

The Report on Rating Research

Customer:	Private Joint Stock Company Insurance Group 'UBI'
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Web-site:	http://www.UBI.ua/
State regulator performing supervision functions:	State Commission for Regulation of Financial Services Markets (http://www.dfp.gov.ua)
Incorporation date:	10.08.2000
USREOU code:	31113488
Top manager as of the date of rating:	Moroz Andrey, General Director
Rating type:	Insurer financial strength
Rating revision period:	Quarterly
Rating date:	20.07.2011
Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	uaBBB+ (stable) The insurer with the given rating has sufficient financial strength as compared with other Ukrainian insurers. The level of financial strength depends upon the influence of adverse commercial, financial and economic conditions
Correlation of the national scales with the international scale in the countries of operations:	
The correlation of Ukrainian scale ratings and the international scale ratings reflecting the rating in the countries of Agency operations, is set by the Rating Committee of GPRC "Standard-Rating".	
Information restrictions:	
The report on rating research has no restrictions to distribution. When using materials contained in the report, the reference on RA "Standard Rating" (Ukraine) is mandatory. The Agency considers true all information contained in the report on rating research.	
Ratings use limitations:	
All the ratings by the Agency are not the 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 permissions in possession of the Company

Voluntary insurance types

Voluntary insurance of ground transport (exc. r/w); AB no. 469761 of 26.06.2009.

Voluntary insurance of freight and luggage; AB no. 460762 of 26.06.2009

Voluntary insurance against fire- and Acts of God related risks; AB no. 469763 of 26.06.2009

Voluntary insurance of the property (except railway, ground, air and water transport (inland waters and other maritime transport), freight and luggage; AB no. 469764 of 26.06.2009

Voluntary insurance of medical expenses; AB no. 469765 of 26.06.2009

Voluntary insurance of financial risks; AB no. 469766 of 26.06.2009

Voluntary insurance of third party liability (except civil liability of ground transport owners, aviation liability, liability of water transport owners (including carrier liability)); AB no. 469756 of 26.06.2009

Voluntary insurance of civil liability of ground transport owners (including carrier liability); AB no. 469757 of 26.06.2009

Voluntary health insurance against disease; AB no. 469758 of 26.06.2009

Voluntary medical insurance (continuous health insurance); AB no. 469759 of 26.06.2009

Voluntary accident insurance; AB no. 469760 of 26.06.2009

Mandatory insurance types:

Mandatory insurance of the liability 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; AB no. 469767 of 26.06.2009.

Mandatory insurance against road traffic accidents; AB no. 469768 of 26.06.2009

Mandatory liability insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo; AB no. 469769 of 26.06.2009

Mandatory personal insurance of the personnel of departmental (except those employed in publicly financed organizations and entities) and rural fire prevention teams and members of volunteer fire prevention teams; AB no. 469770 of 26.06.2009

Mandatory 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; AB no. 469771 of 26.06.2009

Mandatory civil liability insurance of ground transport owners; AB no. 528850 of 18.05.2010

A. Company overview and business activity story

The Joint-stock company 'Insurance group UBI' has been founded in 2000 under the name 'Finstrakh'. The first founders of the Company were:

- Production and trade company 'Glorius';
- PE 'Building company Maria';
- PE 'Veselka'.

From 2000 to 2008 UBI practically did not work in the open market, it served mainly the interests of parent financial and industrial group, the share of market sales in Company portfolio during this period varied in the range from 5 to 10%.

In the end of 2008 the process of proprietor change has begun which resulted in arrival of two foreign investors: FIRE WELL GROUP S.A. and Homerton Investments Limited. The new shareholders have set a task for the Company to increase the share of retail sales. Since Q2 2009 the Company entered the market under the name 'UBI insurance'.

The new name of the company containing abbreviation of the English words Ukrainian Business Insurance has to reflect the new ideology of the Company and the buildup of its further work based on the European approaches to insurance in corporate sector. The experience of the German and Swiss insurance companies and brokers, studied by Company specialists throughout 2008–2009 was laid in the grounds of creation of the new product line for corporate clients.

In 2009–2010 the share of retail sales in UBI has grown to 20%, and within 2011–2012 the given indicator shall reach the level of 30–35% that should be assisted by Company accession to the Motor Insurance Bureau of Ukraine in March, 2011.

