

Report on rating research

Customer:	PRIVATE JOINT-STOCK COMPANY "EUROPEAN INSURANCE ALLIANCE"
Registration date:	22.09.1994
USREOU code:	19411125
Legal address:	04050, Kiev city, Hlybochitskaya street, 33-37
Location of the chief office of the company (city, index, street):	01135, Kiev city, Andrushenko street, 4-Г
Name of auditing company confirming reporting in the last financial year:	Auditing firm «Kiev Auditing Service» (Register of ACU № 2128)
The bank, in which the main account of the company is opened:	PJSC «Ukreximbank»
Top executive, title:	Chairman of Board Voronyanskaya Marina
Telephone/fax:	+ 38 (044) 254-63-00, 254-63-39, 254-63-50
Web-site:	http://eia.com.ua/
Rating type:	Financial stability of the insurer (general types of insurance) / credit rating
Rating revision period:	Quarterly
Date of rating assignment:	14.04.2014
Rating by RA «Standard-Rating» (Ukraine) according to the Ukrainian scale (outlook):	uaAA- (stable) The insurer with rating uaAA- is characterized by a very high financial stability compared to other Ukrainian insurers.
The correlation of the national scales with the international scale in the countries of operations:	
The correlation of national (Ukrainian) scale ratings and the international scale ratings, reflecting the rating in the countries of the Agency operations, is set by GPRC "Standard-Rating" Rating Committee.	
Informational restrictions:	
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Ratings use restrictions:	
All the ratings by the Agency are not recommendations for purchase of securities, use of services or taking any economic decisions. The ratings irrespectively of the scale have to be perceived solely as opinion of the Agency analysts on rating object and subject.	

Report content:

#	Section title	Page
A.	General characteristics of the insurer	2
B.	Business activity and competition	3
C.	Business diversification	3
D.	Asset quality	4
E.	Quality of reinsurance	5
F.	Adequacy of forming reserves	5
G.	Equity and solvency reserve	7
H.	Support of shareholders	7
I.	Other factors influencing the rating	7
	Summary of rating components	8

(A) General characteristics of the insurer

Insurance company Private Joint-Stock Company IC «European insurance alliance» was created in September of 1994. At the moment of assigning the rating the Company has been worked in the market for about 20 years.

IC «European insurance alliance» collected UAH 99,04 mln of gross premiums in 2013. Such volume of business enabled to attribute the Company to the category of large participants of the market of classic insurance in Ukraine (*table 1*).

Table 1

Key indicators of Private JSC IC «European insurance alliance», th. UAH, p.p., %

#	Indicators	2013	2012	Change	Growth rate, %
1	Total gross premiums, including	99040.8	88476.4	10564.4	11.94%
2	Insurance indemnities and compensations	31815.1	31569.3	245.8	0.78%
3	Insurance indemnities/Gross premiums ratio	32.12%	35.68%	-3.56 p.p.	-
4	Shareholders' equity	75797	74489	1308	1.76%
5	Liabilities	56320	56659	-339	-0.60%
6	Shareholders' equity/Liabilities ratio	134.58%	131.47%	3.11 p.p.	-
7	Net profit	110	108	2	1.85%
8	ROE	0.15%	0.14%	0.01 p.p.	-
9	ROA	0.08%	0.08%	0.0 p.p.	-
10	Interest bearing assets/Liabilities ratio	75.22%	76.57%	-1.34 p.p.	-

The level of indemnities of IC «European insurance alliance» amounted to 32,12% according to the results of 2013. The Company paid UAH 31,8 mln in 2013. IC «European insurance alliance» entered the 2014 year as provided with shareholders' equity: on 01.01.2014 the shareholders' equity was in 1,34 times more than liabilities of the insurer. It is also important the fact that the activity of IC «European insurance alliance» remained profitable in 2012-2013.

Therefore, the Agency indentified IC «European insurance alliance» as a large Ukrainian company with great work experience in the Ukrainian market of classic insurance. In the Agency's opinion, IC «European insurance alliance» pays great attention to performing commitments to the policyholders as indicated by significant amount and level of indemnities in 2012-2013.

