95, Evlogi Georgiev Blvd.
1142 Sofia
phone: (+359 2) 9876363
www.bcra-bg.com

„ZK Lev Ins“ AD	**Ivailo Cholakov**, Lead Financial Analyst i.cholakov@bcra-bg.com
	Vessela Velichkova, Financial Analyst v.velichkova@bcra-bg.com
	Radostina Stamenova, Economic Analyst stamenova@bcra-bg.com

April 2020

CLAIMS PAYING ABILITY RATING

Date of Rating Committee:	**18.12.2018**	**18.04.2019**	**21.04.2020**
Date of Publication:	**19.12.2018**	**19.04.2019**	**22.04.2020**
Long-term Rating :	**BB+**	**BB+**	**BBB-**
Outlook :	**positive**	**positive**	**stable**
Long-term National-scale Rating:	**A- (BG)**	**A- (BG)**	**A (BG)**
Outlook:	**positive**	**positive**	**stable**

****Notes:***
1) To see the full rating history, please see the chart at the bottom of the document;
2) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
3) During the last 2 years, BCRA Credit Rating Agency AD has / has not provided ancillary services to the rated entity or a related third party.

*“**BCRA – CREDIT RATING AGENCY” (BCRA)** is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are fully alike with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.*

At a session of the BCRA’s Rating Committee, held on **21.04.2020 the Report** regarding the affirmation of the ability for paying claims of the **ZK Lev Ins AD** has been. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as Chairman of the Rating Committee. The members of the Rating Committee discussed the grades of numerous credit rating factors and took the **following decision:**

The BCRA assigns the following credit ratings to “ZK Lev Ins” AD:

- Upgrades the long-term claims paying-ability rating: from BB+ to **BBB-** ;
- Upgrades the long-term national-scale rating: from A- (BG) to **A (BG)** ;

and **changes the outlook** from positive to **“stable“**,

thus expressing an opinion on the positive changes in the insurer's operating activities and the improvements achieved in its solvency ratios during the review period.

*The officially adopted methodology of BCRA for assigning a rating of the ability of insurance companies to pay claims is used: **(https://www.bcra-bg.com/files/cpaic_methodology_2018_en.pdf)***

The users of the rating can find information on the meaning of each rating category, including definitions of default in the published on the BCRA’s website Global rating scale:
(https://www.bcra-bg.com/files/global_scale_en.pdf)

The report has been prepared and the rating - assigned, based on information made available by the rated insurance company, the Financial Supervisory Commission, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

95, Evlogi Georgiev Blvd., floor 1
1142 Sofia

phone :(+359-2) 987 6363
www.bcra-bg.com

Operating environment

The year 2020 has started positively in political terms for Bulgaria, with a renewed composition of the local authorities, progress in preparing the country for membership in the Banking Union and the corresponding inclusion of the Bulgarian Lev in Currency Mechanism II (ERM II). However, the emergence of the worldwide COVID-19 pandemic has made addressing the issue a top priority, both in Bulgaria and in all its political and economic partners. A state of emergency (13.03.2020) was declared in the country because of the unprecedented crisis, followed by several legislative measures by the government to limit the negative economic consequences. The combined effects on the global economy are unprecedented and are yet to be measured and evaluated, with forecasts at this stage risking inaccuracy due to global uncertainty about the outcome of the situation. The prospects for the development of the global economy are deteriorating significantly, and at the moment it is only clear that drastic contagion measures will generate a massive shock in many sectors, regions and markets, which will turn into a global recession.

Sovereign Risk

The development of economic processes in the country, including in the context of the COVID-19 pandemic, have been analysed in detail by and reflected in the assigned unsolicited state rating of the Republic of Bulgaria. The changes in GDP and GVA by components are considered, as well as the dynamics of the indicators of the external sector. Bulgaria is entering the current crisis with a stable fiscal position. Due to the expected shortfalls in revenues and the incurred additional costs, the extraordinary budget update is considered, thus the projected CFP balance changes to a deficit of BGN 3.5 billion or 3% of the projected GDP. The parameters of the update are evaluated and a new update is expected by the end of the year.

