

The rating report

(on basis of the Agreement No. 53-1/RA of March 28, 2011)



Insurer's stability rating on national rating scale:

uaAA-

(high stability level, with a positive forecast)

Interpretation of the rating:

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)

Equivalent on the international scale of RA Expert Rating:

A-

Rating date:

On July 4, 2011

Rating update:

By customer request



Private joint-stock company 'Insurance Company Brokbusiness'

(full name of the company)

Beloruska street, 3, Kiev, 04050

(legal address of the company)

Beloruska street, 3, Kiev, 04050

(mailing address of the company)

Incorporation date	15.12.1993
Date of start of operations	01.01.1994
USREOU code	20344871
Former name	Insurance company 'Skide Donbass' Ltd (before August 2004)
Account bank	PJSC 'Brokbusinessbank'
Auditor	'Rada-Ltd' LLC
Phone	+38 (044) 277-21-61
Fax	+38 (044) 277-21-61
E-mail	info@bbs.com.ua
Web address	http://www.bbs.ua

The IC is licensed for the following types of voluntary insurance: Health insurance against diseases; Aircraft owner's liability insurance (including carrier liability); Air transport insurance; Water transport (maritime, inland water and other watercrafts) insurance; insurance of watercraft owners' liability (including carrier liability); Accident insurance; Third party legal liability insurance (except motor third party liability, air transport owners' liability, watercraft owners' liability (including carrier liability)); Freight and luggage insurance; insurance against fire and Acts of God related risks; Health insurance (standing insurance of health); Motor transport owner's civil liability (including carrier liability) insurance; Credit insurance (including borrower liability insurance against existing loan); Financial risks insurance; Property insurance, except railway-, motor-, air-, water transports (incl. sea inland waters, and other watercrafts), freight baggage; Motor transport vehicle insurance (except r/w); Air transport insurance; R/w transport insurance.

The IC is licensed for the following types of compulsory insurance: Liability insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo; 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; Insurance of nuclear facilities operator's public liability against damage caused by a nuclear incident; Aviation insurance, Traffic accident insurance; personal insurance against transport accidents; insurance of the sportsmen of highest categories; Dog owner's third party liability insurance (in compliance with the list of breeds approved by the Cabinet of Ukraine); 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; 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; Civil liability insurance of ground transport vehicle owners; Compulsory state personal insurance of the state tax service bodies officials; Compulsory state life and health insurance of judges; Compulsory state insurance of officials of state bodies of consumers rights protection; Compulsory state insurance of state forest service workers; Compulsory state insurance of officials of inspections of the state architectural survey; Compulsory state insurance of state enforcement officers; Compulsory state insurance of executive power central office officials in the sphere of technical regulation and consumer policy, its territorial bodies; Personal insurance of health care and pharmaceutical workers (except those employed in publicly financed organizations and entities) against HIV infection in service, aviation insurance of civil aviation; Compulsory state personal insurance of officials of state supervision and auditing service; State personal insurance of public procurator's officers; Compulsory state insurance of life and health of people's deputies

*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. Company description.

The Insurance Company 'Brokbusiness' was incorporated **on December, 15th, 1993** (before August, 2004 it has the name 'IC Skide-Donbass Ltd'). The company was located initially at the city of Kramatorsk in Donetsk oblast. Skide Ltd, State trading-industrial association 'Donbass' and Kramatorsk Branch of JSCB 'Prominvestbank' were the founders of the company.

A new stage has begun in the development of IC Brokbusiness **on August, 11th, 2004** when at general meeting of shareholders the decision on renaming the company Closed Joint-Stock Company 'Insurance Company Brokbusiness Insurance' was taken. Along with that decisions on moving Company location to the city of Kiev, increase of authorized capital and approval of new structure of Board have been taken.

The first clients of the Company have become: JSB 'Brokbusinessbank' (insurance of financial risks, property, etc.), JSC 'Concern Stirol' (CASCO, transportation of dangerous cargoes, etc.), USE 'Ukrhimtransamiak' (insurance of property, transportation of dangerous cargoes, CASCO, MTPL, medical expenses, etc.).