(B) Business activity and competition

The estimated share of IC «European insurance alliance» in the Ukrainian market in 2013 amounts to 0,35%. The calculation was performed on the basis of the total gross

premiums in the classical insurance market in Ukraine in 2013, which amounted to UAH 28,7 bn. However, it should be understood that part of the insurers' premiums, which are part of official statistics, in fact can't be attributed to the market of classical insurance. Therefore, the market share of the Company in Ukraine is better to estimate by expert method. In the Agency's opinion, the share of IC «European insurance alliance» in the Ukrainian market in 2013 amounted to about 1% of the total volume of classical insurance.

The study of the Company's specialization by insurance types showed that IC «European insurance alliance» is a universal insurance company. The proportion of individuals in gross premiums of the insurer amounted to 36,73% according to the results of 2013, i.e. the Company, despite its versatility, had an expressed concentration on accepting risks from legal entities (*table 2*).

Table 2

**Indicators of business activity of
Private JSC IC «European insurance alliance», th. UAH, p.p., %**

#	Indicators	2013	2012	Change	Growth rate, %
1	Total gross premiums, including	99040.8	88476.4	10564.4	11.94%
2	from policyholders-individuals	36381.7	30430.2	5951.5	19.56%
3	from reinsurers	650	596.3	53.7	9.01%
4	Proportion of individuals in gross premiums	36.73%	34.39%	2.34 p.p.	-
5	Proportion of reinsurers in gross premiums	0.66%	0.67%	-0.02 p.p.	-
6	Insurance payments sent to reinsurers	18703	13860.4	4842.6	34.94%
7	Coefficient of dependence on the reinsurers	18.88%	15.67%	3.22 p.p.	-
8	Net premiums	80337.80	74616.00	5721.80	7.69%
9	Premium earned	81675.1	73540.9	8134.2	11.06%
10	Financial result from operating activity	2352	-2135	4487	-
11	ROS	2.37%	-2.41%	4.79 p.p.	-
12	Acquisition costs	21081.2	19118.4	1962,8	10.27%
13	Acquisition costs/Gross premiums ratio	21.29%	21.61%	-0.32 p.p.	-

IC «European insurance alliance» collected UAH 99 mln of gross premiums in 2013. Volume of gross business of the Company grew by 11,94% in comparison with the 2012 year. At the same time, net premiums of the insurer grew by 7,69%, and earned insurance premiums – by 11,06%. According to the dynamics of net premiums the Company grew faster than the market that deserves a positive assessment and indirectly indicates an active market position of the insurer and an increase of its market share in 2013.

In 2013 the ratio of acquisition costs to gross premiums has decreased by 0,32 p.p. down to 21,29%. Such level of paying intermediary services may be considered optimal for the 2013 year.

Therefore, the Agency assessed the market share of IC «European insurance alliance» at the level 1% in the market of classical insurance according to the results of 2013. The Company provided the increase in gross, net and earned premiums.

(C) Business diversification

As demonstrated by the research, the level of business diversification of IC «European insurance alliance» was close to satisfactory according to the results of 2013. The Company had a clearly expressed dependence on land transport insurance (except railway) and civil liability insurance of vehicle owners. These types of insurance accounted for more than 62% of premiums, written in 2013 (under Sections 3 and 4 of the insurer's reporting to National Commission of Financial Services), table 3.

