

The rating report

(on basis of the Agreement No. 59/RA of April 26, 2011)



Insurer's stability rating on national rating scale:

Interpretation of the rating:

Equivalent on the international scale of RA Expert Rating:

Rating date:

Rating update:

uaAA

(high stability level, with a positive forecast)

The company has high level of financial stability and creditworthiness compared to other Ukrainian companies.

(The national scale has been approved by the Resolution of the Cabinet of Ukraine no. 665 on 26.04.2007)

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On July 05, 2011

By customer request



Open joint-stock company National joint-stock insurance company 'Oranta'

(full name of the company)

75, Zhylyanska str., Kiev, 04050
(legal address of the company)

75, Zhylyanska str., Kiev, 04050
(mailing address of the company)

Incorporation date	25.11.1921 (16.09.1994)
Date of start of operations	25.11.1921
Former name :	Ukrghosstrakh (until 16.09.1994)
USREOU code	00034186
Account bank	PJSC 'Ukrghosstrakh', MFO 300023
Auditor	Auditing firm 'Proinformaudit company'
Contact person:	Zaplatnikov Sergey, Treasury Director, tel. (044) 537-58-59
Phone:	+38 (044) 537-58-60, 537-58-00
Fax:	+38 (044) 537-58-60, 537-24-99
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Web-сайт:	http://www.oranta.ua

The IC is licensed for the following types of voluntary insurance: Freight and luggage insurance (series AB, no. 360277), issued on 05.09.2007, unlimited validity; Accident insurance (series AB, no. 360278), issued on 05.09.2007, unlimited validity; Insurance of watercraft owners' liability (including carrier liability) (series AB, no. 360279), issued on 05.09.2007, unlimited validity; Third party legal liability insurance (except motor third party liability, air transport owners' liability, watercraft owners' liability (including carrier liability) (series AB, no. 360280), issued on 05.09.2007, unlimited validity; Water transport (maritime, inland water and other watercrafts) insurance (series AB, no. 360281), issued on 05.09.2007, unlimited validity; Property insurance, except railway-, motor-, air-, water transports (incl. sea inland waters, and other watercrafts), freight baggage; (series AB, no. 360284), issued on 05.09.2007, unlimited validity; Motor transport vehicle insurance (except r/w) (series AB, no. 360285), issued on 05.09.2007, unlimited validity; Financial risks insurance (series AB, no. 360286), issued on 05.09.2007, unlimited validity; Motor transport owner's civil liability (including carrier liability) insurance (series AB, no. 360287), issued on 05.09.2007, unlimited validity; Insurance of medical expenses (series AB, no. 360288), issued on 05.09.2007, unlimited validity; Insurance against fire and Acts of God related risks; (series AB, no. 360289), issued on 05.09.2007, unlimited validity; Credit insurance (including borrower liability insurance against existing loan) (series AB, no. 360290), issued on 26.01.2008, unlimited validity; Health insurance (standing insurance of health); (AB, no. 360291), issued on 11.03.2008, unlimited validity; R/w transport insurance (series AB, no. 360417), issued on 31.03.2008, unlimited validity; Health insurance against disease (series AB, no. 360418), issued on 23.05.2008, unlimited validity; Aviation liability insurance (including carrier insurance) (series AF, no. 569221), issued on 11.01.2011, unlimited validity, beginning from 30.12.2010; Air transport insurance (series AF, no. 569222), issued on 11.01.2011, unlimited validity, beginning from 30.12.2010.

The IC is licensed for the following types of compulsory insurance: Insurance of crops and perennial plantations by the state agrarian companies, insurance of cereal crops and beet by the agrarian companies of all types of ownership (series AB, no. 360291), issued on 05.09.2007, unlimited validity; Civil liability insurance of citizens of Ukraine, who are owners of weapon or possess it on other legal grounds against damage resulting from owning, keeping or using weapon, which can be caused to third parties or third party's property; (series AB, no. 360292), issued on 05.09.2007, unlimited validity; Liability insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo (series AB, no. 360293), issued on 05.09.2007, unlimited validity; Insurance of nuclear facilities operator's public liability against damage caused by a nuclear incident (series AB, no. 360295), issued on 05.09.2007, unlimited validity; Livestock insurance against any event of loss, death, forced slaughter, diseases, acts of Nature and accidents, according to the list of livestock established by the Cabinet of Ukraine (series AB, no. 360296), issued on 05.09.2007, unlimited validity; Life and Health insurance for veterinarians (series AB, no. 360297), issued on 05.09.2007, unlimited validity; Liability 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. 360298), issued on 05.09.2007, unlimited validity; Personal insurance against traffic accidents (series AB, no. 360299), issued on 05.09.2007, unlimited validity; 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 (series AB, no. 360300), issued on 05.09.2007, unlimited validity; Personal insurance of health care and pharmaceutical workers (except those employed in publicly financed organizations and entities) against HIV infection in service, (AB, no. 360301), issued on 05.09.2007, unlimited validity; Compulsory state personal insurance of the state tax service bodies officials (series AB, no. 360335), issued on 21.03.2008, valid before adoption date of the Law on replacement of obligatory state insurance by direct compensatory payments from the State budget by main budget owners according to target payments at place of work of the sufferers; Compulsory state personal insurance of officials of state supervision and auditing service (series AB, no. 360336), issued on 21.03.2008, valid before adoption date of the Law on replacement of obligatory state insurance by direct compensatory payments from the State budget by main budget owners according to target payments at place of work of the sufferers; Compulsory state insurance of life and health of people's deputies of Ukraine (series AB, no. 360337), issued on 21.03.2008, valid before adoption date of the Law on replacement of obligatory state insurance by direct compensatory payments from the State budget by main budget owners according to target payments at place of work of the sufferers; Health insurance (series AB, no. 429630), issued on 19.08.2008, unlimited validity; Civil aviation insurance (series AB, no. 429889), issued on 03.11.2008, unlimited validity; Insurance of motor transport vehicle owners' civil liability (series AF, no. 569220), issued on 11.01.2011, unlimited validity.

*The present report is the rating research expressing opinion of Expert Rating RA analysts.
The report is a substantiation of the rating assigned, being also an opinion of Expert Rating RA analysts.
See the last page of the report for use limitations*

1. Overview of the Company

NJSIC 'Oranta' has been incorporated on November, 25th, 1921 as 'Ukrghosstrakh' insurance company which till 1988 remained the only one IC in the territory of Ukraine. According to the Resolution of the Cabinet of Ukraine no. 709 of 07.09.1993, in 1994 based on 'Ukrghosstrakh' the Open joint-stock company NJSIC 'Oranta' has been created. The State Property Fund of Ukraine (SPFU) acted as founder on behalf of the state.

Subsequently NJSIC 'Oranta' has been subject to privatisation, SPFU has been several times selling the share holdings of the largest insurer of Ukraine on the auction, also upon permission of the Cabinet of Ukraine the NJSIC 'Oranta' increased the authorized capital several times:

- Before August, 2001 by preferential placing 21,15% of company shares have been already sold in the rights offering, including 16,41% to workers and 4,84% to the management. In July, 2001 the government of Ukraine by a special regulation fixed 50 % + 1 share in the state ownership up to July, 2003;
- In March, 2002 the JSCB 'Ukrghosstrakh' bought 28,85% of NJSIC 'Oranta' shares through privatization tender;
- In February, 2004 according to the Resolution of the Cabinet of Ukraine no. 49-r 'On implementation of measures on NJSIC 'Oranta' development' fifth issue of company shares has been produced due to which the authorized capital was doubled to UAH 44,65 m, and the size of state owned stock decreased to 25% + 1 share;
- On 16.09.2005 at extraordinary general meeting of shareholders of the Company decision was taken on further increase of authorized capital from UAH 44,65 m to UAH 79,67 m. In December, 2005 a group of private investors-non-residents acquired 45,3% of NJSIC 'Oranta' stock that enabled further improvement of Company assets structure and increase of its liquidity;
- NJSIC 'Oranta' privatization has been completed in October, 2007: as a result of tender on sale of state owned share of the Company the Kazakh 'BTA Bank' become owner of 25% + 1 share.

