

## Report on the rating research

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|--|---|
| <b>Customer:</b>   | <b>Private joint-stock company “Ukrainian Security Insurance Company”</b>   |
| Incorporation date:  | 15.02.1996  |
| USREOU code:   | 23734213  |
| Head office location (city, mail index, street):   | 45, Borschagovskya str., Kiev, 03056  |
| The name of the auditor company which approved the accounts last fiscal year:  | Midsnell Group International Consulting Ltd   |
| Key account bank:  | PJSC “Bank Kiev Rus”  |
| Top executive, title:  | <b>Baran Igor Yuryevich</b> , General Director  |
| Number of regular personnel at the time of questionnaire filling:  | 64 persons  |
| Telephone/fax:   | +38 /044/ 457-80-80   |
| Web-site:  | <a href="http://www.uosk.com.ua">http://www.uosk.com.ua</a>   |
| Rating type:   | Insurer financial strength  |
| Rating revision period:  | Quarterly   |
| Date of rating:  | 19.10.2011  |
| Rating by RA ‘Standard Rating’ (Ukraine) according to the Ukrainian national scale (outlook):  | <b>uaA (stable)</b><br>The insurer with the rating uaA has high financial strength as compared with other Ukrainian insurers. The level of financial strength is sensitive to the influence of adverse commercial, financial and economic conditions. |
| <b>Correlation of the national scales with the international scale in the countries of operations:</b>   |   |
| The correlation of Ukrainian scale ratings and the international scale ratings reflecting the rating in the countries of Agency operations is set by GPRC “Standard-Rating” Rating Committee .   |   |
| <b>Information use restrictions:</b>   |   |
| 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. |   |
| <b>Ratings use limitations:</b>  |   |
| 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. |   |

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### 1. List of licenses and permits in possession of the Company

- Series AB No 584698 of 14.07.2011 — Insurance of medical costs.
- Series AB No 584693 of 14.07.2011 — Health insurance against disease.
- Series AB No 584700 of 14.07.2011 — Accident insurance.
- Series AB No 584696 of 14.07.2011 — Medical insurance (continuous health insurance).
- Series AB No 584691 of 14.07.2011 — Railway transport insurance.
- Series AB No 584699 of 14.07.2011 — Land transport (except r/w) insurance.
- Series AB No 584685 of 14.07.2011 — Freight and luggage insurance (freight-luggage).
- Series AB No 584689 of 14.07.2011 — Insurance against fire and Acts of God related risks;
- Series AB No 584688 of 14.07.2011 — Insurance of civil liability of ground transport owners (including carrier liability);
- Series AB No 584702 of 14.07.2011 — Insurance of third party liability (except civil liability of ground transport owners, aviation liability, liability of water transport owners (including carrier liability));
- Series AB No 584694 of 14.07.2011 — Credit insurance (incl. borrowers' liability for non-repayment of credit).
- Series AB No 584703 of 14.07.2011 — Financial risk insurance.
- Series AB No 584690 of 14.07.2011 — Insurance of guarantees (sureties) issued and guarantees received.
- Series AB No 584695 of 14.07.2011 — Property insurance (except railway, ground, air and water transport (inland waters and other maritime transport), freight and luggage).
- Series AB No 520619 of 25.02.2010 — Insurance of civil liability of ground transport owners.
- Series AB No 520625 of 25.02.2010 — Liability insurance of dangerous cargo carriers against negative consequences upon carrying dangerous cargos.
- Series AB No 520630 of 25.02.2010 — Insurance 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;
- Series AB no. 520615 of 25.02.2010 - Insurance of yields of agricultural crops and perennial plantations by the state agricultural enterprises, of grains and sugar beet yields by the agricultural enterprises of all forms of ownership.
- Series AB No 520627 of 25.02.2010 — Insurance against accidents on transport.
- Series AB No 520631 of 25.02.2010 — Insurance of liability of the operator of nuclear plant for the damage resulting from a nuclear incident.
- Series AB No 520632 of 25.02.2010 — Medical insurance.
- Series AB No 520621 of 25.02.2010 — Liability insurance of the citizens of Ukraine owning or having on other grounds a weapon, against the damage which can be caused to third party or his property in result of ownership, keeping or use of the weapon.

