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MAY 2021		
CLAIMS-PAYING ABILITY RATING		
Date of Rating Committee:	27.05.2020	**25.05.2021**
Publication Date:	28.05.2020	**27.05.2021**
Long-term rating:	BB+	**BB+**
Outlook:	stable	**stable**
Long-term national-scale rating:	A- (BG)	**A- (BG)**
Outlook:	stable	**stable**

***Notes:**

1) Prior to the present publication, the credit rating and the rating outlook were disclosed to the rated entity. Following those disclosure amendments in the credit rating and the rating outlook have not been executed;

2) During the last two years, BCRA Credit Rating Agency has not provided ancillary services to the rated entity or a related third party;

3) For the full rating history, please see the chart at bottom of this document.*

***„BCRA – CREDIT RATING AGENCY (BCRA)** is the third qualified rating agency in the EU, registered under Regulation (EC) 1060/2009 of the European Parliament and of the Council. BCRA assigns credit ratings recognized throughout the EU, and are equal with the other ratings recognized by the European Securities and Markets Authority (ESMA), without any territorial or other limitations*

At a session of the Rating Committee of BCRA, held on **25.05.2021** a report of the review of the credit rating of **IC EIG Re EAD** has been discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. Following a discussion on changes in the factors affecting the rating during the review period, the members of the Rating Committee took the following decision:

BCRA affirms the grades of the ratings of IC EIG Re EAD, as follows:

- Long-term claims-paying ability rating: **BB+** ;
- Long-term national-scale rating: **A- (BG)** ;

and **affirms the „stable“ outlook**.

The officially adopted by BCRA Methodology for claims-paying ability rating of insurance companies has been used:

(https://www.bcra-bg.com/files/cpaic_methodology_2018_en.pdf)

The users of the rating can find information on the meaning of each rating category, including definitions of default in the published Global rating scale on the BCRA's website:

(https://www.bcra-bg.com/files/global_scale_en.pdf)

The report has been prepared and the rating - assigned, based on information made available by the rated bank, Bulgarian National Bank, National Statistical Institute, BCRA' database, consultants and other public information sources.

Operating Environment

Sovereign Risk

The emergence of the worldwide COVID-19 pandemic has turned the issue into one of the main priorities to address in Bulgaria as well as in all its political and economic partners. Due to the unprecedented crisis, the country is in an emergency epidemic situation since May 13, 2020, and the government took a number of legislative measures to curb the negative economic impact.

The COVID-19 pandemic and the measures taken to limit the infection have adversely affected the economic activity in the country. According to preliminary data, there is a decline of the GDP of 4.2% following the growth of 3.7% in 2019. Household consumption, lending, external sector, as well as inflation processes witnessed decelerating trend. In 2020, the unemployment rate rose to 5.1% (4.2% a year earlier).

Bulgaria has entered the current crisis with a stable fiscal position, accumulated reserves, and low government debt. The initial budgetary target for 2020 was to achieve a budget balance but the unprecedented COVID-19 crisis necessitated its extraordinary revision due to the expected revenue shortfalls and the need to incur additional costs. The projected CFP balance was changed to a deficit of BGN 3.5 bln or 3% of the projected GDP. The General government debt rose to 24.7% of GDP in September 2020 due to the need to finance fiscal measures to overcome the crisis and the decline in GDP but remained low in comparative terms.

Banking System

On the 10th of July 2020, the Bulgarian lev was included in the Exchange Rate Mechanism II. In parallel, the ECB's decision to establish close cooperation with the BNB was announced. Starting October 1, 2020, the ECB commenced direct supervision of the significant institutions in the Republic of Bulgaria. The Bulgarian banks that fulfil the criteria are UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, and Raiffeisenbank (Bulgaria) EAD.

As of the end of 2020, the banking sector remained stable, albeit, the economic shocks. The capital ratios and liquidity of banks are at high levels being supported by the steady growth of the deposit base and the timely regulatory anti-crisis measures.

Lending to the non-financial sector has been slowing down in the conditions of uncertainty during 2020, largely for enterprises. At the same time, under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions requests from households and enterprises for deferral of liabilities amounting to BGN 8,1 billion or 92.2% of the filed so far were approved as of year ended 2020, or 11.1% of the total gross loans and advances.

The high profit generated in 2019 secured additional capitalisation and a reserve for maintaining the stability of the sector. Therefore, the BNB decided to fully capitalise the profit as one of the measures to strengthen the capital of banks further in the context of the crisis related to COVID-19. The reported financial result of 2020 was BGN 815 mln by 51.4% lower on an annual basis. The net income from interests, fees and commissions retained their importance but at an annual decline in both sources. At the same time, the value of the impairments incurred doubled compared to the same period in 2019.

