

ZAD „Armeets” AD

Delyan Pehlivanov, lead financial analyst
d.pehlivanov@bcra-bg.com

Elena Touyova, financial analyst
elena.touyova@bcra-bg.com

Claims Paying Ability Rating	Initial Rating	Update	Update
	6/2006	11/2007	12/2008
Long-term rating :	BB+	iBBB-	iBBB-
Outlook :		Стабилна	Стабилна
Short-term rating :		A-3	A-3

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

BCRA retains the long-term credit rating of claims paying ability of ZAD „Armeets" iBBB- (outlook: stable) and short-term credit rating ia-3. BCRA uses the officially adopted methodology of assignment of claims paying ability rating of insurance companies (http://www.bcra-bg.com/files/method_6.pdf).

To elaborate the credit report and award the credit rating BCRA uses information from the rated insurance company, FSC, NSI, BCRA's database, consultants and other sources of public information.

During the observed period there was a trend of increased Gross Direct Premium (GDP) for the whole insurance market.

Vehicles insurances continue having a leading role on the market. Their share as of the end of 2007 was 65,7%, and as of 31.08.2008 it increased to 69,3% - "Insurance of land vehicles" (Autocasko) ~47,1 and "Motor Third Party Liability" ~22,2%. The market share of the leading companies decreased. About 52% of the market share in general insurance sector is occupied by ZAD „Bulstrad", „DZI-General Insurance", ZAD „Alianz Bulgaria" and ZD „Bul Ins".

During the actualization period ZAD „Armeets", "CKB" AD, Foundation „BVVS" and "TEREM" EAD left the shareholding structure. Their shares were bought by "Niko-Komers" EOOD and FBK "Logos-

TM" AD. The share of the major shareholder – „CKB Group" EAD (a part of „Himimport" group) is kept.

The Company management took some measures to improve the services. New types of insurance are brought in. The second liquidation centre in Sofia has been completed and six new liquidation centers have started working on the territory of the state. Online decisions are implanted for the users of the insurance services. The process of centralization of the data base and introduction of the whole management system has been finished. The FAS (financial accounting software) is replaced.

The company insurance activity continued following its positive development trend – in 2007 the company realized growth in Gross Direct Premium (GDP) ~57%, and for the 9-month period of 2008 ~67% year on year. The market share of ZAD „Armeets" has increased. At the end 2007 it reached to 7.15% (compared to 5.46% at the end of 2006). In 2008 the trend was kept and the market share of the company increased from 6.95% as of 09.2007 to 9.41% as of 09.2008. ZAD „Armeets" continues to mark growth in Gross Direct Premium (GDP) in main business directions – 79% for „Autocasko" compared to September 2007 and over 87% for "Motor Third Party Liability" for the same period. As of October 2008 the company occupied the fourth position by market share in motor segment. The share of car insurance in the company portfolio reached ~78% for 2007 and ~81% for the 9-month period of 2008. The company realized growth of the incomes regarding all types of insurance, excluding insurance of credits and Aircraft Third Party Liability. The share of the property insurance is kept at relatively stable levels.

The net claims ratios marked a slight drop in 2007 mainly with regard to "Motor Third Party Liability". During the 9-month period of 2008 they

increased again and reached the highest levels for the period 12.2001-09.2008r. In 2007 the net commission ratio was kept at the same levels as of the past year. During the 9-month period of 2008 the expenses of commission increased with slower rates compared to net earned premium, which is determined by the higher share of direct sales. As a result of this the value of the analyzed indicator decreased and became more similar to the average of the competitive group. The expenses ratio marked a drop in 2007, determined by the high rate of increase of the net earned premium. During the 9-month period of 2008 this trend continued and the indicator occupied the lowest value for the period 12.2001-09.2008. The combined expense ratio continues taking unfavorable values within the analyzed period.

The increased trend of the retention levels of ZAD „Armeets” is kept. The company runs the risk since the moment in which unfavorable events occur by concluding contracts with reinsurance companies having rating not lower than BBB- in the scale of S&P and find market for its reinsurance program via reinsurance brokers with established reputation such as AON, MARSH, WILLIS and etc, located in London, Great Britain.

In 2007 the investment incomes of ZAD „Armeets” decreased in comparison with the past year, but it kept very high levels ~18% and it is due mainly to the incomes coming of securities revaluation. In 2008 the value of the investment portfolio decreased by 9,1% and the company marked net losses of the securities amounting BGN 4545 thousands, but despite that it reached net investment incomes as of the end of 2008 amounting BGN 6210 thousands. In the portfolio structure the share of the properties increased in comparison with investments in shares. The share of quick liquid assets remains unchangeable (~38). As of the end of 2008 r. their share in the assets for covering the technical reserves decreased to ~28%. Within the period of actualization the company has portfolio structured with moderate risk level and complying to the requirements of the Code of Insurance.

In 2007 drop was witnessed in the net financial result determined mainly by the growth of the net claims incurred and Commission on Direct business and drop in the value of collection ratio. Growth of ~57% in the Gross Premium Written and increased net gained income over 50% are observed. Gross and net claims ratios remained relatively stable. The amount of own funds, decreased with intangible fixed assets continued to

exceed significantly the range of solvency. Levels of operating and financial leverage are kept at relatively stable levels, but as of the end of 2008 they increased significantly. The growth of the operating leverage is determined by the high growth of the net gained income at drop in the operating capital amount, and the financial leverage increased by ~159% due to the high growth of the technical reserves.

In 2008 a significantly lower net financial result was achieved compared to the past years, determined by the high growth of the net claims incurred (~70% at growth of the net earned premium ~54%).

The financial company condition is kept stable.

Indicator	2008	2007	2006
Gross Direct Premium (GDP)	145 804	90 725	57 889
Change (%)	60.71%	56.72%	29.40%
Net Earned Premium	106 150	69 046	45 916
Change (%)	53.74%	50.37%	29.80%
Insurance Activity Result	-4 066	-1 095	-5 434
Profit before Taxation	1 016	15 124	19 945
Net Financial Result	1 016	14 910	17 497
Change (%)	-93%	-15%	161%
Gross Claims Ratio	31%	28%	27%
Net Claims Ratio	51%	47%	51%
Combined Expenses Ratio	104%	101%	112%
Operating Leverage	344%	143%	137%
Financial Leverage	313%	121%	113%
Liquidity Ratio	13%	18%	24%
RONW	3%	31%	52%