

The Report on Rating Research

Client:	Additional Liability Company "Insurance Company "Proxima"
Head office location and contact phone:	of. 9, 43/11, Moskovskaya str., Kiev 01015, Ukraine
Web-site:	http://www.proksima.com.ua
State regulator performing supervision functions:	State Commission for Regulation of Financial Services Markets (http://www.dfp.gov.ua)
Incorporation date:	16.06.2005
USREOU code:	33592726
Top manager as of the date of rating:	Pavel Loznevoy Director General
Rating type:	Insurer financial strength
Rating revision period:	Quarterly
Rating date:	10.08.2011
Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	uaBBB- (stable) The insurer with the given rating has sufficient financial strength as compared with other Ukrainian insurers. The level of financial strength depends upon the influence of adverse commercial, financial and economic conditions
Correlation of the national scales with the international scale in the countries of operations:	
The correlation of Ukrainian scale ratings and the ratings by international scale reflecting the rating in the countries of Agency operations, is set by the GPRC "Standard-Rating" Rating Committee.	
Information restrictions:	
The report on rating research has no restrictions to distribution. When using materials contained in the report, the reference on RA "Standard Rating" (Ukraine) is mandatory. The Agency considers true all information contained in the report on rating research.	
Ratings use limitations:	
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 opinions of Agency analysts on rating object and subject.	

Contents:

#	Title	Page
1.	List of licenses and permissions in possession of the Company	2
A.	Company overview and business activity story	3
B.	Insurance business diversification	5
C.	Assets quality and adequacy to liabilities	8
D.	Reinsurers' portfolio quality	9
E.	Solvency margin and support by shareholders	10
F.	Other factors	11
2.	Summary of rating components	11

1. List of licenses and permissions in possession of the Company

Voluntary insurance types:

1. Credit insurance (including borrowers' liability for non-repayment); AB no. 321549, perpetual.
2. Insurance against accidents; AB no. 321550, perpetual.
3. Insurance of freight and luggage; AB no. 321551, perpetual.
4. R/w transport insurance; AB no. 321552, perpetual.
5. Insurance of civil liability of ground transport owners (including carrier liability);— AB no. 321554, perpetual.
6. Insurance of ground transport (exc. r/w); AB no. 321553, perpetual.
7. Insurance of third party liability (except civil liability of ground transport owners, aviation liability, liability of water transport owners (including carrier liability)); AB no. 321555, perpetual.
8. Insurance against fire- and Acts of God related risks; AB no. 321557, perpetual.
9. Financial risks insurance; AB no. 321558, perpetual.
10. Insurance of the property (except railway, ground, air and water transport (inland waters and other maritime transport), freight and luggage; AB no. 321556, perpetual.
11. Insurance of medical expenses; AB no. 396287, perpetual.
12. Insurance of guarantees (sureties) issued and accepted; AB no. 396286, perpetual.
13. Judicial expenses insurance; AB no. 396285, perpetual.
14. Investment insurance; AB no. 396284, perpetual.
15. Health insurance against disease; AB no. 396283, perpetual.
16. Medical insurance (continuous health insurance); AB no. 396282, perpetual.

Mandatory insurance types:

1. Liability insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo; AB no. 396291, perpetual.
2. Insurance of liability of economic entities against damage in case of fire and emergencies in extra-hazardous facilities, including fire-dangerous facilities and facilities, which economic activities could result in environmental and sanitary-epidemiologic emergencies; AB no. 396290, perpetual.
3. Personal insurance against road traffic accidents; no. 396289, perpetual.
4. Personal insurance of the personnel of departmental (except those employed in publicly financed organizations and entities) and rural fire prevention teams and members of volunteer fire prevention teams; AB no 396288, perpetual.

A. Company overview and business activity story

The Insurance Company "Proxima" had been incorporated in June, 2005 as Additional Liability Company. IC "Proxima" is focused first of all on the corporate segment and works with considerable amount of industrial and trade enterprises in different regions of Ukraine. In its work and relations with the clients the insurer features:

- execution of financial obligations to clients;
- large range of insurance products;
- capacity of individual approach to each client;
- provision of complex and reliable insurance coverage of the client.

