

<b>ZAD „Armeets” AD</b>	Kiril Grigorov, Chairman of the Rating Committee <a href="mailto:grigorov@bcra-bg.com">grigorov@bcra-bg.com</a>
	Vesela Velichkova, lead financial analyst <a href="mailto:v.velichkova@bcra-bg.com">v.velichkova@bcra-bg.com</a>
	Denitsa Nikolaeva, financial analyst <a href="mailto:d.nikolaeva@bcra-bg.com">d.nikolaeva@bcra-bg.com</a>

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:	stable	stable	stable	stable	stable	stable	stable
	Update 14.10.2013						
Long-term rating:	iBBB						
Outlook:	stable						

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**BCRA retains the long-term claims paying ability rating of ZAD „Armeets” AD iBBB (outlook: stable).** The officially adopted methodology by BCRA for assignment of 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 award the credit rating, BCRA uses information from the rated insurance company, FSC, National Statistical Institute, BCRA's database, consultants and other sources of public information.

The main characteristics of the general insurance market in Bulgaria during the period (06.2012 – 06.2013) are:

- The descending trend retains in the realized Gross premium income (GPI) on direct insurance in 2012 (an annual drop of 1.9%), whereas in the first term of 2013 there is a slight growth on an yearly basis (1.7%).

- The growth potential of the insurance market remains high – the levels of insurance density and penetration continue to decrease.

- An improvement of the financial results of the general insurance companies. The sector ended up 2012 with a positive result from insurance activity (8 851 thousand leva), compared to the loss for the previous year (-3 082 thousand leva). During the first term of 2013 the insurance profit is bigger by 13.4% compared to the same period of the previous year. Net financial result also improved in 2012, also as of 06.2013 on an yearly basis.

- The descending trend of the market share of the leading companies discontinued: they improved their positions and as of the end of 2012 they occupied 66.3% at the general insurance market (65.9% a year earlier), and as of the middle of 2013 – 68.7% (67.5% as of 06.2012).

- The car insurances continue to dominate at the general insurance market. In 2012 their share decreased slightly to 70.9% (compared to 72.2% for 2011), whereas in first six months of 2013 there was a slight increase (to 71.6%, 70.6% a year earlier).

During the update period there was an increase of the shareholding capital of ZAD „Armeets” AD by 18 000 thousand leva through a new issue of shares, a major part of them registered by the major shareholder – „Central Cooperative Bank Group” EAD, which led to an increase of its share in the company's capital. The main strategic targets of the company do not undergo considerable changes.

In 2012 ZAD „Armeets” AD registered a growth of 8.0% in GPI on direct insurance in terms of a shrinking

market (a decline of 3.2% for the adjusted sector<sup>1</sup>), as a result the company increased its market share up to 12.89% (11.71% a year earlier). The increase is mainly in line of the car's insurances (an annual growth of 8.0% compared to a decline of 5.4% for the other companies). As a result of this dynamics ZAD „Armeets” AD increased its market share by 0.70 p.p. with „Motor Third Party Liability“ and by 2.92 p.p. with „Autocasco“. With the property insurance the company realized a higher GPI by 3.7% compared to 2011, but a slight decline of the market share.

In the first term of 2013 ZAD „Armeets” AD registered a decline of GPI on direct insurance by 4.23% (compared to a growth of 2.46% for the adjusted sector), by decreasing its market share by 0.72 p.p. to 11.76% year on year. „Autocasco“ registered an increase (9.28% on an yearly basis, compared to 2.04% a decline for the adjusted sector), which leads to an increase of the market share on this insurance by 2.25 p.p. compared to a year earlier. The main property insurance („Fire and natural disasters“) registered a slight decline of 3.01% in the first term of 2013 on an yearly basis, whereas the drop of „Other damages of property“ reached to 6.29%.

With regards to the structure of the company's portfolio on direct insurance in 2012 the main changes are related to a slight growth in the share of the „Autocasco“ insurance (0.77 p.p., up to 50.36%) and a decrease of the share „Motor Third Party Liability“ (0.70 p.p. up to 30.98%). In the first term of 2013 the increasing trend of „Autocasco“ retains, a slight decrease year on year is observed with „Motor Third Party Liability“. The company continues to maintain a lower share of „Motor Third Party Liability“ compared to the average for the peer group and higher share of the „Autocasco“ insurance.

In 2012 Net Claims Ratio of ZAD „Armeets” AD increased and they are a little higher compared to the average for the other leading companies. In the first term of 2013 there was a decrease, as a result the position of the company is favourable in a comparative aspect.

The Net Acquisition Ratio increased slightly in 2012, as well as of 06.2013 year on year, and it is a bit higher compared to the average for the other leading companies. The Expense ratio retains the same in 2012, and during the first term of 2013 there was an increase on an yearly basis, as its level retains higher

compared to the average for the peer group. The combined expense ratio increased and exceeded 100%, during the analyzed period which is an indicator for a loss from insurance activity. At the same time the average value for the reference group remains under 100% for 2012, as well as as of June 2013.

