

ZAD „Armeets” AD

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Claims Paying Ability Rating	Initial Rating 6/06	Update 11/07	Update 12/08	Update 10/09	Update 30/08/10
Long-term rating :	BB+	iBBB-	iBBB-	iBBB	iBBB
Outlook :		Stable	Stable	Stable	Stable
Short-term rating :		A-3	A-3	A-3	A-3

Bulgarian Credit Rating Agency (BCRA) is the only Bulgarian agency listed as eligible by the Financial Supervision Commission and its credit ratings are acknowledged for the aims of article 75, paragraph 2 of the Bulgarian Insurance Code equally along with these of Moody's, Standard & Poor's and Fitch. BCRA has already rated most of the leading local insurance companies. In 2004 BCRA adapted the claims paying ability rating methodology for insurance companies from ICRA (An associate of Moody's Investors Service).

BCRA has reaffirmed the long-term claims paying ability rating iBBB (outlook: stable) and short-term rating A-3 to ZAD "Armeets" AD. The officially adopted methodology of awarding of claims paying ability rating to insurance companies is used by BCRA (http://www.bcra-bg.com/files/method_6.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.

During the passed period the Bulgarian economy continued being under the influence of global crisis's effects. The main factors which influence over the development of the Insurance sector are as follows: the narrowed consumption of the households under the pressure of the increasing unemployment, the decline of the incomes and negative expectations for the crisis development. The decline of the car sales, the decrease of the lease purchases and the restricted crediting of the banks, exercised negative influence upon the demand of most of the general insurance products.

In 2009 GDP on direct insurance registered a decline, which deepened during the half-year of 2010. Due to the good results from investment activity at the end of 2009, the companies from the Sector registered Positive Net Financial Result amounting to 26 689 thous. leva (compared to -6 310 thous. leva in the previous year); during the half-year of 2010 the Net Positive Financial Result increased and reached to

15 267 thous. leva (8 849 thous. leva for the same period of 2009). The main reason is the started recovery of the financial markets. As of the end of the period no significant change occurred in the market concentration; 68% of the market was occupied by six leading companies. The cars' insurances continued playing a leading role in the Sector with share of 70.9%. BCRA estimates the risk from the state of the Sector to be relatively low.

During the rating update period the Company has taken out an additional license from FSC for new type of insurance "Rail Vehicles". No changes occurred in the shareholding structure, as well as in the membership of the Management board and Supervisory board. The strategic development directions of the Company remained unchangeable and the management business activity is focused to gain the aims set in the programme of ZAD Armeets AD. **BCRA retains the fair estimation for the Company management.**

At the end of the analyzed period GDP realized on direct general insurance by ZAD "Armeets" AD decreased by 4.09% compared to the average market decline of 5.67%; the result is the market share of the company increased by 0.17%. The market share on the base of the total direct premium amounts to 10.36%. During the first half-year of 2010 no significant changes occurred in the structure of the insurance portfolio of ZAD "Armeets" AD on yearly base. In 2009 the Net Claims Ratios of ZAD „Armeets” registered a slight growth reaching 53%, however, they remain lower compared to the average for the leading companies (56%). During the first half-year of 2010 the Net Claims Ratios of the rated company maintained the levels like these of the same period of the previous year, whereas the average value of the competitive group increased by 4%. ZAD „Armeets” continues occupying a good position on this indicator. In 2009 the Net Commission Ratio registered a slight drop (2%), however its values continue being higher compared to these of the competitive insurance companies (the average value of