The Company continues the expansion of branch network, and also increases the number of accreditations in banks. The planned number of partner banks for 2012 is 15.

Today among UBI customers there are such enterprises as NAK 'Naftogaz Ukrainy', Ukrainian institute of industrial property ('Ukrpatent'), CE 'Kievpastrans', SE 'Coal of Ukraine', SC 'Ukrtransgaz' and SC 'Ukrghazdobycha', NJSC 'Chernomorneftegaz', 'Slavyansky nefteprodukt' Ltd, 'Kakhovka electric welding equipment plant' and others.

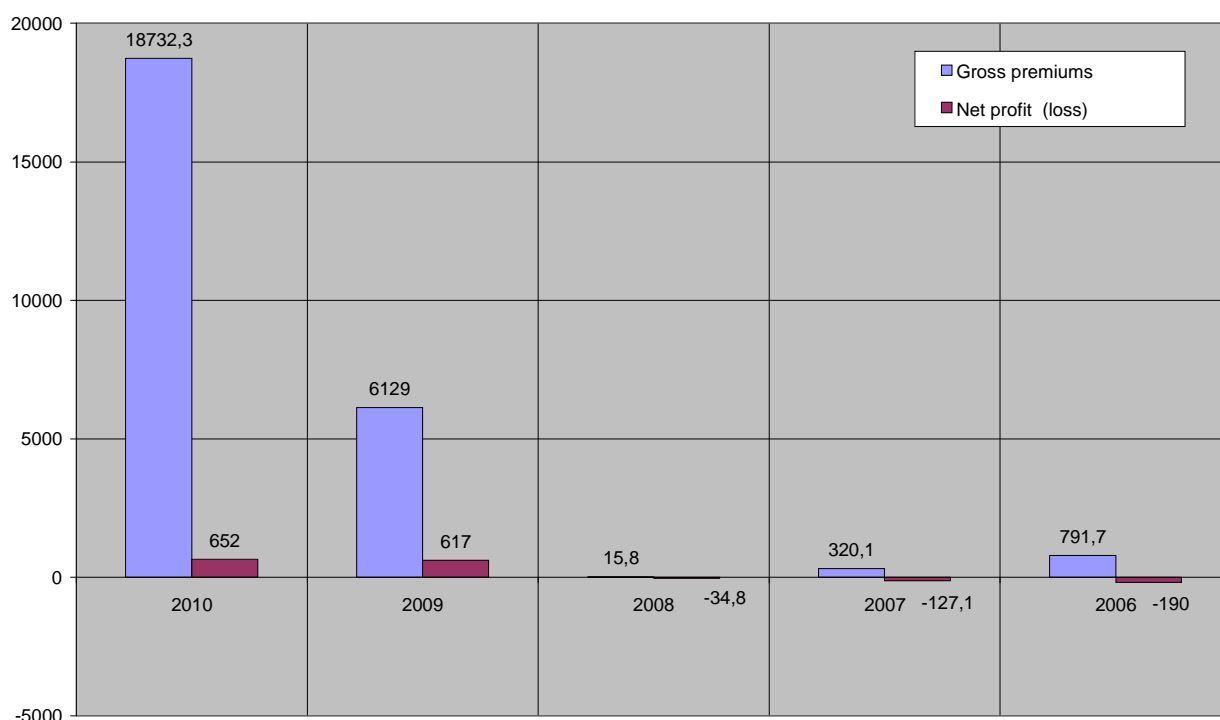
New direction of work in the corporate segment is granting insurance protection for non-resident companies performing activity in the territory of Ukraine. The largest non-resident clients of UBI are the British companies Waterton Finance Management, Westmark Commodities Ltd.

Throughout 2009–2010 the Company has essentially strengthened its work in reinsurance sphere. Leading Ukrainian and foreign insurers have become UBI partners. In particular the Company actively co-operates with the reinsurers on Lloyd's market, and also with the Russian reinsurance market, for example, Unity RE.

As a whole, the present position of the Company in the market can be characterized as perspective and at the same time stable as the Company has sufficient resources both for retaining the leading role in the occupied niche of the market, and for its strengthening.

