

September 2013

**„Bul Ins” JSC
Insurance Company**

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CLAIMS PAYING ABILITY RATING	Initial Rating	Update	Update	Update	Update	Update
	12.2008	12.2009	23.12.2010	01.6.2011	22.6.2012	19.9.2013
Long-term rating:	iBBB	iBBB	iBBB	iBBB+	iBBB+	iBBB+
Outlook:	stable	stable	positive	positive	stable	stable

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

BCRA – CREDIT RATING AGENCY AD retains the long-term claims paying ability rating to „Bul Ins” JSC iBBB+, outlook „stable”. The officially adopted methodology for assignment of claims paying ability rating to insurance companies is used by BCRA: (http://www.bcra-bg.com/files/file_202.pdf).

During the period under review (3.2012 – 3.2013) the economy of Bulgaria is still under the influence of the effects of the global crisis. The main characteristics of the general insurance market in Bulgaria during the period are:

- **A stable descending trend in Gross Premium Income till the end of 2012 and a growth during the first quarter of 2013;**
- **The growth potential of the insurance market remains high with view of the low levels of insurance density and penetration;**
- **Continuing improvement of the results from the activity of the companies in the sector;**

- **High level of the market concentration remains the same;**
- **The leading role of the vehicle's insurances at the general insurance market in Bulgaria retains;**
- **The number of the participants at the general insurance market in Bulgaria increases – BULSTRAD VIENNA INSURANCE GROUP and „Bulgaraski imoti“ Insurance Company merged, and „FiHealth Insurance” JSC and Health Insurance Company Bulgaria Health obtained licenses.**

During the update period no changes occurred in the management's structure of the company – Vanya Malcheva was dismissed as a member of the Board of directors. No changes have occurred in the shareholding structure.

During the analyzed period, the efforts of the management were focused on the improvement of company's efficiency and the results of its business. In order to improve the quality of the insurance portfolio and the underwriting policy, the motor vehicle segment saw the introduction of the approach for market segmentation into small groups of clients, as the relevant tariffs are established depending on the risk levels. „Bul Ins” continues having a policy to expand its coverage by keeping the existing branch network.

In 2012 „Bul Ins” registered a faster decline in GPI, as a result the company decreased its market share slightly. During the first quarter of 2013 the

	CLAIMS PAYING ABILITY RATING „BUL INS” JSC Insurance company iBBB+ (перспектива: stable) September 2013
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GPI registered a considerable growth on a yearly basis (45.2%), which led to an increase of the market share by 10.8% (7.8% in 2011). The increase was mainly in line of Motor Vehicle Third Party Liability (159.7%). The dynamics is determined by a change in the management's strategy – the company focused on decrease of the price of insurance „Motor Vehicle Third Party Liability“, a further price bonus, combination of different risks with others, aiming at maintaining the existing clients and reestablishing company's former market share. The structure of the company's portfolio as of the end of 2012, viewed on an annual basis, showed an improvement - a slight growth of the property insurance, as well a low decline in the share of the motor vehicle insurance. In total the motor vehicle insurances decreased their share by 1.4 p.p. In 2012 there was an increase of Gross Claims Ratio, whereas Net Claims Ratio reported a slight decline, but during the first quarter of 2013 their level went back to the same level as of the end of 2011. „Bul Ins” maintained a lower level of the indicator in a comparative aspect with the other leading companies. The company maintained a constant level of Net Acquisition Ratio, close to the average values of the other leading companies. The value of Expense Ratio decreased. As of 03.2013 it was at a lower level than the average for the other leading companies. During the entire analyzed period „Bul Ins” managed to maintain the level of Combined Expense Ratio under 100%, which is taken as an indicator for a positive result from insurance activity.

During the period under review no changes occurred in the reinsurance policy of „Bul Ins”. The company continued to work with reinsurers who have a rating not lower than A- (S&P).

In the update period the rated company maintained a full covering of its reserves. The portfolio for covering the technical reserves of the company has a structure in accordance with the Insurance Code.