The development of economic processes in the country, including in the context of the pandemic of COVID-19, have been analysed in detail by BCRA - Credit Rating Agency. A Rating Rationale of the Sovereign Rating assigned by BCRA to the Republic of Bulgaria is available at our official website:

https://www.bcra-bg.com/en/ratings/bulgaria-rating

Non-life Insurance Market in Bulgaria

In the review period, the Bulgarian non-life insurance market retains its features, namely:

- **Steady income growth** of gross written premiums (by an annual increase of 1% in 2020, following 15.6% in 2019) but with **marked retention** of the growth in the last year, as a result of the generally reduced tariffs of the basic (car) insurances and the effects on the business of the economic crisis related to COVID-19;
- **High development potential**, given the relatively low levels of insurance density and penetration (no significant change in their levels in the review period and maintained general trend of gradual increase);
- **High levels of market concentration** – the seven biggest companies maintain a share of above 70% of the gross written premiums in the sector (71.2% in 2020 and 70.8% a year earlier);
- **Highly dominating share of the automobile insurance** in the structure of the aggregated insurance portfolio – above 70% in the last three

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years (at a slight annual decline of 1.1 pp. in 2020 to 71.1%).

The regulatory framework continues to be most affected by the application of the solvency requirements for insurers, reinsurers, and groups of insurers and reinsurers, as well as the requirements for reporting, valuation of assets and liabilities and the formation of technical provisions following Directive 2009/138 of the EP and the EU (**Solvency II**). Additional impact on the statements has **IFRS 16** “Leasing”, effective January 2019, introduced reporting related to own rights to use assets in the balance sheets of companies.

The main factors impeding the general development of the non-life insurance market continue to be the relatively weak economic activity in the country and the uncertainties about the future households' income. The development of the sector has been affected by the emergency of the COVID-19 pandemic since March 2020.

The up-to-date evaluations of the BCRA – Credit Rating Agency on the effects of the financial crisis on the sector and the economy are available on the official site of the agency:

https://www.bcra-bg.com/en/home

IC EIG Re EAD

The company is registered in 2000 and has been operating in the Bulgarian market under the names: Coop Bulgaria ZAD, HDI ZAD, and HDI Insurance AD. At the beginning of 2015, a major share of the company (94%) was acquired by its current owner, Euroins Insurance Group AD, while the majority owner, the German company Talanx International AG withdrew. In 2016, following the changes in the capital through the issue of new shares and the merger, which was carried out in 2017 with Euroins Insurance Company - Health Insurance EAD (under the conditions of universal succession and merger without liquidation), the **share capital** amounted to 16,312,000 BGN. In the review period, the share capital of ZD EIG Re EAD was raised by the sole owner (Euroins Insurance Group AD) by BGN 2.8 million (Resolution 15.01.2020) and as of 17.05.2021 (according to the Commercial Register) amounts to BGN 19,112,000, distributed in the same number of registered, dematerialized, non-preferred shares with a fair value of BGN 1.

In the period of analysis, the composition of the Supervisory and Management Boards is unchanged. The members are as follows:

Management Board:

- Rumiana Gesheva Betova,
- Yoanna Tsvetanova Tzoneva,
- Jeroen van Leeuwen,

Supervisory Board:

- Velislav Milkov Hristov;
- Radi Georgiev Georgiev;
- Peter Vesselinov Avramov.

There are no changes in the organizational structure of the key management and its staff members. The information and management systems are not changed, as well.

In the **activity programme** for the period 2021-2026, the rated company sets a business strategy with levels of written premiums, similar to those, reached in 2020, (between 11.4 mln and 12.1 mln). The levels of costs ratio result in a share of combined costs ratio in the range of 89-87%, which would provide a relatively good level of insurance profit (at about BGN 720 thou on annual average). In the planned portfolio development, the insurer sets as leading products the Property insurance (a share at approx 53%) and Vehicle insurance Cargo (26%), backed up by Guarantees (at about 10% share). The company does not plan to launch motor vehicle insurances in the portfolio.

The company has not changed the management system, solvency's assessment and capital management. The Insurer declares compliance with the group objectives set by the controlling company (Euroins Insurance Group AD) aimed at full and strict implementation of the regulations for the insurance activity, including the capital adequacy requirements for the Bulgarian market arising from the Directive 2009/138 of the EP and the EU (Solvency II).

The insurance group of the sole owner supports „ZD EIG Re” EAD, as well as there is a synergy with the business lines of the owner (leasing and car sales).