The state of the banking sector is stable and the capital adequacy is assessed as sufficient. The package of measures announced by the BNB for further strengthening the capital and liquidity of banks and the mechanisms for deferral of due liabilities is presented.

A Rationale of the updated rating of Republic of Bulgaria is published at the site of BCRA:

https://www.bcra-bg.com/files/rating_republic_of_bulgaria_apr_2020_bg.pdf

General Insurance Market in Bulgaria

In the review period, the Bulgarian non-life insurance market retains its characteristics:

- **Sustained growth** in earnings of the gross written premiums, affected by the total increase of the prices of car insurances and the opportunity used by some Bulgarian insurers to enter foreign markets through the free supply of goods and services within the EU;
- **High growth potential**, given the relatively low levels of insurance density and penetration, albeit the improvement occurred in the period;
- **Maintained a high degree of market concentration** – the seventh biggest insurers continue to hold a share of 70% of the gross premium income in the sector (the top 10 hold 91.5% in 2019);
- **The main share of car insurance** in the structures of the aggregate insurance portfolio - approximately and above 70.0%, due to the obligatory character of the motor third-party liability insurance.

The major impact on the **regulatory framework** has the implementation of the solvency requirements of the insurers, reinsurers and groups of insurers and reinsurers, as well as the requirements for reporting, valuation of assets and liabilities and formation of technical provisions under Directive 2009/138 of the EP and the EU **("Solvency II")**. The application of **IFRS 9** “Financial Instruments”, effective as from January 2018, has an additional impact on the financial statements.

In the context of the vast crisis caused by COVID-19 and the current increasingly complex market conditions, the Financial Supervision Commission, as a regulator of insurance activity in the country, follows the guidelines for financial markets issued by the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) to ensure the proper functioning of markets, financial stability and investor protection. The focus is on continuity of processes, transparency and timely disclosure of information, and national competent authorities should be flexible in terms of deadlines for supervisory reporting and public disclosure.

EIOPA announced that to offer operational relief in reaction to the Covid-19 pandemic, the deadline of the information request for the holistic impact assessment of the 2020 Solvency II Review will be extended by two months, to 1 June 2020. Companies must take measures to maintain their capital position in balance, having customer protection, following

95, Evlogi Georgiev Blvd., floor 1
1142 Sofia
phone :(+359-2) 987 6363
www.bcra-bg.com

prudent policies, including dividends and variable remunerations. EIOPA will continue to monitor the situation and take the necessary action to mitigate the impact of market volatility on the sustainability of the insurance sector in Europe and the protection of its consumers.
At the current stage of the crisis, the BCRA does not expect the sector to be affected significantly. As far as it is most dependent on car insurance products, no significant decline is expected in the written business. The capital and liquidity positions of most of the insurers in the country meet the requirements of Solvency II. At the next stage of the crisis, the probable slow recovery/development of the Bulgarian economy, having relatively low economic activity and uncertainty regarding the future income of households, is expected to worsen the development of operations and profits in the sector.

"ZK Lev Ins" AD

In the reviewing period, Lev Corporation AD (registered in Commercial Registrar on 10 of October 2019) **increased** the **share capital** of "ZK Lev Ins" AD **by BGN 4 million** (to BGN 47.3 million). Thus, the share of the main shareholder rose to 49.03% (from 44.32%), while the shares of the other shareholders decreased.

In the review period, no changes occurred in the composition of the Supervisory Board.

The Management Board appointed three new members, and as of the end of March is composed of:

- Maria Stoyanova – Garkova – Chair and Executive Director;
- Pavel Valeriev Dimitrov – member and Executive Director;
- Galabin Nikolov Galabov – member and Executive Director;
- Miroslava Spasova Spasova – member;
- Pavel Ognyanov Panayotov – member (new);
- Biliana Encheva Vulcheva – member (new);
- Sofia Nikolova Antonova – member (new).

The appointment of new members reflects the expansion of the business and the respective changes in the functions of the members.

The short-term **goals** of the management aim at preserving the position of the company as a market leader in the general insurance sector in Bulgaria. The changes in clients' demand will result in the development and launch of new products. The company intends to continue expanding its activities to the foreign markets (operating in Italy, Poland, Norway and future, Romania, Greece, etc.), initially maintaining high levels of reinsurance in the written business. Growth in property and personal insurance is planned in order to retain a balanced insurance portfolio.