During 2004–2006 NJSIC 'Oranta' created a full-fledged regional network in the southeastern regions: 48 branches have been opened in Donetsk, Dnepropetrovsk, Lugansk and Zaporozhye oblasts, AR Crimea; the Donetsk office began its work; 36 branches have been reorganized and the activity of 21 branches renewed. By the end of 2006 representative network of NJSIC 'Oranta' included already 676 subunits, and more than 3 000 agents worked for the Company.

During 2007–2008 the strategic investor of NJSIC 'Oranta' decided on creation in Ukraine of insurance holding, of which 'Oranta' became a parent company. The holding included 'Oranta life' 'Garant Assistance', and others. NJSIC 'Oranta' continues to increase cooperation with banks, the Company is accredited in 36 banks, co-operates with 180 credit institutions, the share of bank channel of sales achieves 34%. Also NJSIC 'Oranta' begins reforming of the organizational structure of the Company, converting most departments into non-balance ones.

During 2009–2010 an additional issue of shares (summer, 2009) on 600,1 m has been performed with attraction of new shareholders. The authorized capital increased to UAH 775,1 m. NJSIC 'Oranta' was one of the first to response the crisis phenomena: main efforts have been directed on reduction of expenses, assets management policy has been toughened — the deposits have been concentrated in banks with high credit rating. Despite the crisis, the Company continued modernization: the system of insurance accounting 'Jupiter' and new version of accounting system '1C 8.2' have been implemented.

Table 1

Key performance indicators of NJSIC 'Oranta', (UAH th., %)

Indicators	Q1 2011 (01.04.11)	Q1 2010 (01.04.10)	Growth rate 2010-2011	2010 (from 1.12.10)	2009 (31.12.09)	2008 (31.12.08)	2007 (31.12.07)	2006 (31.12.06)	Growth rate 2009-2010	Growth rate 2006-2010
Assets	1137368	1200171	-5,23%	1154473	1197165	869363	650632,8	367792,4	-3,57%	213,89%
Liquid assets (Cash and cash equivalents)	204136	317700	-35,75%	228167	344910	140364	142117,3	92269,6	-33,85%	147,28%
Shareholder equity	800794	775266	3,29%	801922	775308	411139	277807,1	167368,8	3,43%	379,13%
Authorized capital	775125	775125	-	775125	775125	175032	44647,2	44647,2	-	1636,11%
Assets/Liabilities	60,65%	74,77%	-	64,72%	81,76%	30,63%	38,12%	46,04%	-	-
Shareholder equity /Assets, %	70,41%	64,60%	-	69,46%	64,76%	47,29%	42,70%	45,51%	-	-
Gross premiums	159789,5	163894,8	-2,50%	644007,0	717975,7	1010150,5	693643,1	479570,2	-10,30%	34,29%
Share of premiums coming from reinsurers in gross premium, %	0,8%	1,0%	-	0,9%	0,8%	5,8%	2,1%	2,8%	-	-
Share of premiums directed to reinsurers in gross premium, %	9,9%	11,4%	-	9,9%	27,6%	23,4%	8,1%	6,6%	-	-
Total indemnities paid out	58203,9	74996,1	-22,39%	293593,9	345412,6	399549,0	240171,5	194320,3	-15,00%	51,09%
Loss ratio, %	36,4%	45,8%	-	46,0%	48,1%	39,6%	34,6%	40,5%	-	-
ROE, %	0,01%	0,16%	-	1,09%	-	2,17%	1,41%	4,48%	-	-
Net income (loss)	43,4	1214,9	-96,43%	8570,4	-236972,0	7466,0	3140,1	7402,1	-	15,78%

Source: Company data; calculations by Expert Rating RA

Summarizing main results of NJSIC 'Oranta' work in 2006-2010, the Agency has drawn following conclusions:

- Over the last 5 years the volume of total business of the Company has grown on 34,3%, it reached a historical peak in 2008 making UAH 1,01 billion. The crisis period of 2008-2010 was featured by decrease in volumes of Company gross premiums, for this period the volume of NJSIC 'Oranta' business dropped by over one third. Main reasons of total business volumes reduction have been: orientation of NJSIC 'Oranta' on classical insurance which has been mostly subject to crisis influence; appearance in the Ukrainian market of large insurers with 100% foreign capital, able to retain their market share, including by means of dumping or control over bank channels of sales.
- Shareholders equity/assets ratio of the Company on Q2 2011 beginning constituted 70,41%, and on the beginning of 2007 — only 45,51%. For the same period the amount of liquid assets being at NJSIC 'Oranta' disposal more than doubled, and assets/liabilities coverage ratio has grown from 46 to 60,65%. NJSIC 'Oranta' managed to increase the level of capital adequacy and liquidity for the account of additional issue of shares in the summer of 2009, and also at the expense of slowdown of total business volumes fall rates in the H2 2010 — Q1 2011.
- Following the results of 2010 NJSIC 'Oranta' managed to return to profitable work. From the last 5 years only the 2009 was unprofitable for the Company. In 2009 the Company incurred in a record loss of UAH 236,9 m. Such crisis situation was characteristic for most Ukrainian large insurers working in the classical segment. Because of the crisis, instead of expected growth of classical insurance segment, large operators of the market saw its reduction. For NJSIC 'Oranta' the period of 2008–2009 was characterized by loss ratio growth. Following the results of 2009 the ratio between payouts and gross premiums constituted the record 48%, and the Company had to pay out UAH 345 m. In 2010 the situation with payouts has stabilized, the payout ratio decreased to 46%, and in the Q1 2011 was already 36,4%.

Presently NJSIC 'Oranta' remains the largest universal insurance company in Ukraine with focus on retail sector. NJSIC 'Oranta' as earlier has the most branched out regional and agency network in the insurance market of Ukraine. Along restoration of the national economy and consumption growth, the attractiveness of NJSIC 'Oranta' as an asset will grow in the opinion of strategic investors, because the Company is well integrated into insurance retail market and, having successfully endured the crisis, remains the most significant player of the classical segment of insurance market.

2. Market share and business activity of the company

NJSIC 'Oranta' is the leading company of the classical insurance market. Over last years the Company has been regularly heading the industry rankings both on volumes of gross premiums in the classical segment, and per various kinds of insurance. Estimating the share of any insurance company in the Ukrainian market, the Agency takes into consideration 2 forms of share estimate: nominal one, calculated as ratio of total business volumes of the company to gross premiums of the entire market, and an estimated one which indicated share of the market the company occupies in the classical segment.

As our analysis has shown, over 5 years NJSIC 'Oranta' gradually was losing both nominal and estimated share of the market. The nominal share of the Company decreased from 3,6% in 2006 to 2,9% in 2010, the estimated share from 11% in 2006 has fallen to 9,7% in 2010 (*see table 2*).