For development of such type of insurance as voluntary insurance of medical expenses on December, 1st, 2004 a contract on cooperation has been concluded with the international company 'CORIS International', which is specialized on assistance and renders its services to insured worldwide. In 2009 own assistance service has been created involving leading and qualified medics of Ukraine.

On April, 9th, 2007 at the general meeting of shareholders the decision on renaming the Company the Closed Joint-Stock Company 'Insurance company Brokbusiness' was taken. On September, 11th, 2009 the IC Brokbusiness was issued the certificate of conformity to ISO 9001:2008 quality standard requirements.

By today the Company is a reliable partner of leading banks of Ukraine, such as: Brokbusinessbank, Oshchadbank, BM Bank, 'Khreschatik' Bank, 'Finance and Credit' Bank, Pravex Bank, Bank for Investments and Savings. IC Brokbusiness is the member and makes part of Presidium of the Motor (transport) Insurance Bureau of Ukraine, is member of the Nuclear Insurance Pool of Ukraine and of the Federation of Insurance Intermediaries of Ukraine, and also makes part of the Board of Construction Insurance Pool, is the founder and member of the Agrarian Insurance Bureau.

In 2009 due to re-structuring of LIOU and change of its Charter, the Company left the Board of LSOU and entered the Council of LSOU – superior body consisting of heads of large insurance companies of Ukraine. Company's Chairman of Board **Vadim Zagrebnoy** has been repeatedly acknowledged one of the best top managers of the financial sector of Ukraine.

IC Brokbusiness based on a number of 2010 performance indicators has entered the top 20 largest insurance companies of Ukraine: it occupied 16th place on volume of net premiums, 17th place on volume of net indemnities paid out, 16th place on 'insurance funds' indicator. Also IC Brokbusiness belongs to top 15 companies of the market of voluntary insurance of property and voluntary insurance of civil liability of owners of vehicles. In CASCO market the IC 'Brokbusiness' occupied 18th position in the ranking with the result of UAH 45,6 m.

During the recent 5 years the top management of IC Brokbusiness increased the total volume of business from UAH 16,9 m to 219,025 m, i.e. almost in 13 times. During the recent 5 years Company work remained profitable, and in 2009 the ROE of the Company reached 50,42%. In 2010 the result was more modest (+26,65 %), however being above average market one (*see table 1*).

Table 1

Key performance indicators of IC 'Brokbusiness', (UAH th., %)

Indicators	2010	2009	2008	2007	2006	Growth rate 2006-2010	Growth rate 2009-2010
Assets	214 451	234 618	168 980	112 202	75 662	183,43%	-8,60%
Shareholder equity	114 391	121 901	72 380	55 557	53 397	114,23%	-6,16%
Liquid assets (Cash and cash equivalents)	101 130	50 890	14 256	3 624	4 066	2387,21%	98,72%
Assets/Liabilities	101,07%	45,15%	14,76%	6,40%	18,26%	-	-
Shareholder equity /Assets, %	53,34%	51,96%	42,83%	49,52%	70,57%	-	-
Authorized capital, UAH th.	51 400	51 400	51 400	51 400	51 400	0,00%	0,00%
Gross premium, UAH th.	219 025	252 906	17 9243	60 160	16 923	1194,24%	-13,40%
Reinsurer's share in gross premium, %	23,83%	14,99%	6,31%	46,13%	26,64%	-	-
Loss ratio, %	33,54%	34,31%	24,29%	9,68%	10,83%	-	-
ROE, %	26,65%	50,42%	23,24%	3,88%	3,05%	-	-
Net income (loss)	30 489	64 463	16 822	2 160	1 626	1775,09%	-52,70%

Source: Company data; calculations by Expert Rating RA

The assessment of IC Brokbusiness financial policy has shown that the Company entered the year 2011 with extremely conservative indicators. Equity/assets factor of 53,34 % demonstrated a moderately redundant capitalization of the Company. Assets/liabilities coverage factor of 101,07 % also showed the readiness of the company to cover future payments and expenses by 'ready cash'. That is, on the beginning of 2011 IC Brokbusiness maintained quality of assets at the level adequate to liabilities of the Company. Assets/liabilities coverage factor in 2010 compared to 2009 grew due to the changes of accounting policy of the Company.

