

## ZK „Lev Ins” AD

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Claims Paying Ability Rating	Initial Rating 6.2006	Non-solicited Rating 11.2007	Non-solicited Rating 11.2008	Update 7.2009
Long-term Rating:	<b>BB+</b>	<b>iBBB- (ns)</b>	<b>iBBB (ns)</b>	<b>iA-</b>
Outlook:		<i>положителна</i>	<i>положителна</i>	<i>стабилна</i>
	Update 20.07.2010	Monitoring 07.12.2010	Monitoring 25.05.2011	Update 25.10.2011
Long-term Rating:	<b>iA-</b>	<b>iA-</b>	<b>iBBB+</b>	<b>iBBB+</b>
Outlook:	<i>stable</i>	<i>negative</i>	<i>negative</i>	<i>developing</i>
	Update 29.11.2012			
Long-term Rating:	<b>iBBB+</b>			
Outlook:	<i>positive</i>			

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**BCRA affirms the long-term rating iBBB+ for claims paying ability of ZK „Lev Ins” AD and changes the outlook to positive. The officially adopted methodology by BCRA for assignment of the rating of the ability of the insurance companies to pay claims is used ([http://www.bcra-bg.com/files/file\\_202.pdf](http://www.bcra-bg.com/files/file_202.pdf)).**

In elaborating the credit report and assigning the credit rating, the information, provided by the rated insurance company, FSC, NSI, BCRA's database, consultants and other sources of public information is used.

During the update period (from June 2011 to June 2012) the economy of Bulgaria continued being under the impact of the European financial crisis. As of the half-year of 2012 the growth of GDP slowed down by 1.0% (3.1% for the same period of the past year) and a constant trend of an increase in unemployment. Main factors, influencing on the market of insurance services remain the shrunk

consumption of the households and weak economic activity. As of the end of 2011 the downtrend in realized GPI retained. As of the end of the half-year the decline intensified and reached to 2.6% year on year. The value of insurance density and insurance penetration also registered a drop. In spite of the decline of GPP, as a result of the measures which the general insurance companies took to optimize the costs, as well as the overall activity, as of the end of 2011 the financial results improved abruptly. As of the end of the half-year of 2012 net financial result of the sector registered an increase of 29.2% annually. Car insurances continue playing a key role on the general insurance market in Bulgaria with a share of 70.7%. The total market share of the leading companies increased slightly compared to half-year of the past year, as well as compared to the end of 2011. ZK „Lev Ins” is a leader by realized GPP as of 6.2012.

During the analyzed period no changes occurred in the shareholding capital of the company. No changes occurred in Supervisory Board and Board of Directors. New products are introduced and the company has taken measures to expand its license. The process directed to improvement of information security of the company's activity continued.

In 2011 ZK „Lev Ins” registered a growth of 6.1% annually in the realized total GPP, while the

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZK „Lev Ins” AD</b> <b>iBBB+ (outlook: positive)</b> <b>November 2012</b>
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adjusted<sup>1</sup> sector registered a decline of 2.2%. The increase in the premiums of the company is reflected in its market share which increased to 10.5% (9.8% in 2010). GPP on direct insurance also increased (7.4% year on year), while the market shrunk by 2.7%. During the first six months of 2012 GPP on direct insurance, realized by ZK „Lev Ins”, increased annually by 37.6%, whereas the rest of the general insurance market registered a decline of 6.7%. As a result of this the company increased its market share by 13.3% (9.4% at the end of the half-year of 2011). The car insurances continued dominating in the structure of the portfolio and as of 6.2012 they presented 96.4% (95.1% as of 6.2011). The uptrend of the share of „Third Party Liability, related to the possession and use of vehicles” retained (growth of 1.5 % year on year), as it is considerably higher than the average for the other leading companies. The relative share of “Autocasco” continued decreasing and as of 06.2012 it was 10.5% and it was much below the average for the competitive group. In 2011 Net Claims Ratio registered a decline while Gross Claims Ratio retained its level as last year’s. During the first half-year of 2012 Net Claims Ratio of the rated company increased year on year, but their value is considerably lower than the average for the other leading companies. In 2011, as a result of the taken measures by the company to optimize the costs, the value of Net Commission Ratio, registered by ZK „Lev Ins” AD, decreased, but remained higher than the average for the competitive group. In the first half-year of 2012 the indicator decreased to favourable levels in comparative aspect. In 2011 Expense Ratio of the rated company decreased considerably, taking a lower value than the average for the competitive group. During the first half-year of 2012 the analyzed indicator is retained at the levels of the past year and its value is higher than the average for the other leading companies from the general insurance market. In 2011 Combined Expense Ratio<sup>2</sup> of the company decreased considerably and shows a considerable profit from insurance activity, which is mainly due to the decrease of the costs. For the first half-year of 2012 the value of the analyzed ratio shows that the company continued realizing a profit from insurance activity. The company has a favourable position by this indicator in a comparative aspect and as of the end of 2011, and as of the end of the first half-year of 2012.

