

## March 2018

### IC Lev Ins

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CLAIMS PAYING ABILITY RATING*	Initial Rating	Review
Date of Rating Committee:	09.02.2017	22.03.2018
Date of Publication:	13.02.2017	23.03.2018
Long-term rating:	BB+	BB+
Outlook:	positive	positive
National-scale long-term rating:	A- (BG)	A- (BG)
Outlook:	positive	positive

\* To become familiar with the full rating history, please, see the chart at the end 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 Lev Ins as follows:**

- **Long-term claims paying ability rating: BB+, outlook: „positive”;**
- **National-scale long-term rating: A- (BG), outlook: „positive”.**

**The officially adopted methodology by BCRA for assigning rating of the ability of insurance companies to pay claims is in use:**  
[http://www.bcra-bg.com/files/file\\_202.pdf](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.

In 2016, the growth of Bulgarian economy accelerates, from 3.6% in 2015 to 3.9% in 2016. In the first half of 2017, the economy of the country increases by 3.7% compared to the same period of 2016.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB which is a solid buffer for guaranteeing the stability of the currency board.


In 2016, the flow of DFI decreases to 1.4%, reaching the lowest values for the last 5 years. The preliminary data show that the decline in the investment flows continues in the first half of 2017.

The data for the labour market in the first half of 2017 reports record-breaking high indicators for economic activity and employment of the population. Ascending remains the labour income trend. Unemployment rate reaches its pre-crisis levels (6-7%).

Since June 2017, total average annual growth rate of prices has increasing positive values and reaches 0.6% as of the end of September.

The government budget balance reports improvement. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (size of 1.9% in the State Budget of the Republic of Bulgaria Act).

The budget balance under CFP (Consolidated Fiscal Programme), set out in the draft budget for 2018, is a

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deficit in size of 1.0% of GDP. The government plans to continue the policy for gradual consolidation and reaching a balanced budget in 2020. In the forecast period there are not substantial changes planned in the tax policy.

The level of the state debt (27.4% of GDP at the end of 2016, 23.6% of the forecast GDP as of the end of September 2017) continues to be a positive factor for Bulgaria. The Ministry of Finance expects a fall in the state debt to 22.3% of GDP as of the end of 2018 and it reaches 20.0% as of the end of 2020.

For the update period, the country's banking system remains stable, characterized by a decrease in non-performing loans and maintenance of high levels of capital adequacy and liquidity. The favorable situation of the banking sector is also testified by the results of those made in 2016 asset quality review and stress tests for bank stability in Bulgaria (announced in August 2016).

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

- The uptrend in incomes of written gross premiums continues as on an annual basis there is some delay in pace;
- 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 Gross Premium Income (GPI) in the sector is formed by the seven largest companies, and as of the end of September 2017 the percentage comes to 71.1%.
- High percent of motor insurances in the structure of the aggregate insurance portfolio - 70.0% at the end of 2016 and as of September 2017.

Main changes in the regulatory framework:

- In December 2016, the FSC adopted Ordinance No. 53 of 23.12.2016 for the requirements of reporting, evaluation of assets and liabilities and formation of technical reserves of the insurance and reinsurance undertakings and the Guarantee Fund, and Ordinance No.54 of 30.12.2016 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 had a session on 13.02.2017 and adopted Ordinance amending and supplementing Ordinance No. 13-41 of 12.01.2009 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 had a session on 07.04.2017 and adopted Ordinance amending and supplementing Ordinance No. 49 of 16.10.2014 on 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 Vehicles.

The results from the conducted Asset Quality Review (AQR) and Stress Tests (ST) of the insurance companies in the country, published on 03.02.2017, indicate the stability of the rated company.

*The major factors hindering the development of general insurance companies continue to be the slow recovery of the Bulgaria's economy from the crisis and low economic activity and determined by this insecurity with regard to future households revenues. The sector keeps high growth potential concerning relatively low levels of insurance density and insurance penetration.*


During the period of updating (9.2016 – 9.2017), there are no changes in the share capital (43 300 thousand BGN), and in the shareholding structure there are not substantial changes.