Table 2

Share of NJSIC 'Oranta' in the insurance market of Ukraine in 2008–2010

Indicator	2010	2009	2008	2007	2006	Change in 2009-2010	Change in 2006-2010
Nominal share of NJSIC Oranta in total insurance market, %	2,8%	3,5%	4,2%	3,9%	3,5%	-0,7%	-0,7%
Nominal share of NJSIC Oranta in the market of risky insurance, %	2,9%	3,7%	4,4%	4,0%	3,6%	-0,8%	-0,7%
Estimated share of NJSIC Oranta in the classical insurance market, %	9,7%	11,3%	12,1%	12,0%	11,0%	-1,6%	-1,3%
Change of estimated share of NJSIC Oranta in one year	-1,6%	-0,8%	+0,1%	+1,0%	+1,0%	-	-
Rate of annual volume of NJSIC Oranta business	-10,3%	-28,92%	+45,6%	+44,6%	+22,5%	-	-
GDP growth rate	+4,2%	-14,8%	+2,3%	+7,9%	+7,3%	-	-

Source: Company data, calculations by Expert Rating RA

The decrease of NJSIC 'Oranta' share in the classical market was gradual and slower; the Agency observes growth of market share of the Company in 2006-2008 and decrease from 2008 to 2010. The revealed trend remains derivative of the economic situation in Ukraine. By Agency observations, the volume of NJSIC 'Oranta' total business is dependent on the rates of growth (falling) of national economy and gross consumption in the country. In the long-term period there is no direct correlation between GDP growth rate and change of market share of the largest insurer in the classical market; however the Company responds with a little lagging on extreme changes of GDP that is explained

by the specificity of insurance sector and namely of the classical market which, as a rule, reacts on the change of credit activity of the banks and moods of consumers.

As to negative dynamics of nominal and estimated share of market, — it is an objective fact connected with appearance in the Ukrainian insurance market of a great number of players with absolute foreign capital which entered into struggle for market share by means of dumping, or by keeping control over bank sales channels. Also that fact must be considered that over 2000–2005 NJSIC 'Oranta' gradually lost monopoly on certain compulsory types of insurance (employees of the MIA, judges etc.).

Negative for the competitiveness of NJSIC 'Oranta' is that fact that the Company had limited access to the market of capitals, unlike the competitors controlled by the foreigners. Over the last 5 years the Company performed only 2 issues and only in 2009 allowed for unprofitable work. High competition in the Ukrainian insurance market and globalization, amplified by crisis phenomena, also have become reasons of market share loss; however such losses can be recovered at national economy growth as it was during growth period of 2006–2008.

Estimating market share of the Company, it should be considered that NJSIC 'Oranta' holds stable positions and has large enough shares (5% and more) in such kinds of insurance, as:

- MTPL;
- watercraft owners' liability insurance;
- insurance of nuclear facilities operator's public liability;
- green card;
- motor transport vehicle insurance and other.

Since Law of Ukraine 'On compulsory insurance of civil and legal liability of motor transport vehicles owners', came into force, NJSIC 'Oranta' is invariable leader of MTPL insurance both on sold insurance policies and attracted premiums, as well as on indemnities paid out.

Table 3

Share of NJSIC 'Oranta' in MTPL insurance market in 2008–2010 (UAH th., %)

Indicators	Gross premiums				Indemnities paid out				Sold policies, th. pcs.		
	2010	2009	2008	Growth rate	2010	2009	2008	Growth rate	2010	2009	2008
Insurance market, UAH th.	1713191,0	1 344 332,1	1 277156,9	34,14%	715319,2	553 873,5	448 030,4	59,65%	8 144,3	7 127,8	6 715,9
NJSIC 'Oranta', UAH th.	271537,5	240939,4	236706,2	14,72%	111 024,3	92 453,8	82 744,9	34,18%	1 509,0	1 476,6	1 439,9
NJSIC 'Oranta' market share, %	15,8%	17,9%	18,1%	-	15,5%	16,7%	18,5%	-	18,5%	20,7%	21,4%
Position in industry market	1	1	1	-	1	1	1	-	1	1	1

Source: Data by the Company and MTIBU, calculations by Expert Rating RA

IC 'Providna', IC 'TAC', IC 'UFIC' and UIC 'Knyazha Vienna Insurance Group' remain main competitors of NJSIC 'Oranta' in MTPL market. Following the results of 2010 NJSIC 'Oranta' is ahead of the nearest competitor in this market on more than UAH 100 m per amount of premiums.

NJSIC 'Oranta' also is leader in the market of property insurance against fire and Acts of God related risks among the classical insurance companies. Over 2008–2010 the market volume in this kind of insurance has grown on 37%, and the total volume of NJSIC 'Oranta' business has fallen on 39,65% that basically did not prevented the Company from keeping the lead positions in this market within last three years.

Table 4

Share of NJSIC 'Oranta' in the market of property insurance against fire risks in 2008–2010, (UAH th., %)

Indicators	2010	2009	2008	Growth rate 2008-2010
Total market volumes on insurance against fire risks, UAH th.,	3 029 838,8	2 124 443,6	2 209 447,4	37,12%
NJSIC 'Oranta', UAH th.	107 006,2	112 178,5	177 334,8	-39,65%
Market share of NJSIC 'Oranta', %	3,5%	5,3%	8,0%	-
Position in industry ranking	2	1	1	-

Source: Company data, calculations by Expert Rating RA

Estimating the data of table 4, it should be considered that the attractiveness of schemed operations in the given kind of insurance has appreciably grown over last years. The growth of market capacity of insurance against fire risks during the crisis period looks illogical in itself, as well as that fact that the majority of large market operators (except NJSIC 'Oranta') supported very low ratio between net and gross premiums. For example, specific weigh of reinsurance in IC 'Kremen' which in 2010 held first position in ranking on property insurance against fire risks, has constituted 96,5%. Therefore in reality NJSIC 'Oranta' remained leader of this market in 2010 as well although formally the first position in the ranking has been lost.

The main competitive advantage of the Company, ensuring success of NJSIC 'Oranta' in the markets of insurance close to retail, is availability of the most branched out regional and agency network in the insurance market of Ukraine.

NJSIC 'Oranta' uses in its work the four main sales channels differing on the method of insurance product delivery to the client:

- Office channel, including head office, is represented by the offices in big cities, centres of oblasts and regions, and also in most district centres of the country. Sale is performed by regular employees at Company offices.
- The Agency network represents an own network of agents, managed by the employees of the regional offices. The agents are engaged in retail sales, and also in sales of products for SMB directly at residence or business address of the client.
- Intermediaries are basically banks selling packets of CASCO insurance, and also retail brokers, car dealers, travel agencies and other partners. In this case sale of insurance products is consequent to the sale of their own services.
- Remote channel when the insurer gets acquainted with the contents of the agreement and expresses his consent to its conclusion via Internet resource of the Company.

The cost of delivery of insurance product to the client in NJSIC 'Oranta' differs depending on the used channel:

- Office channel is one of the less expensive channels, acquisition expenses of the given channel are minimal;
- Agency channel wherein reward of sellers depends on kind of product and varies from 10 to 35%, on the average consumes up to 22% of the collected premiums;
- Acquisition expenses on the intermediary channel are high and constitute up to 30% of the amount of collected premiums.

In 2010 the share of expenses on sale of insurance products has decreased to 20% versus 32% in 2009 at the expense of development of own sales channels - office and agency. In NJSIC 'Oranta' there is no dependence upon any channel of sales; the Company uses all channels simultaneously as each of them is adopted for delivery of products of certain kind - standard or individual ones, with special conditions. In 2010 the work has been directed on reduction of the share of intermediary channel of sales and on development of own channels. The Agency approves such policy of the Company and believes that in the conditions when the Company possesses the largest regional network in the country, the policy of sales stimulation through insurance intermediaries would be inappropriate.

3. Diversification of insurance activity

Diversification per insurance kinds. RA Expert Rating estimates the level of diversification of NJSIC 'Oranta' total business per insurance kinds as satisfactory. On the beginning of Q2 2011 the 58,7% of the collected premiums corresponded to compulsory types of insurance, from them 54,1% to MTPL. Motor transport insurance remained the largest voluntary kind of insurance at NJSIC 'Oranta'. Following the results of Q1 18,7% of gross premiums corresponded to it. Such level of concentration of premiums can be named acceptable (see table 5).

Table 5

Data on the structure of NJSIC 'Oranta' gross premiums, UAH th.