After a slight decline in the growth of the **gross premium income** (GPI) for 2017 (growth of 4.7%), in 2018, the insurer realised a considerable growth of 36.9%. In 2019, the upward trend was preserved with an increase of 13.0%. The adjusted sector recorded slightly higher growth for the last year (15.9%) and significantly lower for 2018 (17.1%). Compared to the volume of the written business, the rated company holds the **largest market share** in past two years, 13.1% for 2019 and 13.4% for 2018, gaining a relatively stable lead of about 1.5-2.5 pp, ahead of the next two companies "ZAD Bulstrad VIG" (11.5%) and "DZI - General Insurance" (10.6%).

In the last two years, the expansion of the written business is a result of the rise of the tariffs of the **Motor Third-party Liability insurance** (which applies in the whole sector).

According to the above fact, the rated company retains its leading position in terms of market share (with levels of 22.8% and 24.1%, respectively for 2019 and 2018), which is a significant lead of over 10 pp compared to the next in position insurers.

Related to the **Auto Casco**, after a reported decline in the GPI by 4.6% in 2018, in 2019, its share in the portfolio remained relatively unchanged - with a minimal fall of 0.5%.

Regarding the rest of the products, in 2018, no significant changes occurred, while more specific changes are observed in 2019. They are related to:

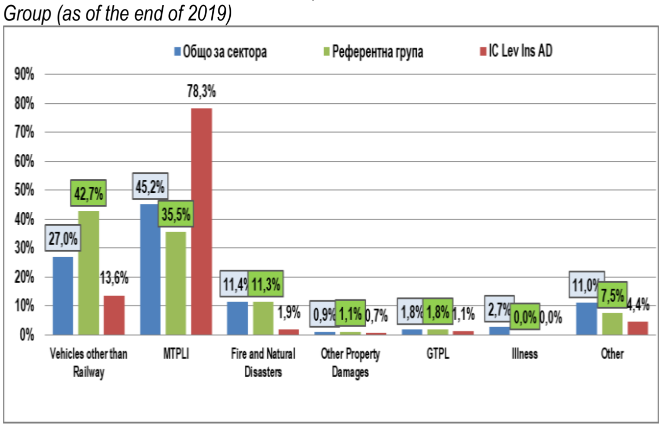
- A significant increase of the written business under **Guarantees** (more than 11 times), with a market share of 9.6% YoY;
- Record-high growth rate of 82.7% of **Fire and Natural Disasters** insurance, resulting in an increase of the market share by 1 pp (to 2.2% in 2019);
- A realised growth of **Other property damages** by 19.7%, thus increasing the market share to 10.0% (8.6% for 2018 and 2017).

The portfolio of ZK Lev Ins **continued to be dominated highly by one product** ("Motor Third-party Liability insurance") accounting for an extremely high total share of car insurance - 91.9% for 2019 (down from 97.8% for 2018). It remains significantly higher than the average for the reference group

(78.3% for 2018 and 74.2% for 2017). Such a high concentration is typical only for one of the rivals in the reference group (Bul INS), while the portfolios of the other insurers remain more balanced.

The company continues not performing any active reinsurance activities.

Portfolio Structure of ZK Lev Ins compared to the Sector and the Reference Group (as of the end of 2019)



In 2018, after the continued increase of **gross and net claims** ratios, in 2019, the company reported a significant improvement in the value of the first - 56.3% (compared to the extremely high 85.0% in 2018), while net claims continued to rise, reaching 47.8% (43.0% for 2018 and 39.5% for 2017). The growth of net claims is affected by the increase of net claims incurred (by 32.3%), outpacing the net claims income (18.9%). The changes in 2018 are similar - an increase of net claims incurred by 24.3%, compared to an increase of 14.3% of net earned income. The improved value of gross claims is due to the significant increase in GPI, with a relatively preserved level of gross claims. Compared to the reference group, the **values of net claims** remain the **lowest** but with a trend of declining differences - from 13.9 pp for 2017 to 4.9 pp for 2019. In 2019, Armeec reached the value of the indicator and DZI - General Insurance closely approached it.