Up to 2009 the Company did not operated actively. According to the Company reporting to Statefinservices in 2007 the gross premiums of UBI constituted UAH 320 thousand, in 2008 – UAH 15,8 thousand, there have been no indemnities payments during these years. In 2007–2008 UBI practically did not lead any business activity. The activity renewed only in 2009 with arrival of new shareholders (*fig. 1*).

Fig. 1. Dynamics of gross premiums and net profit of JSC 'Insurance group UBi'



The results of two last years are essential for the analysis of UBI Company. In 2010 in comparison with 2009 the premiums grew more than in 3 times. In 2009 net profit has constituted UAH 617 thousand, and in 2010 – 625 thousand. Payout ratio remained on low level: following the results of 2010 it was 2%. Low value of the coefficient has been caused by the renewal of Company work in Q2 2009 and by the fast rates of gross premiums increase in 2009–2010.

UBI states itself as universal Company of the corporate segment of the market, providing a wide range of services on classical types of insurance. At the same time the Company offers specialized programs of insurance of the risks of oil and gas complex enterprises (insurance of the liability of oil and gas field developer, insurance of bulk-oil cargoes, insurance of drill rig equipment etc.) The Company has a number of products focused exclusively on the corporate segment, such as complex program of business owners insurance, insurance of competitive bidders and so forth. The available 'reinsurance certificate' from reinsurance broker Willis for placement of UBI 'cargo' risks provides steady positions and clear prospects of work in the market of cargo carriage insurance.

The market share of UBI in the Ukrainian insurance market can be estimated at less than 0,5%. By separate kinds of insurance it can reach 1%. UBI market share is insignificant, however, when interpreting the information on so insignificant market share, it should be understood that activation of Company work initiated in Q2 2009 only. Since then the Company showed essential rate of business growth. Dynamical development could be observed in Q1 2011 as well. So in Q1 2011 the gross premiums of UBI have constituted UAH 5,64 m, that is in 2,5 times more than for the same period of 2010. Company business grows at a quick rate due to that new shareholders accepted an appropriated model of development and oriented the Company on market sales at the moment of market restoration.

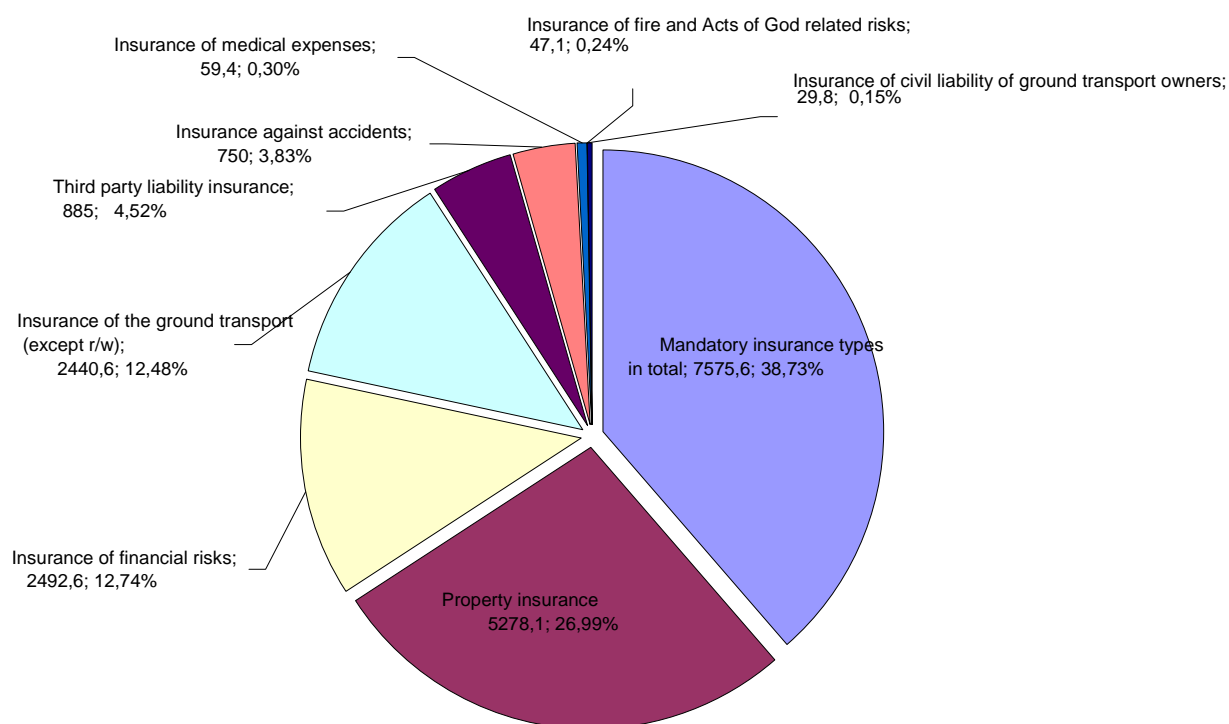
That fact is positive that UBI remains independent from insurance intermediaries. Direct sales in the structure of Company premiums constitute approximately 80%. The Company plans to limit the share of indirect sales to the level of 45%. The acquisition expenses have been minimum, despite considerable gain of premiums in 2010 and Q1 2011. In process of market share growth, the share of such expenses will increase, and by the time being the Company has a considerable financial reserve for attraction to work of agents and brokers.