The trend of loss factor growth over the last 5 years is worth marking as alerting one. However, as seen, this trend has not affected the level of Company profitability, and operational yields remained high enough.

Therefore, IC Brokbusiness is a large company with rich history, solid corporate clientele and a branched out sales system. The top management of the Company carries out rather conservative financial policy, also the Company maintains high quality of assets and moderate level of recapitalization.

2. Market share and business activity of the company

RA Expert Rating traditionally estimates very carefully the share of insurers in the market of general types of insurance in Ukraine. Specifics of the Ukrainian market consists in its division into the segments of classical and schemed insurance. According to the Agency, 'IC Brokbusiness' belongs to the category of companies wherein classical segment is prevailing. When using regulator stats, the calculated nominal share of IC Brokbusiness in the Ukrainian market, according to Agency estimate, makes nearby 1 % (see table 2).

Table 2

Share of IC Brokbusiness in the insurance market in 2008–2010 (UAH th., %)

Indicators	2010	2009	2008	Change in 2008–2010	Growth rate 2008–2010
Total gross premiums in the market, UAH th.	22636000,0	20442100,0	24008600,0	-1372600	-5,72%
Gross premiums of IC Brokbusiness, UAH th.	219024,7	252906,4	179242,8	39781,9	22,19%
Nominal share of IC Brokbusiness in the Ukrainian market, %	0,97%	1,24%	0,75%	0,22 p.p.	-

Source: Company data, data of the State Financial Service; calculations by Expert Rating RA

At the same time, the expert estimate by the analytical service of Agency of IC Brokbusiness share in 2010 in the market of classical insurance in Ukraine shows 3,5-4 %. IC Brokbusiness occupies a considerable share of freight and luggage insurance market. In 2010 ranking of this insurance type the Company occupied 9th position among top 50 insurers.

Among the main competitors of IC Brokbusiness the following companies could be noted: PZU Ukraine, ASKA, Garant Auto, Universalnaya, Omega.

The Company itself lists its main competitive advantages as follows:

1. Availability of 'Convenient payment' program which covers all the insurance products individuals can buy.
2. Availability of own assistance.
3. Round-the-clock information and consulting support at common phone number: 0800 700 123.
4. Availability of combined insurance 'box type' products allowing to quickly and conveniently satisfy all the insurance needs of the client (altogether 16 combined products have been approved and are sold by the Company).
5. Possibility of insurance without inspection, without the list of items, availability of the simplified system of settlement.
6. Successful experience of participation in tenders, including those organized by state companies.

