

<p><b>ZAD „Armeets” AD</b></p>	<p><b>Delyan Pehlivanov, Lead Financial Analyst</b>  d.pehlivanov@bcra-bg.com</p> <hr/> <p><b>Vesela Velichkova, Financial Analyst</b>  v.velichkova@bcra-bg.com</p>
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CLAIMS PAYING ABILITY RATING	Initial Rating 6.2006	Update 11.2007	Update 12.2008	Update 10.2009	Update 30.08.2010	Update 10.08.2011	Update 10.08.2012
Long-term Rating:	BB+	iBBB-	iBBB-	iBBB	iBBB	iBBB	iBBB
Outlook:	<i>Stable</i>	<i>Stable</i>	<i>Stable</i>	<i>Stable</i>	<i>Stable</i>	<i>Stable</i>	<i>Stable</i>
	Update 14.10.2013	Update 07.11.2014					
Long-term rating:	iBBB	iBBB					
Outlook:	<i>stable</i>	<i>stable</i>					

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 retains the long-term claims paying ability rating of ZAD „Armeets” AD iBBB (outlook: stable). The officially adopted methodology by BCRA for assigning a claims paying ability rating is used ([http://www.bcra-bg.com/files/file\\_202.pdf](http://www.bcra-bg.com/files/file_202.pdf)).**

To elaborate the credit report and to assign the credit rating, BCRA uses information from the rated insurance company, the FSC, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

During the period under review (6.2013 – 6.2014) the economy of Bulgaria continued to be influenced by the crisis, and the economic activity was still poor. During the past year, a slow and a fluctuating recovery was observed which is dependent highly on the export volume (mainly on the economy recovery rates of the EU), growing unemployment, low domestic consumption and investment activity.

In the period 2012-2013 the general insurance sector operated in an unfavourable economic environment. However, it showed signs of recovery – the sustainable

downtrend was discontinued in Gross Premium Income over the past years, and the income increased. A positive technical result was reported, as well as an increased net profit compared to the past year. The main factors, hindering the development of the sector, still remained the uncertain recovery of the Bulgaria's economy, weak economic activity and reduced domestic consumption. The sector maintained its high growth potential with a view of the low levels of insurance density and penetration. Despite the growing number of companies, the market concentration remained high. Car insurances with a ~ 70% share continued to hold a major share of the aggregated insurance portfolio in the sector.

During the update period there were neither changes in the shareholding capital of ZAD „Armeets“ AD, nor in its structure. „Central Cooperative Bank Group“ EAD remained a major shareholder.

In 2013 Gross Premium Income of ZAD „Armeets” AD increased by 3.8% compared to a growth of 6.5% of the adjusted sector<sup>1</sup>, which led to a slight decline of the market share by 0.3 p.p. to 12.5%. To a great extent, the growth was due to the registered income on „Casco“ insurance (9.8% year on year), on which the company increased its market share of 20.5% to 22.9%. The other car insurance – „Motor Third Party Liability“ reported a growth of 6.8%, but despite this ZAD „Armeets“ AD yielded market positions in this

<sup>1</sup> The sector’s data are adjusted with the data of the assessed company.

segment and its market share in 2013 was 9.7%, compared to 0.3 p.p. lower compared to 2012. The company realized an active reinsurance activity, as the registered income in 2013 was 1 066 thousand leva, by 15.4% lower compared to the previous year.

During the first half of 2014 ZAD „Armeets” AD increased its market share to 13.2% (11.7% as of 06.2013) as a result of a growth in GPI of 19.4% year on year, anticipating highly the sector (5.9%). An improvement was observed on two motor vehicles: on „Casco”, GPI increased by 14.0% and the market share from 2.4 p.p. to 24.2%, and on „Motor Third Party Liability”, the market share registered a growth to 9.6% (7.7% as of 06.2013) after an increase of 28.2% in the realized GPI. With regard to the active reinsurance activity during this period, the size of registered premiums was by 66.7% higher compared to the same period of the past year.

„Casco” remained the leading insurance during the update period, whose share in the portfolio in 2013 continued to increase and reached 52.9% (50.0% in 2012). A slight growth was also observed on another car insurance („Motor Third Party Liability”) that is next in importance for the company: in 2013 its share was (31.6%) by 0.9 p.p. higher compared to the past year. Both property insurances, in total, have an unchanged share during the year (6.6% compared to 6.9% in 2012).

During the first half of 2014, there were not considerable changes observed in the structure of the portfolio and it was characterized with a low growth of the share of „Motor Third Party Liability” (on a yearly basis) at the expense of a slight decline on „Casco”, as well as nearly unchanged weight on property insurance. In a comparative aspect there were not considerable changes. ZAD „Armeets” AD retained a considerably lower share on „Motor Third Party Liability” and higher on „Casco” compared to the average for the direct competitors. The property insurance remained less covered.

In 2013 the uptrend of claims was discontinued and a slight decline was observed in gross, as well as in net claims ratios. During the first six months of 2014 gross and net claims ratios were characterized with a slight growth, year on year, and were at levels 51% and 57%. During the first half of 2014, the position of the company by this indicator was close to the average for the other leading companies in the sector.