Table 3

**Business structure of Private JSC IC «European insurance alliance» by insurance types,
th. UAH, p.p., %**

#	Indicators	2013		2012		Structure change, p.p.	Growth rate, %
		th UAH	%	th UAH	%		
1	Land transport insurance (except railway)	39 987,0	40,37%	41 232,5	46,60%	-6,23 p.p.	-3,02%
2	Civil liability insurance of vehicle owners (on ordinary contracts)	21 976,0	22,19%	15 272,4	17,26%	4,93 p.p.	43,89%
3	Insurance of liability to third parties	14 425,5	14,57%	10 197,9	11,53%	3,04 p.p.	41,46%
4	Property insurance (other than transport and baggage)	9 146,5	9,24%	8 911,8	10,07%	-0,84 p.p.	2,63%
5	Medical insurance (permanent health insurance)	7 112,0	7,18%	7 269,5	8,22%	-1,04 p.p.	-2,17%
6	Civil liability insurance of the operator of a nuclear installation	1 672,0	1,69%	1 561,1	1,76%	-0,08 p.p.	7,10%
7	Personal insurance against transport accidents	1 483,2	1,50%	296,7	0,34%	1,16 p.p.	399,90%
8	Accident insurance	1 278,5	1,29%	1 380,9	1,56%	-0,27 p.p.	-7,42%
9	Civil liability insurance of the owners of land transport (including carrier liability)	1 091,1	1,10%	1 481,0	1,67%	-0,57 p.p.	-26,33%
10	Civil liability insurance of economic entities for harm that may be caused by fires and accidents on the objects of high risk	245,7	0,25%	115,7	0,13%	0,12 p.p.	112,36%
11	Other types of insurance	623,3	0,63%	756,9	0,86%	-0,23 p.p.	-17,65%
12	Total:	99 040,8	100,00%	88 476,4	100,00%	-	11,94%

The Agency usually gives negative assessment to the concentration of premiums on civil liability insurance of vehicle owners and land transport insurance at the level of more than 50%. These insurance types are traditionally unprofitable for the insurers. But in case with IC «European insurance alliance» it should be noted that, despite a clear specialization of the Company on transport types of insurance, the company managed to prevent unprofitable activity during the most difficult periods for classic insurance, in particular for a segment of transport risk insurance. This partially occurred due to the ability of the Company's management to intervene in sales processes and to limit the level of acquisition costs, partially – was related to specialization in corporate segment.

The second reason, according to which a high dependence of business of IC «European insurance alliance» probably won't negatively affect the insurer's incomes in future, is a gradual reduction of premiums received from insurance of land transport. The proportion of premiums received from land transport insurance, except railway, decreased from 46,4% down to 40,37% in 2013 compared to 2012.

(D) Asset quality

Quality of assets of IC «European insurance alliance» is assessed by the Agency as high. At the beginning of 2014 at the accounts of IC «European insurance alliance» there were more than UAH 42 mln, UAH 4,9 mln of which were at current accounts. 100% of the interest bearing assets of the Company had ratings of investment level.

Due to a significant volume of the interest bearing assets on 01.01.2014 the Company kept a high level of liquidity. In particular, the ratio of interest bearing assets to liabilities of the insurer on 01.01.2014 amounted to 75,22% that was higher than the average indicator of the industry.

The Agency also notes a good level of the deposit portfolio diversification of IC «European insurance alliance». The Company avoided the dependence of any one commercial bank.

5,34% of income assets of the Company were represented by real estate and 11,31% of assets – by rights of claim to the reinsurers that also strengthens the liquidity of the insurer and its ability to quickly meet its commitments to policyholders and creditors.

Table 4

**Income asset structure of
Private JSC IC «European insurance alliance», th. UAH, p.p., %**

#	Indicators	01.01.2014		01.01.2013		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Cash on current accounts	4887	5.65%	4698	5.45%	0.19 p.p.	4.02%
2	Banking deposits	37478.2	43.30%	38683.7	44.90%	-1.60 p.p.	-3.12%
3	Banking metals	0	0.00%	0	0.00%	-	-
4	Real estate	4626.3	5.34%	4718	5.48%	-0.13 p.p.	-1.94%
5	Stocks	29736	34.35%	29648.5	34.41%	-0.06 p.p.	0.30%
6	Right of claim to reinsurers	9789	11.31%	8379.1	9.73%	1.58 p.p.	16.83%
7	Cash on hand	39	0.05%	25.2	0.03%	0.02 p.p.	54.76%
8	Total income assets:	86555.5	100.00%	86152.5	100.00%	-	0.47%
9	Total interest bearing assets	42365.2	48.95%	43381.7	50.35%	-1.41 p.p.	-2.34%
10	Interest bearing assets with rating higher uaBBB-	42365.2	48.95%	43381.7	50.35%	-1.41 p.p.	-2.34%
11	Proportion of assets with rating of investment level in interest bearing assets	100.00%	-	100.00%	-	-	-