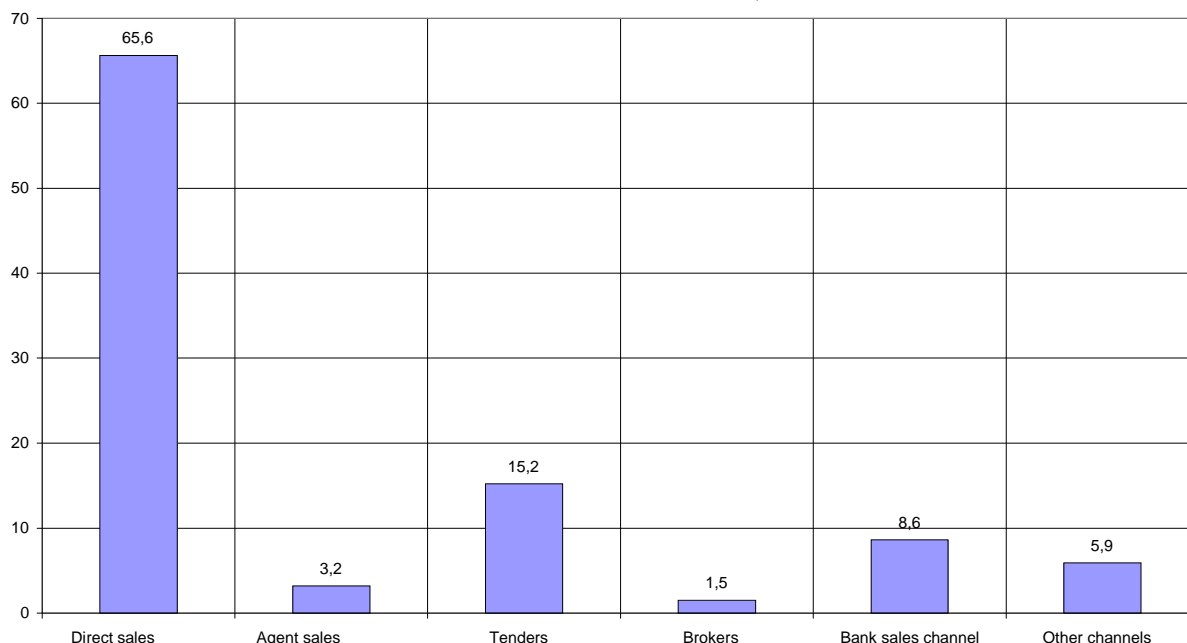
According to Agency, the segment of corporate sales is very strongly developed in the Company. For the last years IC Brokbusiness won a number of tenders organized by: Louis Dreyfus Commodities Ltd., SE 'International Airport Borispol', International holding 'GDF Suez', Ukrainian representation of International Corporation 'Armstrong', JSC 'Valenta Pharmaceuticals', JSC 'Lviv brewery', JSC 'Beer and nonalcoholic drinks plant 'Slavutich', Ukrainian representation of John Glenn Institute for Public Service and Public Policy of Ohio State University in the city of Columbus (USA) presented in Ukraine by the Project 'Program of the Assistance to the Parliament of Ukraine', National Bank of Ukraine, the State Territorial Branch Association 'Southwestern Railway', Subsidiary company 'Ukrtransgaz NAK 'Naftogaz of Ukraine', SE 'Donetsk Railway', Kharkov Territorial Branch Association 'Southern railway', JSC Centrengo, SE UzEMK of the Ministry of Finance of Ukraine, Social Insurance Fund, USP 'Ukrkhimtransamiak', JSC Spetsavtobaza', JSC 'TNK BP commerce', JSC 'Ukrtransnafta', SE 'Hall of official delegations' and by many other.

IC Brokbusiness plans strengthening of market positions in 2011-2012 at the expense of a number of transformations:

1. Strengthening of positions in the market of personal insurance. In this connection the company performs changes of personnel, enhances the segment of personal insurance.
2. Enhanced development of medical insurance is continuing. For this purpose the Company developed a unique product of medical insurance for individuals.
3. The Company plans to enter the market of international inbound reinsurance.
4. Organizational changes in Company structure are ongoing, aimed at strengthening sales channels through intermediaries - agents and brokers.
5. Internet sales channel is enhanced. Presently the Internet shop of the Company and Web-site are in development. The Company pays particular attention to development of foremost IT based sales enhancing technologies.

Main sales channel of IC Brokbusiness are direct sales in head office and the regional network. Direct sales correspond to 65,6 % of total Company business upon the results of 2010 (fig. 1).

Fig. 1 Share of each sales channel in the total volume of business of PJSC IC Brokbusiness in 2010, %



Essential share of receipts coming from direct sales is positively estimated by the Agency, the given fact eliminates Company dependence on insurance intermediaries and makes more predictable the volume of total business. As positive should be regarded as well the fact that the channel of bank sales of the Company is in part under control of IC Brokbusiness shareholders, and 'tenders' which share in 2010 was 15,2 %, also can be conditionally referred to direct sales. It is important that receipts from subsidiary network made 32 % from total insurance premiums in 2010 that is slightly less than half of direct sales, that proves to good geographical diversification of sales in IC Brokbusiness.

Agency network channel has very small specific weight - 3,2% only, that considerably reduces risk of loss of clients connected with migration of agents between insurance companies. Direct sales are better protected from competitors as the client becomes linked to IC Brokbusiness brand, not the personality of the agent.