During the review period, EIG Re **significantly increased the volume of the insurance portfolio** (restoring the levels from 2018 and 2017), while diversifying it, and increasing the volume of active reinsurance, limited in the previous year. A distinctive feature is that the insurer's main written business comes from companies in the group of its owner (Euroins Insurance Group), and a relatively high part of the portfolio is reinsured with first-class reinsurers. For 2020 about ¼ (24.5%) of the company's revenues are from insurance activity, and the remaining ¾ (75.5%) are realized through reinsurance. The number of written premiums increased by more than four times in 2020. The portfolio includes Motor third-party liability insurance (which in the previous year was excluded), which reported high insurance losses, which significantly affected the final net financial result - a loss of BGN 4,527 thou (following the registered profit of BGN 734 thousand in the previous year).

The portfolio growth results of

- Increase of the written premiums under **Fire and natural disasters** by 365.6% (28.9% in 2019, of which 69.2% is active reinsurance and accounts for a market share of 29.7% in 2020 (2.5% in 2019);
- Rise of the GWP under **Cargo** – by more than 60 times (compared to a negligible volume in 2019), in which the active reinsurance is 92.5% and accounts for 85.7% share of the total active reinsurance in the country;
- growing written premiums under **Motor Third-Party Liability Insurance** by 45 times (following its marginal size in 2019) to BGN 2 2 mln under active reinsurance, which accounts for 100% market share in the country of the product reinsurance.

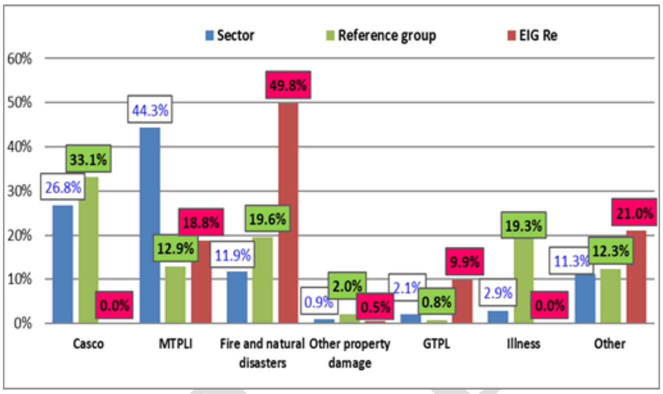
The GWP under **General Third-Party Liability** is almost unchanged (an annual decline of 9.2%) of which 27.1% is under active reinsurance and account for 97.7% market share (97.0% in 2019).

The company's **total market share** in terms of GWP amounted to a modest 0.48% of sector revenues in 2020 (0.11% in 2019), and its market share in active reinsurance reached 37.8% (4.3% in 2019 and 20.2% in 2018), which is the highest value for EIG Re from the start of the active reinsurance business (2017) until the end of 2020.

The indicated dynamics of GWP of the company are realized against the background of slight annual growth of 0.7% of the adjusted sector in 2020, following the high increase in the previous two years (16.1% in 2019 and 19.6% in 2018).

The underwriting strategy of EIG Re aims at the development of active reinsurance activity and drive for portfolio diversification. The main part of written premiums is realized under the disproportionate agreement, signed with Euroins Romania (Motor third-party liability insurance) and proportionate agreements for property reinsurance with insurers from Euroins Insurance Group.

Portfolio Structure of IC EIG Re compared to the sector and reference group in 2020



A significant reduction in the value of gross claims and a high share of reinsurers in them resulted in a significant decline of gross and net claims ratios in the 2019 year. Concurrently, in **2020, the insurer reached high levels of claims – gross of 593.7% and net – of 209.0%**, which are historical, the highest and are the main factor for the registered considerable insurance loss (BGN 5 094 thou, following the profit of BGN 660 thou in 2019). The value of net claims exceeded two times the net earned premiums in 2020. The total value of net claims paid increased by 50.3% in 2020, compared to 2019, where a major portion of the payments is under Motor third-party liability insurance (72.7%).

The increase of the written business results in substantial growth of acquisition costs, which are offset neither by the rise of commissions nor by the growth of net earned premiums. Thus, the company has registered a significant ***increase in net acquisition ratio*** at a rate of 51.4% in 2020 (12.6% in 2019). This is the highest rate reached by the company compared to the peers' group level, following the previous year when the company was a leader with the lowest rate.

In 2020, the ***level of cost ratio declined*** to 48.8% influenced by the reduced administrative expenses and increased net earned premiums by 85.7% (compared to the high 88.0% in 2019 and the lower 37.8% in 2018). Compared to the reference group, the level remains above the average of 22.4%.