### (A) Company history

The Ukrainian Security Insurance Company has been created within the system of State Protection Service at the Ministry of Internal Affairs of Ukraine in 1996. Throughout the entire period of its existence JSC USIC successfully operates in the insurance market of Ukraine, confirming its reliability and universality. The insurance cover of the clients is supported by reinsurance of risks in the leading insurance companies of Ukraine.

Key features of JSC USIC:

- JSC USIC is the only state insurance company in Ukraine, founded by State Protection Service of MIA of Ukraine;
- 22 licenses for realization of insurance activity and a broad range of insurance programs;
- UAH 13 m of authorized capital and UAH 18,189 m of insurance reserves as of January, 1st, 2011;
- Modern team of professionals (64 employees in head office and more than 60 insurance brokers in all the regions of Ukraine).

JSC USIC is member of: League of Insurance Organizations of Ukraine, Motor (Transport) Insurance Bureau of Ukraine, Nuclear Insurance Pool of Ukraine.

JSC USIC is accredited or co-operates with leading banks of Ukraine: JSB Raiffeisen Bank Aval, JSB Kiev Rus, JSC Ukreximbank, PJSC JSB Ukrzazbank, JSB Brokbusinessbank, JSB Starokievski Bank.

H1 2011 results of JSC USIC work contain positive trends: growth of gross premiums by 188,5%, payout ratio decrease from 15,05% to 6,67%, net profit increase by 202,44 %. ROE grew by 0,33 percentage points and ROA by 0,16 percentage points (see table 1).

Table 1

**Key performance indicators of JSC USIC (23734213), UAH thousand**

| # | Indicators                           | H1 2011 | H1 2010 | Change    | Growth rate, % |
|---|--------------------------------------|---------|---------|-----------|----------------|
| 1 | Total gross premiums                 | 39337,6 | 13636,5 | 25701,1   | 188,47%        |
| 2 | Insurance payments and compensations | 2624,7  | 2051,8  | 572,9     | 27,92%         |
| 3 | Payout ratio                         | 6,67%   | 15,05%  | -8,37%    | -              |
| 4 | Shareholder equity                   | 27219,6 | 27086,4 | 133,2     | 0,49%          |
| 5 | Liabilities                          | 20679,9 | 8507,6  | 12172,3   | 143,08%        |
| 6 | Equity/Liabilities ratio             | 131,62% | 318,38% | -186,76%  | -              |
| 7 | Net profit                           | 136,1   | 45      | 91,1      | 202,44%        |
| 8 | ROE                                  | 0,50%   | 0,17%   | 0,33 p.p. | -              |
| 9 | ROA                                  | 0,28%   | 0,13%   | 0,16 p.p. | -              |

Growth of insurer liabilities from UAH 8,5 to 20,679 m is caused by considerable growth rate of gross premiums in H1 2011. As of July, 1<sup>st</sup> the shareholder equity/liabilities ratio constituted 131,62 %, i.e. own funds of the insurer exceeded the liabilities on 31,62 %.

### (B) Business activities and competition

The nominal share of JSC USIC in the insurance market of Ukraine in H1 2011 constituted 0,4 %. However, JSC USIC as public company worked strictly in the classic segment of the market, its actual share in the market of classical insurance in Ukraine was estimated by RA Standard Rating at the level of 1 %.

In the opinion of RA, such insurers as IC Asko-Donbass-Severni, UEIC, IC Nova and IC NASTA are the main competitors of JSC USIC. Achievement by the company of 188,5% gross premiums growth in H1 2011 can be considered as an essential success. In H1 2011 JSC USIC has collected UAH 39,338 m of gross premiums, at that 25,53% have been received from individual insurers. 70,73 % of gross premiums have been ceded to reinsurers. Traditionally reinsurers receive a large volume of business from JSC USIC: 60-70 % of premiums are ceded to reinsurers, that is due to the specifics of JSC USIC operation (see table 2).

