

**ZAD „Armeets” AD**

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	Initial Rating	Update	Update	Update
<b>RCPA</b>	<b>06/06</b>	<b>11/07</b>	<b>12/08</b>	<b>10/09</b>
<b>Long-term rating :</b>	<b>BB+</b>	<b>iBBB-</b>	<b>iBBB-</b>	<b>iBBB</b>
<b>Outlook :</b>		<b>Stable</b>	<b>Stable</b>	<b>Stable</b>
<b>Short-term rating :</b>		<b>A-3</b>	<b>A-3</b>	<b>A-3</b>

**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 assigns a long-term claims paying ability rating iBBB to ZAD Armeets (outlook: stable), short-term rating ia-3. The officially adopted methodology of claim paying ability rating of insurance companies is used ([http://www.bcra-bg.com/files/method\\_6.pdf](http://www.bcra-bg.com/files/method_6.pdf)).

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

During the observed period the growth of GPP in the general insurance sector was strongly slow (0.39%) as a result of global crisis effects. Vehicles insurances go on playing a leading role on the market. Their relative share for the first 6-month period of 2009 is 69.8%, which is a slight increase of yearly basis. There is an increased share of Motor Third Party Liability whereas this of "Autocasko" decreased. The downturn of ~ 35% on yearly basis in import of vehicles during the passed period of 2009 strongly restricted the growth of insurance vehicle incomes. The increase of GPP on them is 1.81% for the first six months of 2009 (29.48% for the same period of 2008). The concentration keeps its high levels in the sector—over 50% of the market is occupied by 4 companies – ZAD „Bulstrad”, „DZI-General Insurance”, ZK „Lev Ins” and ZAD „Armeets”, as

the last two companies have displaced ZAD „Alianz Bulgaria” and ZD „Bul Ins”.

During the actualization period of credit rating a change in shareholding structure of ZAD Armeets is observed. The share of "Niko Commerce" EOOD decreased whereas „Himimport” AD increased. The share of major shareholder - „CKB Group” EAD is kept the same. The strategic directions of development of ZAD „Armeets” aren't changed. Management activities are focused on achieving the established aims in the program, as a result of which the company has increased its market share. The increase of its GPP year on year strongly anticipated the average growth for the market as well as introduced in the programme growth of 8%. **BCRA keeps a very good mark for company management.**

- During the observed period ZAD „Armeets” realized a growth in GPP ~13.2% on yearly basis. The market share increased to 10.22% at 9.07% for the half-year of 2008. Most considerably It increased on insurances „Motor Third Party Liability, related to ownership and application of aircrafts” and „Various financial losses”, reaching 59.08% and 12.14% (at 41.01% and 0.15% as of 06.2008). GPP goes up mainly in following business directions – „Autocasko”, „Aircrafts casko”, „Various financial losses”, „Motor Third Party Liability”, related with ownership and use of vehicles” and „Insurance of credits”, as the increase on the last three types of insurances is considered as a hazardous factor with a view of that the economical crisis in the country directly reflect on claims in directions „Various Financial Losses” and „Insurance of credits”, and insurance Motor Third Party Liability as a whole is characterized with a hazardous profile though expected changes in its price formation. During the first half-year of 2009 Net Claims Ratios of the company kept occupying lower values compared to the average for the leading companies. The Net Commission Ratio marked an insignificant growth and its values go on being higher compared to these of the competitive companies. The Expense Ratio also marked a growth on yearly basis. Though that its

values remain significantly lower compared to the average for the competitive group. The levels of the Combined Expense Ratio decrease significantly and reach relatively favourable values. Except the company under rating, during the first half-year of 2009 only ZAD Allianz Bulgaria marked a profit of insurance activity. The values of the Combined Expense Ratio reached to 99.9%. It is mainly due to the drop of Expense Ratio. **BCRA considers that the risk from company operating activity is kept moderate.**

For period of rating actualization no changes happened in re-insurance company program. During the first half-year of 2009 retention level of ZAD „Armeets” got lower slightly, but it retains relatively stable. The Net Claims Ratios went down as the share of re-insurance undertakers in the technical reserves is kept on stable levels. The company doesn't stop applying re-insurance contracts with different re-insurance undertakers having high credit rating (minimum rating BBB on the scale of S&P), in order to control exposing on losses as a result of happening of an insurance event. **BCRA assesses the risk from company re-insurance activity as relatively low.**

During the first half of 2009 the investment revenues of ZAD „Armeets” decreased in comparison with 2008, but it retains a positive value (~2%). The incomes are formed mainly by revaluation of owned shares. The value of the company investment portfolio increased by 28% compared to its value at the beginning of the year. The increase is due to securities purchased in 2009, which changed the relative shares of the rest tools though the investments made into high liquid assets and immovable properties changed its value slightly. The company has an investment portfolio structured with relatively high level of risk, in view of the high size of securities in it and pursuant to requirements of assets diversification for coverage of technical reserves defined in Code of Insurance. **BCRA considers that the risk from investment activity of the company is kept relatively high.**

During the first half-year of 2009 ZAD „Armeets” marked a growth of 13.5% year on year in realized Gross Premium Product, positive Net Financial Result, Profit from insurance activity, drop in values of Net Claims Ratios year on year. The shareholding capital is retained at levels similar like these of previous years, and own capital increased by ~ 9% years on year, determined by current financial result. During the first six-month period of 2009 the actual solvency increased with quicker rates compared to the solvency border, which reflected on the Coverage Ratio. The company

indicators of Liquidity are retained on relatively stable levels during the analyzed period. **BCRA considers that the risk from the financial status of the company is kept moderate.**

Indicator	6.2009	2008	2007	2006
GDP	74 334	145 804	90 725	57 889
Change (%)	13.50%	60.71%	56.72%	29.40%
Net Earned Income	69 226	106 243	69 046	45 916
Change (%)	39.03%	53.87%	50.37%	29.80%
Insurance Activity Result	54	-4 844	-1 095	-1 011
Profit Before Taxation	1 285	1 595	15 124	19 945
Net Financial Result	1 155	1 937	14 910	17 497
Change (%)		-87%	-15%	161%
Gross Claims Ratios	47%	48%	44%	38%
Net Claims Ratios	52%	51%	47%	41%
Combined Expenses Ratio	99.9%	104.6%	101.5%	102.1%
Operating Leverage		336%	143%	137%
Financial Leverage		306%	121%	113%
Liquidity Ratio	4%	5%	4%	7%
RONW		6%	31%	65%

**BCRA increases the long-term claims paying ability rating of ZAD „Armeets” from BBB- (outlook: stable) to BBB (outlook: stable), stating increased company market share, decreasing Net Claims Ratios and achieved strongly anticipating the average for the market growth in GPP in economical crisis.**