V. Diversification of insurance business

Diversification per types of premiums. For the stability of insurance business in Ukraine, the structure of the premiums of companies working in the insurance sector is very important. In the Ukrainian market there are segments which cannot provide profitable work to insurers because of the concentration of high competition, in particular, it goes about motor vehicle liability insurance and Auto Casco insurance. And on the contrary, there are types of insurance which by nature remain very profitable, in particular, property insurance.

The obligatory types of insurance remain the largest insurance type in UBI, corresponding to 38% of 2010 gross premiums. Property insurance corresponds to 27% of gross premiums in 2010. From the total size of gross premiums approximately 12% corresponds to ground transport and 12% to financial risks. The structure of UBI portfolio per insurance kinds in 2010 can be assessed as 'balanced' (fig. 2).

Fig. 2 The structure of gross premiums of JSC 'Insurance group UBi' in 2010



The considerable weight in 2010 UBI portfolio of such type as property insurance is positive. This type is traditionally profitable in Ukraine, same as insurance of financial risks or voluntary insurance of third party responsibility.

In 2009 73% of premiums collected corresponded to insurance of financial risks. It is connected to that 2009 was the year of UBI reorganization. An active work on attraction of clients has not being performed. In such conditions the only systemic project implemented in 2009 was the insurance of fuel sales with delayed payment, and this project became the main source of premiums incoming. Already in 2010 the given misbalance has been liquidated at the expense of activation of Company work on the target segment of the market on the wide range of insurance products.

As analysis showed, main inflow of insurance premiums in UBI is provided by classical insurance products. Within the limits of these insurance types UBI offers both standard insurance coverage, and individual extensions:

- Insurance of production disruption;
- Coverage of military risks at insurance of international cargo transportations;
- Insurance of qualitative execution of obligations within the limits of signed contracts and bidding offers.

It is obvious that innovative insurance products are not main sources of insurance premiums, however, they do indirectly promote strengthening of cooperation with a number of enterprises.

Major UBI customers are in the city of Kiev, that is connected with the features of economic development and the focused territorial location (registration and conducting) of business in Ukraine. The weak level of geographical diversification was

not accounted for in the rating. Among UBI insured items there are vehicles and property located all over the territory of Ukraine though legally they can belong to persons registered in Kiev.

Client diversification. The top 5 clients of UBI brought in 54,91% of the premiums collected in 2010, the given indicator is caused both by the entrance of the Company into the target segment of the market, and by structure of the latter. An essential activation of UBI work in the market of corporate insurance has begun in 2009. The entrance to the market of insurance of oil and gas complex enterprises risks has begun since Q2 2010 from setting cooperation with industry leaders that, as a matter of fact, entailed certain misbalance of client diversification. According to 1st quarter indicators, and year forecasts for 2011, the given misbalance will be almost completely leveled at the expense of activation of work with medium enterprises of the given market segment.

Among the largest UBI clients there are :

- JSC 'Kakhovka electric welding equipment plant' ;
- SC 'Ukrtransgaz' of NAK 'Naftogaz Ukrainy' ;
- SC 'Ukrgezdoobycha' of NAK 'Naftogaz Ukrainy' ;
- 'Slavyansky nefteprodukty' Ltd;
- 'Smilaenergopromtrans' Ltd.

