

“IC Euroins” AD

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CLAIMS PAYING ABILITY RATING	Initial Rating 05.12.2014	Update 26.11.2015
Long-term Rating:	iBBB	iBBB
Outlook:	stable	stable

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

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.

The political environment as of the time of preparation of the report could be determined as relatively stable. In October 2015, the held local elections did not lead to any significant changes in the political layers.

For the first quarter of 2015, the country registered a considerably high real GDP growth – 2.2% compared to the same quarter of the previous year (0.2% for Q1 2014), and for the following quarter (Q2 2015) the rate remained almost unchangeable – 2.3%, as the reported value was slightly under this of the same (second) quarter of the previous year (2.6%).

In the first half of 2015, the investments in the country remained at similar levels with the reported during the same period of the previous year,

despite the drop observed in the investment flows in the second half of 2014 (compared to the values reported for 2013).

A slight improvement was observed in the labour market conditions, represented in the decline of the unemployment rate as the levels remained high.

The price level in the country reported drops over the months since the beginning of 2014 that led to intensification of the deflation processes. After February 2015, the level of the reported deflation fell gradually.


It is forecasted that by the end of 2015 the country shall be in a situation of low deflation – within 0.5%, measured by the HICP¹. The increase in the electricity prices for the business sector shall lead to the increase of the price level as well.

As a result of the political and economic instability of the country observed in 2014, at the end of the year a significant increase was reported in the budgetary deficit and an increase in the leverage level of Bulgaria. The increase in the debt continued in 2015 as well, while the budget improved.

The economy of Bulgaria was characterized by a low economic activity for the previous year (2014) and a weak recovery for the first half of 2015 as the growth levels are foreseen to retain during the remainder of the year.

The 2014 events in the banking system led to the emergence of a potential risk for the banking institutions of deepening the banking crisis and involving a larger number of participants in the sector. Despite the increased risk in the financial

¹ Harmonised Indices of Consumer Prices.

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system caused by the dropping of one of the main players and a risk of dropping of another, the banks in Bulgaria maintained their stability. For the first half of 2015, the banking environment could be determined as stable, as evidenced by the high capital adequacy and liquidity of assets and growth in the attracted deposits. There was a drop in the negative rate of the change of the given loans, and the share of the classified loans also marked a decrease that contributed for the improvement of the balances of the banks in the country.

During the period of updating, the general insurance sector in Bulgaria operated in an adverse economic environment resulting from the effects of the global crisis on the economy of Bulgaria. However, in 2013 there were signs of recovery: the revenues increased slightly. At the end of 2014, a negative result from an insurance activity was reported, and a minimum overall profit for the sector as 10 of the companies reported a negative financial result for the year. An improvement was reported in the middle of 2015, but it was still very low.

The main factors hindering the development of the general insurance companies remained the uncertain recovery of the Bulgaria economy from the crisis, the weak economic activity, reduced domestic consumption and uncertainty regarding the future income of the households. The sector maintained a high growth potential, with view of the low levels of insurance density and penetration. The market concentration remained high – at the end of 2014 71.5% of GPP in the sector was formed by the seven largest companies (72.2% for 2013). The car insurance continued to dominate the insurance portfolio with a share of ~70%.

In March 2015, the capital of „IC Euroins“ was increased by a new issue of shares, of which over 40% were subscribed. After the increase the shareholding capital of the company reached 16 470 thousand leva, and the share of the majority shareholder „Euroins Insurance Group“ increased from 76.13% to 83.64%.

Following the acquisitions of „Interamerican“ and QBE for the period 2013-2014, in February 2015 „Euroins Insurance Group“ signed a contract with the German Talanx International for acquiring its Bulgarian and Ukrainian business, respectively, „HDI Bulgaria“ and „HDI Strakhuvannya“ (Ukraine). A decision was taken for merging of „HDI Insurance“ into „IC Euroins“ AD. There were changes in the Management Board of „IC Euroins“:

Petar Avramov² was elected for its Chairman. The company has started to offer successfully insurance services through a broker in Greece.

During 2014, Gross Premium Income (GPI) of „IC Euroins“ AD reported a decline of 30.3% year on year, compared to a growth of 3.6% for the adjusted sector. The decline followed a considerable growth of 38.1% that the company realized in 2013 when acquiring QBE, thus the gained GPI in 2014 reached the GPI in 2012. The GPI drop in 2014 reflected in the drop of the market share of the company which from 8.4% for 2013 reached 5.8% for 2014. In the first half of 2015, there was a considerable GPI growth year on year – 54.4%, related to the merger of the business of „HDI Insurance“, whereas for the same period the adjusted sector³ increased by 3.7%. This dynamics contributes to recover the market position of the company since 2013 (8.4%).