The channel of bank sales tends to grow in the structure of Company total business of the Company, this channel is strongly enough protected from competitors in the insurance market, due to accreditation in the large backbone banks.

The Agency positively estimates the communication policy of the Company based on aspiration to transparency. IC Brokbusiness discloses financial information on its activity in the scope established by the law of Ukraine and constantly participates in various rankings and ratings, being also a constant participant of (pi) - rating of insurance companies financial stability by RA Expert Rating, which is regularly published since 2005.

3. Diversification of insurance activities

Estimating client portfolio diversification level per types of insurance, RA Expert Rating used Company data from the reports to Statefinservices. The largest kind of insurance brought over 21 % of gross premiums to IC Brokbusiness in 2010, three other largest kinds corresponded to nearly 60%. These relations prove to that in 2010 IC Brokbusiness managed to reach good result in the area of client portfolio diversification per kinds of insurance (*tab. 3*).

Table 3

Gross premiums of IC Brokbusiness on top 10 types of insurance in 2009–2010

No	Types of insurance	2010		2009		Difference UAH th.	Growth rate, %
		UAH th.	%	UAH th.	%		
1.	Motor transport vehicle insurance (except r/w);	46246,5	21,11%	40737	16,11%	5509,5	13,52%
2.	Property insurance	44515,9	20,32%	55112	21,79%	-10596,1	-19,23%
3.	Insurance against fire and acts of God	40620,7	18,55%	40124	15,87%	496,7	1,24%
4.	Total compulsory types of insurance:	39800,1	18,17%	38475	15,21%	1325,1	3,44%
5.	Freight and luggage insurance	16333,1	7,46%	33488	13,24%	-17154,9	-51,23%
6.	Insurance of financial risks	13584,1	6,20%	29491	11,66%	-15906,9	-53,94%
7.	Third party liability insurance	6919,1	3,16%	10455	4,13%	-3535,9	-33,82%
8.	Health insurance	4483,5	2,05%	1559	0,62%	2924,5	187,59%
9.	Accident insurance	773,2	0,35%	2185	0,86%	-1411,8	-64,61%
10.	Insurance of medical expenses	662,2	0,30%	562	0,22%	100,2	17,83%
-	Other types of insurance	5086,6	2,32%	718	0,28%	4368,6	608,44%
-	Totally:	219025	100,00%	252906	100,00%	-33881	-13,40%

Source: Company data; calculations by Expert Rating RA

Insignificant decrease in gross premiums in 2010 vs. 2009 has not affected Company growth nor diversification of its portfolio. Rates of decrease in IC Brokbusiness volumes of total business lagged a little behind rates of premiums amount decrease in the market of classical insurance, i.e. even in the conditions of decrease in volumes of total business in 2010 IC Brokbusiness increased market share in classical segment.

The indemnities paid out in 2010 per insurance kinds have been less profitable. Disproportion between structure of payments and structure of premiums per insurance kinds remained obviously notorious. If transport (except rw) insurance corresponded to 21% of the collected premiums, thus the same kind of insurance corresponded to 32,12 % of total indemnities paid out. Such disproportion occurred due to that in IC Brokbusiness motor (except rw) transport insurance was more unprofitable. Such pattern does not contradict market realities (*tab. 4*).

Table 4

Indemnities paid out by IC Brokbusiness on top 10 types of insurance in 2009–2010

№ п/п	Виды страхования	2010		2009		Difference UAH th.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Motor transport vehicle insurance (except r/w);	23 598	32,12%	20 731	23,89%	2867	13,83%
2	Property insurance	20 983	28,56%	19 309	22,25%	1674	8,67%
3	Insurance against fire and acts of God	14 661	19,96%	10 248	11,81%	4413	43,06%
4	Total compulsory types of insurance:	9 408	12,81%	28 812	33,20%	-19404	-67,35%
5	Freight and luggage insurance	3 633	4,95%	1 067	1,23%	2566	240,49%
6	Insurance of financial risks	523	0,71%	2 013	2,32%	-1490	-74,02%
7	Third party liability insurance	415	0,56%	4 189	4,83%	-3774	-90,09%
8	Health insurance	76	0,10%	156	0,18%	-80	-51,28%
9	Accident insurance	55	0,07%	239	0,28%	-184	-76,99%
10	Insurance of medical expenses	35	0,05%	0	0,00%	35	-
-	Other types of insurance	73	0,10%	7	0,01%	66	942,86%
-	Totally:	73 460	100,00%	86 771	100,00%	-13311	-15,34%

