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<h2>ZAD „Armeets” AD</h2>	<p>Delyan Pehlivanov, lead financial analyst d.pehlivanov@bcra-bg.com</p> <p>Elena Touyova, senior financial analyst elena.touyova@bcra-bg.com</p> <p>Vesela Velichkova, financial analyst v.velichkova@bcra-bg.com</p>
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PCИИ	Initial Rating 6.2006	Update 11.2007	Update 12.2008	Update 10.2009	Update 30.08.2010	Update 10.08.2011
Long-term Rating:	BB+	iBBB-	iBBB-	iBBB	iBBB	iBBB
Outlook:		Stable	Stable	Stable	Stable	Stable
Short-term Rating:		A-3	A-3	A-3	A-3	A-3

Bulgarian Credit Rating Agency (BCRA) is the third qualified rating agency in EU, registered under Regulation No. 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

BCRA retains the long-term claims paying ability rating iBBB to ZAD “Armeets” AD (outlook: stable), short-term rating: iA-3. BCRA applies the methodology, which is officially adopted for assignment of claims paying ability rating of insurance companies (http://www.bcra-bg.com/files/file_202.pdf).

The information, provided by the rated insurance company, FSC, NSI, BCRA's database, consultants and other sources of public information is used in the elaboration of the report and assignment of the claims paying ability rating.

During the period under review the global crisis continues dominating the development of the Bulgarian economy, though the reported growth of 1.5% in GDP for the first quarter of 2011. In 2010 Gross Premium Written in the general insurance continued reducing, the decline is 5.1% compared to the past year. In the first quarter of 2011 the shrink of the market slowed down to 2.7% year on year. The insurance density and insurance penetration also decreased. Year of 2010 is characterized with negative results for the general insurance sector – the companies in the sector reported an increasing loss from insurance activity and decline in the profits from investment activity compared to the previous year of 2009, as a result of which the sector generates a net loss of EUR 16 387 thousand. In the

first quarter of 2011 the trend for a negative result from insurance activity is retained, though the realized investment profit compensated it, and the sector reported a net profit of BGN 4872 thousand (compared to BGN 17 737 thousand for the corresponding quarter of 2010). The high concentration of the market is maintained. The dominating position of car insurances is also maintained. No significant changes occurred in the legislation.

During the update period no changes occurred in the shareholding structure of ZAD “Armeets” AD. The number and composition of the members of Board of Directors and Advisory Council remained the same as these in the previous period. The strategic development directions of the company remain unchanged; the actions of the management are focused on achievement of the purposes set in the programme of ZAD „Armeets” AD.

In 2010 ZAD “Armeets” AD reached a growth of 4.64% in Gross Premium Written in direct insurance on conditions of a shrinking market (the corrected sector reports a decline of 6.20%), which reflects on the increase of the company's market share – from 10.1% at the end of 2009 to 11.1% as of 31.12.2010. The most significant growth in the premium written is observed with Motor Third Party Liability insurance – 46.1% on a yearly basis, which is in unison with the common trend in the sector. Significant decline is observed with „Autocasco” insurance – 11.6%. This dynamics is characteristic for the whole general insurance market. In the first quarter of 2011 Gross Premium Written in direct insurance realized by ZAD “Armeets” AD, increased by 16.1% on a yearly basis, whereas the premium written for the sector as a whole continues shrinking (a decline of 4.5% on a yearly basis), which reflects on the increase of market share of the company from 8.7% as of 3.2010 to 10.4% as of 3.2011. The increase of the income is in line of „Motor Third Party Liability” (76.8%)



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iBBB (outlook: stable)
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insurance. In the first term of the current year the ascending trend in the Gross Premium Written of ZAD „Armeets” AD is retained, a growth of 6.2% is available on a yearly basis, determined by the increase of the premium written on insurance Motor Third Party Liability (78.3%). During the period under review the basic changes in the structure of the insurance portfolio of ZAD „Armeets” AD are made up of a decline of the share of „Autocasco” insurance (9.6% as of 12.2010 and 8.0 % as of 6.2011) on the account of the increased share from Motor Third Party Liability insurance (7.7 % as of 12.2010 and 12.3 % as of 6.2011). In the first term of the current year there is a slight decline with „Fire and disasters” (2.0 %) and „ Aircrafts” insurances (1.2%). Any significant changes with their shares are not observed with the other insurances. In 2010 there was a decline with Net Claims Ratio, which decreased from 53.1% for 2009 to 47.9% for 2010. This trend is also retained during the first term of 2011; in comparative aspect ZAD „Armeets” continues reaching more favourable values than the most leading insurance companies, as well as from the sector as a whole. Expense Ratio increases on a yearly basis during the whole analyzed period. During the period under review the rated company registered relatively favorable and improving values of Combined Expense Ratio, which are an indicator for positive result from insurance activity.

ZAD „Armeets” AD has organized re-insurance covers for its main types of insurance. In the update period the limits under most of the contracts are increased. The company continues using re-insurance companies with a high credit rating.

As of the end of 2010 the size of the investment portfolio of the company has increased by 13.7% in comparison with the past year; the growth anticipated highly the average value of the achieved increase by the other companies in the Sector (8.5%).