No	Indicators	Q1 2011		Q1 2010		Growth rate	2010		2009		Growth rate
		UAH th	%	UAH th	%		UAH th	%	UAH th	%	
1.	Compulsory types of insurance totally:	93 822,20	58,7%	79 763,80	48,7%	17,6%	316 385,3	49,1%	284 988,3	39,69%	11,02%
2.	Motor transport vehicle insurance (except r/w):	29 960,30	18,7%	44 218,20	27,0%	-32,2%	168 335,5	26,1%	266 218,1	37,08%	-36,77%
3.	Insurance against fire and acts of God related risks	21 362,00	13,4%	25 118,60	15,3%	-15,0%	107 006,2	16,6%	112 178,5	15,62%	-4,61%
4.	Health insurance	4 632,00	2,9%	1756,00	0,81%	163,78%	4 879,80	0,8%	3 534,40	0,49%	38,07%
5.	Property insurance	4 216,30	2,6%	4 980,70	3,0%	-15,3%	16 274,60	2,5%	16 163,50	2,25%	0,69%
6.	Accident insurance	2 379,50	1,5%	2182,40	1,33%	9,03%	12 880,40	2,0%	13 164,70	1,83%	-2,16%
7.	Third party liability insurance	1 008,00	0,6%	1 433,40	0,9%	-29,7%	4 097,80	0,6%	5 451,60	0,76%	-24,83%
8.	Insurance of civil liability of motor vehicles owners	841,9	0,5%	1 033,10	0,6%	-18,5%	3 283,60	0,5%	3 161,80	0,44%	3,85%
9.	Insurance of medical expenses	769,4	0,5%	744,4	0,5%	3,4%	3 983,80	0,6%	4 060,30	0,57%	-1,88%
10.	Freight and luggage insurance	666,3	0,4%	1 319,60	0,8%	-49,5%	3 790,80	0,6%	2 438,50	0,34%	55,46%
-	Other types of insurance	131,6	0,1%	1344,6	0,8%	-90,2%	3089,2	0,5%	6616,00	0,92%	-53,31%
-	Totally:	159 789,5	100,0%	163 894,8	100,0%	-2,5%	644 007,0	100,0%	717 975,7	100,00%	-10,30%

Source: Company data; calculations by Expert Rating RA

Comparing the results of 2009 versus 2010 on level of concentration of premiums, it should be noted the increase of specific weight of compulsory kinds of insurance from 40 to 49% and decrease in insurance of ground transport from 37% to 26,1%. Under the influence of crisis the Company tried to reduce the portfolio share of unprofitable kinds of insurance, simultaneously improving the protection of insurance portfolio against the negative scenario of events course in separate segments of insurance market.

It must be also understood that in Q1 2011 the distribution of the share of insurance premiums per insurance kinds has changed:

1. The share of compulsory kinds of insurance increased from 48,7 to 58,7% at the expense of MTPL insurance increase (from 42,9 to 54,1%). It was caused by the change of tariff policy on MTPL insurance (since August, 30th, 2010 the Regulation of Statefin service of Ukraine no. 566 of 09.07.2010 came into force); liability limits and the average price of MTPL policy have been raised.

2. In Q1 2011 compared to the same period of last year the share of ground transport insurance reduced from 27 to 18,7% due to the influence of the following factors:

- Decrease in volumes of car sales;
- Decrease in volumes of bank crediting;
- Decrease in level of incomes and consumer capability of the population;
- Entering in action of the Law of Ukraine 'On MTPL insurance' as a whole assists increase of insurance culture of citizens, but as experience of the Russian insurance market proves, somewhat slows down growth rate of the number of contracts on CASCO insurance.

3. The following factors influenced reduction of share of collected premiums on insurance of fire risks and Act of God related risks in Q1 2011 from 15,3 to 13,4%:

- Fall of real estate market;
- Low volume of bank mortgage lending;
- Low level of incomes and consumer capacity of the population;
- Unfair conditions of cooperation with banks;
- Insufficient level of insurance culture of the population;
- Total dumping in the segment of property insurance and a rigid price competition in the market.

4. The company actively develops the direction of health insurance: the share of health insurance in Q1 2011 compared to the same period of 2010 grew from 0,9 to 2,9%.

MTPL insurance market remains **the key** one for NJSIC 'Oranta'. MTPL is a compulsory insurance type regulated by the Law of Ukraine inured since January, 1st, 2005. The number of the vehicles insured with this kind of insurance grows every year that is connected with increase of insurance culture of the population.

CASCO remains **second** in importance kind of insurance: share of earnings in Q1 2011 made 18,7%. As negative should be regarded that fact that MTPL and CASCO together occupied 72,8% in insurance portfolio of NJSIC 'Oranta'. That is, in Q1 2011 the Company more than on 70 % depended on motor insurance. Taking into account the unprofitability of transport insurance during crisis period, such volume of dependence on it remains one of the factors indicating on why NJSIC 'Oranta' up to now cannot achieve the pre-crisis level of profitability. The program of ground transport insurance CASCO has been reviewed and the tariff policy changed in H2 2010. The company pursues a policy of CASCO portfolio quality improvement at the expense of refusal from unprofitable clients and complete refusal from dumping at the conclusion of transport vehicles insurance contracts.

The insurance of the property of individuals and legal persons remains **third** on importance for the Company – making 16% in Q1 2011. Insurance of individuals' property includes insurance of apartments, houses, household outbuildings, finishing materials, equipment and other personal estate, and also of animals (cows, horses, etc.). The development of this kind of insurance is one of perspective directions in the Company. The company pays considerable attention to carrying out promotional events on insurance of individuals that helps to attract new clients and to increase popularity of this kind of insurance. In Q1 2011 the new promotional program 'Property talisman' has been launched. Third party civil liability insurance is included as bonus in this program.

Geographical diversification. NJSIC 'Oranta' on the beginning of Q2 2011 had one of the most developed regional networks. The Company is structured by territorial principle. As of 01.04.2011 the regional structure of NJSIC 'Oranta' consisted of

- Head office;
- 28 offices, including those in Kiev and Sevastopol;
- 593 branches and 38 territorial sales departments in the cities and oblasts of Ukraine (*see fig. 1*).

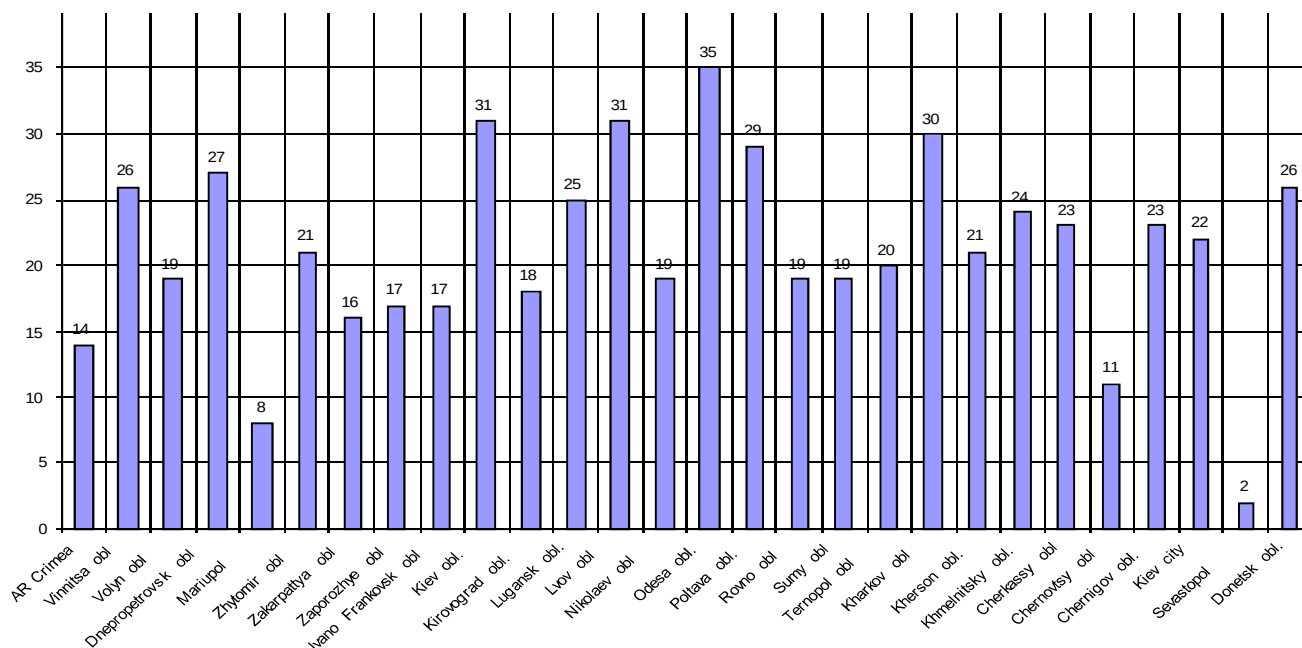
The offices are directly accountable to the head office of the Company. Structural units of the Company are not independent legal bodies and act according to the Regulations approved by the Board of NJSIC 'Oranta'.

