

ZK „Lev Ins” AD

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| Claims Paying Ability Rating | Initial rating 6.2006 | Unsolicited update 11.2007 | Unsolicited update 11.2008 | Update 7.2009 | Update 20.07.2010 | Monitoring 07.12.2010 | Monitoring 25.05.2011 |
|------------------------------|--------------------------|-------------------------------|-------------------------------|------------------|----------------------|--------------------------|--------------------------|
| Long-term rating : | BB+ | iBBB- | iBBB | iA- | iA- | iA- | iBBB+ |
| Outlook : | | <i>positive</i> | <i>positive</i> | <i>stable</i> | <i>stable</i> | <i>negative</i> | <i>negative</i> |
| Short-term rating : | | ia-3 | ia-2 | ia-1 | ia-1 | ia-1 | ia-2 |

Bulgarian Credit Rating Agency (BCRA) is the third competent rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of 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 changes the long-term rating for claims paying ability of ZK „Lev Ins” AD to iBBB+ and short-term rating to ia-2, negative outlook. The officially adopted by BCRA methodology for assignment of claims paying ability rating of insurance companies is applied (http://www.bcra-bg.com/files/file_106.pdf).

BCRA found out that the indicators related to the insurance activity and financial state of ZK „Lev Ins” AD are deteriorated during monitoring executed with the data as of 31.12.2010. In 2010 the company registered a strong reduction of Gross Premium Written in direct insurance on yearly basis (18.16%), determined by decline of the income in all main insurances. The decline in Gross Premium Written of „Lev Ins” anticipated highly the average downturn of Gross Premium Written for the other companies in general insurance sector (3.43%). The market share of the company decreased – from 11.4% as of 12.2009 to 9.79% as of 12.2010.

The structure of the insurance portfolio doesn't undergo any considerable change compared to the nine-month period of 2010 – the share of Autocasco slightly decreased (by 1.2 %) and the share of Third-party liability vehicle insurance slightly increased by 1.4 %. The relative share of Third-party liability vehicle insurance (by 12.5 %) registered a considerable increase on yearly basis reaching to 76.4%. The other leading insurances registered a decline of their relative share – „Autocasco” by 4.1 %, „Fire and natural disasters” by 3 % and „Other damages of property” by 1.6 %.

The three Ratios related to the expenses reported a growth on yearly basis. As a result the value of Combined Expense Ratio highly increased which is an indicator for increasing loss from insurance activity compared to the past year. In consequence of the considerable negative result from insurance activity, the company registered Net loss amounting to BGN 25 069 thousand leading to decline in the own capital and decrease of the Coverage Ratio¹ to boundary levels (1.02).

The Rating Committee of BCRA, held on 25.05.2011, took a decision to change the long-term rating for claims paying ability of insurance companies of ZK „Lev Ins” AD to iBBB+ and short-term rating to ia-2, outlook - negative.

| | 2010 | 9.2010 | 2009 |
|---|---------|---------|---------|
| Share of Third-party liability in the portfolio | 76.40% | 74.90% | 63.90% |
| Net Claims Ratio | 49.22% | 50.08% | 42.35% |
| Expense Ratio | 44.53% | 45.06% | 42.38% |
| Net Commission Ratio | 26.28% | 25.03% | 23.00% |
| Combined Expense Ratio | 120.03% | 120.16% | 107.74% |
| Net Earned Income (BGN thousand) | 134 427 | 99 447 | 156 339 |
| Financial Result (BGN thousand) | -25 069 | -17 134 | 7 323 |

¹ (Own resources, decreased with intangible assets) / (Solvency border)