Table 2

**Business performance indicators of JSC USIC (23734213), UAH thousand**

| #  | Показатель                             | H1 2011  | H1 2010 | Change  | Growth rate, % |
|----|--|----------|---------|---------|----------------|
| 1  | Total gross premiums, incl.:           | 39337,6  | 13636,5 | 25701,1 | 188,47%        |
| 2  | - from individual insurers             | 10041,4  | 1421,7  | 8619,7  | 606,30%        |
| 3  | - from reinsurers                      | 483,2    | 442,6   | 40,6    | 9,17%          |
| 4  | Share of individuals in gross-premiums | 25,53%   | 10,43%  | 15,10%  | -              |
| 5  | Share of reinsurers in gross-premiums  | 1,23%    | 3,25%   | -2,02%  | -              |
| 6  | Insurance payments ceded to reinsurers | 27825,4  | 9342,4  | 18483   | 197,84%        |
| 7  | Ratio of dependence upon reinsurers    | 70,73%   | 68,51%  | 2,22%   | -              |
| 8  | Net premiums                           | 11512,20 | 4294,10 | 7218,10 | -              |
| 9  | Net premiums earned                    | 9394,9   | 5909,1  | 3485,8  | 58,99%         |
| 10 | Financial result from operations       | 1090,6   | 571,8   | 518,8   | 90,73%         |
| 11 | ROS                                    | 2,77%    | 4,19%   | -1,42%  | -              |
| 12 | Acquisition costs                      | 1410,2   | 970,3   | 439,90  | 45,34%         |
| 13 | Acquisition costs/gross premiums ratio | 3,58%    | 7,12%   | -3,53%  | -              |

Growth of financial result from operating activity should be regarded as a positive tendency: in H1 2011 this indicator constituted UAH thousand 1090,6, in the H1 2010 – UAH 571,8 thousand.

As a whole the agency estimates market share of JSC USIC at the level of less than 1 %, however essential progress in company business growth in H1 2011 should be highlighted, thus JSC USIC managed to maintain an acceptable profitability of insurance operations.

**(C) Business Diversification**

*Per type diversification.* The level of JSC USIC diversification per insurance types is estimated as satisfactory. Following the results of H1 2011 the first 3 types of insurance corresponded to 84,8 %. This situation was compensated by that fact that JSC USIC is a small insurance company, with a greater business management flexibility (see table 3).

Table 3

**JSC USIC (23734213) top 5 largest kinds of insurance**

| # | Indicators   | H1 2011        |               | H1 2010        |               | Change of structure, p.p. | Growth rate, % |
|---|--|----------------|---------------|----------------|---------------|---------------------------|----------------|
|   |  | UAH th         | %             | UAH th         | %             |                           |                |
| 1 | Voluntary insurance of commercial risks                    | 18685,36       | 47,50%        | 9083,11        | 66,61%        | -19,11%                   | 105,72%        |
| 2 | Mandatory insurance of civil liability of transport owners | 5664,61        | 14,40%        | 803,6          | 5,89%         | 8,51%                     | 604,90%        |
| 3 | Voluntary third party liability insurance                  | 9008,31        | 22,90%        | 72,8           | 0,53%         | 22,37%                    | 12274,05%      |
| 4 | Voluntary insurance of freight and luggage                 | 904,77         | 2,30%         | 933,5          | 6,85%         | -4,55%                    | -3,08%         |
| 5 | Voluntary automobile transport insurance                   | 2084,89        | 5,30%         | 1633,4         | 11,98%        | -6,68%                    | 27,64%         |
| 6 | Other types of insurance                                   | 2989,66        | 7,60%         | 1110,19        | 8,14%         | -0,54%                    | 169,29%        |
| 7 | <b>In total:</b>   | <b>39337,6</b> | <b>100,0%</b> | <b>13636,6</b> | <b>100,0%</b> | <b>0,00%</b>              | <b>188,47%</b> |

Voluntary insurance of commercial risks was the largest type of insurance following the results of 2011. Following the results of H1 2010 it corresponded to 66,61% of business, following the results of 2011 - already to 47,5 %. Decrease of largest insurance type share in the total amount of insurer business is a positive factor.

*Per client diversification.* The level of insurer per client diversification can be estimated as high by the RA. The largest insured following the results of H1 2011 brought in 10,69 % of business, three largest clients - 20,61 %, i.e. there is no dependence observed of insurer business on one client nor on a group of interconnected clients (see table 4).