According to Company Strategy for 2011, network expansion in the Southeastern region of Ukraine is main priority of regional network development. Such offices of NJSIC 'Oranta' are perspective for opening of structural subunits in 2011:

- Crimean republican office (3 branches);
- Dnepropetrovsk oblast office (5 branches);
- Zaporozhe regional office (6 branches);
- Donetsk oblast office (12 branches).

In total it is planned to open 26 structural subunits for expansion of the regional network.

For the purpose of optimization of the organizational structure and expenses on insurance activity the Company continues the process of balance offices conversion into the non-balance ones.

Fig.1 Data on the number of NJSIC ‘Oranta’ departments in the regions of Ukraine as of 01.04.2011

Client diversification. NJSIC ‘Oranta’ has the highest level of client diversification among the clients of RA Expert Rating in insurance sector. Following the results of Q1 2011 the largest client of the Company corresponded to only 0,66% of gross premiums of the Company. Following the results of 2010 this indicator at all constituted 0,28% (see table. 6).

Table 6

Information on the share of large clients in the structure of the collected premiums of NJSIC ‘Oranta’

no	Insurance types	Q1 premiums			12 months premiums		
		2011	2010	Change	2010	2009	Change
1	From 1 largest client	0,66%	0,68%	-0,02%	0,28%	0,25%	0,03%
2	From top 5 largest clients	1,71%	1,42%	0,29%	0,70%	0,79%	-0,09%
3	From top 10 largest clients	2,21%	1,81%	0,40%	1,23%	1,14%	0,09%

Source: Company data; calculations by Expert Rating RA

PJSC ‘Ukrnafta’, JSCB ‘Arkada’, Embassy of Russian Federation, ‘Ucar Leasing’ Ltd, ‘EpiCentre’ Ltd are the largest clients. The company cooperates with PJSC ‘Ukrnafta’ for more than 2 years. PJSC ‘Ukrnafta’ chose the company in result of conducted tenders on insurance of transport vehicles. One of the factors helping to win the tender are the conditions of insurance most acceptable for the clients. NJSIC ‘Oranta’ cooperates with JSCB ‘Arkada’ in property insurance for over 2 years. High professionalism of the workers, the quality of servicing the contract, consideration of client needs in insurance coverage, creation of individual program of insurance have been criteria of Company choice for the client. NJSIC ‘Oranta’ interacts with the Embassy of RF in Ukraine on some programs of insurance for more than 7 years. The main choice criterions are professionalism of the account manager, taking into account the need of client, quality of contractual servicing and losses settlement, high level of confidence to the company. There are no company shareholders nor legal persons owned by the shareholders among the largest clients of the Company.

Thereby, the Agency estimates company total business diversification per insurance kinds as satisfactory and close to critical level. The geographic diversification of premiums collection in NJSIC ‘Oranta’ is guaranteed by one of the most branched out regional networks in Ukraine. The client diversification in NJSIC ‘Oranta’ remains on unprecedented high level.

4. The quality of assets and reinsurance coverage

The asset quality of ‘Oranta’ obtained positive assessment by RA ‘ExpertRating’. The accounting policy of the company, in principle corresponds to the Ukrainian practice of accounting and assessment of financial instruments in the insurance sector. In the balance sheet item ‘other financial investments’ company investments in shares and bonds of Ukrainian companies are accounted for. At the beginning of Q2 2011 31,86% of earning assets were identified by RA ‘ExpertRating’ as investments into subsidiary and associated companies. Among them are shares and parts of: IC ‘Oranta-life’, concern ‘Oranta’, ‘Garant-Assistance’ Ltd and others. Approximately 5% of company investments into shares and bonds have been presented by the shares of corporate investment funds. Also in the securities holdings of

NJSIC 'Oranta' shares could be found that had active market on the Ukrainian Exchange and PFTS and even composed index portfolio of popular indexes. As a whole, the structure of company earning assets denoted high quality of assets: 31,86% corresponded to 'investments in subsidiaries and associated companies', 44,2% have been in form of bank deposits and banks current accounts balances, approximately 23% of assets were presented by portfolio investments (see table 7).

Table 7

Structure of earning assets of NJSIC 'Oranta' in 2009-2010 as of 01.04.2010 and 01.04.2011 (UAH th., %)

no	Indicator	01.04.2011		01.04.2010		Growth rate, %
		UAH th.	%	UAH th.	%	
1	Other financial investments Form 1 (p.040 + 045)	257 728,70	55,80%	267 967,60	45,75%	-3,82%
1.1	Incl. investments into subsidiaries and associated companies, identified by RA Expert Rating	147 156,8	31,86%	149 028,80	25,45%	-1,26%
2	Cash and cash equivalents Form 1 (p. 230 + 240)	204136,00	44,20%	317700,00	54,25%	-35,75%
2.1	Incl. funds on current accounts	8 638,70	1,87%	76 652,30	13,09%	-88,73%
2.2	Incl. bank deposits and currency deposits	195 468,0	42,32%	240 580,3	41,08%	-18,75%
-	Total earning assets	461864,70	100,00%	585 667,60	100,00%	-21,14%

Source: Company data; calculations by Expert Rating RA

In addition RA Expert Rating researched the rating structure of assets and its dynamics on 01.04.2011. The Agency has found out that on the beginning of Q2 2011 57% of ratable earning were placed in instruments with credit rating uaAAA according to the national scale, 41,71% had credit rating uaAA. Such strategy of NJSIC 'Oranta' on placement of earning assets can be named as too conservative. Under the Ukrainian legislation the Company had possibility to place assets in banks with ratings from uaBBB - to uaA +, however such possibility has not been used. It is eventually negatively reflected on the level of portfolio profitability, but guarantees its safety (see table 8).

Table 8

Rating structure of earning assets of NJSIC 'Oranta' in 2009-2010 as of 01.04.2010 and 01.04.2011, UAH th., %

No.	Assets ratings according to national scale	01.04.2011		01.04.2010		Growth rate, 2009-2010
		UAH th.	%	UAH th.	%	
1.	uaAAA	111490,8	57,04%	65518,6	27,23%	70,17%
2.	uaAA	81535	41,71%	6770	2,81%	1104,36%
3.	uaA	0	0,00%	11350	4,72%	-
4.	uaBBB	1941,2	0,99%	24 525,20	10,19%	-92,08%
5.	Lower than uaBBB-	0	0,00%	301	0,13%	-
6.	Assets with no rating:	501	0,26%	132115,5	54,92%	-99,62%
-	Ratable earning assets, in total:	195468	100,00%	240580,3	100,00%	-18,75%

Source: Company data; calculations by Expert Rating RA

Any decision on assets management in NJSIC 'Oranta' is taken by Company Board. Draft decisions of Board, connected with asset management, are developed and submitted by the Treasury for consideration of trustees in agreement with Deputy Chairman of Board in charge of the subunit. Participation of Board in the process imparts collegiate nature to decision-making. In case when the total amount of the transaction connected with alienation or acquisition of assets exceeds the limit value of UAH 3,2 m. established by sp.21 p.11.12 art. 11 of the Charter of NJSIC 'Oranta', the coordination of these transactions passes to the competence of the Supervisory Board. The Board of Managers by its decision submits this issue for consideration and coordination of the Supervisory Board of the Company which at internal session or by correspondence voting will agree or not the issues submitted for consideration.