Source: Company data; calculations by Expert Rating RA

IC Brokbusiness has a clearly segmented product line on main types of insurance. The Agency positively estimates presence of 5-6 programs of insurance per key types of insurance, that increases possibilities of choice for the insurer.

Voluntary insurance of motor transport (except rw) has brought the Company UAH 46,246 m of gross premiums in 2010. IC Brokbusiness offers the clients several types of ‘CASCO-packages’:

- Basic conditions.
- ‘Economy’.
- ‘Optima’.
- ‘All inclusive’.
- Other conditions.

Depending on the chosen ‘Casco package’ the contents of insurance conditions change: it can be the allowed number of persons guiding the vehicle, payment of arrival of first aid service ‘Dobrobut’, ‘Boris’, allowed speed limit, granting to the client of a business class car for the period of damaged car repair by the service center, possibility of indemnity payment based on the service center chosen by the client, and many other.

Voluntary insurance of property – UAH 44,516 m. It includes such programs:

- ‘Sadiba’.
- ‘Gospodar’.
- Insurance of the property of individuals
- Insurance of the property of legal bodies.
- Insurance of rented property.
- Insurance of driver documents.
- Bankassurance (insurance of pledge, land mortgage, cash balance, etc.).

Voluntary insurance of fire and Act of God related risks – UAH 40,621 m.

Compulsory insurance of civil liability of owners of vehicles – UAH 21,474 m. Insurance of liability is performed according to the Law of Ukraine ‘On insurance’ and the Law of Ukraine no. 1961-IV ‘On compulsory insurance of civil liability of motor vehicles owners’ of 01.07.04, and also according to the license AB no. 500035 from 03.12.2009.

Compulsory insurance of traffic accidents – UAH 14,201 m. This type of insurance is performed according to the Resolution of the Cabinet no. 959 from 14.08.1996 ‘On approval of regulation on compulsory insurance against traffic accidents’.

Voluntary insurance of financial risks – UAH 13,584 m. This kind of insurance includes several programs, namely:

- Insurance of bank warranties.
- Insurance of legal person deposit.
- Insurance of agreed obligations (Youth fund).
- Insurance of contractual obligations.
- Insurance of car credits.
- Insurance of the lessor at disruption of production.
- Insurance of financial risks (payment cards).

IC Brokbusiness is continuously increasing its presence in the regions of Ukraine by developing branch network, first of all where stable economic growth is observed. For today there are 39 branches and a developed regional network of outlets and sale points all over the territory of Ukraine:

As regards the largest share of premiums and indemnities in 2010 the Kiev branch is on the first place on this point with 19,6 % of insurance payments from the total amount of receipts in regions and 25,4 % from total payments on regions.

The lowest share of premiums corresponds to Chernigov branch, and the lowest share of indemnities paid out – to the Crimean region, namely the Third Crimean Branch.

By estimate of RA Expert Rating, IC Brokbusiness is high on the list in Ukraine among the large companies of classical segment by level of client diversification. Following the results of 2010 one largest client corresponded to 2,3% of total volume of IC Brokbusiness business (see table 5).

Table 5

Information on the share of large clients in the structure of the collected premiums and paid out indemnities of IC Brokbusiness in 2009–2010, % of total amounts

No.	Insurance types	Premiums			Indemnities		
		2010	2009	Change	2010	2009	Change
1	From 1 largest client	2,3%	2,6%	-0,30%	10,2%	7,1%	3,10%
2	From top 5 largest clients	12,9%	8,27%	4,63%	24,9%	24,1%	0,80%
3	From top 10 largest clients	30,9%	14,8%	16,10%	33,5%	37,9%	-4,40%

Source: Company data; calculations by Expert Rating RA

The following are the largest 5 clients of the Company in 2010: JV Nibulon Ltd, JSC AVK, USE Ukrkhimtransamiak, JSC KZTV and TNK BP Commerce Ltd.

