BCRA
CREDIT RATING AGENCY

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IC „Euroins” AD

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CLAIMS PAYING ABILITY RATING	Initial Rating 05.12.2014
Long-term Rating:	iBBB
Outlook:	*Stable*

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 of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

BCRA assigns the long-term claims paying ability rating of IC „Euroins” AD iBBB (outlook: stable). The officially adopted methodology by BCRA for assigning a claims paying ability rating is used (http://www.bcra-bg.com/files/file_202.pdf).

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

In producing the Credit Rating Report and in deciding the credit rating, BCRA has used information from the insurance company assessed, the Financial Supervision Commission, the National Statistical Institute, BCRA's own database, information from consultants, etc. During the period under observation (2009 through June 2014), Bulgaria's economy was under the impact of the effects of the financial crisis and economic activity was still weak. During the past year, there has been some slow and hesitant recovery, which strongly depends on exports (and accordingly on the pace of recovery of EU's economy), growing unemployment, weak domestic consumption and investment activity.

In the analyzed period, the general insurance sector operated in an unfavourable economic environment. However, it showed signs of recovery – the sustainable downtrend was discontinued in Gross Premium Income over the past years, and the income increased. A positive technical result was reported, as well as an increased net profit compared to the past year. The main factors, hindering the development of the sector, still remained the uncertain recovery of the Bulgaria's economy, weak economic activity and reduced domestic consumption. The sector maintained its high growth potential with a view of the low levels of insurance density and penetration. Despite the growing number of companies, the market concentration remained high. Car insurances with a ~ 70% share continued to hold a major share of the aggregated insurance portfolio in the sector.

IC Euroins AD was incorporated in 1996. The majority shareholder, Euroins Insurance Group AD, is a holding company, which consolidates the investments of Eurohold Bulgaria AD in the insurance sector on the Balkan peninsula. The rated company has a two-tier management structure, consisting of a Managing Board and a Supervisory Board. In August 2013, Euroins Insurance Group acquired Interamerican General Insurance and Interamerican Life Insurance. In the end of 2013, Euroins Insurance Group purchased the insurance business of the QBE international group in Bulgaria and Romania. The acquisitions were driven by the endeavour to expand the company's market positions and to diversify its insurance portfolio by increasing the share of property and liability insurance. At the same time, the acquisitions of Interamerican and QBE have also contributed to the diversification of the distribution channels as these two companies rely to a greater extent on direct sales, while the sales of IC Euroins AD are mainly generated by agent networks. At present, IC Euroins AD is in the process of increasing its capital. A public offering will be made of 11,753,556 ordinary, registered, book-entry shares of par value BGN 1.00 and emission value BGN 1.20. The capital increase is expected to be completed by the end of

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2014, the decision to increase the capital was driven by plans to expand the business of Euroins Insurance Group in East Europe and continue with the acquisition of other companies.

The Gross Premium Income of IC Euroins AD during the period 2009 – 2103 grew by 60% on cumulative basis, while the adjusted sector declined by 5.6%. The GPW growth rate was on the rise in each year except 2010. This upward trend has also translated in a gradually growing market share: from 5.1% in 2009 the company’s market share reached 8.4% in 2013. IC Euroins AD was characterized by increasing claims ratios during the entire period under consideration. The Net Acquisition Ratio is decreasing as a whole. The overall cost ratio also follows a downward trend. The Combined Expense Ratio indicates loss from insurance operations during the entire period except 2013.

The reinsurance programme of IC Euroins AD is focused on expanding the insurance capacity, increasing the retention at levels that guarantee the financial stability of the company and the security of the insured persons as well as protection of the retained portion from excessive loss ratio volatility. The reinsurance programme is developed with the contribution of London-based brokers and is placed at investment-grade reinsurers.