Besides classical kinds of insurance, IC "Proxima" presents exclusive projects developed with account for often specific requirements of the insurer. IC "Proxima" belongs to the category of small companies that allows it to promptly response the requirements of clients. Reliability of insurance coverage by IC "Proxima" is guaranteed by foreign reinsurers with whom the insurer actively co-operates at insurance of large risks.

Over the last 5 years IC "Proxima" showed ambiguous dynamics of development. The total volume of company business has grown more than in 10 times over the last 5 years. However, despite all that IC "Proxima" belongs to the category of small companies. Following the results of 2010 the company collected UAH 6,89 m only. (Table 1). The share of IC "Proxima" in the Ukrainian insurance market was estimated as less than 0,1% of market total volume.

Table 1

Separate indicators of "IC Proxima" ALC, UAH th.

Indicators	2010	2009	2008	2007	2006	Growth rate	
						2009-2010	2006-2010
Assets	62 425,0	73 551,0	60 445,0	10 448,9	10 198,2	-15,13%	512,12%
Shareholder equity	55 954,9	70 105,4	58 944,8	10 113,2	10 015,5	-20,18%	458,68%
Cash and cash equivalents	3 201,2	3 073,7	1 324,4	238,4	187,7	4,15%	1605,49%
Moneys/Liabilities ratio	49,5%	89,2%	88,3%	71,0%	102,7%	-	-
Authorized capital	50 000,0	72 000,0	60 000,0	60 000,0	10 000,0	-30,56%	400,00%
Gross premiums	6 893,1	13 888,1	13 798,0	984,4	642,3	-50,37%	973,19%
Reinsurer share in gross premiums, %	64,7%	69,7%	86,8%	48,3%	50,8%	-	-
Payout ratio, %	9,0%	10,0%	3,0%	80,0%	9,0%	-	-
ROE %	48,5%	-	-	1,0%	-	-	-
Net profit (loss)	27 681,0	(1289,9)	(717,6)	97,7	3,7	-	-

However the results of H1 2011 give confidence that the insurer will recover the pre-crisis positions in the insurance market. So following the results of the first 6 months of 2011 IC "Proxima" collected UAH 2,968 m of gross premiums. It is by third more than for the similar period of 2010. In the nearest several years the fast growth of total business of the company will not help to increase considerably its share in the Ukrainian market. However small companies are managed better and carry out more flexible marketing policy in regard of the wishes of clients.

IC "Proxima" holds steady positions in the market on the following kinds of insurance:

- Insurance of freights and luggage;
- Property insurance;
- Financial insurance;
- Insurance of medical expenses (for travellers abroad).

Main sales are performed through the central office of the company located in the city of Kiev. The next 12 months IC “Proxima” will concentrate efforts on attraction of new corporate clients. The strategy of business chosen for the nearest time is identified as rational by the Agency. The insurer has chosen the segment of the market which does not demand great volume of sale expenses and provides inflow of premiums on profitable kinds of insurance. Both these advantages are not proper for retail insurance.

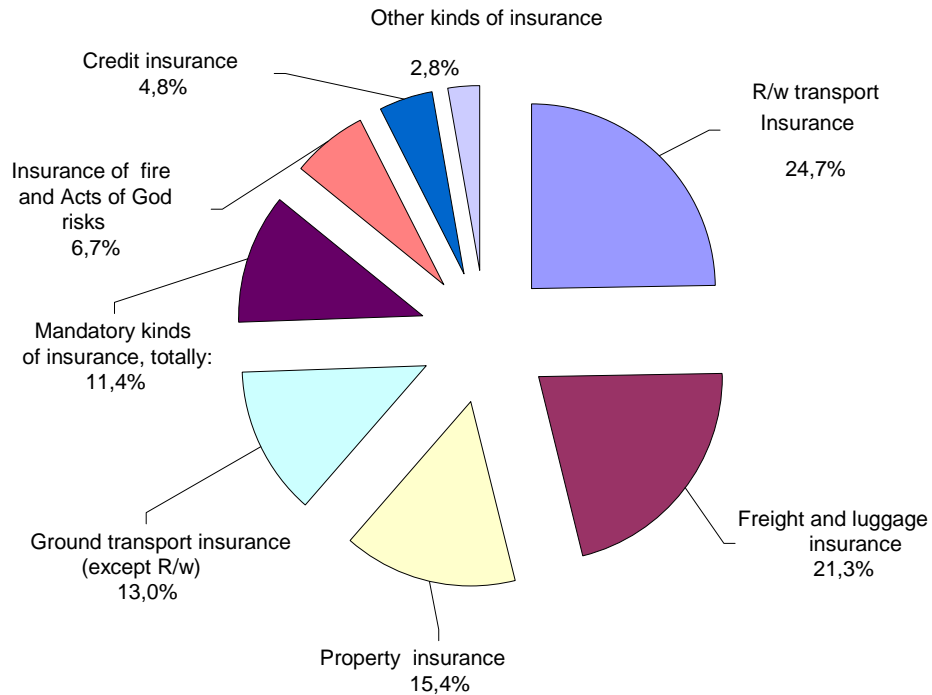
Also insured should pay attention to that for the recent five years the politics of finances management in IC “Proxima” is identified as conservative. As of the beginning of 2011 the ratio of company liabilities coverage by money assets has constituted almost 50%, earlier this indicator reached 102%. The company adhered to the policy of redundant liquidity in the year 2011 as well. So on the beginning of H2 2011 the ratio between liabilities and money funds on company accounts constituted 48%.

