FitchRatings

Fitch Affirms Euroins Romania at IFS 'BB-'; Outlook Stable

Fitch Ratings-London-01 August 2018: Fitch Ratings has affirmed Euroins Romania Asigurare Reasigurare SA's (Euroins Romania) Insurer Financial Strength (IFS) rating at 'BB-', and Eurohold Bulgaria AD's (Eurohold, the group's ultimate holding company) Long-Term Issuer Default Rating (IDR) at 'B'. The Outlooks are Stable. Fitch has also affirmed the ratings of Eurohold's EUR200 million euro medium term note (EMTN) programme, and EUR70 million senior notes issued under the programme at 'B'/'RR4'.

The agency has simultaneously assigned Insurance Company Euroins AD (Euroins Bulgaria) an IFS rating of 'BB-'. The Outlook is Stable.

Fitch considers Euroins Romania and Euroins Bulgaria as 'Core' subsidiaries of Eurohold given their alignment with the group's strategic objectives, material size relative to the organisation and shared group branding.

KEY RATING DRIVERS
The affirmation reflects Fitch's assessment of Eurohold's improved but weak leverage, capitalisation and debt servicing capabilities, as well as moderately weak financial performance.

Eurohold's consolidated Fitch- calculated financial leverage ratio (FLR) improved to 63% at end-2017 from 84% at end-2016 due to equity increases and debt reduction in 2017. Fitch expects the group's FLR will stabilise below 65%. We excluded goodwill created through internal restructurings from the FLR calculation.

Eurohold's consolidated capitalisation as measured by our Prism Factor Based Capital Model (Prism FBM) was 'Weak' at end-2017. Eurohold is not subject to Solvency II (S2) regulations.

The S2 ratio of Eurohold's insurance activities grouped under the interim holding company Euroins Insurance Group (EIG) improved to 177% at end-2017 (2016:123%) due to fresh equity injections, investment portfolio de-risking, and lower catastrophe risk retention. EIG benefits from significant double leverage (i.e. borrowed capital at the holding level downstreamed to EIG as equity). S2 capitalisation of the main operating subsidiaries, Euroins Bulgaria and Euroins Romania, also improved but was at a weaker level compared with the consolidated

S2 ratio.

Eurohold's fixed charge cover (FCC) ratio, excluding realised and unrealised gains, improved to 2.1x at end-2017 from 0.9x at end-2016, supported by improved profitability. Fitch expects that debt reduction in 4Q17, and more favourable rates on newly issued Euro medium-term notes (EMTN) could lead to further improvement in Eurohold's FCC ratio in 2018.

In Fitch's view, the group's relatively small size in an international context and limited capital markets track record somewhat limits its financial flexibility and narrows the scope of potential lenders/investors.

Eurohold's net profit more than doubled in 2017 (net income return on equity: 15%) due to stronger insurance earnings in Romania that were partly offset by higher financing (interest) expenses of the parent company. EIG strongly outperformed the Romanian motor third-party liability (MTPL) market in 2017, supported by its local expertise to underwrite risk in a selective and profitable manner, as well as cost controls. EIG reported a Romanian MTPL combined ratio of 87%, which compares favourably with that of the broader market (100%).

Eurohold holds both insurance and non-insurance related assets. Eurohold's insurance operations are grouped under the interim holding company EIG, which in turn owns local insurance operating subsidiaries in multiple countries. Non-insurance activities are grouped under Auto-Union (car sales), Eurolease Group (car leasing) and Euro-Finance (asset management & brokerage).

Fitch considers Eurohold's business profile as good. EIG holds strong market positions in its core Romanian and Bulgarian non-life insurance markets, especially in the MTPL segment. These strengths are offset by the group's small size and limited business diversification as reflected by high concentration on motor insurance, which accounted for more than 80% of EIG's gross premiums in 2017.

Fitch applied a tailored recovery analysis for the group, which resulted in a bespoke Recovery Rating to replace the baseline recovery assumption for the issuer's debt obligations. The recovery analysis, based on a going concern approach, resulted in a Recovery Rating of 'RR4' for senior unsecured debt issued under Eurohold's EMTN programme. As a result the ratings of Eurohold's EMTN debt programme, and EUR70 million senior notes issued under the programme, are aligned with the group's IDR.

There is no assurance that notes issued under the programme will be assigned a rating, or that the rating assigned to a specific issue under the programme will have the same rating as the rating assigned to the programme.

RATING SENSITIVITIES
The ratings could be upgraded if the FLR improves to below 55% and the FCC ratio remains above 1.5x for a sustained period.

The ratings could also be upgraded if our assessment of consolidated capital strength, as measured by Prism FBM, improves to 'Somewhat Weak'.

The ratings could be downgraded if Eurohold makes a loss on a net income basis, or if its FCC ratio falls below zero.

The ratings could also be downgraded if one of the S2 ratios at the group's main insurance operating subsidiaries falls below 100%, or if the FLR rises above 70%.

Contact:
Primary Analyst
Andras Sasdi
Associate Director
+44 20 3530 1805
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Graham Coutts
Director
+44 20 3530 1654

Committee Chairperson
Willem Loots
Senior Director
+44 20 3530 1808

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Criteria (pub. 30 Nov 2017)
(https://www.fitchratings.com/site/re/905036)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/site/dodd-frank-disclosure/10039307)
Solicitation Status (https://www.fitchratings.com/site/pr/10039307#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the

Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group’s websites. Learn more (https://www.thefitchgroup.com/site/policies).

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.