Net Claims	*2019**	*2018*	*2017*	*2016*
IC Lev Ins AD	**47,8%**	**43,0%**	**39,5%**	**45,6%**
IC "Armeec" AD	47,6%	43,1%	43,2%	55,9%
IC "BULSTRAD VIG"	55,6%	51,2%	55,2%	50,3%
"DZI – General Insurance" EAD	50,4%	51,5%	55,3%	54,0%
IC "Allianz Bulgaria"	52,5%	46,8%	56,1%	57,3%
IC "Bul Ins" AD	64,8%	55,7%	58,1%	43,9%
Average for the Group:	**52,7%**	**49,4%**	**53,4%**	**53,4%**

**unaudited statement for 2019.*

In 2019, the decrease of net commission expenses formed at the background of the significant growth in the net earned income, resulted in a significant decrease in the **acquisition ratio** of 10.9% in 2019, preserving the positive trend for a third consecutive year. Influenced by slightly increasing administrative expenses (by 5.1%) and a decrease of other technical expenses (by 7.8%) for the last year, obtained at the background of increasing net earned income, the **cost ratio** also decreased (to 30.9%, compared to 38.8% in 2018). After a significant increase of the **combined cost ratio** in 2018, in 2019, Lev Ins reported a significant decline in the indicator (89.5%), which is the best-achieved value in the reference group (very close values achieved by Allianz Bulgaria - 89.6% and DZI - General Insurance - 89.9%).

The upward trend of the share of the **reinsurance portfolio**, observed in previous reviewing periods**,** has ended. Thus, in the last two years (2018-2019) the company retained a relatively equal **self-retention level** (62-63%), with a constant share of **reinsurers in technical provisions** (59%). The implemented reinsurance policy results in a significant increase in **commissions from reinsurers**, which has a positive impact on the acquisition ratio.

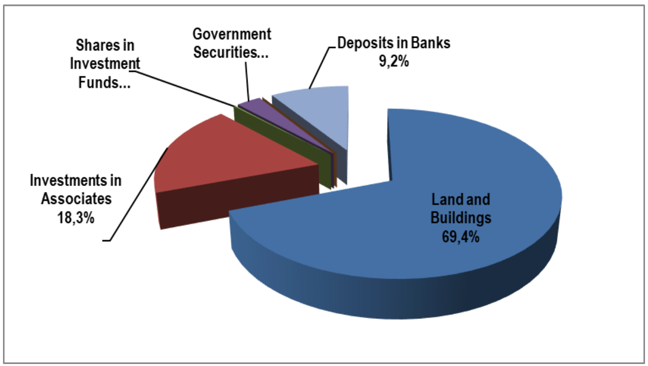
In the reviewing period, no changes occurred in the reinsurance policy of the company.

During the reviewing period, the **investment portfolio** structure of ZK Lev Ins AD remained unchanged. The total increase of the portfolio is 13.3% for 2018 and by 5.7% for 2019, which is comparable to the rates reported in the sector.

The more significant changes in the portfolio are:

- increase in the available funds in bank deposits - by more than 2.5 times in 2018 and further 14.0% in 2019, which provides the latter with a share of 9.2% in the total investments (compared to 3.5% at the end of 2017).;
- increased investment in land and buildings (by a total of 10.1% for the past two years), which remain the main class investment in the portfolio (with a share of 69.4% at the end of 2019, compared to 72.9% at the end of 2018 and 75.5% at the end of 2017). The revaluation of the assets affected their growth;
- The investment assets held in government securities remain unchanged - a small share in the investment portfolio below 3%;

The relatively low values of government securities and bank deposits result in an overall low share of the most liquid assets in the investment portfolio. In terms of the **liquidity of the portfolio**, despite the positive change in the last year of the period, Lev Ins is significantly below the levels of the adjusted sector and the reference group of insurers.



The **total share of investments in the assets** did not change significantly in the review period and at the end of 2019 accounted for 33.4% (34.21% at the end of 2018 and 33.7% at the end of 2017). Thus, the rated company is still below the average levels for the adjusted sector (57.9% at the end of 2019 and 57.5% at the end of 2018).

The achieved **investment return** is volatile and strongly dependent on reevaluations and investment management costs.