As a whole, IC “Proxima” is small, but dynamically developing company which management adheres to conservative rules of financial risks management. The company is focused on the corporate segment that considerably reduces risks of default, proper for large retail companies.

V. Diversification of insurance business

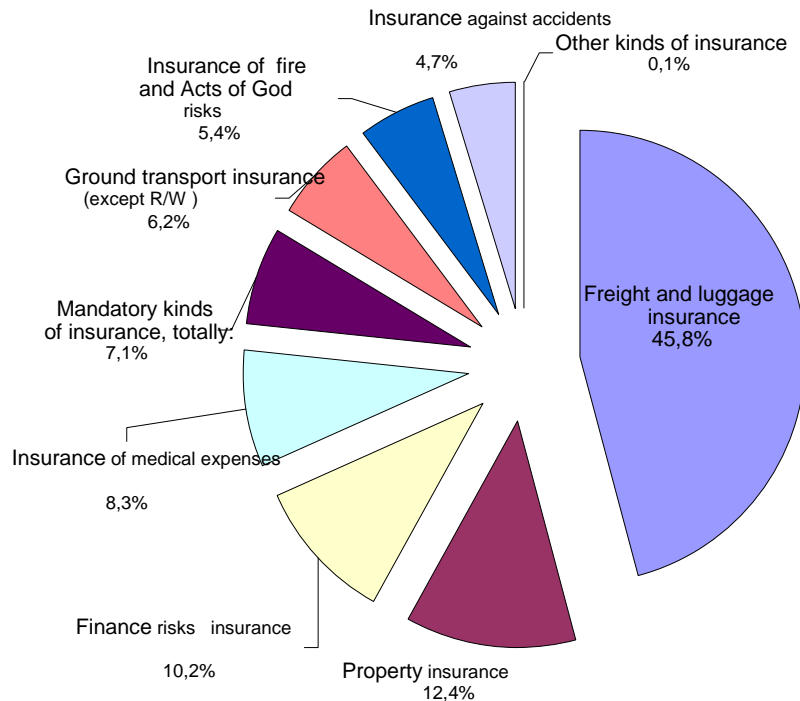
Diversification per types of premiums. The level of IC “Proxima” premiums diversification by kinds of insurance following the results of 2009 and 2010 was estimated as satisfactory. Following the results of 2009 the largest kind of insurance was railway transport insurance: it corresponded to 24,7% of insurer gross premiums. The insurance of freight and luggage (21,3%) was the second on volume insurance kind, and the third – property insurance (15,4%). Firstly, following results of 2009 IC “Proxima” portfolio could be named balanced: the largest kind of insurance did not exceed quarter of collected gross-premiums. Secondly, top 5 insurance kinds in the portfolio IC “Proxima” traditionally did not belonged to the category of unprofitable kinds. The latter fact is proved by low payout ratio in 2009. In the whole the mandatory kinds of insurance occupied 11,4% of 2009 gross premiums that potentially did not bear any threat of considerable payout losses (*figure 1*).