In NJSIC 'Oranta' there is a system of monitoring of the efficiency of asset management process. Main principles of asset management process efficiency monitoring consist in the estimation of both interest or trading income, as well in comparing it to average market benchmark. Also is assessed the volume of insurance premiums received at operations on asset management, for example, placement of deposits in bank with the subsequent reception of insurance premiums from the clients of bank according to previously achieved arrangements. So, for example, 'The regulation on procedure of placement of NJSIC 'Oranta' deposits', approved by the Decision of Board no 307 of 18.07.2006, prescribes the analysis of insurance payments received from the borrowers of bank for the period of deposit placement. In case when the indicator of received insurance payments exceeds 80% of annual amount of the placed deposit, the depositary agreement is subject to prolongation, in case when the indicator will be lower, the deposit will be subject to withdrawal.

As a whole, the Agency considers as productive the centralized system of earning assets management which exists for today in NJSIC 'Oranta'. However at work with securities the Treasury encounters with the necessity of operative decision-making and immediate execution of transactions, especially in the recent years, that is connected with increased volatility level of stock market in Ukraine. In connection with insignificant liability limit of UAH 3,2 m of the Chairman of Board and the necessity for constant coordination of transactions execution with the Supervisory Board of the Company the Treasury loses efficiency in asset management that can negatively affect both profitability, and, directly, the quality of securities trading portfolio. Thus, the Agency recommends to raise liability limit of the Chairman of Board or other authorized persons of the Company under the contracts connected with asset management that will considerably simplify the procedure of operative asset management.

At choice of bank for deposit placement NJSIC 'Oranta' considers the following factors:

- Financial soundness of banking entity;
- Level of planned yield from placement;
- Possibility of getting accreditation in the bank, needed for obtaining access to the possibility of insurance of mortgage property of bank and accordingly of increase of insurance premiums collections;
- Presence of wide range of depositary programs;
- Belonging to large international financial holding;
- Availability of financial stability rating not lower than of investment level, assigned by the Ukrainian or international rating agency, needed for satisfaction of regulatory requirements to the assets which can be used for coverage of IC reserves.

The system of reinsurance coverage quality management in NJSIC 'Oranta' also obtained positive assessment by RA Expert Rating. On the beginning of Q2 about 10% of coverage corresponded to the reinsurers without ratings, the others had investment level.

Thus, RA Expert Rating gives positive assessment to the quality of Company assets and to the asset management system, and also assess favorably reinsurance coverage quality. NJSIC 'Oranta' has developed a system of asset management quality which has safely survived the 2008–2010 crisis.

5. Capital and risks adequacy

Capital adequacy and external support. The comments on NJSIC 'Oranta' capital adequacy have been given in the first section of rating report. The Agency believes that as of the beginning of Q2 2011 NJSIC 'Oranta' was overcapitalized, company liquidity reserve has been considerable and accounted for worst case scenario of Ukrainian economy development before the end of 2011.

According to Agency, NJSIC 'Oranta' possesses high level of external support which is proved in practice by successful placement of shares of additional issue in H2 2009 for the amount of over UAH 600 m. The analysis of groups of shareholders which as of the beginning of June, 2011 controlled Company activity, has yielded following results.

According to RA Expert Rating, NJSIC 'Oranta' was controlled by three groups of shareholders:

1. Management company of **Victor Pinchuk** EastOne, controlling 32% of NJSIC 'Oranta' shares.
2. BTA Bank, by now controlled by the government of Kazakhstan. The Kazakh bank possessed directly 35,17% of NJSIC 'Oranta' shares.
3. Top management of NJSIC 'Oranta', by Agency estimations, controlled about 25%.
4. Approximately 5–6% of Company shares have been in free circulation, the shares of the Company have been traded at the exchanges PFTS and 'Ukrainian exchange'.

The official list of NJSIC 'Oranta' shareholders is regularly published within the annual report to SCSSM and in the data base of 'owners of 10% of stock' by SMIDA. The official structure of Company shareholders as of 01.06.2011 showed that shareholders owning more than 5% of company shares corresponded to 92,41% of votes (see table 9).

Table 9

Shareholders of NJSIC 'Oranta' controlling more than 5 % of votes in 2009–2011

Name of the shareholder	Registration code	01.06.2011	31.12.2010	31.12.2009	31.12.08
JSC 'BTA' Securities (Kazakhstan)	40006449	0	4,778493	4,778493	21,161441
JSC 'BTA Bank' (Kazakhstan)	3903-1900-AO	35,172313	30,393820	30,393820	14,010872
Colorino Trading Limited (Cyprus)	HE 164923	5,642165	5,642165	5,642165	24,986193
Saleta Limited (Cyprus)	HE 153129	5,642066	5,642066	5,642066	24,985752
Backwood Holdings Limited (Cyprus)	248791	13,738961	13,464272	9,164272	0
Cezavelios Holdings LTD (Cyprus)	HE243450	5,623170	5,623170	5,623170	0
Chilwell Limited (Cyprus)	HE232644	9,990000	9,990000	9,990000	0
Visiline Limited (Cyprus)	HE232667	9,424566	9,424566	9,424566	0
Leoberg Holdings Limited (Cyprus)	248639	7,182599	7,182599	0	0
In total:	-	92,41584	92,14115	80,65855	85,14426

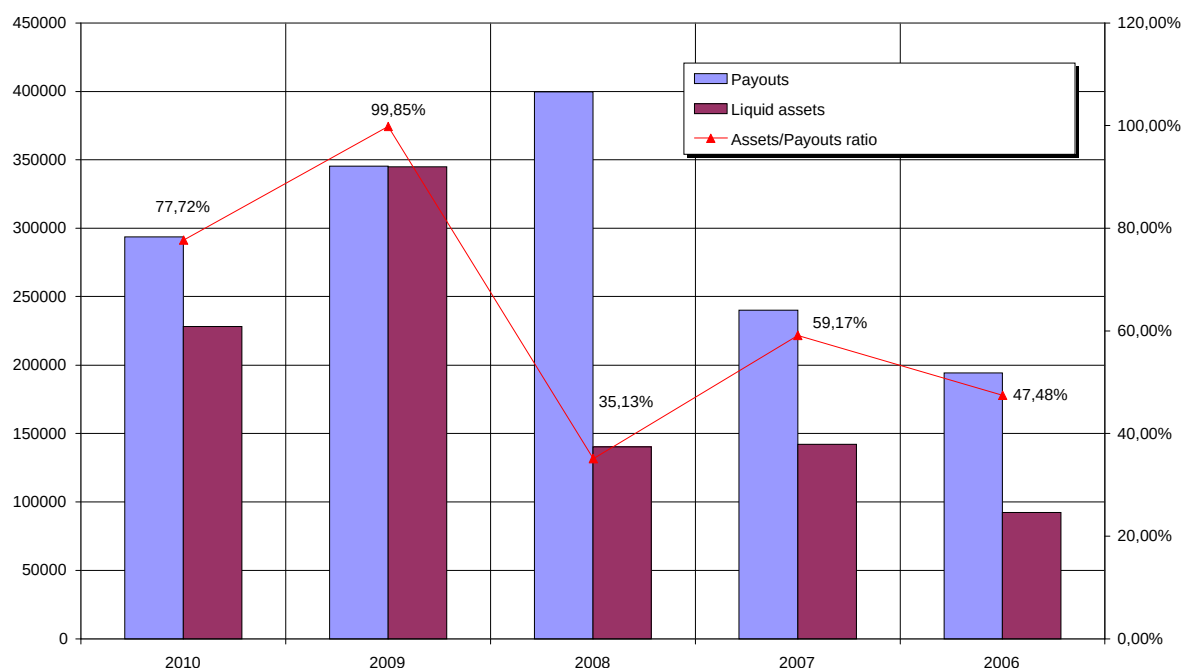
Source: Company data; calculations by Expert Rating RA

Giving high assessment to the level of external support by shareholders, the Agency was based not only on the practice of such support provision in 2009, but also relied on the belonging of EastOne to one of the largest financial and industrial groups in Ukraine, and also on the presence of sovereign support at Kazakh 'BTA Bank'. Judging on the low credit ratings of international rating agencies, BTA Bank was not in very good condition that however did not prevented it from taking a comprehensive participation in the last issue of NJSIC 'Oranta' which took place in 2009.