ZK „Lev Ins” AD has organized re-insurance coverages for its main types of insurances. In the period under review the company continued keeping high levels of retention.

As of the end of 2011 in the size of the investment portfolio of ZK „Lev Ins” AD there was a growth of 18.7% year on year, which is considerably more than the average increase for the other companies from the sector of general insurance (2.1%). The structure of the investment assets is changed compared to the end of 2010. The positions in stocks are almost entirely closed out as at the end of 2011 they formed hardly 0.03% of the total amount of investments. The shares in daughter and associated companies registered an increase. In 2011 the achieved profitability<sup>3</sup> of the investment portfolio of ZK „Lev Ins” decreased compared to 2010 and is lower than the average for the other companies from the sector. In the first half-year of 2012 the amount of the portfolio of the company increased, as its increase is in the background of considerable decline for the other companies (-5.1%). Its structure undertook changes compared to the end of 2011. The share of government securities decreased, but though that the total share of the high liquid assets continued growing up due to the increase of savings in bank deposits and remained higher than the average share for the other general insurance companies (67.7%). Due to loss of reevaluation of government bonds<sup>4</sup> as of the end of the half-year of 2012 ZK „Lev Ins” registered Negative Net Income from investment activity in the amount of BGN -4 495 thousand and negative profitability of BGN -4.13% (3.49% for the adjusted sector).

In 2011 ZK „Lev Ins” realized a growth of 6.1% year on year in GPP; a decline in Net Earned Income, high net financial result (BGN 10 601 thousand); a decline in Quick Liquidity Ratio. As a result of the realised profit Return on equity increased strongly and exceeded considerably the average for the sector. During the first half-year of 2012 the rated company registered a high growth (37.6%) year on year in GPP (decline of 7.2% for the adjusted sector). With net earned income the increase strongly anticipated the reached average increase by the other companies. There are a positive increasing result from insurance activity and a positive net financial result. Gross and Net Claims Ratio increased. In the period under review no change in the registered and paid-in capital.

<sup>1</sup> With data for the rated company.

<sup>2</sup> The Ratio registered the result from insurance activity of the company.

<sup>3</sup> Calculated on the method TTM.

<sup>4</sup> Reevaluation is performed in accordance of FSC’s instruction which is common for the sector.

Dynamics of equity is determined by the current financial result with view of that the company did not distribute dividends in 2011 and first half-year of 2012. In 2011, as a result of the increase of equity, operating leverage registered a decline and takes a value around the average for the leading insurance companies. Financial leverage also registered a decline but the decrease is considerably lower than this of the operating leverage and its value remained considerably over the average for the leading insurance companies. Liquidity Ratio of technical reserves continue decreasing its value and it is considerably lower than the average level of the leading companies, as well as of this for the

adjusted sector. During the half-year of 2012 the indicator increased its value in line of the increase of liquid assets, though its value remained below the average. Liquidity Ratio of the reserve for upcoming payments registered an increase in 2011 remaining lower than this for the adjusted sector, but its value reached the average for the leading companies. During the first half-year of 2012 the indicator continued increasing its value and though it remained lower than the average for the adjusted sector, at the end of the period it exceeded sensitively the average value of the indicator for the group of the leading companies.

**Main Indicators of ZK "Lev Ins" AD:**

	<b>6.2012</b>	<b>6.2011</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Gross Premium Income	88 558	64 375	143 485	135 198	168 057
<i>Change rate year on year</i>	37.6%	-0.2%	6.1%	-19.6%	6.0%
Net earned Income	81 987	57 030	115 683	134 427	156 399
<i>Change rate year on year</i>	43.8%	-11.9%	-13.9%	-21.1%	11.0%
Result from insurance activity	5 167	4 296	9 621	-26 936	-12 100
Net profit	159	847	10 601	-25 069	7 323
Gross Claims Ratio	48.7%	39.8%	50.5%	50.5%	49.0%
Net Claims Ratio	48.1%	41.8%	45.1%	49.2%	42.4%
Combined Expense Ratio	93.7%	92.5%	91.7%	120.0%	107.7%
Operating Leverage	-	-	266%	409%	270%
Financial Leverage	-	-	349%	401%	205%
Liquidity Ratio	2.7%	2.8%	2.2%	4.1%	5.7%
Return on Equity	24.5%	-55.9%	29.2%	-51.0%	13.6%