Fig. 1 The structure of total business following 2009 results of ALC IC "Proxima"



Following the results of 2010 the situation with business diversification by insurance kinds has a little worsened. Insurance of freight and luggage becomes the largest kind of insurance in 2010. It corresponded to 45,8% of gross premiums (figure 2).

Fig. 2 Total business structure of ALC IC "Proxima following 2010 results

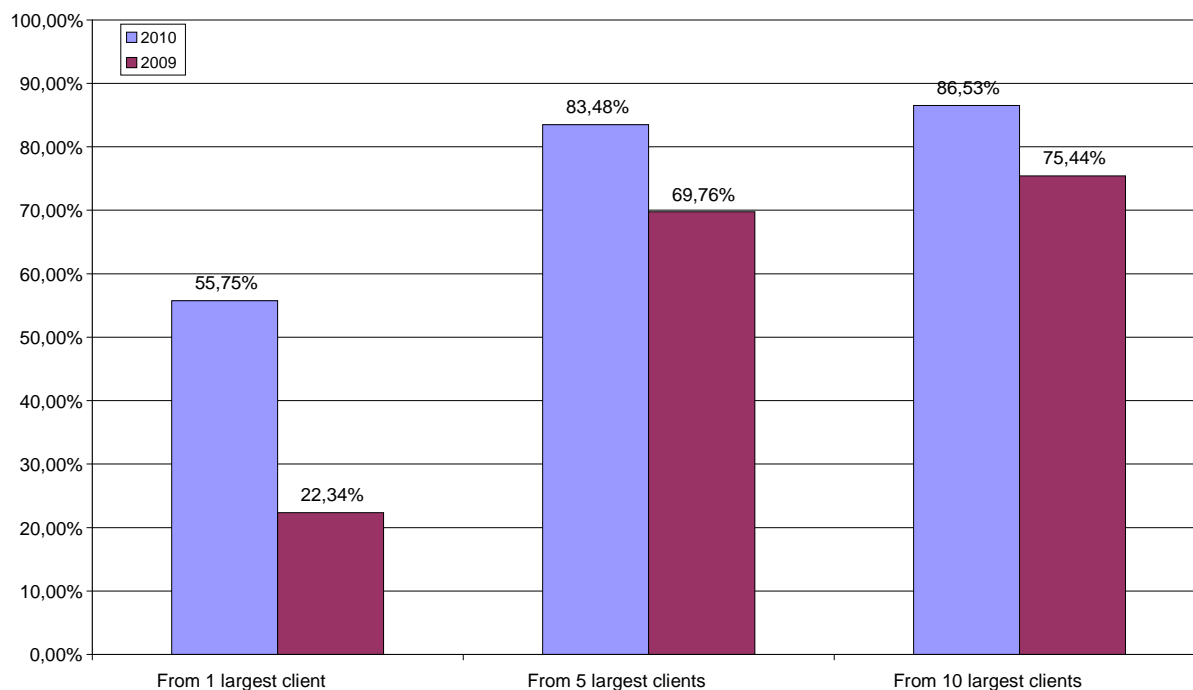


Perceiving the data on diversification of IC “Proxima” business by insurance kinds, it should be considered that the scale of operations of the company is small, therefore the structure of premiums by insurance kinds is subject to year-to-year changes. As Agency observations over a number of years prove, company management strives to avoid considerable share of premiums on the kinds of insurance which are traditionally considered unprofitable in Ukraine.

In spite of the fact that insurance of freight and luggage in Ukraine remains profitable kind of insurance, the Agency recommends the company to lower the share of largest kind of insurance in the portfolio to the level of 2009, i.e. to less than 25%.

Customer diversification. Concentration of premiums collected from the largest clients of the company is also estimated as satisfactory. Following the results of 2010 more than half of premiums (55,75%) have been received from the largest client, in 2009 – it was 22,34% (figure 3).

Fig. 3 Client diversification of ALC IC “Proxima” in 2009-2010



The insignificant level of client diversification is traditionally proper for small insurers in Ukraine, that adds the features of captive business to the Company characteristic. However at IC “Proxima” there is a number of objective reasons for superficial level of client diversification:

- Company specialization on corporate clients that envisions servicing of large business;
- The company has one Head office in Kiev and most premiums are collected in Kiev region that also limits client base for the time being.