Table 4

**Data on gross premiums from large insured of JSC USIC (23734213)**

| #        | Indicators                     | H1 2011         |                | H1 2010         |                | Change of structure, p.p. | Growth rate, % |
|----------|--------------------------------|-----------------|----------------|-----------------|----------------|---------------------------|----------------|
|          |                                | UAH             | %              | UAH             | %              |                           |                |
| 1        | From 1 (one) largest insured   | 3252398         | 10,69%         | 2984734         | 13,22%         | -2,53%                    | 8,97%          |
| 2        | From 3 (three) largest insured | 6269904         | 20,61%         | 5253363         | 23,26%         | -2,66%                    | 19,35%         |
| 3        | From 5 (five) largest insured  | 7957129         | 26,15%         | 6580311         | 29,14%         | -2,99%                    | 20,92%         |
| 4        | From 10 (ten) largest insured  | 12943742        | 42,55%         | 7762602         | 34,38%         | 8,17%                     | 66,74%         |
| <b>5</b> | <b>In total:</b>               | <b>30423173</b> | <b>100,00%</b> | <b>22581009</b> | <b>100,00%</b> | <b>0,00%</b>              | <b>34,73%</b>  |

As a whole RA estimates per type diversification of JSC USIC as close to satisfactory, that is connected with the scale of work of the company and its specialization on work with state protection service. RA estimates the level of per client diversification as high.

#### **(D) Assets quality**

The analysis of insurer profile has shown that JSC USIC has modern asset management system. The asset management system of the insurer is characterized by: collegial nature, quality and safety assurance of management.

RA assesses insurer assets quality as high. On the beginning of H2 2011 the interest earning assets made UAH 11,856 m, from which 91,57 % of investment grade. Most interest earning assets have been placed in banks (see table 5).

Table 5

**Structure of earning assets of JSC USIC (23734213)**

| #  | Indicators   | H1 2011 |         | H1 2010 |         | Change of structure, p.p. | Growth rate, % |
|----|--|---------|---------|---------|---------|---------------------------|----------------|
|    |  | UAH th  | %       | UAH th  | %       |                           |                |
| 1  | Balances on current accounts   | 6388    | 16,63%  | 4192,3  | 17,22%  | -0,59%                    | 52,37%         |
| 2  | Bank deposits  | 5468,5  | 14,24%  | 2043,9  | 8,39%   | 5,84%                     | 167,55%        |
| 3  | Real estate  | 12201,2 | 31,77%  | 12543   | 51,52%  | -19,75%                   | -2,73%         |
| 4  | Claims to insured  | 14337,7 | 37,33%  | 5546,1  | 22,78%  | 14,55%                    | 158,52%        |
| 5  | Cash in vault  | 14,7    | 0,04%   | 22,1    | 0,09%   | -0,05%                    | -33,48%        |
| 6  | Total earning assets   | 38410,1 | 100,00% | 24347,4 | 100,00% | 0,00%                     | 57,76%         |
| 7  | Total interest earning assets  | 11856,5 | 30,87%  | 6236,2  | 25,61%  | 5,25%                     | 90,12%         |
| 8  | Interest earning assets with rating above uaBBB-                       | 10856,5 | 28,26%  | 5236,2  | 21,51%  | 6,76%                     | 107,34%        |
| 9  | Share of investment grade rating assets in the interest earning assets | 91,57%  | -       | 83,96%  | -       | -                         | -              |
| 10 | Financial income   | 388,1   | -       | 286,5   | -       | -                         | 35,46%         |
| 11 | Earning assets efficiency  | 1,01%   | -       | 1,18%   | -       | -                         | -              |

The calculated indicator of earning assets management efficiency following the results of H1 2011 constituted 1,01 %. Such low value is due to that only 30,8 % of earning assets have been interest earning ones, the others have been placed in capital markets or invested in real estate, i.e. the insurer received an irregular income from these assets.

As a whole RA estimates insurer assets quality as high, without any observed signs of garbage assets on balance.