IC «European insurance alliance» entered the 2014 year with the interest bearing assets of UAH 42,4 mln that amounted to 48,95% of the income assets of the insurer. All the interest bearing assets were accommodated in the banks with rating of investment level.

(E) Quality of reinsurance

According to the results of 2014 the Agency notes an insignificant dependence of IC «European insurance alliance» on the reinsurers. The ratio of dependence on reinsurers amounted to 18,88%. It grew by 3,22 p.p. compared to 2012. In 2013 IC «European insurance alliance» sent UAH 18,7 mln for reinsurance.

Reinsurance protection for IC «European insurance alliance» was provided by such companies-non residents as: ACE European Group, Hannover Ruckversicherung AG, Partner Reinsurance Europe, SOVAG, SCOR and others.

For the companies-residents there was a rigid system of selection. Most partners of IC «European insurance alliance» in reinsurance had a high credit rating from national agencies.

(F) Adequacy of forming reserves

As at 01.01.2014 60,23% of the formed reserves belonged to unearned premium reserves (UPR). Additionally to UPR IC «European insurance alliance» formed another 4 types of reserves. Among them:

- reserve of claimed but not paid losses;
- reserve of losses that occurred but not reported;
- reserve of unprofitability fluctuations;
- reserve of disasters.

The Agency appreciates the availability of a large quantity of reserve types that indirectly indicates a conservative policy of IC «European insurance alliance» in the field of identifying its obligations.

In total, technical reserves of the insurer grew by 2,06% in 2013 and on 01.01.2014 amounted to UAH 47,5 mln.

Table 5

Reserve structure of Private JSC IC «European insurance alliance», th. UAH, p.p., %

#	Indicators	01.01.2014		01.01.2013		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Unearned premium reserve	28601	60.23%	29527.6	63.47%	-3.23 p.p.	-3.14%
2	Reserve of claimed but not paid losses	9559	20.13%	8326.1	17.90%	2.23 p.p.	14.81%
3	Reserve of losses that occurred but not reported	3417	7.20%	2890.1	6.21%	0.98 p.p.	18.23%
4	Reserve of unprofitability fluctuations	3918	8.25%	2720.2	5.85%	2.40 p.p.	44.03%
5	Reserve of disasters	1988	4.19%	3058.8	6.57%	-2.39 p.p.	-35.01%
6	Total technical reserves:	47483	100.0%	46522.8	100.0%	-	2.06%

In the Agency's opinion, reserves, formed by the Company, are adequate to the accepted risks and the asset structure of the Company. As at 01.01.2014 the interest bearing assets of the insurer covered the indemnities of the Company by 133,16% over the entire 2013 year and covered the technical reserves of the insurer by 89,22%. Such level of the ratio is assessed by the Agency as high. On 01.01.2014 IC «European insurance alliance» formed sufficient reserve of liquidity in order to provide indemnities.

Table 6

Indemnities and interest bearing assets / indemnities ratio of Private JSC IC «European insurance alliance», th. UAH, p.p., %

#	Indicators	2013 (01.01.2014)	2012 (01.01.2013)	Change	Growth rate, %
1	Insurance indemnities and compensations	31815.1	31569.3	245.8	0.78%
2	Gross premiums, total	99040.8	88476.4	10564.4	11.94%
3	Insurance indemnities/Gross premiums ratio	32.12%	35.68%	-3.56 p.p.	-
4	Total interest bearing assets	42365.2	43381.7	-1016.5	-2.34%
5	Interest bearing assets/indemnities ratio	133.16%	137.42%	-4.26 p.p.	-

The Agency also conducted a selective research of the facts of indemnities for insurance events and didn't reveal any deviations, which would indicate a fictitious nature of the insurer's activities. Moreover, IC «European insurance alliance» is a part of National Club of insurance indemnities, one of the criteria of which is performing insurance indemnities during a current year for the sum of more than EUR 1 mln at the exchange rate of the National Bank of Ukraine and the company's participation in the Insurance rating «Insurance TOP».