The structure of IC “Proxima” five largest clients should be regarded as positive tendency. As the analysis has shown, 5 largest clients of the insurer are in no way connected between them. In 2010 83,5% of gross premiums came in from five big clients.

Client and branch diversification of IC "Proxima" remains at satisfactory level following the results of 2009–2010, and also of H1 2011, taking into account company specialisation on corporate clientele. Growth of branch and client diversification level can become a reason for raising the rating of insurer financial strength.

C. Assets quality and adequacy to liabilities

Traditionally the agency has divided all earning assets of the insurer on two components: financial investments and money funds. According to Agency only the item "money assets" which on the beginning of 2011 took 5,3% of earning assets could be categorized as liquid assets (*table 2*).

Table 2

Structure of ALC "IC Proxima" earning assets , UAH thousand

Types of assets	2010		2009		Change	Growth rate
	UAH th.	%	UAH th.	%		
Financial investments	57 260,0	94,71%	57 905,5	94,96%	-0,25 p.p.	-1,11%
Money assets totally (incl.:)	3 201,2	5,29%	3 073,3	5,04%	0,25 p.p.	4,16%
Current account	1 687,7	2,79%	398,7	0,65%	2,14 p.p.	323,30%
Deposits	1 510,5	2,50%	2 674,3	4,39%	-1,89 p.p.	-43,52%
Cash	3,0	0,00%	0,7	0,00%	-	328,57%
Earning assets, in total	60 461,2	100,00%	60 978,8	100,00%	-	-0,85%

Financial investments of the insurer consisted mainly from investments into shares of Ukrainian companies. Thus the portfolio of shares was poorly diversified, and the emitter prevailing in the portfolio is listed in one of the Ukrainian stock exchanges, but does not enter into the index basket of none of the known Ukrainian indexes. The Agency finds it difficult to accurately assess the adequacy of representation of the insurer portfolio of shares' market value, however the following should be accounted for:

1. Formally the insurer succeeded in observing requirements of Ukrainian legislation and placed earning assets (reserves) into shares of emitters listed at stock exchanges.

2. Money funds on accounts and cash of IC "Proxima", approximately on 50% covered the liabilities of the insurer anyway, i.e. the company did not need to increase volume of liquid assets. Hence, money funds at the size of 5,3% from earning assets were quite sufficient both for maintenance of operational liquidity, as well for satisfaction of Ukrainian regulators' requirements.

D. Reinsurers' portfolio quality

As the analysis has shown, the choice of reinsurers in IC "Proxima" is conditioned by the indicators of financial solvency of the companies, by their experience in certain insurance and reinsurance markets split per kinds, and by the competitiveness of the offered conditions of reinsurance coverage. There are no companies from offshore areas among the reinsurers. Following the results of H1 2011 the reinsurers received UAH 1,977 m. of premiums, all reinsurers-residents in the portfolio had no financial strength ratings. The latter circumstance essentially complicated the assessment of company reinsurance portfolio. We assessed positively

the reinsurance coverage based on that following the results of H1 2011 the 78 % of awards have been sent to one of the largest Ukrainian companies which during the last 3 years belongs to 5 top companies on size of gross premiums. We regarded such company as reliable enough guarantor of obligations. Also, in H1 2011 the company continued cooperation with foreign reinsurers. A part of reinsurance coverage for IC "Proxima" was provided by such foreign companies with high financial strength ratings as SCOR Reinsurance Co. and ACE European Group Limited.

However, same as in case with the portfolio of earning assets, we have to remark a low level of portfolio diversification. In the process of company business growth the problem of reinsurance coverage low diversification should be eliminated.

E. Solvency margin and support by shareholders

Solvency margin. The identifier of redundant level of solvency used for calculation of redundant capital of the insurer in the group of rating agencies 'Standard-Rating', proves to IC "Proxima" considerable solvency margin as of the beginning of 2011.

Redundant level of solvency = Cash and cash equivalents + quickly salable liquid assets - company liabilities - 50 % of the cost of risks of reinsurance portfolio covered by the liabilities of reinsurers without a rating.

As of the beginning of 2011 the calculation of redundant solvency level identifier of IC "Proxima" looked in the following way:

UAH 3,201 m. + UAH 15,300 m. - UAH 6,470 m. - 0,5* UAH 4,460 m. = + UAH 9,800 m.