ZAD „Armeets” AD continue to maintain contracts of reinsurance coverages in the main groups of insurances with reinsurers which belong a high credit rating, as no changes have occurred in the reinsurance programme during the analysed period.

In 2012 the amount of the investment portfolio increased considerably compared to the end of the previous year (20.3%), whereas on average the other companies registered a drop by 0.65%. The increase of the portfolio of ZAD „Armeets” is in line of a 57.4% growth of investments in bank deposits related to the procedure for increasing the shareholding capital and it increased the total relative share of the high liquid assets (government securities + bank deposits) to 45.2% (37.8% at the end of 2011). Despite that this share remains considerably lower than the average for the other general insurance companies (74.3%).

In the first term of 2013 the investment assets of ZAD „Armeets” AD retains without any considerable change compared to the end of 2012 (a growth of 0.06%), whereas for the same period average the other companies from the sector registered a decline of 1.49%. The structure of the investment portfolio underwent considerable changes. The investments in bank deposits registered a sensitive decline compared to the end of 2012 (41.1%), as the decrease is at the expense of a growth in the investments in securities. As a result the share of the high liquid assets decreased to 30.3% as of June 2013 (on average for the other companies – 74.1%).

In 2012 the profitability of the investment portfolio of ZAD „Armeets” increased considerably – to 9.5% at the end of the year (0.6% in 2011) and it is considerably higher than the average for the other companies in the sector (5.0%). During the first term of 2013 the company reached considerably higher investment profitability compared to the same period of the previous year, as well as compared to the other general insurance companies. Forming the portfolio of assets for coverage of the technical reserves the requirements of diversification are kept, defined in the Code of insurance.

In 2012 ZAD „Armeets” AD realized a growth of 5.6% of Net earned income, which anticipated the average for the other companies in the sector (1.6%). Net

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

	<b>CLAIMS PAYING ABILITY RATING</b> <b>ZAD „Armeets” AD</b> <b>iBBB (outlook: stable)</b> <b>October 2013</b>
<b>95, Evlogi Georgiev, fl. 1</b> 1142 Sofia	<b>phone: (+359 2) 987 6363</b> <b>www.bcra-bg.com</b>

financial result is positive (205 thous. leva), but considerably lower (77.2%) compared to the previous year. This is due to the considerable decline in the result from insurance activity which is negative and is compensated by the considerably big investment profit in amount. This dynamics of Net Financial Result determines the decreasing return on equity which is considerably lower in comparative aspect.

During the first term of 2013 ZAD „Armeets” AD registered a growth (year on year) of Net Earned Income compared to the sector, which reported a decline of 2.3%. There is a loss from insurance activity, which is bigger by 23.4% compared to the reported for the same period of the previous year. The profit from investment activity reduced the net loss to 107 thous. leva. The return on equity retains on an unfavourable level in a comparative aspect.

The factual profitability of ZAD „Armeets” AD increased considerably during the period under review, mainly in

line of the increased equity. As a result the coverage ratio also increased considerably and exceeded 2 in the middle of 2013. The company maintains considerably high leverage levels, which decreased during the analyzed period, but remained a little higher compared to the peer group. The Liquidity ratios of the technical reserves and liquidity of the reserve for future payments increased at the end of 2012 (in line of the increased bank deposits related to the increase of the shareholding capital), then in the first term of 2013 they decreased again and are lower in a comparative aspect.

<b>Main Financial Indicators (thousand leva)</b>	<b>6.2013</b>	<b>6.2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Gross Premium Income	79 901	83 471	170 891	161 733	155 269	148 239
<i>Change rate year on year</i>	-4.3%	10.1%	5.7%	4.2%	5.0%	2.0%
Net Earned Income	73 979	73 150	146 338	138 622	126 030	138 567
<i>Change rate year on year</i>	1.1%	10.9%	5.6%	10.0%	-9.0%	30.0%
Result from insurance activity	-1 592	-1 290	-10 237	577	614	224
<i>Change rate year on year</i>	-23.4%	-263.1%	-1874.2%	-6.0%	174.0%	-
Net profit	-107	-1 650	205	899	6 718	2 975
<i>Change rate year on year</i>	93.5%	-197.8%	-77.2%	-86.6%	126.0%	54.0%
Gross Claims Ratio	46.2%	54.8%	56.1%	51.4%	44.1%	50.1%
Net Claims Ratio	52.6%	56.2%	58.8%	53.4%	47.9%	53.1%
Combined Expense Ratio	102.2%	101.8%	106.7%	99.6%	99.5%	99.8%
Operating Leverage	-	-	250%	335%	306%	394%
Financial Leverage	-	-	270%	323%	283%	299%
Liquidity Ratio	2.7%	3.3%	2.9%	3.4%	4.4%	4.4%
Return on equity	3.5%	-4.2%	0.5%	2.2%	17.2%	9.0%