SC 'Ukrtransgaz' and SC 'Ukrgezdoobycha' are subsidiaries of NAK 'Naftogaz Ukrainy'. It should be however noted that the given companies conduct completely independent economic activities and do not agree the choice of the insurer with NAK 'Naftogaz Ukrainy', performing the selection of the company-partner at the open bid.

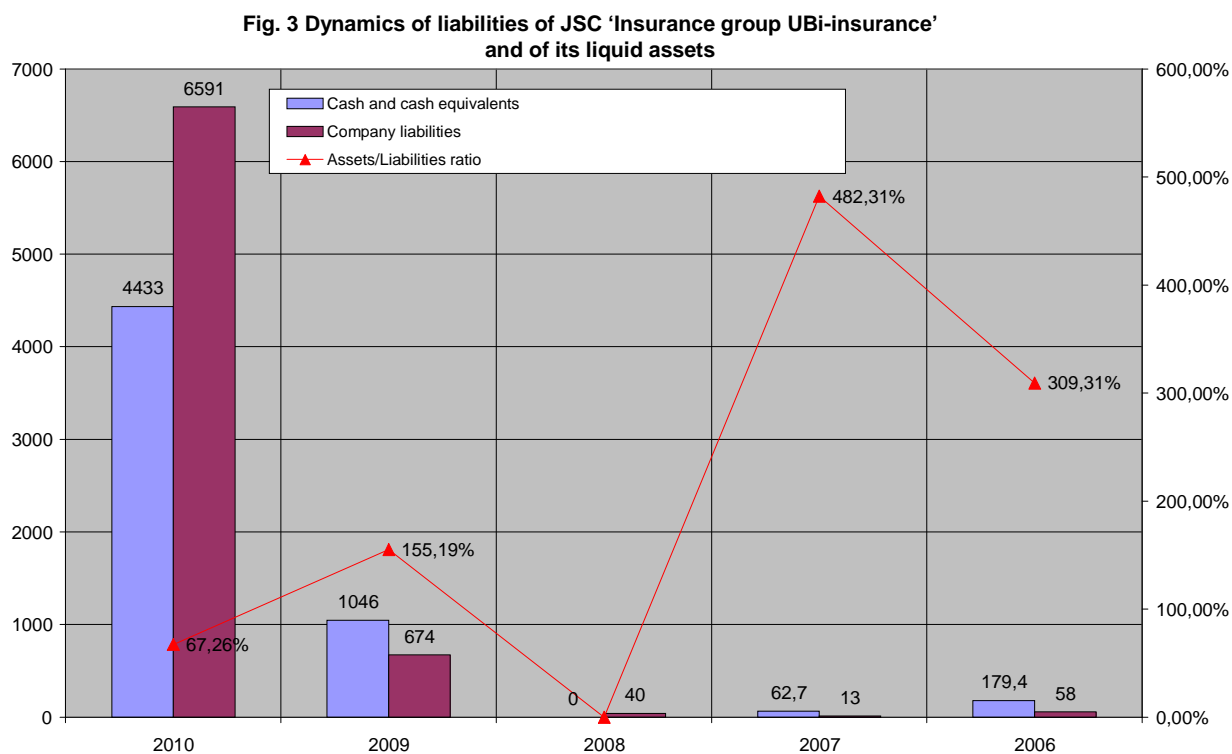
The 10 largest UBI clients following the results of 2011 corresponded to 60% of the gross premiums. Following the results of 2010 the concentration of big clients in UBI portfolio is estimated as satisfactory. At the same time the growth of Company business in Q1 2011 and plans for increase of 'retail' prove to that concentration of such premiums will be considerably reduced. In the long term improvement of client diversification can become reason to raise insurer financial strength rating of JSC 'Insurance group UBI – insurance'.

C. Assets quality and adequacy to liabilities

As the analysis has shown, UBI adheres to very conservative policy of assets management and maintains redundant level of quality assets on balance which exceeds liabilities in several times.

One of the main identifiers of insurer financial strength in Ukraine is the level of liabilities coverage by liquid assets. This indicator does not warrant stability, but provides understanding about adequacy of liquid assets to current liabilities of the Company.

At UBI the ratio between liquid assets and liabilities over the last 5 years has been strongly subject to fluctuations (*fig. 3*).



