

**April 2018**

**„IC Bul Ins” AD**

**Vessela Velichkova, Lead Financial Analyst**  
v.velichkova@bcra-bg.com

**Ventseslav Petrov, Financial Analyst**  
v.petrov@bcra-bg.com

**Radostina Stamenova, Financial Analyst**  
stamenova@bcra-bg.com

CLAIMS PAYING ABILITY RATING*	Update	Review
Rating Committee Date:	23 Dec 2017	18 Apr 2018
Publication Date:	03 Jan 2017	19 Apr 2018
Long-term Rating:	BB	BB
Outlook:	Stable	Stable
Long-term national scale rating:	BBB (BG)	BBB (BG)
Outlook:	Stable	Stable

\* To become familiar with full rating history, please, see the chart at the bottom of the document.

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 affirms the assigned ratings to “IC Bul Ins” AD as follows:**

- **Long-term claims paying ability rating: BB, outlook: „stable”;**
- **Long-term national-scale rating: BBB (BG), outlook: „stable”.**

The officially adopted by BCRA methodology for claims paying ability rating of an insurance company is used: [http://www.bcra-bg.com/files/file\\_201.pdf](http://www.bcra-bg.com/files/file_201.pdf)

Information has been used provided by the rated company, the Financial Supervisory Commission, National Statistics Institute, BCRA database, consultants and other sources of public information.

In 2017, the economy marks a real growth rate of 3.6% (3.9% in 2016), with domestic demand and export of goods and services being the main growth driver. The balance of the current account reports surplus amounting to BGN 2 504 million (3.9% of GDP).

In 2017, the inflows of FDI decrease by 129.5 million and amount to EUR 950 million or 1.9 % of GDP. More than half of the registered investment flows are in the form of debt instruments. The investments in share capital report decrease of 70.5 % on a yearly basis.

As of the end of 2017, the gross external debt stands at EUR 32 350 million (63.5% of GDP). The size of debt reports a nominal decline of 4.4 % compared to the previous year mainly due to the substantial decline of the government public debt resulting from the repayment of Eurobonds maturing in July. The share of the long-term external debt in the total external debt is 76.9% (78.2% as of the end of 2016).

Labour market data in 2017 reports record high indicators of economic activity and employment of the population. The unemployment rate almost approaches its pre-crisis levels (5.7 % in the last

	<p><b>CLAIMS PAYING ABILITY RATING</b>  <b>“IC Bul Ins” AD</b>  <b>Long-term rating: BB, outlook: „stable“</b>  <b>National Scale rating: BBB (BG), outlook: „stable“</b>  <b>April 2018</b></p>
<p><b>95, Evlogi Georgiev, fl. 1</b> 1142 Sofia</p>	<p><b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b></p>

quarter of 2017). On the other hand, this puts the market in front of the challenging structural nature of the existing unemployment and the limited opportunities for a continuing mobilization of labour resources in the medium term.

During the period 2014-2016 the price level in Bulgaria is characterized by annual deflation. As from the middle of 2017 the deflation is overcome and the average annual price changes, measured by the HICP and reaches 1.2 % as at the end of the year. The main contribution to the price level growth has the appreciation of oil as well as other major commodities on international markets, incorporated into food and energy commodity prices.

The events in 2014 led to potential danger to the bank institutions for deepening of the bank crisis and affecting a larger number of actors in the sector. Despite the increased risk in the financial system caused by the drop out of one of the main players and the risk of the same for a second one, the banks in Bulgaria kept their stability. The results of the successfully conducted asset quality review and stress tests for sustainability announced on 13 August 2016 show that the banking sector is stable, well capitalized and support with state resources is not necessary.

The general insurance market in Bulgaria during the period of updating is characterized by:

- Continuous uptrend in the written gross premium income with the observed slight decelerated trend on a yearly basis;
- High growth potential (in view of the relatively low levels of insurance density and insurance penetration);
- High level of market concentration – in 2016, 72.3 % of the gross premium income is formed by the seventh largest companies in the sector, and at the end of September 2017, it stands at 71.1 %.
- A high percent of motor insurance in the structure of the aggregated insurance portfolio – 70 % at the end of 2016 and at the end of September 2017.