Among the five largest clients there are neither shareholders of IC Brokbusiness nor legal persons by them owned. Nor are among the five largest clients legal persons owned by IC Brokbusiness legal persons owned by, affiliated neither associated companies of IC 'Brokbusiness'.

Thus, RA Expert Rating positively estimates diversification level of IC Brokbusiness by insurance types, and also highlights very high level of client diversification that ensures good competitive positions for the Company in the insurance market of Ukraine.

4. Quality of assets and of reinsurance cover

Quality of assets. By RA Expert Rating estimate, IC Brokbusiness had high degree of assets quality. Considering the data of table 6, it should be noted that in 2010 the Company changed principles of accounting policy. If previously bank deposits have been accounted for under balance item 'current financial investments', since 2010 they are referred to the item 'cash and cash equivalents'.

In 2010 the size of IC Brokbusiness earning assets dropped by 8,61 % that is connected among other to decreased total business volumes. Also it should be considered that in the balance section 'Other financial investments' the Company accounts for investments into Corporate Investment Fund 'Brokbusiness' and into the Life Insurance Company 'Brokbusiness'. That is, actually a part of the investments accounted for under this balance item could be identified as investments into branches, that was raising the level of their liquidity and was maximally bringing their balance value close to the market value (see table 6).

Table 6

Structure of earning assets of IC Brokbusiness in 2009-2010 (UAH th., %)

no	Types of assets	01.01.2011		01.01.2010		Growth rate in 2009–2010
		UAH th.	%	UAH th.	%	
1	Other financial investments Form 1 (p.040 + 045)*	59 915	37,20%	59 235	33,61%	1,15%
2	Current financial investments Form 1 (p. 220)**	-	-	66 100	37,51%	-
3	Cash and cash equivalents Form 1 (p. 230 + 240)	101 130	62,80%	50 890	28,88%	98,72%
-	Total earning assets	161 045	100,00%	176 225	100,00%	-8,61%

Source: Company data; calculations by Expert Rating RA

Notes:

* - including investments into CIF 'Brokbusiness' and into the Life Insurance Company 'Brokbusiness';

** - bank deposits of the Company were referred to the balance line 220 in the year 2009, in 2010 due to Company accounting policy change bank deposits have been already referred to the lines 230 and 240.

In 2010 the volume of IC Brokbusiness ratable earning assets grew on 13,15%. On the beginning of 2011 only 14,59 % of ratable earning assets have been rated below investment grade. Compared to 01.01.2010 namely due to appearance of assets rated below investment grade, the quality of assets impaired visually. On the other hand, in the beginning of 2010 assets with rating uaAAA corresponded to 1,34 % , and on 01.01.2011 already to 29,47 % of ratable earning assets of the company. I.e. the quality of that part of assets improved which already have been identified as assets with investment grade rating (**table 7**).

Table 7

Rating structure of IC Brokbusiness earning assets, UAH th.

No.	Assets ratings according to national scale	01.01.2011		01.01.2010		Growth rate, 2009-2010
		UAH th.	%	UAH th.	%	
1	uaAAA	24 908,80	29,47%	1 000,00	1,34%	2390,88%
2	uaAA	6 513,07	7,71%	34 063,08	45,60%	-80,88%
3	uaA	40 774,24	48,24%	31 360,00	41,98%	30,02%
4	uaBBB	-	-	7 875,00	10,54%	-
5	uaBB	12 327,97	14,59%	-	-	-
6	uaB	-	-	400,00	0,54%	-
7	Lower than uaB	-	-	-	-	-
8	Assets with no rating	-	-	-	-	-
-	Ratable earning assets:	84 524,08	100,00%	74 698,08	100,00%	13,15%

Source: Company data; calculations by Expert Rating RA

Decisions on asset management are agreed in IC Brokbusiness with the shareholders of the Company. Decision-making system is the following.