The Net Acquisition Ratio continued to follow a trend of a slight growth, but its level remained close to the average for the direct competitors (about 23% as of 06.2014). The dynamics of Expense Ratio also grew

but its values in ZAD „Armeets” AD exceeded the average for the competitive group.

In 2013 ZAD „Armeets” AD generated an insurance loss for a second year in a row but the Combined Expense Ratio was at a little bit better level compared to 2012. This trend was further deepened and during the first half of 2014, when the value of the indicator reached 110.2% (compared to 102.2% a year earlier). The position of the company in a comparative aspect remained unfavourable, having in mind that the direct competitors of the company on average registered levels below 100% for last three years and a value of 100% at the mid 2014.

In the reinsurance programme of the company there were not considerable changes. In 2013 the retention level increased slightly and reached 91.7% (compared to 91.0% a year earlier). During the first half of 2014, the value of the indicator was 89.5%, which was about the regular level for last few years held by the company.

In 2013 the size of investment portfolio increased compared to the end of the previous year by 5.9%, which is close to the average increase of the other companies in the sector. An increase of investments in debt securities, as well as investments in shares were reported, and the size of bank deposits decreased highly. As a result of these changes, the structure of the investment portfolio has been changed. The share of fast liquid assets (government securities and bank deposits) decreased to 31.8% (45.2% at the end of 2012), remaining much under the average for the other companies in the sector (69.1%), and the proportion of shares increased to 45.6% (35.3% at the end of the previous year) and it was much higher than the average level in the adjusted sector (4.4%).

During the first half of 2014, the investment assets of ZAD „Armeets” AD increased compared to the average growth of the other companies in the sector – 3.7% compared to 2.7%. The share of the high liquid assets (30.7%) continued to decrease and it was much lower than the average in the adjusted sector (69.7%).

The income from investment activity in 2013 amounted to 4 431 thousand leva and was lower by 61.4% compared to the realized in 2012. A bigger part of the income was formed by revaluation of assets. The profitability achieved of the investment portfolio of ZAD „Armeets” (3.1%) was lower than the average for the other companies in the sector (5.4%). During the first half of 2014, the main part of income from investment activity of the company was in line of revaluations. The registered profitability as of 30.06.2014 (2.3%) retained lower than the average in the sector (6.6%).

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZAD „Armeets” AD</b> <b>iBBB (outlook: stable)</b> <b>November 2014</b>
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As of the end of 2013 the assets that serve to cover the technical reserves of the company, increased by 14.6% year on year, and as of the end of the first half of 2014 there was a growth of 3.7%. The relative share of the high liquid assets increased to 29.1% in line of the increase of 45.1% in government securities.

In 2013 ZAD „Armeets“ AD registered a slight increase of Net Earned Income – 0.5%, whereas the other leading companies realized a decline of 1.0%. The company generated a net profit in the amount of 443 thousand leva, that is by 116.1% higher compared to the realized during the past year. During the first half of 2014 there was an anticipating growth of Net Earned Income (13.4%) compared to the average change of the adjusted sector (7.2%). Net Financial Result is negative, however, in the amount of -8 048 thousand leva.

In 2013 the actual solvency of the company increased, as a result Coverage Ratio also increased and exceeded 2. During the first half of 2014 the Coverage Ratio decreased to 1.19.

The Leverage levels changed poorly during this update period, as remained higher compared to the average for the other leading companies.

The Liquidity ratios of technical reserves and Liquidity of the reserve for forthcoming payments registered a considerable decrease in 2013, and six months later their level remained without any change. Their values are lower in a comparative aspect.

<i>Main Financial indicators (thousand leva)</i>	<i>6.2014</i>	<i>6.2013</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Gross Premium Income	95 384	79 901	177 412	170 891	161 733	155 269
<i>Change rate year on year</i>	19.4%	-4.3%	3.8%	5.7%	4.2%	4.7%
Net Earned Income	83 927	73 979	147 066	146 338	138 622	126 030
<i>Change rate year on year</i>	13.4%	1.1%	0.5%	5.6%	10.0%	-9.0%
Result from insurance activity	-8 523	-1 592	-5 395	-10 237	577	614
<i>Change rate year on year</i>	-435.4%	-23.4%	47.3%	-1874.2%	-6.0%	174.1%
Net profit	-8 048	-107	443	205	899	6 718
<i>Change rate year on year</i>	-7421.5%	93.5%	116.1%	-77.2%	-86.6%	126.0%
Gross Claims Ratios	51.3%	46.2%	51.3%	56.1%	51.4%	44.1%
Net Claims Ratios	57.4%	52.6%	53.2%	58.8%	53.4%	47.9%
Combined Expense Ratio	110.2%	102.2%	103.6%	106.7%	99.6%	99.5%
Operating Leverage	-	-	242%	250%	335%	306%
Financial Leverage	-	-	298%	270%	323%	283%
Liquidity Ratio	2.2%	2.7%	2.5%	2.9%	3.4%	4.4%
Return on equity	-13.6%	3.5%	0.8%	0.5%	2.1%	17.2%