Main changes in the regulatory framework:

- In December 2016 the Financial Supervisory Commission adopted Ordinance № 53 as from 23 Dec 2016 with respect to the requirements to the reporting, evaluation of assets and liabilities and formation of technical reserves of the

insurance and reinsurance undertakings and the Guarantee Fund, and Ordinance № 54 as of 30 Dec 2016 for the registers of the Guarantee Fund for exchange and protection of information and for the issuance and reporting of the compulsory insurances under Items 1 and 2 of Art. 461 of the Insurance Code;

- FSC held a session on 13 Feb 2017 and adopted Ordinance amending and supplementing Ordinance No. 13-41 as of 12 Jan 2009 for documents and order for drawing them up in case of road traffic accidents and the procedure of communication between the Ministry of the Interior, the FSC and the Guarantee Fund;
- FSC held a session of 07 Apr 2017 and adopted Ordinance amending and supplementing Ordinance № 49 as of 16 Oct 2014r for the compulsory insurance pursuant to Items 1 and 2 of Art. 249 of the Insurance Code and on the Procedure of Settlement of Claims for Compensation of Damages Caused to Motor Vehicle.

The results from the conducted Assets Quality Review (AQR) and Stress-Test (ST) of the insurance companies in Bulgaria, published on 03 Feb 2017 verified the stability of the rated company.

*The major factors hindering the development of general insurance companies are the slow recovery of the Bulgarian economy, relatively low economic activity, and the uncertainty in respect of future households' disposable incomes. The sector retains its high growth potential, given the relatively low levels of insurance density and penetration.*

During the period under review, there are no changes in the registered capital of “IC Bul Ins”, which amounts to BGL 44 580 000, of which BGL 32 580 000 are paid-in. In July 2017, a change in the Board of Directors has been made and Mr Haume Boronatte has been released. Thus, at present, the Board of the Directors consists of the following members: Petrozar Petkov, Stoyan Prodanov and Krum Krumov.

In 2016, the gross premium income (GPI) of “IC Bul Ins” grows by 14.2 % compared to 2015 (after a drop of 4.7 % a year earlier), while for the adjusted sector<sup>1</sup> the GPI is increased by 2.3 %. These dynamics contribute to a rise in the market share from 7.3 % in 2015 to 8.1 % in 2016. Due to the reported growth

<sup>1</sup> Adjusted by the data of the rated company.

	<p><b>CLAIMS PAYING ABILITY RATING</b>  <b>“IC Bul Ins” AD</b>  <b>Long-term rating: BB, outlook: „stable“</b>  <b>National Scale rating: BBB (BG), outlook: „stable“</b>  <b>April 2018</b></p>
<p><b>95, Evlogi Georgiev, fl. 1</b> 1142 Sofia</p>	<p><b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b></p>

of the main insurance “Motor Third Party Liability” of 23.0 %, its market share rose from 14.6 % to 18.5 %. For the rest, other types of insurance there is a decrease, as for the “Autocasco” it stands at 11.9%, where the market share shrunk from 4.6 % to 3.8 %.

For the first nine months of 2017, the Gross Premium Income reports a substantial drop of 23 % again in line on the main insurance “Motor Third Party Liability”. This leads to a decline in the market share of the company from 18.5% to 12.0%. The GPI of “Autocasco” grows by 4.0% and despite that fact “IC Bul Ins” falls back 0.2 p.p. of its market share to 3.7% for the period.

As mentioned above, the main type of insurance is the “Motor Third Party Liability”, which share increases by 5.7 p.p. reaching 81.0 %. However, during the first nine months of 2017, the share of the said insurance decreases by 7.4 p.p. compared to the same period of 2016, reaching 76.1 %. Another type of insurance “Autocasco” is significantly less represented in the portfolio and its share follows a downtrend from 33.2% in 2013 to 19.6% in 2015 and 15.1% for 2016. In the first nine months of 2017 a growth is observed from 14.4% to 19.5% due to the increase in gross premium income on the said insurance but with a reported decrease in total premium income.

The concentration of the company portfolio remains relatively unchanged – the motor insurance share in 2015 is 94.8 %, while in 2016 increases by 1.3 p.p. up to 96.1 %. In the first nine months of 2017, the share of motor insurance decreased to 95.6% compared to its value a year earlier (97.9%).

On a comparative basis, the company retains in its portfolio a higher share of Motor Third Party Liability compared to the average of the competitive group of the leading companies. In reverse direction is the comparison on “Autocasco” insurance. The property insurance in the portfolio has a symbolic share. Overall, the concentration in the company's portfolio remains close to the average for the competitive group.