### **(E) Reinsurance cover quality**

The analysis of insurer profile has shown that JSC USIC has modern system of reinsurers' evaluation. The company takes collegiate decisions on transfer of risks to one or other reinsurer. JSC USIC works on reinsurance mainly with resident companies.

Following H1 2011 results JSC USIC ceded to reinsurers UAH 25,287 m of premiums. From them 65,37 % have been ceded to one insurance company (see table 6).

Table 6

**Structure of reinsurance cover of JSC USIC (23734213)**

| # | Indicators  | H1 2011 |        | H1 2010 |       | Change of structure, p.p. | Growth rate, % |
|---|---|---------|--------|---------|-------|---------------------------|----------------|
|   |   | UAH th  | %      | UAH th  | %     |                           |                |
| 1 | PrJSC Progress Fund   | 16529,9 | 65,37% | 0       | 0,00% | 65,37%                    | -              |
| 2 | ALC IC Progress   | 4290,9  | 16,97% | 152,2   | 1,83% | 15,14%                    | 2719,25%       |
| 3 | IC ALC Renaissance of Ukraine                                   | 1804,9  | 7,14%  | 3781,9  | 45,4% | -38,26%                   | -52,28%        |
| 4 | JSC IC Kremen   | 965     | 3,82%  | 0       | 0,00% | 3,82%                     | -              |
| 5 | PrJSC VUSO  | 806     | 3,19%  | 0       | 0,00% | 3,19%                     | -              |
| 6 | Other reinsurers  | 891,1   | 3,52%  | 4395,9  | 52,7% | -49,25%                   | -79,73%        |
| 7 | Total insurance payments ceded to reinsurers                    | 25287,8 | 100%   | 8330    | 100%  | 0,00%                     | 203,58%        |
| 8 | Insurance payments ceded to reinsurers with rating above uaBBB- | 24396,7 | 96,48% | 7546    | 90,6% | 5,89%                     | 223,31%        |

RA believes that the level of JSC USIC reinsurance portfolio diversification remains low enough and recommends to the insurer to improve diversification on transfer of risks. Probably, it will be easier realizable with growth of business volumes.

According to JSC USIC, 96,48% of their reinsurance cover have been provided by the companies with the rating above uaBBB-. Due to that not all rating agencies publish the information on the ratings assigned to insurers, it is difficult to verify this information.

### **(F) Adequacy of reserves**

In the structure of reserves main part corresponded to unearned premium reserve (see table 7).

Table 7

**Structure of technical reserves of JSC USIC (23734213)**

| # | Indicators                             | H1 2011 |         | H1 2010 |         | Change of structure, p.p. | Growth rate, % |
|---|--|---------|---------|---------|---------|---------------------------|----------------|
|   |  | UAH th  | %       | UAH th  | %       |                           |                |
| 1 | Unearned premium reserve               | 23046,6 | 88,27%  | 8888,8  | 74,08%  | 14,19%                    | 159,28%        |
| 2 | Reserve for loss reported but not paid | 1762,8  | 6,75%   | 1773,7  | 14,78%  | -8,03%                    | -0,61%         |
| 3 | IBNR loss reserve                      | 466,7   | 1,79%   | 242,3   | 2,02%   | -0,23%                    | 92,61%         |
| 4 | Reserve for loss variation             | 0       | 0,00%   | 436,3   | 3,64%   | -3,64%                    | -100,00%       |
| 5 | Catastrophe reserve                    | 833,3   | 3,19%   | 658,4   | 5,49%   | -2,30%                    | 26,56%         |
| 6 | Other reserves                         | -       | 0,00%   | -       | 0,00%   | 0,00%                     | -              |
| 7 | Technical reserves, in total           | 26109,4 | 100,00% | 11999,5 | 100,00% | 0,00%                     | 117,59%        |

According to RA Standard Rating technical reserves of the insurer are proportional to underwritten risks; most part of reserves is placed in assets with investment grade rating. The company adheres to requirements of the LU "On Insurance" stipulating allocation of technical reserves per certain categories of assets.

Following H1 2011 payouts constituted UAH 2,625 m, payout ratio decreased from 15,05 to 6,67 %. Decrease in payout ratio occurred because of sharp growth of premiums in H1 2011. The insurer has been actively underwriting the risks namely in H1 2011 (see table 8).