Thus, IC "Proxima" entered the year 2011 with solvency margin in the size of UAH 9,8 m. The company was overcapitalized, its balance did not contain garbage assets, and the operations had no signs of schemed reinsurance. Considering the data of redundant solvency margin calculation it should be remembered that the Agency has estimated the total stock portfolio of the insurer approximately at UAH 15,3 m., while according to the balance this estimate exceeds UAH 55 m. Discrepancies in the estimate are caused by conservative approach used by the Agency. We did not rely on emitters market stock quotes data from stock exchanges, but conducted the estimate using only basic data on the work of emitters. That is an estimate of UAH 15,3 m. should be perceived as pessimistic one. Even under such circumstances, company solvency margin made almost UAH 10 m., that underlines the capacity of IC "Proxima" to meet obligations to clients.

External support. The analysis of support by shareholders has yielded the following results. The Agency established that at the moment of rating more than 98% of shares of the insurer belonged to two non-resident companies: IFBC LTD (33%) and FUTURE RESERVE LTD (65,04%). Both companies perform commercial activity. The company FUTURE RESERVE LTD has been registered in Great Britain (London) by the British Companies House the 29.11.2010. The company IFBC LTD has been also registered in London on November, 29th, 2010. After studying the documents of British shareholders of IC "Proxima", the RA Standard-Rating draw a conclusion that shareholders are able to provide an adequate level of external support to the insurer.

F. Other factors

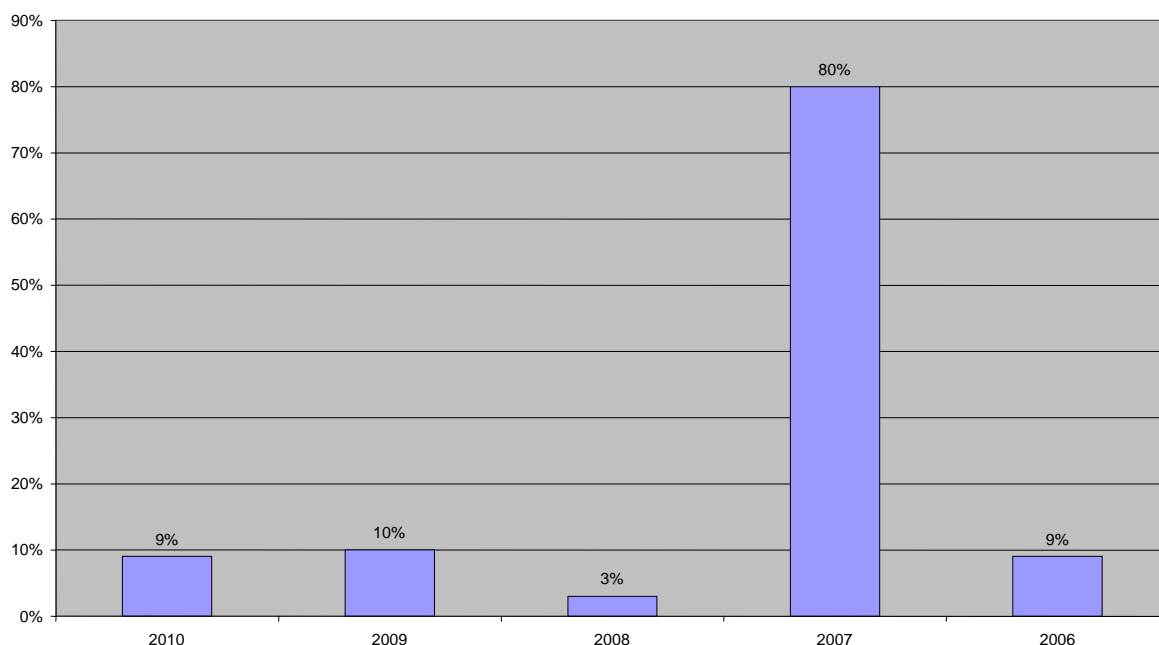
Payout ratio adequacy. The agency searched for eventual fictitious insurance operations in IC “Proxima”. According to the Agency the company operates in real mode, the insurer had certain loss events on which payouts have been performed. In particular for the last 12 months following payments have been performed:

1. On 01.03.2011 – payment of UAH 25 356,81 as redress under Compulsory Liability Insurance policy no. BC/7864042 in favor of IC “Unica”.
2. On 02.03.2011 – payment of UAH 25 475,90 as redress under Compulsory Liability Insurance policy no. BC/7858025 in favor of IC “Salamandra-Ukraine”.
3. On the 17.03.2011 indemnity payment of UAH 92 000,00 under HULL INSURANCE agreement no. 20-06-0653 from 13.07.2010 (road traffic accident of the insured vehicle with motorcycle).