The Agency also appreciates the policy in information disclosure of indemnities, which is conducted by the Company. IC «European insurance alliance» directly on its Web-site describes insurance cases, on which occurred the indemnities.

Therefore, on 01.01.2014 the formed reserves are adequate to the accepted risks, and the reserves are well provided by the interest bearing assets. The Company is ready to perform indemnities and has a reserve of liquid assets for that.

(G) Equity and solvency reserve

Shareholders' equity of IC «European insurance alliance» grew by 1,76% in 2013. The increase in equity occurred due to the increase in retained earnings and the formation of "other reserves" (table 7).

Table 7

Shareholders' equity structure of Private JSC IC «European insurance alliance», th. UAH, p.p., %

#	Indicators	01.01.2014		01.01.2013		Structure change, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Authorized capital	55000	72.56%	55000	73.84%	-1.27 p.p.	0.00%
2	Revaluation capital	6209	8.19%	6209	8.34%	-0.14 p.p.	0.00%
3	Reserve capital	10560	13.93%	10453	14.03%	-0.10 p.p.	1.02%
4	Retained earnings	110	0.15%	107	0.14%	0.00 p.p.	2.80%
5	Other reserves	3918	5.17%	2720	3.65%	1.52 p.p.	44.04%
6	Total shareholders' equity:	75797	100.00%	74489	100.00%	0.00 p.p.	1.76%

As at 01.01.2014 IC «European insurance alliance» was provided by equity in sufficient amount: the Company's equity exceeded its liabilities by 34,8%. In the nearest future according to the Agency's estimations the Company doesn't need additional capitalization.

(H) Shareholders' support

At the moment of assigning the rating, 92.311% of the insurer's shares were concentrated by the company «LANIVET INVESTMENTS LIMITED» (Cyprus). Thus, Private JSC «European insurance alliance» is fully controlled by the non-resident.

Potential of support, which can be provided by the key shareholder of the insurer, can't be identified, which is why the Agency considers it uncertain. The last time the Company changed its authorized capital was in 2013. During this time period, the Company changed its shareholder structure.

The Agency additionally studied the financial statements of the insurer since 2007 and came to the conclusion that the Company didn't need additional capitalization during the entire analysis period, its activity was profitable. On the one hand, it means that the shareholder didn't have an urgent need to financially support its business in Ukraine. On the other hand, it positively characterizes the Company's management.

(I) Other factors influencing the rating

Relations with authorities. At the moment of assigning the rating, the conflict situations with tax authorities were not fixed. The company was registered for tax purposes in the Ministry of income and fees.

The Agency also didn't fix tensions in relations with the insurance regulator – National Commission of financial services. Almost all the licenses of IC «European insurance alliance» were received in 2011.

Therefore, relations of the insurer with state authorities currently, according to the Agency, do not bear risks for the Company.

2. Summary of rating components

March 14, 2014 Rating agency «Standard-Rating» has decided to assign the credit rating / the financial stability rating to Private JSC «European Insurance Alliance» (19411125) at the level **uaAA-** according to the national scale. The insurer with rating uaAA- is characterized by a very high financial stability compared to other Ukrainian insurers. Assigning the rating, the Agency was guided by the following conclusions:

1. Gross premiums of the insurer have amounted to UAH 99 mln in 2013. The Company has managed to provide the increase in gross business by 11,94% in 2013 compared to 2012, and also the increase in net premiums by 7,69% and earned premiums – by 11,06%. The Agency has estimated the market share of the Company in segment of classic insurance in Ukraine at the level about 1%.