Table 8

**Payouts and coverage of payouts by interest earning assets of JSC USIC (23734213),  
UAH thousand**

| # | Indicators                         | H1 2011 | H1 2010 | Change of structure, p.p. | Growth rate, % |
|---|------------------------------------|---------|---------|---------------------------|----------------|
| 1 | Indemnities and compensations paid | 2624,7  | 2051,8  | 572,9                     | 27,92%         |
| 2 | Total gross premiums               | 39337,6 | 13636,5 | 25701,1                   | 188,47%        |
| 3 | Payout ratio                       | 6,67%   | 15,05%  | -8,37%                    | -              |
| 4 | Total interest earning assets      | 26109,4 | 6236,2  | 19873,2                   | 318,67%        |
| 5 | IEA/payouts ratio                  | 994,76% | 303,94% | 690,82%                   | -              |

RA draws attention to that following H1 2011 the interest earning (most liquid) assets almost in 10 times exceeded the payouts. Current reserves of JSC USIC sufficiently covered the previous payouts.

**(G) Capital adequacy and solvency margin**

JSC USIC had rather stable structure of shareholder equity. 47,76 % of equity have been created at the expense of the authorized capital, 37,67 % at the expense of additional paid-in capital and only about 10 % at the expense of retained profit of past years (see table 9).

Table 9

**Structure of shareholder equity of JSC USIC (23734213)**

| # | Indicators                       | H1 2011 |         | H1 2010 |         | Change of structure, p.p. | Growth rate, % |
|---|----------------------------------|---------|---------|---------|---------|---------------------------|----------------|
|   |                                  | UAH th  | %       | UAH th  | %       |                           |                |
| 1 | Authorized capital               | 13000   | 47,76%  | 13000   | 47,99%  | -0,23%                    | 0,00%          |
| 2 | Other additional paid-in capital | 10253,8 | 37,67%  | 10253,8 | 37,86%  | -0,19%                    | 0,00%          |
| 3 | Reserve capital                  | 1251    | 4,60%   | 1043,7  | 3,85%   | 0,74%                     | 19,86%         |
| 4 | Retained profit                  | 2714,8  | 9,97%   | 2788,9  | 10,30%  | -0,32%                    | -2,66%         |
| 5 | Shareholder equity, in total     | 27219,6 | 100,00% | 27086,4 | 100,00% | 0,00%                     | 0,49%          |

For a long time the company did not used the help of shareholders, keeping authorized capital stock level at the amount of UAH 13 m. The additional capital on balance was formed at the expense of assets reevaluation. It should be reminded that real estate was present at the balance of the insurer.

According to the Agency, JSC USIC generated sufficient level of equity to be able to meet the obligations. Taking into account that technical reserves of the insurer are correctly created, and the company maintains high quality of assets, RA estimates JSC USIC solvency margin at the level of UAH 6,5 m. That is the amount by which for July, 1st, 2011 the equity of the insurer exceeded its liabilities. Considering that the volume of 2011 payouts forecasted by RA will constitute UAH 5,2 m, it is fair to say that solvency margin, generated by the company exceeds the forecasted annual volume of payouts by 25 %.



### **(H) Support by shareholders**

As of the moment of rating report publication the JSC USIC was under state control. Key shareholders of the insurer are:

- The Office of State Protection Service at CD MIA of Ukraine in the city of Kiev (USREOU code 08596920), the share = 20 %;
- The Department of State Protection Service at CD MIA of Ukraine (USREOU code 08596819), share = 40 %.

The current structure of shareholders of the insurer ensures for the state structures a quorum at meeting of shareholders, that is, - state control over the company.

The analysis of possible external support level of JSC USIC rests against budgetary process and the condition of public finances in Ukraine. Considering small volume of authorized capital and shareholder equity of JSC USIC, and also the profitable work of the company, the probability of external support remains very high though, according to RA, currently JSC USIC remains overcapitalized and will not very soon need a support by shareholders. As a whole RA identifies the external support by shareholders as high, that is positively influencing insurer financial strength rating.