Despite the reported slight increase of net claims ratio “IC Bul Ins” continues to favorably position itself compared to the average level for the rest of the leading companies in 2016. In the first nine months of 2017 the reported growth, however, positions the company unfavorably with a higher ratio by 16.0 p.p. compared to the average level for the competitive group.

The net acquisition ratio is characterized by values below the average for the competitive group in the last few years. In 2016, the level of the indicator significantly increases compared to year earlier, however, remains at substantially low level. In the first nine months of 2017, the ratio is characterized by negative value due to the fact that the reinsurance commissions exceed the values of acquisition costs.

“IC Bul Ins” maintains high levels of the cost ratio and is maintaining growing uptrend at expense of the acquisition ratio. In the first nine months of 2017, the increase of the cost ratio results largely from the decrease in GPI and the Net Profit Income respectively, maintaining unchanged the values of administrative and other technical costs.

In 2016, “IC Bul Ins” reports combined cost ratio below 100%, although by only one-tenth, indicating a profit from insurance activities. The indicator is significantly higher compared to the one in 2015 in line with all three components. In the first nine months of 2017, the downward trend intensifies to reach 121.4% influenced by the deteriorated values of net claims and cost ratio.

In 2016, despite the reported combine cost ratio below 100% “IC Bul Ins” is in poor position compared to the competitive group, which average level is lower by 5.0 p.p. (94.9%) In the first nine months of 2017, the company retains its unfavorable position.

In 2016, the self-retention level continues to considerably decline by additional 11.5 p.p. down to 39.3%, since the big downturn in a year earlier – by 44.8 p.p. down to 50.8%, which is the lowest level of the indicator, in a historical aspect. The main reason for the observed dynamics is the signed reinsurance agreement on the Third Party Motor Liability insurance with a retention of 30 %, entered into force in 2015.

In 2016, the size of the investment portfolio of “IC Bul Ins” is characterized by the almost double increase. Since 2015, when the investments in shares and participations in investment funds are almost zero, in 2016 an upward trend is observed regaining significant share – 12.9 % weight in the portfolio structure. The investments in government securities continue to raise after their significant increase by 10 times in 2015. The category “Other debt securities” holds a leading share in the portfolio structure of 26.0% in 2016.

As at end of September 2017, the investment portfolio continues its growth trend since the end of 2016 although at a slower pace – 2% compared to

 <p><b>BCRA</b> CREDIT RATING AGENCY</p>	<p><b>CLAIMS PAYING ABILITY RATING</b>  <b>“IC Bul Ins” AD</b>  <b>Long-term rating: BB, outlook: „stable“</b>  <b>National Scale rating: BBB (BG), outlook: „stable“</b>  <b>April 2018</b></p>
<p><b>95, Evlogi Georgiev, fl. 1</b> 1142 Sofia</p>	<p><b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b></p>

the end of 2016. The deposits in banks keep their downward trend and reach 20.3 % share in portfolio structure, while for the other types of investments no significant changes are observed.

The above mentioned changes in the portfolio structure for the period under review lead to a substantial drop in the share of high liquid assets, thus the portfolio stands at a lower level compared to the average for the adjusted sector. In the first nine months of 2017 the same trend is observed with the downward trend to 31.8% in the weight of high liquid assets, with 60.2% for the adjusted sector, thus the rated company is unfavorably positioned in a comparative aspect.

During the period under review, “IC Bul Ins” unlike the previous period (2014 and 2015) registers profit from its investment activity. For the first nine months of 2017, the total net income is considerably increased, reaching its highest level for the whole period under review. The main reason is the positive net result of the revaluation of the investment assets.

In 2016, “IC Bul Ins” continues to report a decline in net profit income (9.6%), although to a lesser extent as from a year earlier (37.9%), despite the reported increase in gross premium income of 14.2 %. As stated above, the decline is due to the significant amount of reinsurers' remittances. The trend retains and intensifies in the nine months of 2017 when the decrease amounts to 41.9% on an annual basis.

The rated company generated a slightly positive result from investment activity (BGN 69 thousand) for 2016, much lower than the past two years. Compared to the previous 2016 year it is due to the decline of net earned income (9.6%) by BGN 6.5 million, the increase of administrative costs by BGN 3.9 million (46%), and the decrease of other technical income. For the first nine months of 2017, the insurance result is considerably negative – generated loss at the amount of BGN 5 056 thousand, which to a large extent is determined by the decline in the net earned income by BGN 17

million (41.9) compared to the first nine months of 2016.