During the analyzed period there are not changes made in the composition of the Supervisory Board (SB) of the company.

At the end of 2017 the Management Board (MB) is in the composition of<sup>1</sup>:

- Mrs. Maria Stoyanova Maslarova – Garkova – Chair and CEO;

<sup>1</sup> **At the session of the SB on 22.11.2016**, a decision was taken to discharge Mrs. Spaska Petrova Shtereva in her capacity of a member of the Management Board of the company and to elect as a member Mrs. Marusya Georgieva Stoyanova-Ivanova; **at the session of the SB**, a decision was taken to discharge Mrs. Marusya Georgieva Stoyanova-Ivanova, in her capacity of a member of the MB of the company.

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- Pavel Valeriev Dimitrov – member and executive director;
- Galabin Nikolov Galabov – member and executive director;
- Miroslava Spasova – member.

The company continues to be presented together by two of the executive directors.

In 2016, the started downtrend in 2014 is discontinued in gross premium income of IC Lev Ins, on an annual basis is reported growth of 20.0%. The reported growth by the company exceeds substantially (by 18.8 p.p.) the adjusted sector which comes to 1.2%. The indicated changes lead to the increase in the market share of the company by 1.7 p.p. on an annual basis (from 10.4% at the end of 2015 to 12.1% at the end of 2016). The uptrend in the size of GPP retains in the first nine months of 2017.

In the structure of the insurance portfolio of IC Lev Ins during the period of updating there are no substantial changes as it continues to be dominated by motor insurances.

In 2016, the downtrend is affirmed and the started downtrend in 2014 accelerates in the retention level. The downtrend is retained in the first nine-month of 2017. In a comparative aspect, as of the end of 2016 the company continues to report higher levels of retention compared to the adjusted sector but for the first nine months of 2017 the trend changes and the reported by the company level is lower.

During the analyzed period the trend of reporting lower net claims ratios is affirmed compared to the average for the competitive group at the end of 2016, as well at the end of September 2017.

In 2016, the downtrend started in 2015 is affirmed in the value of the combined expense ratio, as on an annual basis is reported a decline of 3.0 p.p. (12.0 p.p. for 2015), from 94.8% at the end of 2015 to 91.8%. The company for second consecutive year reports an insurance profit.

Decline in the combined expense ratio is observed in the nine-month period of 2017.


In a comparative aspect the trend started in 2015 is affirmed - the reported level of combined expense ratio of the company to be lower than the average for the competitive group.

During the analyzed period there are no substantial changes in the applied reinsurance policy of the company.

During the analyzed period, the investment portfolio of the company continues to reduce, as the trend is opposite to the adjusted sector. The investment portfolio is dominated by land and buildings whose share exceeds substantially the adjusted sector. The investments in high liquid assets (government securities and bank deposits) continue to decrease substantially, and in comparative aspect their share is substantially lower than the average for the adjusted sector.

The trend of the reported levels of liquidity indicators retain lower for the adjusted sector and for the top insurers.

*In the period of updating, IC Lev Ins maintains relatively stable financial position, in 2016 and the nine-month period of 2017 it realizes a positive result from insurance activity and realized gains from investment portfolio.*

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The assigned rating of the company could be negatively affected by decrease in the realized gross premium income, increase of claims, substantial negative reevaluations of the owned investment portfolio, retention of the low levels of the liquid assets and of the liquidity indicators.

The diversification of the insurance portfolio and liquidity of IC Lev Ins continues to be lower in comparison with the other general insurance companies. Improvement in these directions could have a positive effect on the rating.