the indicator for the group is 22%). During the first half-year of 2010 the Net Commission Ratio continued decreasing and reached the average value of the other leading insurance companies. In 2009 the Expense Ratio registered a significant downturn of 4%, reaching 22% and the company occupies a favorable position compared to the other leading insurance companies in comparative aspect. Though during the first half-year of 2010 the Expense Ratio of the rated company increased and the average value for the competitive group decreased ZAD “Armeets” has a relatively favourable position on the reviewed indicator. In 2009 the levels of the Combined Expense Ratio decreased significantly and reached relatively favourable values (99.8%), which are an indicator for the realized profit from insurance activity of ZAD “Armeets”. The average value of the reviewed indicator for the competitive group exceeded 100%, which shows that the leading insurance companies have losses from insurance activity. During the first half-year of 2010 the value of the Combined Expense Ratio of the rated company continued decreasing (0.5% on yearly base), however, this indicator increased for the other insurance companies on the average. In comparative aspect ZAD “Armeets” continued occupying a favourable position. **BCRA estimates the risk from operating activity of the company to be moderate.**

Significant changes in the re-insurance company policy haven't occurred. The Company continues using re-insurance contracts with different re-insurers having high credit rating (min. rating BBB on the scale of S&P), in order to control the disclosure of loses as a result of the occurrence of an insurance event.

BCRA estimates the risk from re-insurance activity of the company to be relatively low.

For the period of 06.2009 - 06.2010 the investment portfolio of ZAD “Armeets” enhanced by 2.3% and dropped behind compared to the average growth in the portfolios of the other companies from the Sector (9.9%). The Company has an investment portfolio structured with relatively high risk level – the percentage of the stocks and shares (48.5%) remained very higher compared to the average for the Sector (3.3%) and the

Main Financial Indicators of ZAD „Armeets” AD

Indicator	6.2010	6.2009	2009	2008
Gross Direct Premium	71 325	74 334	148 239	145 968
Change (%)	-4%	13%	2%	61%
Net Earned Income	64 799	69 226	138 567	106 243
Change (%)	-6%	39%	30%	54%
Result from Insurance activity	485	106	224	-4 688
Profit Before Taxation	3 884	1 285	3 745	1 595
Net Financial Result	3 496	1 155	2 975	1 937
Change (%)	203%	-106%	54%	-87%

average for the other leading companies (3.6%). To a great extent, the risk from the large share of the portfolio shares decreased because most of the shares belong to the companies from the Himimport group, part of which ZAD “Armeets” AD is. The incomes from investment activity are generated mainly from revaluation of the financial assets. The gained portfolio profitability is 3.6% as of 30.06.2010, which exceeded highly the average profitability of the other companies from the Sector (2.0%).

BCRA estimates the risk from investment activity of the company to be relatively high.

In 2009 ZAD “Armeets” reached a growth of 1.56% in the realized GDP (total decline in the Sector of 5%), positive net financial result and profit from insurance activity. The levels of the Net Claims Ratios and Liquidity Ratio are relatively stable. Net Profitably amounting to 2,25% which is an increase of 0.81% on yearly base is available. During the first half-year of 2010 ZAD “Armeets” registered a downturn in the realized GDP amounting to 4.05% (average market decline of 6.21%) and decrease of 6.39% in the Net Earned Income. The Claims Ratios maintained stable. There is Insurance profit amounting to 485 thous. leva (compared to 106 thous. leva as of 06.2009) and triple higher Net Financial Result (3 496 thous. leva) compared to the same period of the previous year (1 155 thous. leva). During the period under review the shareholding capital maintained unchangeable. As of the end of 2009 the Equity registered a growth of 11.11%, determined by the current positive financial result. During the first half-year of 2010 the Equity increased by 15.5% on yearly base in line of undisturbed profit and higher current financial result compared to the same period of 2009.

BCRA estimates the risk from the financial state of the company to be moderate.



CLAIMS PAYING ABILITY RATING
ZAD „Armeets” AD
iBBB (*outlook: stable*)
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Gross Claims Ratio	50%	47%	51%	48%
Net Claims Ratio	52%	52.0%	53.1%	51.4%
Combined Expense Ratio	99.25%	99.85%	99.76%	104.4%
Operating Leverage			394%	336%
Financial Leverage	275%	307%	299%	306%
Liquidity Ratio	4.4%	4%	4%	5%
Return on Equity			8%	6%