The company’s overall investment portfolio is less liquid and more risk-prone compared to that of the adjusted sector, due to the very low overall share of government bonds and bank deposits. The investment portfolio management function has succeeded, throughout the entire period under consideration, to achieve positive return with an average value well above the return achieved by the other companies in the sector. Investment revenues come mainly from asset revaluations, which is a negative feature from stability perspective. The portfolio earmarked to cover the technical reserves is structured in accordance with the requirements of the regulatory authority.

No changes have occurred in the company’s registered and paid capital during the period under consideration. The actual solvency of the company has been above the regulatory threshold throughout the assessed period. The observed downward trend in the Coverage Ratio was interrupted in 2013. In each year of the assessed period, both the operating- and the financial leverage of IC “Euroins” AD have been well above the average observed for the leading insurers and for the adjusted sector. The company is characterized by relatively low liquidity. During the entire period under consideration, the liquidity of technical reserves liquidity and the liquidity of the reserve for forthcoming payments have been well below the average values for the leading insurers and for the other companies in the sector. The Immediate Liquidity Ratio was close to the average values for the sector and for the group betwee 2009 and 2011, but during the period 2012 – June 2014, it also fell to an unfavourable value in relative terms.

Overall, the company is characterized by a satisfactory financial condition. During the entire period covered by the analysis (2009 – June 2014) the growth of the Gross Premium Income generated by the company outpaced the sector and brought about a significant increase in market share. Other positive factors include the steps taken to diversify the insurance portfolio – the key developments here being the acquisition of Interamerican Bulgaria and of the Bulgarian business of QBE – and the targeting of new acquisitions and markets. However, the result from insurance operations has been negative throughout the period except for the last full year. Leverage and liquidity ratios are unfavourable in relative terms. The structure of the investment portfolio is more risk-prone compared to that of the sector as the overall share of low-risk assess (government bonds and bank deposits) is significantly lower than the average level for the other general insurance companies, while earnings from investments are largely dependent on asset revaluations. The main factor that could weigh negatively on the company’s rating is a potential deterioration of its liquidity and leverage ratios. The planned increase of the capital would appreciably improve these values.

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Main financial indicators of IC “Euroins” AD:

Indicator / Year:	*6.2014*	*6.2013*	*2013*	*2012*	*2011*	*2010*	*2009*
Gross Premium Income (thous. BGN):	**41 777**	**38 250**	**118 923**	**86 103**	**76 506**	**71 876**	**74 286**
Change on a yearly basis%	*9.2%*	*-1.1%*	*38.1%*	*12.5%*	*6.4%*	*-3.2%*	*-9.8%*
Net Premium Income (thous. BGN):	**47 494**	**39 278**	**112 751**	**72 080**	**58 113**	**56 586**	**60 720**
Change on a yearly basis%	*20.9%*	*-2.1%*	*56.4%*	*24.0%*	*2.7%*	*-6.8%*	*4.3%*
Net Profit (thous. BGN):	**145**	**-845**	**6 246**	**524**	**485**	**-2 154**	**-1 369**
Result from insurance activity	-941	-1 180	6 784	-1 160	-4 224	-2 714	-2 631
Gross Claims Ratio	89%	60%	91%	58%	57%	55%	50%
Net Claims Ratio	58%	58%	66%	58%	55%	54%	47%
Expense Ratio	31.2%	32.1%	19.7%	30.4%	27.6%	28.6%	33.8%
Acquisition Coefficient	12.7%	13.1%	8.4%	13.5%	24.3%	22.6%	23.5%
Combined Expense Ratio	102.0%	103.0%	94.0%	101.6%	107.2%	104.8%	104.3%
Operating Leverage	n.a.	n.a.	602%	577%	486%	493%	446%
Financial Leverage	n.a.	n.a.	578%	513%	457%	375%	296%
Liquidity Ratio	2.4%	3.4%	2.13%	2.74%	3.45%	4.31%	4.69%
Return on Equity	45.9%	-7.3%	47.4%	4.2%	4.0%	-16.3%	-9.5%