**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>2012</b>
<b>Gross Premium Income (хил.лв.):</b>	<b>158 758</b>	<b>145 203</b>	<b>195 482</b>	<b>162 876</b>	<b>170 132</b>	<b>182 063</b>	<b>158 632</b>
<i>Change on a yearly basis</i>	<i>9.3%</i>	<i>20.6%</i>	<i>20.0%</i>	<i>-4.26%</i>	<i>-6.6%</i>	<i>14.8%</i>	<i>10.6%</i>
<b>Net Earned Income (thousand BGN):</b>	<b>108 043</b>	<b>107 026</b>	<b>152 694</b>	<b>184 449</b>	<b>171 812</b>	<b>162 435</b>	<b>159 463</b>
<i>Change on a yearly basis</i>	<i>1.0%</i>	<i>-14.1%</i>	<i>-17.2%</i>	<i>7.4%</i>	<i>5.8%</i>	<i>1.9%</i>	<i>37.8%</i>
<b>Net Profit (thousand BGN)</b>	<b>629</b>	<b>69</b>	<b>436</b>	<b>10 667</b>	<b>68</b>	<b>13 704</b>	<b>915</b>
Result from insurance activity	15 188	7 276	12 578	9 602	-11 673	-1 081	3 666
Gross Claims Ratio	64.2%	56.1%	53.0%	70.3%	80.3%	59.8%	56.40%
Net Claims Ratio	48.0%	42.6%	45.6%	42.8%	66.8%	58.1%	54.60%
Expense Ratio	24.9%	27.1%	23.8%	32.6%	19.5%	20.9%	22.94%
Acquisition Ratio	13.1%	23.5%	22.3%	19.3%	20.5%	21.7%	20.17%
Combined Ratio	85.9%	93.2%	91.8%	94.8%	106.8%	100.7%	97.70%
Operating Leverage	155%	156%	221%	268%	295%	280%	359%
Financial Leverage	200%	205%	195%	185%	314%	317%	363%
Quick Liquidity Ratio	3.5%	2.9%	3.0%	3.8%	2.2%	2.4%	2.83%
Return on equity	1.4%	16.9%	0.6%	17.8%	0.1%	28.9%	2.1%

**\*Rating history:**

The ratings in the table are assigned under the previously used Methodology for rating of the ability of insurance companies to pay claims, respectively with the applied rating scale, are not directly comparable with the ratings assigned after the entry into force of the current methodology (as of July 2016).

<b>Claims paying ability rating</b>	<b>Initial rating 6.2006</b>	<b>Non-solicited update 11.2007</b>	<b>Non-solicited update 11.2008</b>	<b>Update 7.2009</b>	<b>Update 20.07.2010</b>	<b>Monitoring 07.12.2010</b>
<b>Long-term rating:</b>	<b>BB+</b>	<b>iBBB-(ns)</b>	<b>iBBB(ns)</b>	<b>iA-</b>	<b>iA-</b>	<b>iA-</b>
<b>Outlook:</b>		<i>positive</i>	<i>positive</i>	<i>stable</i>	<i>stable</i>	<i>negative</i>
<b>Claims paying ability rating</b>	<b>Monitoring 25.05.2011</b>	<b>Update 25.10.2011</b>	<b>Update 29.11.2012</b>	<b>Update 04.11.2013</b>	<b>Update 13.12.2014</b>	<b>Update 10.12.2015</b>
<b>Long-term:</b>	<b>iBBB+</b>	<b>iBBB+</b>	<b>iBBB+</b>	<b>iBBB+</b>	<b>iBBB+</b>	<b>iBBB</b>

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<b>Outlook:</b>	<i>negative</i>	<i>In development</i>	<i>positive</i>	<i>stable</i>	<i>stable</i>	<i>negative</i>
<b>Claims paying ability rating</b>	<b>Monitoring</b> 05.07.2016	<b>Update</b> 06.01.2017				
<b>Long-term rating:</b>	iBBB (under review)	iBBB (w)*				
<b>Outlook:</b>	-					

*\*(w) – withdrawn rating – following a procedure, due to a failure to update the rating in a timely manner;*

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