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## IC „Bul Ins” AD

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CLAIMS PAYING ABILITY RATING	Initial Rating	Update	Update	Update	Update	Update	Update
	12.2008	12.2009	23.12.2010	01.6.2011	22.6.2012	19.9.2013	20.10.2014
Long-term Rating:	iBBB	iBBB	iBBB	iBBB+	iBBB+	iBBB+	iBBB+
Outlook:	Stable	Stable	Positive	Positive	Stable	Stable	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 – Credit Rating Agency“ AD retains the long-term claims paying ability rating iBBB+ to IC „Bul Ins” AD, outlook: stable. The officially adopted methodology for assigning claims paying ability rating to insurance companies is used by BCRA: ([http://www.bcra-bg.com/files/file\\_202.pdf](http://www.bcra-bg.com/files/file_202.pdf)).**

During the period under review (6.2013 – 6.2014) the economy of Bulgaria continued to be under the effects of the crisis and the economic activity was still poor. During the past year, a slow and fluctuating recovery was observed that depends highly by the export volume (mainly by the economy recovery rates of the EU), growing unemployment, low domestic consumption and investment activity.

In the period 2012-2013 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 income increased, also a positive technical result and increased net profit were reported in comparison 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. A major share of the aggregated insurance portfolio in the sector continued to be held by car insurances with a ~ 70% share.

No considerable changes in the shareholding structure of IC „Bul Ins“ AD have occurred in the update period. A procedure for increasing the capital is on its way as of the moment of preparation of the rating. Significant changes occurred in the company's organizational structure. Until then the management was effected through three offices, including the office in the Boyana District for claims liquidation, which was closed in order to ensure centralization of the management and control of the settlement of the insured events. The branch network was transformed into management through General Agencies of the company, as these structural changes contributed to the reduction of the operating expenses. The company aims at achieving a higher level of adaptability to the changing market and economic conditions, simplification of the undersigning and claim liquidation processes, short periods for the payment of compensations. The company's strategy aims at increasing the “Third-party liability for motor vehicles“ insurance share (with a focus on the insurance of passenger cars) and diversifying the insurance portfolio by increasing the revenues from currently underdeveloped insurances – property and other. A step in this direction was made in 2013 in the form of greatly increased premiums of the aircraft

	<b>CLAIMS PAYING ABILITY RATING</b> <b>IC „Bul Ins” AD</b> <b>iBBB+ (<i>outlook: stable</i>)</b> <b>October 2014r.</b>
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insurances. In order to improve the coordination of company's operations and optimize the working process, a new high capacity document-information system was implemented during the review period, and a process for the establishment of a common integrated information system has been initiated.

In 2013 IC „Bul Ins” AD registered a growth of 2.5% in GPI and during the first half of 2014 – of 10.0%, which led to an increase of the market share to 9.1% compared to 8.8% during the first half of 2013. The increase of GPI was mainly due to „Third-party liability for motor vehicles“. The other main insurance „Casco” reported a decline. Both at the end of 2013 and at the end of the first half of 2014 IC „Bul Ins” AD retained its strong orientation towards motor-vehicle insurance, despite the internal restructuring of GPI between the two main vehicle insurances. In 2013 an increase of both the gross claims ratios, and of the net ones was observed. Despite all, the net claims ratio in 2013 and as of 06.2014 had a more favourable value of the indicator in a comparative aspect. The company retained a comparatively stable level of net acquisition ratio that is close and lower than the average for the other leading companies. The value of combined expense ratio is below 100%, which is an indicator for a positive result from insurance activity (3 376 thousand leva as of 31.12.2013 and 7 110 thousand leva for the first half of current year).

During the past period, the company renewed the existing reinsurance contracts and signed new contracts with the aim to provide adequate reinsurance coverage on the insurances, related to vessels and aircrafts. The self-insured retention remained at a very high level.