The ***combined cost ratio*** recorded a high negative level of 309.2% due to the strong and extremely high level of net claims (after the very good level of 49.7% in 2019), with which EIG Re outpaced significantly the rest of the companies in the reference group, and the registered average of 93.2%.

In the review period, EIG Re retained the decelerating self-retention level of 42.2% in 2020

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(after the considerable decline in 2019 – from 74.0% to 47.5%).

The implemented **reinsurance policy** is not altered, The contracts with key insurers, assigned with high ratings retained. EIG Re has signed additional retrocession agreements to cover claims under active reinsurance. The implementation of the reinsurance programme remains structured by disproportionate reinsurance contracts, covering all business lines and placed in 14 limited lei, under which the total liability of the reinsurer exceeds EUR 31 mln.

The ***reinsurers' share in technical provisions*** kept growing in 2020, reaching a level of 85.6%, which is significantly above the group level, which resulted in the implemented strategy to reinsure the main share of the portfolio.

After the decline of the total **investment portfolio** in 2019 (by 18.6% annually), at the end of 2020, the value increased by 8.7% on annual basis. The latter has resulted in a growth of debt securities held – corporate bonds, by 98.8% (reaching a share of 33.8% in portfolio structure). The change was driven by the replacement of the corporate bonds of Eurohold Bulgaria (from European commercial papers without a fixed trading venue to corporate bonds traded on the BSE). In general, almost all corporate bonds held are of companies from the group of Starcom Holding AD, to which EIG Re also belongs (including the share of the above-mentioned Eurohold Bulgaria securities, amounting to 89.6% of the corporate bonds and 30.3% of the total investment portfolio). The share of investments in corporate bonds has increased in the investment portfolio **structure** (from 18.5% at the end of 2019 to the mentioned-above 33.8% at the end of 2020), while the share of corporate shares and items in stock decreased (to 48.4%, compared to 62.3% a year earlier). The insurer maintains a **low level** (below 20%) of the **highest liquid assets** in its portfolio (government securities and cash deposits), which additionally registered a slight decline in 2020. While calculating this correlation, one should take into account that the value of these assets, in absolute terms, is lower considerably compared to the value of technical provisions at the same moment, while at the end of 2019, the same value in relative terms exceeded technical provisions.

The portfolio yield has been rising in the review period and the level of 4.71% posted in 2020, exceeded significantly the rate of 2.81% in 2019 and at the same time, was much higher than the average for the adjusted sector (0.68%), when in the last year considerable decline is observed (compared to 2.01% in 2019). The investment income resulted in a high degree of profit from assets sold and other revenues from investments but remained relatively highly impacted by the revaluations of investment assets. The increase of total net investment income is by 100% on annual basis being the highest for the last five years.

After the positive net financial result registered in the previous year, at a relatively high amount compared to the written business (BGN 734 thou and net earned premiums of BGN 1 311 thou), the registered **net financial result from the activity is a loss** at the amount of BGN 4 527 thou **in 2020** (at a gross earned premiums of BGN 11 961 thou and net earned premiums of BGN 2 435 thou). The motor third-party liability insurance has been included back in the insurance portfolio, having high claims paid, thus resulted in a huge amount of insurance loss. The positive result from investment activity does not compensate to a sufficient degree, the insurance loss.

In the period of review, the sole owner, Euroins Insurance Group invested capital to support EIG Re (the mentioned-above increase of BGN 2.8 mln, up to the amount of BGN 19 112 thou). Due to the reported loss in 2020, which has exceeded the invested capital, the **total amount of equity decreased by 12.6%** (following the increases of 5.6% in 2019 and 1.8% in 2018).

The ***insurance leverage*** (Technical provisions to Equity ratio) grew by a substantial 57.6 pp. to 69.1% at the end of 2020, which is the highest registered level in the last five years. The sharply increased provisions (by more than five times) and the reduction of equity value influenced the negative dynamics.
The increase of premiums written (more than four times) reflected in a rise of net earned premiums. Together with the decline of equity (due to the substantial loss, despite the rise of share capital), increased by ***net earned premiums to Equity ratio*** (operating leverage), which rate reached 20.3 % (after the very low rate of 9.5% in 2015). The indicator remains lower than the high levels in the previous two years (72.6% and 63.9%, respectively). Thus, the rated company positioned far from the average level for the reference group (114.2% in 2020).