During the last reported year, the company generates net profit at the amount of BGN 66 thousand. As of 30 September 2017 the net profit is at the amount of BGN 180 thousand, a significant decrease compared to the same period of last year which was at the amount of BGN 2 285 thousand.

In 2016, the operation leverage from past years is continuing its downward trend, comparing to the past year (138%), while for the last year is a result of the growth in equity, as well as of the decrease in net earned income. The reported drop is 30 p.p. on a yearly basis (168% for 2015), and is significantly lower than the average level for the reference group, which reported rate of 207 % for 2016. The financial leverage remains lower in the line of the equity growth and the decrease of technical reserves.

The liquidity ratios of the technical reserves and reserves of upcoming payments are lower levels in a comparative aspect (to the adjusted sector and to the reference group). The immediate liquidity ratio is at a lower level compared to the adjusted sector but is higher than the average for the reference group as of the end of 2016, whereas, by September 2017, the indicator is lower compared to both groups of insurers.

**CLAIMS PAYING ABILITY RATING**
**“IC Bul Ins” AD**
**Long-term rating: BB, outlook: „stable“**
**National Scale rating: BBB (BG), outlook: „stable“**
**April 2018**
**95, Evlogi Georgiev, fl. 1**  
 1142 Sofia

**phone: (+359-2) 987 6363**
**www.bcra-bg.com**
**Main Financial Indicators:**

<b>Indicator / Year:</b>	<b>09.2017</b>	<b>09.2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Gross Premium Income (thousand BGN):</b>	<b>78 337</b>	<b>101 741</b>	<b>130 479</b>	<b>114 207</b>	<b>119 814</b>	<b>106 662</b>
<i>Change on a yearly basis</i>	-23.0%	-22.0%	14.2%	-4.7%	12.3%	2.5%
<b>Net Earned Income (thousand BGN):</b>	<b>23 673</b>	<b>40 769</b>	<b>61 558</b>	<b>68 066</b>	<b>109 588</b>	<b>108 871</b>
<i>Change on a yearly basis</i>	-41.9%	-33.8%	-9.6%	-37.9%	0.7%	-1.5%
<b>Net Profit (thousand BGN):</b>	<b>180</b>	<b>2 285</b>	<b>66</b>	<b>189</b>	<b>2 377</b>	<b>1 374</b>
Result from Insurance Activity	-5 056	-1 545	69	14 404	16 953	3 376
Gross Claims Ratio	43.3%	45.0%	67.0%	105.5%	51.8%	57.20%
Net Claims Ratio	67.6%	48.9%	43.9%	41.3%	39.4%	58.28%
Costs Ratio	65.8%	51.7%	42.0%	26.8%	23.5%	16.83%
Acquisition Ratio	-12.0%	3.2%	14.0%	10.7%	21.6%	21.80%
Combines Ratio	121.4%	103.8%	99.9%	78.8%	84.5%	96.90%
Operational Leverage	53%	69%	138%	168%	271%	286%
Financial Leverage	115%	101%	123%	144%	175%	167%
Liquidity Ratio	2.0%	3.9%	6.5%	5.3%	3.5%	4.90%
Return on Equity	-4.3%	3.6%	0.1%	0.4%	5.9%	3.6%

**\*Rating history:**

The ratings displayed in the chart are assigned under the previous Methodology for 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 on 04.07.2016.

<b>CLAIMS PAYING ABILITY RATING</b>	<b>Initial Rating 12.2008</b>	<b>Update 12.2009</b>	<b>Update 23.12.2010</b>	<b>Update 01.06.2011</b>	<b>Update 22.06.2012</b>
Long-term Rating:	iBBB	iBBB	iBBB	iBBB+	iBBB+
Outlook:	Stable	Stable	Positive	Positive	Stable
<b>CLAIMS PAYING ABILITY RATING</b>	<b>Update 19.09.2013</b>	<b>Update 20.10.2014</b>	<b>Update 19.10.2015</b>	<b>Monitoring 05.07.2016</b>	
Long-term Rating:	iBBB+	iBBB+	iBBB+	iBBB+ (under review)	
Outlook:	Stable	Stable	Stable		