The company's portfolio was dominated by „Motor Third Party Liability“, and the concentration in the portfolio was similar with the average for the main competitors (other leading companies).

In 2014, „IC Euroins“ reported a growth of gross claims ratio as a result of the large disastrous events throughout the year (hailstorms and floods), net claims ratio reported a slight decline. In a comparative aspect they were close to the average for the other leading insurers.

In 2014, the company reported a growth of Combined Expense Ratio by 100.5% (94.0% for 2013) which is an indicator for generating an insurance loss. The increase of the ratio came as a result from the growth of the expense and acquisition ratio. In the first half of 2015, the level of the indicator remained without any change (100.7%).

In 2014, „IC Euroins“ did not make considerable structural changes in its reinsurance programme compared to the previous year. It is directed to expansion of the insurance capacity, increase of retention to levels guaranteeing financial stability of the company and security of the insured, prevention of the retained part from excessively negative hesitations in the claims ratio. The reinsurance programme is made up with cooperation of brokers from London, and was sold to reinsurance companies having an investment rating.

² Petar Avramov was a head of „HDI Insurance“ after a successful career in DZI.

³ Adjusted with the data of „IC Euroins“.

In 2014, the amount of the investment portfolio of „IC Euroins“ AD dropped down to 18.7%, while on average the investment assets increased by 1.1% for the other companies in the sector. For the first six months of 2015, the amount of the investment assets of „IC Euroins“ AD increased slightly by 6.4%, whereas on average a slight decline was reported for the other companies (less than 1 %). The company continued to maintain a considerably lower share of the highly liquid assets in its portfolio compared to the adjusted sector.

In 2014, the company reduced the dependance of its investment income from revaluation of the assets; in the first half of 2015 they were dominant again. The portfolio for covering the technical reserves was structured in accordance with the requirements of the regulator. The gained

investment profitability remained lower compared to the average for the other companies in the sector.

In 2014, „IC Euroins“ generated a net profit in the amount of 297 thousand leva, compared to 6 246 thousand leva for the previous year. In the first half of 2015, the company realized a net profit in the amount of 143 thousand leva which is comparable to the result for the respective period of the previous year. The actual solvency exceeded the solvency boundaries. The levels of operating and financial leverage remained higher than the average for the main competitors. The liquidity levels continued to be lower in a comparative aspect, as only the quick liquidity was about the average for the other leading insurers.

Main financial indicators of „IC Euroins“ AD:

Indicator/ Year:	6.2015	6.2014	2014	2013	2012	2011	2010
Gross Premium Income (thous. BGN):	64 513	41 777	82 886	118 923	86 103	76 506	71 876
<i>Change on a yearly basis%</i>	54.4%	9.2%	-30.3%	38.1%	12.5%	6.4%	-3.2%
Net Premium Income (thous. BGN):	58 774	47 494	83 372	112 751	72 080	58 113	56 586
<i>Change on a yearly basis%</i>	23.8%	20.9%	-26.1%	56.4%	24.0%	2.7%	-6.8%
Net Profit (thous. BGN):	143	145	297	6 246	524	485	-2 154
Result from insurance activity	-418	-941	-376	6 784	-1 160	-4 224	-2 714
Gross Claims Ratio	83.9%	89.0%	99.5%	90.6%	58.2%	56.5%	54.5%
Net Claims Ratio	59.8%	58.0%	58.8%	65.9%	57.7%	55.3%	53.5%
Combined Expense Ratio	23.4%	31.2%	28.0%	19.7%	30.4%	27.6%	28.6%
Acquisition Coefficient	17.5%	12.7%	13.6%	8.4%	13.5%	24.3%	22.6%
Combined Expense Ratio	100.7%	102.0%	100.5%	94.0%	101.6%	107.2%	104.8%
Operating Leverage	n.a.	n.a.	438%	602%	577%	486%	493%
Financial Leverage	n.a.	n.a.	357%	578%	513%	457%	375%
Liquidity Ratio	3.2%	2.4%	3.3%	2.1%	2.7%	3.5%	4.3%
Return on Equity	1.4%	45.9%	1.6%	47.4%	4.2%	4.0%	-16.3%