By the end of 2010 the ratio between liquid assets and liabilities of the insurer constituted 67,26%. This indicator can be considered satisfactory, as in Ukraine, to our opinion, good level of liabilities coverage by liquid assets is 100% i.e. when liquid assets completely cover the liabilities. Nevertheless, detailed portfolio analysis of UBI financial investments allowed to answer the questions:

- why liquid assets/liabilities ratio of the insurer fluctuated so strongly;
- can that part of financial investments which, according to accounting policy of the Company, wasn't accounted under 'cash and cash equivalents' balance item, be referred to liquid assets.

As analysis has shown, the balance item 045 where Ukrainian insurers traditionally hold their garbage assets, contains investments into liquid shares which make part of index basket of the popular PFTS index.

In result of the analysis it has been established:

1. As of the beginning of 2011 the portfolio of UBI financial investments was estimated by the Company at UAH 26,245 m, from them UAH 25,8 m or 98% corresponded to the shares of two emitters who, in turn made part of PFTS index basket. One of emitters of shares was the bank of the first group according to NBU classification, the second, - a power generating company. Both emitters occupied first positions on liquidity in 2011 PFTS rankings, i.e. could be instantly sold with least losses for UBI.

2. The level of portfolio diversification with 98% of assets value corresponding to two emitters is unacceptable. UBI should enhance the diversification and expand the stocks list in the portfolio to 5-8 emitters. Financial investments of the client are subject to considerable branch risks of banking and power sectors. The situation is smoothed by that fact that UBI in the nearest prospects will not need to quickly sell liquid shares

and Company management can await for the most acceptable price conditions in the market for favorable sale of financial assets.

3. The portfolio of deposits as of the beginning of 2011 constituted UAH 4,433 m. The company held deposits in 6 banks. 45% of depositary portfolio corresponded to a small bank which credit rating was assessed by us as close to threshold investment level. UBI depositary portfolio, unlike the portfolio of financial assets has been well diversified, however the Company should transfer 45% of the portfolio to the bank with higher credit rating.

4. At management of earning assets portfolio UBI takes decisions at collegiate level. The Company management is the executor of the decisions of shareholders who discuss possible variants of decisions at the Supervisory Board. Such system of decision-making does not provide availability of a separate committee, joint with the management, however the collective nature of decisions remains a main feature.

D. Quality of reinsurers portfolio

As the analysis has shown, the selection of reinsurers in UBI is conditioned by the indicators of financial soundness of the companies, their experience of work in certain markets of insurance and reinsurance per separate types, and also by the competitiveness of the proposed conditions of reinsurance coverage. There are no companies from offshore zones among the reinsurers. Following the results of 2010 the reinsurers have received premiums for the amount of UAH 11,905 m, all the reinsurers in the portfolio had no financial strength ratings. The latter fact seriously complicated the estimation of reinsurance portfolio of the Company. We have been able to positively estimate the reinsurance coverage based on that following the results of 2010 the 83% of the premiums have been sent to one of the largest Ukrainian companies which during the recent 3 years belongs to the top 5 companies per volumes of total business. We considered such company as reliable enough guarantor of obligations. Besides, in the Q1 2011 the company started to co-operate with Lloyd's reinsurance market. At the same time, same as with the portfolio of financial assets we have to observe low level of portfolio diversification. In the process of Company business growth the problem of low diversification has to be resolved.

E. Solvency margin and support of shareholders

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

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

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

$$\text{UAH } 4,433 \text{ m} + \text{UAH } 25,720 \text{ m} - \text{UAH } 6,591 \text{ m} - 0,5 * \text{UAH } 11,904 \text{ m} = \text{UAH } +17,609 \text{ m}$$

Therefore, UBI entered the year 2011 with solvency margin in the size of UAH 17,609 m. The company was overcapitalized, its balance did not contain garbage assets, and the operations have no signs of schemed reinsurance.

At solvency margin in the amount of UAH 17,609 m 85% of UBI shares belonged to two legal persons-non-residents of Ukraine. UBI shareholders have been registered in the territory of EU countries and specialized on trading operations. In our opinion, they could render support both to UBI for increasing volumes of insurer business in Ukraine, and when necessary ensure the increase of authorized capital in any required volumes.