2. The Company has had business diversification by insurance types close to satisfactory. According to the results of 2013, 40,37% of gross business have accounted for land transport insurance (except railway transport), and 22,19% of business – for insurance of civil liability of owners of transport vehicles. But the risk of unprofitable activity of IC «European Insurance Alliance» in difficult segment of Ukrainian market has been reduced due to the accent of the Company's activity towards activity with legal entities, and also due to limiting acquisition costs and professionalism of management. As a result, IC «European Insurance Alliance» hasn't conducted unprofitable activity since 2007.

3. IC «European Insurance Alliance» has entered the 2014 year with the interest bearing assets in the amount of UAH 42,4 mln that has amounted to 48,95% of income assets of the insurer. All the interest bearing assets of the Company has had ratings of investment level. As at 01.01.2014 the interest bearing assets of the insurer have covered the Company's indemnities by 133,16% over the whole 2013 year and covered the technical reserves of the insurer by 89,22%. The Agency assesses this level of such level of ratios as high.

4. As at 01.01.2014 IC «European Insurance Alliance» has been provided with equity in sufficient amount: the Company's equity has exceeded its liabilities by 34,8%. According to the Agency's estimations the Company doesn't need additional capitalization in the nearest future.

5. The Agency also appreciates the policy in the field of information disclosure about indemnities, shown by the Company. The Company publishes data about the most resonant insurance cases in open access and the indemnities volumes on them. IC «European Insurance Alliance» is part of the National club of insurance indemnities, one of the criteria of which is the provision of indemnities amounting to more, than EUR 10 mln per year. The Company has paid UAH 31,8 mln in 2013, the level of indemnities has amounted to 32,12%.

Rating scale for estimation of insurer financial strength

National rating scale adapted by RA 'Standard-Rating' (Ukraine) for the assessment of financial strength of the insurers

Rating	Contents of insurer financial strength according to the national scale
uaAAA	The insurer with the rating uaAAA is characterized by an outstanding high financial strength in comparison with other Ukrainian insurers.
uaAA	The insurer with the rating uaAA is characterized by very high financial strength in comparison with other Ukrainian insurers.
uaA	The insurer with the rating uaA is characterized by high financial strength in comparison with other Ukrainian insurers. The stability level is sensitive to the influence of adverse commercial, financial and economic conditions.
uaBBB	The insurer with the rating uaBBB is characterized by sufficient financial strength in comparison with other Ukrainian insurers. The stability level depends upon influence of adverse commercial, financial and economic conditions.
uaBB	The insurer with the rating uaBB is characterized by credit solvency below the sufficient one in comparison with other Ukrainian insurers. There is high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaB	The insurer with the rating uaB is characterized by low solvency level in comparison with other Ukrainian insurers. There is very high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaCCC	The insurer with the rating uaCCC is characterized by very low financial stability in comparison with other Ukrainian insurers. There is potential probability of suspension of activity, or temporary interruption of business process with further default of commitments to insured.
uaCC	The insurer with the rating uaCC is characterized by high probability of suspension of activity with further default of commitments to insured.
uaC	The insurer is expecting the suspension of activity and default of commitments to insured.
uaD	The insurer terminated its activity and started liquidation procedure.

– or + are intermediate rating categories within the major categories.

The scale of rating the financial strength of the insurer has been adapted by RA 'Standard-rating' (Ukraine) based on the national scale approved by the resolution of the Cabinet of Ukraine no. 665 of April, 26th, 2007 'On approval of national rating scale'.

Information for the insured:

The rating of insurer financial strength does not indicate the speed and probability of timely payouts. The rating of insurer financial strength is the opinion of Agency analysts on the probability of suspension of business processes in the company with the subsequent default to meet the obligations to insured. In the insurance companies, which don't have significant debt liabilities to banks and didn't perform obligation borrowings, the financial stability rating coincides with the credit rating.