Throughout the year 2010 there have been 15 cases processed in courts under ALC IC “Proxima” redress claims. In total for the reporting year the insurer received judicially UAH 63 468,95.

The analysis of payout dynamics and payout ratio of ALC “IC Proxima” has shown that the ratio between payouts and gross-premiums of the insurer fluctuated from 3 to 80%. For the last 2 years the level of payouts stabilized at 10% that is approximately in 3–3,5 times lower, than at retail companies in Ukraine (*figure 4*).

Fig. 4 Dynamics of payout ratio in ALC IC “Proxima”



We believe that the level of payouts in IC “Proxima” for the last 5 years fluctuated because of sharp rises and recessions in business activity. Technically during the last 2 years the stabilization of payout level is explained by that the company took a clear direction towards corporate segment where kinds of insurance with low level of payouts prevail.

Relations with the regulator. Also we have performed review of client relations with tax authorities of Ukraine and the insurance regulator which function is performed by Statefinservices. We have not revealed any serious claims from regulating bodies which somehow could affect insurer financial strength.

2. The summary of rating components

Summarizing various groups of factors estimated by the Agency at determination of financial strength rating of ALC "IC Proxima" the following key issues influencing the rating could be outlined:

1. The ALC "IC Proxima" has an insignificant market share, however Company business grows at a quick rate going ahead of the Ukrainian insurance market. Following the results of 2010 the Company collected UAH 6,893 m of gross premiums. Following the results of H1 2011 the Company collected UAH 2,968 m of gross premiums, having provided a growth by almost 1/3 in comparison with the same period of 2010. "IC Proxima" market share in the Ukrainian market is estimated by the Agency at the level of less than 0,1%.

2. The Agency evaluates the condition of insurance portfolio per types of insurance as balanced, however level of business diversification per insurance kinds remains satisfactory. Following the results of 2010 the 45,8% of company business corresponded to freight and luggage insurance, 12,4% to property insurance, and approximately 10% to financial risks insurance. The large share of freight and luggage insurance in 2010 has positively influenced the profitability of the company: the insurer finished the year 2010 with UAH 27,6 m of net profit. Client diversification of insurance portfolio IC "Proxima" is estimated as satisfactory: 5 largest clients of the insurer correspond to 83,5% of premiums. The Agency recommends the Company to lower the level of big clients concentration in the portfolio.

3. The funds on IC "Proxima" accounts cover the liabilities of the Company on 49,5%. Slightly more than 5% of investment assets on the balance of the Company have been identified as liquid by the Agency. Insurer financial investments consist from the investments into liquid shares listed in one of the Ukrainian stock exchanges. The Agency recommends the Company to improve diversification of financial investments portfolio and in the future to work with more liquid stock, belonging to one of known Ukrainian stock indexes.

4. By Agency estimates, the redundant solvency level of ALC "IC Proxima" as of the beginning of 2011 is assessed at UAH 9,8 m. Such solvency margin allows the insurer to meet the obligations in the long-term period both under the credit agreements, and under the accepted risks. Over 98% of insurer capital is controlled by the British companies FUTURE RESERVE LTD and IFBC LTD. According to Agency the non-resident shareholders are capable to provide the insurer with external support of an adequate level.

Following the results of the analysis in the session of rating committee of RA 'Standard-rating' (Ukraine) decision has been taken on assignment of insurer financial strength rating according to Ukrainian rating scale at the level ~~uaBBB-~~ the outlook – *stable*. The estimate of ALC "IC Proxima" according to the Ukrainian national scale means that the insurer with the given rating is characterized by sufficient financial strength in comparison with other Ukrainian insurers. Financial strength level depends upon the influence of adverse commercial, financial and economic conditions.

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 extremely 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 with further 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 payment. 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 obligation to insured.