Adequacy of risks. As has shown the analysis of previous years data, NJSIC 'Oranta' could allow to maintain on balance insignificant volume of liquid assets compared to volume of gross indemnities paid out. So, if in 2009 the ratio between liquid assets on the end of the year and the volume of total payments constituted 99,85%, in 2006 it was

47,8%. The given indicator is difficult to interpret without binding to reinsurance and to the detailed analysis of balance item 'financial investments', but the fact remains: the Company entered the year 2011 with liquid assets which cover the total payouts of 2010 by 77,72%. Thus it should be considered that the total volume of NJSIC 'Oranta' payouts in Q1 2011 in comparison with the similar period of previous year was reduced on 22% (see fig. 2).

Fig. 2 Dynamics of payouts/ liquid assets ratio in NJSIC 'Oranta' in 2006-2011



The analysis of large payments of NJSIC 'Oranta' for the last 12 months has shown that the Company actually was avoiding large risks. The largest payment for last 12 months reached UAH 1,886 m, three largest payments for the last 12 months reached only UAH 2,3 m. Also the company informed the Agency that the reserve of stated, but not paid out losses, as of 31.12.2010, constituted UAH 22,843 m, on 31.03.2011 — UAH 28,923 m.

Also in the courts of Ukraine there were 1229 cases on which NJSIC 'Oranta' acted as respondent. The total amount of claims on these cases on Q2 beginning constituted UAH 83,958 m. At the same time on the beginning of 2011 in courts there were 24 cases on which NJSIC 'Oranta' acted as claimant (no accounting for recourse). On these cases the Company claimed payments of UAH 81,5 m + USD 6,9 m. As seen, the portfolio of judicial claims has been practically balanced.

6. Other factors considered at rating

Traditionally the Agency conducts estimation of some additional factors which can directly or indirectly influence the financial stability of the insurer:

1. Trustees and members of Supervisory Board of NJSIC 'Oranta' do not have cancelled nor current convictions.

2. Last planned audit by Statefinservice has been conducted in 2010 by which results the Act no. 174/43/2 of 23.11.2010 has been drawn. Based on this act is the prescriptions no. CK-432/10-437 of 22.12.2010 and no. CK-421/11-224 of 02.03.2011 have been issued with the requirement to eliminate the revealed infringements of legislation of Ukraine in the area of financial services before 25.01.2011. NJSIC 'Oranta' did partially executed, and partially appealed against the above mentioned prescriptions.

3. In 2010–2011 the Offices of Public Prosecutor of Ukraine conducted audits of observance by NJSIC 'Oranta' of the norms of current legislation concerning investigation of accidents in production, procedures of indemnities payments, consideration of applications of citizens, and also procedures of dismissal of workers. Representatives of NJSIC 'Oranta' submitted the relevant explanations, thereafter the cases on the mentioned audits have been closed.

4. In 2010–2011 Statefinservice conducted off-schedule audits based on appeals of citizens and legal entities concerning payment of indemnities. The prescriptions issued to NJSIC 'Oranta' following the results of the mentioned audits, have been executed in due terms. The last off-schedule inspection by Statefinservice on observance of legislation requirements on AML/terrorism financing prevention has been conducted on 07.04.2011. No infringements have been established upon the results of inspection.

There have been no claims by law enforcement structures nor regulators concerning observance by the Company of the requirements of legislation on AML/terrorism financing prevention.

7. Conclusions

During the period from June, 1st till July, 1st the RA Expert Rating conducted rating research of financial stability of NJSIC 'Oranta'. By results of NJSIC 'Oranta' research (USREOU code 00034186) the Rating Committee of the Agency assigned stability rating of insurer at the level **uaAA** (high level of stability) that completely corresponds to the rating **A** according to the international scale of RA Expert Rating.

The following main conclusions can be drawn upon results of rating research:

1. Over the last 5 years the volume of NJSIC 'Oranta' total business has grown on 34,3%. The historical maximum has been reached by the Company in 2008 when gross premiums crossed the threshold of UAH 1 billion. The crisis period of 2008–2010 brought reduction of total business of the Company by over one third. Nominal share of NJSIC 'Oranta' in the Ukrainian market during the crisis period reduced from 4,2 to 2,8%, estimated share – from 12,1 to 9,7%. According to the Agency, the speed of recovery of total business of the Company depends on the rates of national economy recovery. Despite reduction of market share, as of the beginning of July, 2011, NJSIC 'Oranta' remained company number one in the market of classical insurance in Ukraine.

2. RA Expert Rating estimates the level of NJSIC 'Oranta' total business diversification as satisfactory. Following the results of Q1 2011 the premiums received per compulsory kinds of insurance corresponded to 58,7 % of the total volume of business, from them 51,4% corresponded to MTPL insurance. 'Motor transport insurance' was the largest voluntary kind, it corresponded to 18,7% of NJSIC 'Oranta' total business. The regional diversification of NJSIC 'Oranta' business was ensured by 593 departments, 38 territorial sales departments and 28 offices. The largest client of NJSIC 'Oranta' in the Q1 2011 corresponded to 0,66% of gross premiums, and following the results of 2010 — only to 0,28%. In practice the Company showed record level of client diversification among the Insurance Companies of RA Expert Rating client portfolio.

3. As of Q2 2011 beginning, the earning assets of NJSIC 'Oranta' have been placed as follows: 44,2% in funds on current and depositary accounts in banks, 31,86% identified as investments into subsidiaries and associated companies, 24 % — portfolio investments into shares and bonds of Ukrainian companies, including in the shares making part of PFTS and UX indexes. According to the Agency, in Q1 NJSIC 'Oranta' was pursuing an excessively conservative asset management policy. The company has placed about UAH 111 m in banks with credit rating uaAAA that constituted 57,04% of ratable earning assets. Another UAH 81,5 m have been placed on accounts in banks with uaAA credit rating.

4. According to RA Expert Rating, NJSIC 'Oranta' was controlled by three groups of shareholders: (1) Victor Pinchuk's EastOne Management company — 32% of NJSIC 'Oranta' shares; (2) Currently controlled by Kazakhstan government 'BTA bank' — 35,17%; (3) Top Management of NJSIC 'Oranta', by Agency estimations, controlled about 25%. Approximately 5–6% of company shares were in free circulation, shares of the company were traded at PFTS and Ukrainian exchange. The mentioned groups of shareholders could render high level of external support to NJSIC 'Oranta', that has in practice been shown in H2 2009.

5. NJSIC 'Oranta' entered the year 2011 with liquid assets on balance which cover gross payouts of 2010 on 77,72%, but the total volume of Company payouts following the results of Q1 2011 vs. the same period of last year reduced by 22%. Against overcapitalization, high liquidity and conservative asset management policy the redundant coverage of payments by liquid assets only indicated the systematic character of top management policy, directed on maintenance of high level of NJSIC 'Oranta' financial stability.