The increased size of the investment assets is mainly in line of the bank deposits. Though that the share of high liquid assets (32.0%) in the structure of the investment portfolio remained significantly lower than the average for the other companies in the sector (70.5%). In their bigger part the incomes from investment activity in 2010 are formed by positive differences in the re-estimation of the share securities. The profitability of the investment portfolio of ZAD „Armeets” (6.11%) is significantly higher than the past year (2.97%) and exceeds the achieved average profitability compared to the other companies in the sector in 2010 (5.16%). At the end of the first quarter of 2011 the company increased the size of its investment assets by 12.28% on a yearly basis and highly anticipated the average growth compared to the other companies from the sector (6.57%). The profitability as

of 31.03.2011 (1.21%) is lower compared to the achieved by ZAD „Armeets” AD during the same period of the past year (9.21%), as well as from the realized average profitability of the other general insurance companies in the first quarter of 2011 (5.21%). As of 30.06.2011 the increase of the investment portfolio of ZAD „Armeets” AD reached 13% on a yearly basis. The portfolio’s structure do not undergo any significant changes. The profitability is 3.79% (4.89% for the same period of 2010). In formation of the portfolio the requirements, defined in the Insurance Code for diversification of the assets for coverage of technical reserves are observed.

In 2010 ZAD „Armeets” registered a growth of 4.74% in the total realized Gross premium Written at a shrinking market (decline of 6.21% for the sector), decline of 6.4% in Net Earned Written in line of the increase of premium reserves, as well as the formation of „other technical reserves”. The decline in Net Earned Written for the general insurance market as a whole is strongly anticipating -10.21% on a yearly basis.

Increase of 126% is available with Net Financial Result compared to the past year. Both Gross and Net Claims Ratios are decreasing. The levels of Liquidity Ratio remain relatively stable. Net Financial Result increase with quicker rates than the equity, which reflects on significantly higher return on equity compared to the gained in 2009. In comparative aspect the company registered significantly higher values of the analyzed indicator.

During the first term of 2011 the financial state of ZAD „Armeets” AD is characterized with retention of the positive dynamics of Gross Premium Written – a growth of 6.32% year on year. According to the latest published data by FSC as of the end of May 2011, there was a growth (0.42%) of Gross Premium Written totally for the market for first time for two years, however, with corrected with data of the rated company Gross Premium Written there is a decline again (0.35%). For the same period ZAD „Armeets” registered a growth of 7.54%. During the first term of the current year Net Earned Income increased by 1.8%. Decline of 57.1% is available with Net Financial Result determined by the decrease in the profit from investment activity. The decrease of the realized financial result reflects on lower Return on Equity. During the first three months of 2011 Net Financial Result, realized by ZAD „Armeets” AD, decreased by 80.2% year on year, however it should be noted that Net Financial Result totally for the market also register a significant decline compared to the realized in the same quarter of the past year. The descending trend of Gross and Net Claims Ratio is maintained.

During the analyzed period ZAD „Armeets” hasn’t allocated dividends, and capitalized its profit, for this

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reason the dynamics of the equity is entirely defined by Current Financial Result. The state of the capital base of the company remains dependent on the income from re-estimation of assets in the investment portfolio. The own funds decreased with the intangible assets, follow a stable increasing trend, with quicker rates compared to the solvency boundary. It reflects on the Coverage Ratio, which increases annually as of the end of 2010, as well as of 6.2011. In 2010 Operating Leverage of the rated company decreased sharply, however, its value remains higher than the average for the other leading insurance companies. Financial Leverage registered a slight decline during the period under review, though it remains higher than the average for the competitive group. During the analyzed period Liquidity Ratio of the

technical reserves and Liquidity Ratio of the reserve for forthcoming payments increase year on year, though their values as of 31.03.2011 (respectively 34.6% and 85.1%) remain significantly lower than the average for the other leading companies (respectively 73% and 130%), as well as than the average for the sector as a whole (respectively 79.5% and 141.6% as of 31.03.2011).

Main Financial Indicators of ZAD „Armeets” AD

	6.2011	6.2010	2010	2009	2008	2007
Gross Direct Premium	75 836	71 325	155 269	148 239	145 968	90 725
Change rate year on year	6.32%	-4.05%	5%	2%	61%	57%
Net Earned Income/Written	65 989	64 799	126 030	138 567	106 243	69 046
Change rate year on year	1.8%	-6.4%	-9%	30%	54%	50%
Result from Insurance Activity	791	485	614	224	-4 688	-773
Change rate year on year	63%	358%	174%	-	-	-
Net Profit	1 687	3 496	6 718	2 975	1 937	14 910
Change rate year on year	-52%	203%	126%	54%	-87%	-15%
Gross Claims Ratio	46.8%	49.6%	44.1%	50.1%	50.9%	44.3%
Net Claims Ratio	50.9%	52.0%	47.9%	53.1%	51.4%	46.7%
Combined Expense Ratio	98.8%	99.3%	99.5%	99.8%	104.4%	101.0%
Operating Leverage	-	-	306%	394%	336%	143%
Financial Leverage	276	275%	283%	299%	306%	121%
Liquidity Ratio	3.5%	4.4%	4.4%	4.4%	4.5%	4.3%
Return on Equity	11.8%	14.6%	17.2%	9.0%	6.6%	35.9%

During the period under review ZAD “Armeets”AD continues to be characterized with an overall fair financial state.