7/2009	Update 20.7.2010
Long-term Rating :	BB+	iBBB-(ns)	iBBB (ns)	iA-	iA-
Outlook :		<i>positive</i>	<i>positive</i>	<i>stable</i>	<i>stable</i>
Short-term Rating :		ia-3	ia-2	ia-1	ia-1

Bulgarian Credit Rating Agency is the only Bulgarian agency listed as eligible by the Financial Supervision Commission and its credit ratings are acknowledged for the aims of article 75, paragraph 2 of the Bulgarian Insurance Code equally along with these of Moody's, Standard & Poor's and Fitch. BCRA has already rated most of the leading local insurance companies. In 2004 BCRA adapted the Claims paying ability rating methodology for insurance companies from ICRA (An associate of Moody's Investors Service).

BCRA has reaffirmed the long-term claims paying ability rating iA- to ZK "Lev Ins" AD with a stable outlook and short-term rating ia-1. The officially adopted methodology of awarding of claims paying ability rating to insurance companies is used by BCRA (http://www.bcra-bg.com/files/file_202.pdf).

To elaborate the credit report and to award the credit rating, BCRA uses information from the rated insurance company, FSC, National Statistical Institute, BCRA's database, consultants and other sources of public information.

During the past period the Bulgarian economy continued being under the influence of the effects of global crisis. The main factors which influenced over the development of the insurance sector are as follows: the narrowed consumption of the households under the pressure of the increasing unemployment, the decrease of the incomes and negative expectations of crisis development. The downturn of the car sales, decrease of the lease purchases and restricted loans of the banks exercise negative influence on the demand of most of the general insurance products. **Characteristics of the general insurance market during the past period:**

- Downturn of GDP in direct insurance, in 2009 (3.8% compared to 2008), as well as of 03.2010 (6.4% year on year);
- Decreased values of the insurance penetration and insurance density;
- In 2009 the companies, operating in the Sector, registered Positive Net Financial Result from Investment activity at the rate of BGN 26 689 thousand (- 6 310 BGN thousand in 2008). In 2009 a significant change in the market positions was not occurred - 68.51% of the market is occupied by 6 companies. As of 31.03.2010 the percentage of the leading companies remained relatively unchangable (69.72% compared to 72.35% for the same period of 2009);

- The car insurances continued playing a leading role at the market; their relative percentage in Total GDP was not changed significantly, however, decrease of GDP on them by 2.9% was observed. **BCRA estimates the risk from the state of the Sector as relatively high** due to the effects from the unfavorable economic environment caused by the influence of the international crisis over the Bulgarian economy.

Basic moments in the management of ZK Lev Ins AD during the passed period:

During the period under review the rated company increased its equity by BGN 10 885 thousand, unlike the undistributed profit and the equity reached to BGN 43 300 thousand. New 25 agencies are open, working under the terms of labour contracts. The budgets of the territorial units are optimized. The working process on the improvement of the information security of the business activity continues. **BCRA retains the fair assessment of the management of ZK "Lev Ins" AD.**

In 2009 the growth of GDP slowed down compared to 2008; despite that the rated company

	CLAIMS PAYING ABILITY RATING ZK „Lev Ins” AD iA- (outlook: stable) July 2010
	95, Evlogi Georgiev, fl.1 1142 Sofia

occupies the 3rd position on this indicator. As of 03.2010 a downturn of 24.6% was observed as a result of which the rated company occupied the 5th position on GDP. In 2009 the car insurances in the company portfolio increased significantly, reaching 88.41%. As of 03.2010 this trend intensified - „Third Party Liability of Motor vehicles" and „Autocasco" reached to 97.50% and the increase is in line of the first. As of 31.03.2010 the property insurances occupied 1.55% of the Company portfolio. On an yearly basis their total percentage doesn't undergo significant changes. The levels of Net Claims Ratio remain stable. Net Commission Ratio continued surpassing slightly the average values for the competitive group. In 2009 Combined Expense Ratio of the company indicated a loss of insurance activity which is due to premiums written off and expenses of the participations in the result. As of 03.2010 a profit of insurance activity was registered. **BCRA estimates the risk from operating efficiency of the Company as moderate.**

During the period under review no significant changes occurred in the reinsurance policy of the Company. The Company continues holding high levels of retention. **BCRA retains its assessment for the risk from reinsurance activity as relatively low.**

In 2009 ZK Lev Ins AD continued increasing the rate of its investment portfolio (29.2%), however, the growth rate slowed down compared to past years (47.7% in 2008). Regardless of that, it remained very higher compared to the average for the Sector (13.0%). Its structure underwent changes in 2009 and the share of the real estates enhanced significantly (24.3% compared to 10.0% average for the Sector). The percentage of highly liquid assets went down to 65.0%, though it remained closer to the average for the Sector (66.3%). In 2009 the gained profitability of the investment portfolio of ZK „Lev Ins" increased abruptly (17.5%) compared to 2008 (1%). As of 03.2010 the size of the portfolio increased by 7.3% compared to 12.2009. The portfolio is structured with a relatively low risk level and it is pursuant to

the requirements for diversification of the assets for covering the commercial loans, given in the Code. **BCRA retains the appraisal of the risk from investment activity of the company as relatively low.**

During the period under review Operating and Financial Leverage remained close to the average for the group. Solvency Ratio increased and reached to 1.68. The Liquidity Ratios registered a decline; the values of the rated company were lower compared to the average for the group, as well as the average for the market. It is mainly due to the significant growth of the insurance reserves (over 32%), which appeared as a result of the taken measures by the Company to guarantee the financial stability of the Company and it shouldn't be considered as a negative factor for the state of the Company. **BCRA estimates the risk from the financial state of the Company as relatively low.**

Main indicators of ZK „Lev Ins” AD:

Indicator	3.2010	2009	2008
GDP (BGN thousand)	31 808	168 057	158 561
Growth rate (year on year)	-25%	6%	56%
Net Premium Earned (thousand leva)	30 732	156 399	140 946
Net Financial Result	360	7 323	11 842
Retention	98.28%	98.47%	99.12%
Net Claims Ratio	53.20%	42.35%	41.06%
Expense Ratio	18.85%	42.38%	27.18%
Commission Ratio	26.08%	23.00%	22.94%
Combined Ratio	98.12%	107.74%	91.19%
Equity	58 315	57 955	50 632
Technical Reserves	133 263	118 628	89 703
Operating Leverage		270%	278%
Financial Leverage	229%	205%	177%
Liquidity Ratio	3%	6%	12%
Return on Equity	1%	13%	23%