

## 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>
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	Update 04.11.2013		
Long-term Rating:	<b>iBBB+</b>	<b>iBBB+</b>		
Outlook:	<i>positive</i>	<i>stable</i>		

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**BCRA affirms the long-term claims paying ability rating iBBB+ and changes the outlook to stable.** The officially adopted methodology by BCRA for assignment of claims paying ability rating 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.

The main characteristics of the general insurance market in Bulgaria during the period (06.2012 – 06.2013) are:

➤ The descending trend retains in the realized Gross premium income (GPI) on direct insurance in 2012 (an annual drop of 1.9%),

whereas in the first term of 2013 there is a slight growth on an yearly basis (1.7%).

➤ The growth potential of the insurance market remains high – the levels of insurance density and penetration continue to decrease.

➤ An improvement of the financial results of the general insurance companies. The sector ended up 2012 with a positive result from insurance activity (8 851 thousand leva), compared to the loss for the previous year (-3 082 thousand leva). During the first term of 2013 the insurance profit was larger by 13.4% compared to the same period of the previous year. Net financial result also improved in 2012, also as of 06.2013 on an yearly basis.

➤ The descending trend of the market share of the leading companies discontinued: they improved their positions and as of the end of 2012 they occupied 66.3% at the general insurance market (65.9% a year earlier), and as of the middle of 2013 – 68.7% (67.5% as of 06.2012).

➤ The car insurances continue to dominate in the general insurance market. In 2012 their share decreased slightly to 70.9% (compared to 72.2% for 2011), whereas during the first six months of 2013 there was a slight increase (to 71.6%, 70.6% compared to an year earlier).

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZK „Lev Ins” AD</b> <b>iBBB+ (outlook: stable)</b> <b>November 2013</b>
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During the update period the shareholding capital and structure of the ownership of ZK „Lev Ins” remained unchangeable. In April 2013 Stefan Sofiyanski was dispensed from the positions Chair of the Management Board (MB) and CEO. He retains functions as a consultant to the shareholders when making important decisions. Maria Maslarova-Garkova was elected as a Chair of the Management board. Another change in the Management board is the election of Vera Pavlova as a member of the MB in December 2012. In the organizational structure of ZK „Lev Ins” AD considerable changes did not occur. During the analyzed period the company have maintained its business relationships with a range of large clients. On the basis of the trend for developing during the last years, the tendency is to maintain a stable growth within 10%-12% annually. With a view of the considerable share of the „Motor Third Party Liability” insurance in the portfolio of the company, as well as its character, the management continues to set among its goals diversification of the insurance portfolio and expanding of its positions in the property insurance and other business directions. During the period electronic accounts are developed for a better tracing of the concluded policies with the mediators. Oracle Finance is the finance accounting system, which was integrated along with the insurance software.

In 2012 ZK „Lev Ins” realized an annual growth of 10.6% of Gross premium income on the basis of direct insurance in a shrinking market (a decline of 3.4% for the sector<sup>1</sup>). It led to an increase of the market share of the company by 1.4 p.p. to 12.1%. The increase of GPI is in line of the „Motor Third Party Liability” insurance. During the first half-year of 2013 ZK „Lev Ins” continued to increase GPI with a similar rate (9.9% on an annual basis), whereas the other general insurance companies reached a growth of 0.4%, as a result the company is a market leader as of 06.2013. The increase is in line of the collected premiums on the „Motor Third Party Liability” insurance. In 2012 there was an increase of gross claims ratio, as well as of net claims ratio. Their increase is determined to a great extent of the increase of the preventive measures (a reserve for future payments and a reserve referring to the minimum premiums on „Motor Third Party Liability”), as this strategy was taken with the aim to increase the security. Despite the increased level of Net Claims Ratio, ZK „Lev Ins” AD continues to take a favourable position compared

to the other leading companies. Net Acquisition Ratio also took a better value in a comparative aspect. In 2012 the company took a favourable position with regards to the Combined Expense Ratio achieving a value under 100% along with another two leading companies. During the first half year of 2013, however, the value of the indicator for „Lev Ins” was over 100% and it is higher compared to the average for the peer group. The level of the indicator as of 06.2013 was influenced by the one-off expenses during the period (incl. Implementation of an electronic policy) with the aim to improve the work of the company.