In UBI we do believe that presently the shareholders of the Company have financial possibilities for increasing the authorized capital of the Company if such need would arise. Throughout the Q1 2011 the Company has received additional financial resources directed on development of business and strengthening of positions in the market of banking insurance in the size of over USD 0,5 m.

F. Other factors

Payout ratio adequacy. Due to that upon the results of 2010 UBI payout ratio has constituted only 2,08%, and following the results of Q1 2011 – 2,02%, according to the requirements of the third EU directive of on AML and terrorism financing prevention, we established no signs of UBI business fictitiousness.

Our check has shown that the Company conducts real payments of indemnities. So in 2010 the three largest indemnities corresponded to the insured events connected with road traffic accidents:

1. The greatest indemnity was UAH 65 th. The insured: one of the largest state enterprises of Ukraine, the object – Toyota Avensis.
2. The payment second on size UAH 45 th. The insured: natural person, the object – Mercedes-Benz ML 350.
3. The third indemnity on size – UAH 29 th. The insured: natural person, the object – Honda Accord.

Also we have reviewed relations of the client with tax authorities of the country and with insurance regulator which function is performed by Statefin services. We have not revealed any serious claims from regulating bodies which somehow could affect financial strength of JSC 'Insurance Group UBI-insurance'.

2. The summary of rating components

Summarizing various groups of factors estimated by the Agency at determination of financial strength rating of JSC 'Insurance group UBI-Insurance' the following key issues influencing the rating could be outlined:

1. The JSC 'Insurance group UBI- insurance' has an insignificant share of the market, however Company business grows at a quick rate going ahead of the Ukrainian insurance market. Following the results of 2010 the Company collected UAH 18,732m of gross premiums, having provided more than double growth in comparison with 2009. Following the results of Q1 2011 the insurer collected UAH 5,643 m of gross premiums, having provided the growth in 2,5 times compared with the similar period of 2010. UBI market share in the Ukrainian market is estimated by the Agency at the level of less than 0,5%.

2. The Agency evaluates the condition of insurance portfolio per types of insurance as balanced. Following the results of 2010 38% of Company business corresponds to mandatory insurance types, 27% – to property insurance and approximately 12% to insurance of financial risks and CASCO insurance. The largest share of mandatory types of insurance has not affected the profitability of work of the Company. The insurer has completed 2009 and 2010 with net profit of UAH 617 and 652 th. correspondingly. Client diversification of UBI insurance portfolio is estimated as satisfactory, 5 largest clients of the insurer correspond to 55% of the premiums. The Agency recommends the Company to lower the level of concentration of large customers in the portfolio.

3. The funds on UBI accounts cover the liabilities of the Company on 67%. 99% of investment assets on the balance of the Company have been identified as liquid by the Agency. 98% of insurer financial investments consist from the investments into liquid shares pertaining to PFTS index basket. The Agency recommends the Company to improve portfolio diversification of financial investments and in the future to transfer 45 % of depositary portfolio to the bank with higher level of rating.

4. By Agency estimates, the redundant solvency level of JSC 'Insurance group UBI-insurance' as of the beginning of 2011 is assessed at UAH 17,609 m. Such solvency margin allows the insurer to meet the obligations in the long-term period both under the credit agreements, and under the accepted risks. 75% of Company capital is controlled by non-residents. According to the Agency, they are capable both to provide the insurer with additional business, and if necessary – with financial support.

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

Rating scale for estimation of insurer financial strength

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

Rating	Contents of insurer financial strength according to the national scale
uaAAA	The insurer with the rating uaAAA is characterized by extremely high financial strength in comparison with other Ukrainian insurers.
uaAA	The insurer with the rating uaAAA is characterized by very high financial strength in comparison with other Ukrainian insurers.
uaA	The insurer with the rating uaAAA 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 temporarily interruption of business process with further default of commitments to insured.
uaCC	The insurer with the rating uaCC is characterized by high probability of suspension of activity with further default of commitments to insured.
uaC	The insurer is expecting the suspension of activity with further default of commitments to insured.
uaD	The insurer terminated its activity and started liquidation procedure.

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

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

Information for the insured:

The rating of insurer financial strength does not indicate the speed and probability of timely payment. The rating of insurer financial strength is the opinion of Agency analysts on the probability of suspension of business processes in the company with the subsequent default to meet the obligation to insured.