In the period of review, the levels of **both prudential indicators (SCR and MCR)**, markedly deteriorated, after two years of improvement (particularly significant in 2019). At the end of 2020, the Solvency Capital Requirement coverage was at a sound level of 143.5%, despite its decline compared to the high rate of 277.2% at the end of 2019. The considerable increase of technical provisions to the highest degree influences these dynamics. The level of the indicator is below the average for the reference group (167.9%), which has been rising in the last year (compared to 144.0% at the end of 2019). The Minimum Capital Requirement coverage declined marginally (by 1.4 pp. annually) and its level of 189.1% at the end of 2020 was lower compared to the average for the reference group (230.1%).

At the end of 2020, the level of ***liquidity ratio of technical provisions*** declined, reaching the lowest value for the last four years (23.8%, compared to 124.0% at the end of 2019), due to the increase in the value of technical provisions, formed concerning a relatively retained cash and other liquid assets (deposits in banks). Similar were the changes in ***liquidity ratio of*** **outstanding claims provisions** (34.2%, lowest rate in the last four years) and the ***quick liquidity ratio*** (1.2% compared to 5.5% at the end of 2019 and 6.5% in the previous year).

Positive impact on the Company's rating could have *the following: an increase in the volume of insurance portfolio and positive insurance results maintained the high liquidity levels (incl improvement of the investment portfolio structure) and sustainable improvement of solvency indicators.*

A negative impact on the assigned rating could have *changes in opposite dynamics of the indicators, incl losses from insurance activity.*

The levels of the key performance indicators of EIG Re for the last five years are presented in the following table:

Main Financial Indicators:

Indicator / Year:	***2020***	***2019***	***2018***	***2017***	***2016***
Gross written premiums (BGN'000):	**11 691**	**2 733**	**11 072**	**11 982**	**3 582**
Annual change	*327.8%*	*-75.3%*	*-7.6%*	*234.5%*	*-70.5%*
Net earned premiums (BGN'000):	**2 435**	**1 311**	**9 446**	**8 160**	**-876**
Annual change	*85.7%*	*-86.1%*	*15.8%*	*-1031.5%*	*-91.4%*
Retention level	**42.2%**	**47.5%**	**74.0%**	**78.7%**	**-32.6%**
Net financial result (BGN'000)	**-4 527**	**734**	**300**	**95**	**-478**
Result from insurance activity	**-5 094**	**660**	**101**	**-37**	**-446**
Gross claims	593.7%	14.4%	47.8%	28.0%	-33.7%
Net claims	209.0%	-51.0%	33.1%	46.5%	43.2%
Cost ratio	48.8%	88.0%	37.8%	11.0%	-87.7%
Acquisition ratio	51.4%	12.6%	28.1%	43.0%	93.6%
Combined cost ratio	**309.2%**	**49.7%**	**98.9%**	**100.5%**	**49.1%**
Net earned premiums / Equity (Operating leverage)	20.3%	9.5%	72.6%	63.9%	-11.3%
Technical provisions / Equity (Insurance leverage)	69.1%	11.5%	20.6%	24.4%	0.0%
Debt net of insurance reserves / Equity (Financial leverage)	0.0%	4.4%	4.6%	4.7%	7.8%
Total equity	**12 003**	**13 730**	**13 003**	**12 767**	**7 731**
Return on equity	-30.7%	5.7%	2.3%	0.9%	-6.9%
Investment portfolio	**10 556**	**9 714**	**11 939**	**6 939**	**1 865**
Annual change	*8.7%*	*-18.6%*	*72.1%*	*272.1%*	*-6.0%*
Highly-liquidity Assets in the Investment Portfolio	17.8%	19.2%	15.7%	26.7%	100.0%
TTM Yield of the Investment Portfolio	4.7%	2.8%	1.9%	4.0%	6.0%
SCR coverage ratio	**143.5%**	**277.2%**	**156.9%**	**130.9%**	**n/a**
MCR coverage ratio	**189.1%**	**190.5%**	**168.1%**	**153.2%**	**n/a**
Liquidity ratio of technical provisions	**23.8%**	**124.0%**	**76.3%**	**85.5%**	**-**
Liquidity ratio of outstanding claims provisions	34.2%	126.1%	77.5%	146.2%	-

Rating History:

CLAIMS PAYING-ABILITY RATING				
Date of Rating Committee:	**22.05.2018**	**23.05.2019**	**27.05.2020**	**25.05.2021**
Publication date:	**23.05.2018**	**27.05.2019**	**28.05.2020**	**27.05.2021**
Long-term rating:	**BB+**	**BB+**	**BB+**	**BB+**
Outlook:	**stable**	**stable**	**stable**	**stable**
Long-term national-scale rating:	**A- (BG)**	**A- (BG)**	**A- (BG)**	**A- (BG)**
Outlook:	**stable**	**stable**	**stable**	**stable**