ZK „Lev Ins” AD has organized reinsurance coverages for its major types of insurances. During the period under review no changes occurred in the reinsurance programme of the company.

During the update period (6.2012 – 6.2013r.) the volume of the investment assets of the company increased by 11.2%. The growth is anticipating compared to the average of the other companies in the sector (5.3%). There are some changes in the structure of the portfolio. As a result of the decrease of the relative shares of the bank deposits and government securities, their total share decreased but it remains a little higher than the average for the sector. The achieved profitability<sup>2</sup> as of 30.06.2013 of the investment portfolio of ZK „Lev Ins” increased highly compared to this as of the end of the first half year of 2012, but it is lower than the average for the other companies in the sector. The income is formed mainly by interest payments and it depends slightly on the reevaluation of the assets, which is a positive factor from a rating point of view.

In 2012 ZK „Lev Ins” achieved a growth of 10.6% in GPI, whereas there was a decline of 3.4% of the adjusted sector. Net Earned Income registered a high growth (37.8%). The other companies in the market registered a decline of average 2.2%. Claims Ratio increased considerably, as the growth is higher with the net claims ratio. Despite the growth in Net Earned Income, due to the larger increase of the business activity, the company registered a lower positive result from insurance activity and Net Financial Result. As a result of the lower profit the return on equity decreased and it is considerably under the average for the other companies in the sector. The quick liquidity improved but it remains under the average value for the market.

During the first half year of 2013 the rated company registered a growth of 9.9% year on year

<sup>1</sup> Here and further in case of comparison with general insurance sector, the data related are adjusted with the data of the rated company.

<sup>2</sup> Calculated by the TTM method.

in GPI (0.8% for the adjusted sector). Net Earned Income registered an insignificant decline (0.4%), which is very lower than the registered average decrease for the other companies in the sector (2.1%). There is a negative result from insurance activity but Net Financial Result is positive. Gross Claims Ratio, as well as Net Claims Ratio registered an insignificant decline. During the period under review no change in the registered and paid-in capital. The Coverage Ratio increased. The values of both operating and financial leverage remain considerably over the average for the leading companies. The liquidity indicators remain lower than the average for the direct competitors of the company.

***During the update period ZK „Lev Ins” AD took a leading position in the general insurance market, maintaining a comparatively good financial state and realizing a positive net financial result. A negative influence on the assigned rating of the company could be an increase of the loss from insurance company.***

***The diversification of the insurance portfolio, profitability of the investment***

***portfolio and liquidity of ZK „Lev Ins” AD are lower in comparison with these of the other general insurance companies. Some increase in these directions would influence positively on the rating.***

**Main indicators of ZK „Lev Ins” AD:**

	6.2013	6.2012	2012	2011	2010
Gross Premium Income	97 304	88 558	158 632	143 485	135 198
<i>Change rate year on year</i>	9.9%	37.6%	10.6%	6.1%	-19.6%
Net earned Income	81 663	81 987	159 463	115 683	134 427
<i>Change rate year on year</i>	0.4%	43.8%	37.8%	-13.9%	-21.1%
Result from insurance activity	-801	5 167	3 666	9 621	-26 936
Net profit	273	159	915	10 601	-25 069
Gross Claims Ratio	52.1%	48.7%	56.4%	50.5%	50.5%
Net Claims Ratio	54.3%	48.1%	54.6%	45.1%	49.2%
Combined Expense Ratio	101.0%	93.7%	97.7%	91.7%	120.0%
Operating Leverage	-	-	359%	266%	409%
Financial Leverage	-	-	363%	349%	401%
Liquidity Ratio	2.7%	2.7%	2.8%	2.2%	4.1%
Return on Equity	2.3%	24.5%	2.1%	29.2%	-51.0%