In the update period IC „Bul Ins” AD maintained full coverage of its reserves. The portfolio for the coverage of the technical reserves of the company was structured, in accordance with the requirements of the Insurance Code. In compliance with the investment policy, pursued by the company, with a focus on formation of a low-risk, liquid portfolio, the investments in share securities were reduced back in 2012 and in 2013 their relative share maintained their decreased level of the previous year. The value of the investments in government securities continued to decrease (with 62%). The total amount of the highly liquid assets (government securities and bank deposits) decreased by 20.8% compared to the high levels of 2012, returning to the average level for the previous years - 66%. It was still higher than the group average (60.8%) and the average in the adjusted sector (64.9%). As of the end of the half of the year, however, the adjusted high liquid assets decreased and it was lower than the average for the

other companies in the sector. The profitability of the investment portfolio at the end of 2013 (8.56%) was much higher than the average for the other companies in the sector (5.19%). The investment income of the company this year, however, was largely formed by positive differences from the revaluation of investments. As of the end of the first half of 2014 a new loss from investment activity was reported in the amount of BGN 1 651 thousand, mostly as a result of losses from the realization of investments.

The main characteristics of the financial condition of IC „Bul Ins” AD in the review period are as follows:

- In the first half of 2014 the gross premium income, realized by the company, amounted to 65 867 thousand BGN, as there was an annual growth of 10.0% with a slight increase in the sector (5.1%)
- In the first six months of this year the net earned income decreased by 5.9% compared to the first half of 2013 mainly due to the significant net decrease of the transfer-premium reserve of the Company. In the past calendar year a 1.5% drop of this indicator was reported, compared to 2012;
- In the first six months of 2014 there was a significant increase of the result from the insurance activity, generated by IC „Bul Ins” AD up to BGN 7 110 thousand – for reference its value in the same period of previous year was BGN 4 791 thousand, while in the entire year 2013 the result was BGN 3 376 thousand as a result of the reported loss for the second half of the year;
- In the review period there was a strong drop in the gross claims ratios down to 39.1% as these were comparable to the average levels in the insurance sector (36.7%) and the competitive group (38.7%);
- There was also a relative drop in the net claims ratios - reaching 39.6%, as these remained above the levels in the sector (36.9%) and the reference group (38.7%);
- The return on equity remained at a level of approximately 4.0%;
- In 2013 IC „Bul Ins” AD did not change its registered capital or distribute dividends, and as of 6.2014 the registered and paid-in capital of the company amounted to BGN 28 580 thousand, and the total equity – to BGN 39 762 thousand;
- The increase of the capital had a significant effect on the coverage ratio, as the equity, reduced by the intangible assets, exceeded more than twice the solvency limit, as of 12.2012 and remained at levels, close to 2 in the last 18 months;
- Financial leverage is below the average for the reference group in 2013;

- the operating leverage decreased by 16 p.p. compared to the end of 2012, but remained above the average for the other leading general insurance companies;

- the immediate Liquidity Ratio (7.61% as of 6.2014) is above the average for the sector (4.10%) and the reference group (3.69%), but the Technical Reserves Liquidity and reserve for future payments are much lower than the average.

In the update period IC „Bul Ins” AD maintained its stable financial condition, by achieving a positive net financial result and result from the insurance business. The insurance business indicators have more beneficial values than those of the direct

competitors and the sector in general. The actual solvency of the Company remains good. A certain decrease of the concentration of the insurance portfolio is observed. Its diversification, together with the possible improvement of the shareholding structure, are factors, which can have a positive effect on the level of Company's rating. The rating assigned to the Company may be impaired by a reduction of the value of the indicators for the liquidity of the technical provisions and the provisions for future payments, as well as the overall condition of the Company, as a result of financial losses in case of a negative development of the crisis with the Corporate Commercial Bank.

**Main Financial Indicators:**

<b>Indicator</b>	<b>6.2014</b>	<b>6.2013</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Gross Premium Income (thous. BGN)	65 867	59 883	106 662	104 026	138 566
change %	10%	-42%	3%	-25%	2%
Net Premium Income (thous. BGN)	63 598	58 336	101 829	100 622	138 885
Net Earned Income (thous. BGN)	55 115	58 577	108 871	110 543	134 869
Net profit (thousand BGN)	1 746	3 295	1 374	962	1 827
Retention	97%	97%	95%	97%	97%
Gross Claims Ratio	39%	62%	57%	51%	48%
Net Claims ratio	40%	56%	58%	46%	49%
Expense ratio	26%	21%	17%	25%	28%
Combined Ratio	87%	97%	97%	93%	99%
Equity	39 762	39 937	38 016	36 642	30 680
Technical Reserves	70 970	68 557	63 546	71 281	100 788
Operating Leverage	-	-	286%	302%	453%
Financial Leverage	-	-	167%	195%	329%
Liquidity Ratio	8%	2%	5%	3%	2%
Return on Equity	4%	8%	4%	3%	9%