„ZK Lev Ins" AD reported a **net profit** at the amount of BGN 1 768 thousand for 2018, which is an increase of five times compared to the previous year (BGN 361 thousand). According to the data from the preliminary (unaudited) report for 2019, the company achieved net financial result - a profit of BGN 7,487 thousand (or further increase of more than four times compared to the previous year).

A specific feature of the reviewing period is the significant improvement of the **insurance result** reached in 2019. For 2018, a profit of BGN 4,058 thousand was recorded, which was subsequently offset by the relatively high other non-technical costs. The final financial result was influenced by the net return on investment. Compared to the data, the insurance profit for 2019 at the amount of BGN 20 184 thousand is five times higher and despite the increase of non-technical costs (by 85.3%) and the negative profitability of the investment portfolio, the company achieved a high net financial result.

A significant positive impact for the improvement of the financial result has: the reduced gross claims ratio and maintenance of low net claims, reduced net commissions and other technical expenses, realised at the background of growth in net earned income, offsetting the slight increase of the administrative costs.

The increased value of equity in 2019 (as a result of the increase of the share capital and financial results) resulted in the improved **Technical reserves to Equity** ratio at the end of 2019, with an achieved rate of 198%, compared to 218% at the end of 2018 (a growth due to the increased technical reserves coming from the significant growth in the written business).

In 2018 and 2019, following the dynamics of profits, the company reported increases in the **return on equity** indicator.

The coverage of the **Solvency Capital Requirement** improved significantly (up to 121.4%) at the end of 2019, but remained lower than the average for the reference group (149.6%). The company retained a similar position in terms of the **Minimum Capital Requirement** (the lowest level in the reference group).

In 2018 and 2019, the **liquidity of technical reserves ratio** marked slight increases, but the rate of 10.3% remained much lower than the average for the adjusted sector (83.8%) and the insurers from the reference group (84.6%) at the end of 2019. The liquidity ratio of the reserve for forthcoming payments and the immediate liquidity ratio remained much lower as well.

In a comparative aspect, Lev Ins maintains high **operating leverage** (ratio of net earned income to equity), which continues to exceed the levels of the reference group. The decrease of the **insurance leverage** (ratio of technical reserves to equity) is slightly above the average of the reference group at the end of 2019 and is positively assessed.

Steady and significant improvements in the liquidity (based on changes in the portfolio structure); achievement of a more balanced insurance portfolio, while maintaining good operational indicators and the positive insurance results reached in the last year could lead to a rating upgrade.

Changes in the opposite direction could result in downgrading the rating.

95, Evlogi Georgiev Blvd., floor 1
1142 Sofia

phone :(+359-2) 987 6363
www.bcra-bg.com

The values of the main indicators retained by the Insurer in the last five years and used for assessment of the business operations are presented in the following table:

Main Financial Indicators:

Indicator / Year:	*2019**	*2018*	*2017*	*2016*	*2015*	*2014*
Gross Premium Income (BGN'000):	**316 686**	**280 229**	**204 680**	**195 482**	**162 876**	**170 132**
Change on YoY basis	*13,0%*	*36,9%*	*4,7%*	*20,0%*	*-4,3%*	*-6,6%*
Net Earned Income (BGN'000):	**192 657**	**161 976**	**141 764**	**152 694**	**184 449**	**171 812**
Change on YoY basis	*18,9%*	*14,3%*	*-7,2%*	*-17,2%*	*7,4%*	*5,8%*
Self-retention Level	**62,7%**	**62,0%**	**69,4%**	**81,1%**	**95,9%**	**97,3%**
Net Financial Result (BGN'000)	**7 487**	**1 786**	**361**	**436**	**10 667**	**68**
Result from Insurance Activity	**20 184**	**4 058**	**37 783**	**12 578**	**9 602**	**-11 673**
Gross Claims ratio	56,3%	85,0%	78,4%	53,0%	70,3%	80,3%
Net Claims ratio	47,8%	43,0%	39,5%	45,6%	42,8%	66,8%
Cost ratio	30,9%	38,8%	17,8%	23,8%	32,6%	19,5%
Acquisition ratio	10,9%	15,7%	16,1%	22,3%	19,3%	20,5%
Combined ratio	**89,5%**	**97,5%**	**73,3%**	**91,8%**	**94,8%**	**106,8%**
Net Earned Income / Equity (Operating Leverage)	233%	227%	204%	221%	268%	295%
Technical Reserves / Equity (Insurance Leverage)	198%	218%	194%	195%	185%	314%
Debt other than Insurance Reserve / Equity (Financial Leverage)	5,9%	6,8%	0,0%	0,0%	0,0%	0,0%
Total Equity	**82 705**	**71 218**	**69 433**	**69 074**	**68 841**	**58 174**
Return on Equity	9,9%	2,5%	0,5%	0,6%	17,8%	0,1%
Total Investment Portfolio	**88 415**	**83 626**	**73 808**	**77 474**	**100 383**	**129 834**
Change on YoY basis	*5,7%*	*13,3%*	*-4,7%*	*-22,8%*	*-22,7%*	*0,0%*
Share of High Liquid Assets in Investment Portfolio	12,1%	11,5%	6,8%	18,8%	38,3%	52,7%
Profitability (TTM)	-2,5%	4,9%	0,8%	1,4%	1,4%	9,1%
SCR Cover	**121%**	**108%**	**104%**	**-**	**-**	**-**
MCR Cover	**321%**	**254%**	**270%**	**-**	**-**	**-**
Liquidity of Technical Reserves	10,3%	9,9%	8,7%	13,8%	34,0%	39,6%
Liquidity of the reserve for upcoming payments	18,7%	17,6%	14,8%	25,1%	74,8%	83,7%

** data from a preliminary (unaudited) report*

95, Evlogi Georgiev Blvd., floor 1
1142 Sofia
phone :(+359-2) 987 6363
www.bcra-bg.com

Rating History:

Claims-Paying Ability Rating	Initial Rating 6.2006	Non-solicited update 11.2007	Non-solicited update 11.2008	Update 7.2009	Update 20.07.2010	Monitoring 07.12.2010
Long-term rating:	BB+	iBBB-(ns)	iBBB(ns)	iA-	iA-	iA-
Outlook:		*positive*	*positive*	*stable*	*stable*	*negative*
	Monitoring 25.05.2011	Update 25.10.2011	Update 29.11.2012	Update 04.11.2013	Update 13.12.2014	Update 10.12.2015
Long-term rating:	iBBB+	iBBB+	iBBB+	iBBB+	iBBB+	iBBB
Outlook:	*negative*	*in development*	*positive*	*stable*	*stable*	*negative*
	Update 06.01.2017					
Long-term rating:	iBBB (w) *					
Outlook:	-					

*(w) – *rating withdrawn*

CLAIMS-PAYING ABILITY RATING	Initial Rating	Review	Monitoring
Date of Rating Committee:	09.02.2017	22.03.2018	20.06.2018
Long-term rating:	BB+	BB+	BB+ (under review) **
Outlook:	positive	positive	-
Long-term National-scale rating:	A- (BG)	A- (BG)	A- (BG) (under review) **
Outlook:	positive	positive	-

*** The rating is placed „under review“ due to a procedure on changes in the BCRA's methodology for assigning a rating of the ability of insurance companies to pay claims (**https://www.bcra-bg.com/files/cpaic_methodology_2018_bg.pdf**), concerns all currently valid insurers' ratings and is not related to the activity of the rated entity.*

The ratings in the tables above are assigned under the previously used Methodology for a rating of the ability of insurance companies to pay claims, respectively with the applied rating scale, and are not directly comparable with the ratings assigned after the entry into force of the current methodology (as of June 21, 2018).

CLAIMS-PAYING ABILITY RATING	Monitoring ***	Review	Review
Date of Rating Committee:	18.12.2018	18.04.2019	21.04.2020
Date of Publication:	19.12.2018	19.04.2019	22.04.2020
Long-term rating:	BB+	BB+	BBB-
Outlook:	positive	positive	stable
Long-term National-scale rating:	A- (BG)	A- (BG)	A (BG)
Outlook:	positive	positive	stable

**** The monitoring is carried out due to the changes entered into force on June 21, 2018, in the Methodology for a rating of the ability of insurance companies to pay claims, used by BCRA.*