Despite decrease in nominal and estimated market shares, NJSIC 'Oranta' remains a company attractive for the strategic investor. The Company does not rely in its business on captive monetary flows, it has not strongly pronounced dependence on none of sales channels beyond its control. It has the most branched out regional network among insurers, is well integrated into corporate sector and as before, is the largest operator of the segment of classical insurance in Ukraine. In the conditions of economic growth and high credit activity of banks NJSIC 'Oranta' is capable to increase business volumes on 25–45% per annum that has been shown in practice in the period of economic boom in Ukraine in 2006–2008. Since then the Company has only improved market positions: it performed re-structuring of regional network, optimized the personnel, has implemented new programs of insurance, has strengthened the vector of interaction with banks

See full substantiation of rating by RA Expert Rating in the rating report.

Visualization of rating estimation (fig. 3):

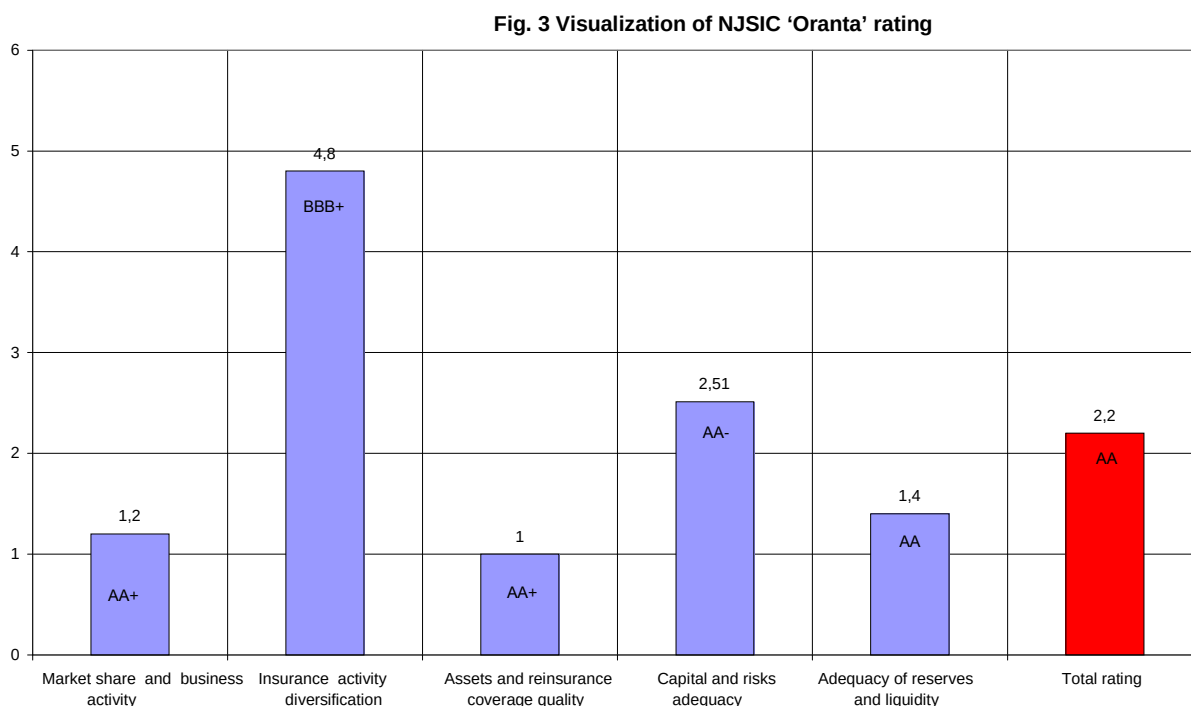


Table 10

Calculation of factors making part of the rating

no	Name of indicator	Numerator	Denominator	As of 01.04.2011	Scoring	Weight	Calculation
1	Market share	Premiums collected by the Company P1: 010	Total premiums in the market	2,77%	1	0,05	0,05
2	Investment ratio of insurance process	Underwriting (sales) expenses P1: 300+310	Gross premiums P1: 010	13,08%	1	0,02	0,02
3	Net premiums growth rate	Change of net premiums for the period P1: 010-020	Net premiums over period previous to the reporting period P1: 010-020	86,47%	1	0,02	0,02
4	Receivables ratio	Accounts receivable F1: 050+160+170+180+190+200+210+060	Gross premiums P1: 010	138,80%	3	0,01	0,03
5	Share of net premiums by insurance types	Gross premiums from the largest insurance type	Premiums collected by the Company P1: 010	54,10%	6	0,18	1,08
7	Share of top 5 largest clients	Gross premiums from the top 5 largest clients	Premiums collected by the Company P1: 010-020	1,33%	1	0,12	0,12
9	Poor quality assets ratio	Assets with a grade lower than investment grade	Earning assets F1: (040+045+220)	0,19%	1	0,03	0,03
10	Reinsurance coverage ratio	Premiums ceded to reinsurers not having investment grade	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	0,08%	1	0,075	0,075
11	Reinsurance coverage quality factor	Premiums ceded to reinsurers having investment grade	Premiums belonging to reinsurers P1: 020	31,59%	1	0,045	0,045
12	Insurance risk ratio	Net premiums, collected by the Company P1: 010-020	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	18,19%	1	0,15	0,15
13	Payout ratio	Net indemnities paid out P1: 240*	Net premiums collected by the Company P1: 010-020	40,41%	3	0,025	0,075
14	ROE	Net income F2: 220 (225)	Shareholder equity F1: 380	0,01%	3	0,05	0,15
15	ROI	Income on investments F2: 110+120+130-140-150-160	Average per period amount of resources available for investment (F1: 040(H)+045(H)+220(H)+040(K)+045(K)+220(K)) / 2	1,20%	3	0,025	0,075
16	Adequacy of reserves	Indemnities paid out P1: 240	Reserves F1: 415-416	24,91%	1	0,02	0,02
17	Coverage of net indemnities by capital	Net indemnities paid out P1: 240*	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	7,35%	1	0,14	0,14
18	Liquidity	Highly liquid assets F1: 230+240	Liabilities F1: 430+480+620+630	60,65%	3	0,04	0,12
-	-	-	-	-	-	-	2,20

Appendix A

Use limitations of the rating report

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Taking into consideration the results of estimation of level of stability of the insurance company, it should be understood, that Expert Rating RA ltd does not evaluate the probability of a default. The estimation pays attention to the factors, which can affect positively or negatively the stability of the insurance company. Therefore, Expert Rating RA ltd evaluates level of resistibility of the insurance company to adverse influences. The estimation is made for insurers according to the scale of Expert Rating RA ltd (table A). Conversion to the national scale (s) can be considered valid only after Expert Rating RA ltd written confirmation of rating assignment according to the national scale.

Table A

Rating scale of stability level for insurance companies		
Rating	Stability level	Meaning of stability level
aaa	Highest	The best probability of that the company will withstand the adverse influences. The company corresponds to level aa , but in addition, its obligations are underwritten by foreign shareholders or by the state.
aa	Very high	Very high probability of that the company will withstand the adverse influences.
a	High	High probability of that the company will withstand the adverse influences.
bbb	Good	Regular probability of that the company will resist under the influence of adverse factors.
bb	Acceptable	Acceptable probability of that the company will resist under the influence of adverse factors.
b	Satisfactory	Satisfactory probability of that the company will resist under the influence of adverse factors.
ccc	Alerting	Alerting probability of that the company will resist under the influence of adverse factors.
cc	Low	Low probability of that the company will resist under the influence of adverse factors. As a rule, the company is removed from rating estimation

There are three types of forecast corresponding to each letter category:

Positive (+);
Neutral ();
Negative (–).

This appendix makes an integral part of any rating report