In the reviewing period „Bul Ins” continued to maintain its balanced conservative strategy in its investment operations and continued to pursue the adopted policy of caution and avoiding risks. Also in 2012 the amount of the investment portfolio of the company continued to decrease. The decrease was due to the lower GPI, and the rate increased (24.4%) compared to the previous year (6.9%).

The relative share of high liquid assets (government securities and bank deposits) increased sharply, reaching 87.6% (66.1% at the end of 2011) and was much higher than the average for the other companies in the general insurance sector (70.4%). The profitability of the investment portfolio as of the

end of 2012 increased significantly (to 9.2%) compared to the end of 2011 (2.3%) and was much higher than the average for the other companies in the sector (5.4%). During the first quarter of 2013 the volume of the Company's investment portfolio of the company decreased by 3.3% compared to the end of 2012. The share of the high liquid assets decreased slightly (to 85.4%), yet remaining higher than the sector average (69.3%). At the end of the period a net loss from investment activity of BGN 1 376 thousand¹ was reported. As a result of the loss, the profitability of the portfolio decreased (by 7.4%), but it remained much higher than the average profitability, achieved by the other companies in the sector. The investment income of the company continued to arise mainly from interests on bank deposits and is relatively independent from asset revaluations, which is considered a positive factor, in terms of stability of the investment activity income.

In 2012 Gross Premium Income, achieved by the company amounts to BGN 104 026 thousand, as this is an annual drop of 24.9% with a slight increase for the sector² (0.7%). During the first quarter of 2013, however, the rated company registered a significant growth in GPI – 45.2% with merely 3.3% on the insurance market in general. Net Earned Income also decreased compared to the previous year (by 20.4%), whereas for the first three months of the current year no considerable changes compared to the same period of 2012. There was a significant increase of the insurance profit. In 2012 „Bul Ins” increased its registered capital by 7 580 thousand BGN based on the non-allocated profit for 2011, a part of the reserves and funding by the owners. The increase of the company's capital had a material effect on the Coverage Ratio, as company's own funds, minus the intangible assets, exceed more than twice the solvency limit.

The leverage levels also improved significantly – the financial leverage is below the pier group average. The operating leverage decreased but remained above the average level for the other leading general insurance companies. The liquidity indicators improved. Liquidity Ratio of technical reserves reached to 54% at the end of 2012 and remained around this level in the first 3 months of next year. Its values were lower than the average for the pier group, as well from the average for the market. Liquidity Ratio of the reserve for future

¹ The reported loss is due to factors with a single character and is not considered to be a factor with a negative influence on the rating.

² The data for the sector is adjusted with the data of the assessed company.

payments also improved considerably, reaching 131% as of 12.2012 and 142% as of 3.2013. As these levels are close to the sector average over the average and below the average of the other leading companies. As of 3.2013 the immediate liquidity reached to 4.96%, which is the level of this ratio on the market in general.

During the period under review „Bul Ins” continue to characterize with a fair financial state.

Main Financial Indicators

Indicator	3.2013	3.2012	2012	2011	2010
Gross Premium Income (thous. BGN)	36 823	25 362	104 026	138 566	135 810
change %	45%	-41%	-25%	2%	4%
Net Premium Income (thous. BGN)	36 108	24 497	100 622	138 885	133 808
Net Earned Income (thous. BGN)	31 594	31 350	110 543	134 869	131 824
Net profit (thousand BGN)	1026	902	962	1 827	3 485
Retention	98%	97%	97%	97%	99%
Gross Claims Ratio	50%	49%	51%	48%	47%
Net Claims ratio	49%	49%	46%	49%	49%
Expense ratio	22%	27%	25%	28%	24%
Combined Ratio	92%	96%	93%	99%	99%
Equity	37 668	31 582	36 642	30 680	32 338
Technical Reserves	72 882	95 908	71 281	100 788	95 785
Operating Leverage	-	-	3.016839	453%	408%
Financial Leverage	-	-	1.945336	329%	296%
Liquidity Ratio	5%	3%	3%	2%	3%
Return on Equity	3%	3%	3%	9%	11%