### **(I) Other factors influencing the rating**

Last audit by Statfinservices ended on August, 26<sup>th</sup>, 2011. The insurance regulator did not find infringements.

For the last 12 months Statefinmonitoring did not send requests to JSC USIC. Company management had high enough qualification and considerable work experience.

**Baran Igor Yuryevich**, General Director of JSC USIC.

Born on February, 14<sup>th</sup>, 1960 in Kiev. In 1984 graduated with a gold medal from the Kiev Higher Air Defense and Radio Engineering School and remained in the School for further military service.

After military discharge in 1992 engaged in business activity: Vice-President of IC "Omota-Inster", President of JSC Ukrainian Security Insurance Company, Chairman of Board of JSC IC Professional Protection, Chairman of Board of JSC IC Stolitsa.

In 1992 graduated with distinction from economic faculty of Kiev State University by T.G.Shevchenko. Has the military rank of retired colonel. Awarded by a number of medals and other distinctions.

On the beginning of H2 2011 company personnel was made by 64 persons and 25 agents. From 64 persons 63 had insurance experience of above 3 years (see table 10).

Table 10

**Structure of personnel of JSC USIC (23734213)**

| # | Indicators                                    | H1 2011 |         | H1 2010 |         | Change of structure, p.p. | Growth rate, % |
|---|---|---------|---------|---------|---------|---------------------------|----------------|
|   |   | persons | %       | Persons | %       |                           |                |
| 1 | Number of staff with experience under 3 years | 1       | 1,56%   | 0       | 0,00%   | 1,56%                     | -              |
| 2 | Number of staff with experience above 3 years | 63      | 98,44%  | 60      | 100,00% | -1,56%                    | 5,00%          |
| 3 | Total number of staff                         | 64      | 100,00% | 60      | 100,00% | 0,00%                     | 6,67%          |
| 4 | Number of non-staff agents                    | 25      | 39,06%  | 20      | 33,33%  | 5,73%                     | 25,00%         |



## 2. Summary of rating components

The rating of JSC USIC has been influenced by the following factors:

1. The company is a small one with 1% market share in classic insurance; however it occupies rather narrow niche in the market. In 2011 company business has quickened. Following H1 2011 the gross premiums of the insurer grew on 188,47 % in comparison with the same period of last year and have reached UAH 39,337 m. Essential gain of total business volume did positively influenced insurer financial condition.

2. The diversification of JSC USIC business per insurance types is recognized by the agency as close to satisfactory. In H1 2011 47,5 % of total business corresponded to voluntary insurance of commercial risks, in H1 2010 - 66,61%. Along growth of business scales per type diversification will improve. Level of JSC USIC client diversification is recognized by the agency as high. Following H1 2011 the top largest client corresponds to 10,69 % of company business, the three top clients correspond to 20,61 %.

3. RA Standard Rating identifies as high the assets quality of insurer. For July, 1st, 2011 earning assets of the insurer constituted UAH 38,41 m, from which interest earning assets constituted 30,87 %, and 91,57 % of latter had investment grade level. RA Standard Rating identifies the level of reinsurance provision as qualitative with rather low diversification level. The largest reinsurer in the portfolio corresponds to 65,37 % of the premiums ceded to reinsurers in H1 2011.

4. On the beginning of H2 2011 unearned premium reserve made up 88,27 % of technical reserves. IBNR loss reserve constituted 6,75 %, catastrophe reserve - 3,19 % of technical reserves. The analysis by RA Standard Rating has shown that the technical reserves generated by the insurer are adequate to the undertaken obligations and past payouts.

5. According to the agency, capital surplus of JSC USIC constitutes as a minimum UAH 6,5 m. At forecasted UAH 5,2 m of payouts for 2011 such capital surplus can be regarded as reliable guarantee of execution by the company of the obligations to insurers. Besides, the state, being the key shareholder of the insurer, according to RA Standard Rating, can provide nearly unlimited external support to the Company.

6. Company personnel are highly qualified: from 64 regular employees of JSC USIC 63 have experience of more than 3 years in the insurance market. Company management also has considerable experience of work in insurance sector, and the General Director (top executive) of the insurer works in the insurance market of Ukraine since 1992.

## 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*