Placing of deposits in banks:

Step 1: applications of regional divisions on placing deposits in certain banks are preliminary processed.

Step 2: real insurance business connected with given deposit placement is forecasted.

Step 3: the bank is approved by the shareholders of the company.

Step 4: at positive decision of shareholders money is deposited.

Step 5: monthly monitoring of depositary means use efficiency is performed.

Step 6. in case of default of obligations by the bank withdrawal of depositary means is performed.

Investment in securities: As of today the given activity is suspended upon decision of the Shareholders of the Company.

The system of asset management of IC Brokbusiness is efficient. Operative monitoring of placement efficiency is the main criterion of performance. The business which IC receives under these money resources serves as evaluation of the result of money resources placement in the Company. The performance is confirmed by the execution of planned volumes on bank insurance. At choice of bank for opening the current account or depositary accounts the stability of credit rating of the given bank is major factor taken into consideration.

Reinsurance coverage. Estimating reinsurance coverage and its rating quality, the analytical service of RA 'Expert-rating' highlights the following facts:

1. Volumes of reinsurance premiums on outbound reinsurance in 2010 have grown from UAH 40,739 m to UAH 48,596 m, i.e. on 19,27 %. Dependence of IC Brokbusiness on reinsurance partner companies increased.

2. Rating quality of reinsurance coverage is hard enough to determine as IC Brokbusiness basically worked with the resident companies among which ratings are unpopular. The Ukrainian legislation does not obligate the insurers to obtain credit ratings nor financial stability ratings, therefore it is not possible to estimate rating of resident's reinsurance portfolio.

3. Throughout 2009-2010 IC Brokbusiness worked with the companies-non-residents engaged in reinsurance, but the volume of such cooperation was small. Among IC Brokbusiness reinsurance partners-non-residents it was possible to see such companies, as Swiss Re and Polish Re. Also IC Brokbusiness continued cooperation with the insurance broker Marsh&McLennan.

4. Among IC Brokbusiness reinsurance partners-residents the analytical service did not found new little-known companies which presence in the reinsurance portfolio usually means IC propensity to schemed reinsurance.

At the choice of reinsurer the following factors are taken into consideration by IC Brokbusiness :

- Reliability of insurance company.
- Leading positions in the ratings of reinsurers and insurers.
- Promptness of indemnities payout.

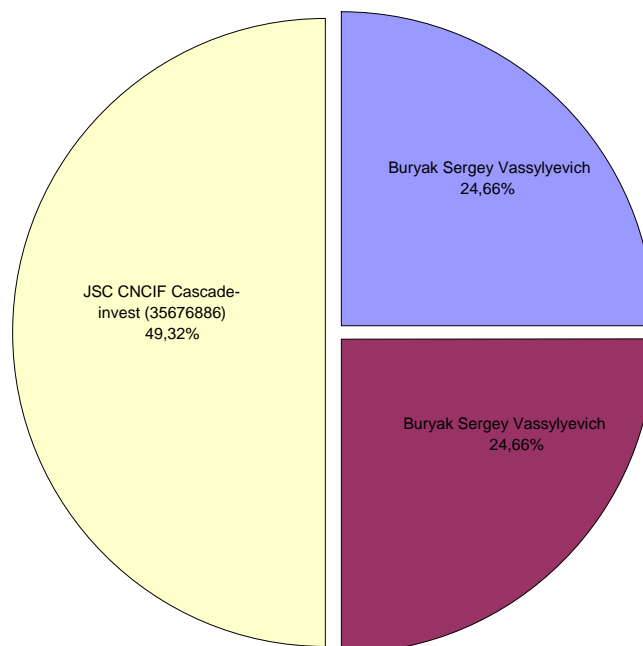
Therefore, RA Expert Rating estimates the quality of earning assets of IC Brokbusiness as high, the quality of reinsurance coverage is estimated by Agency as uncertain, but without any explicit signs of fictitious reinsurance.

5. Capital adequacy and risk adequacy

Capital adequacy. By estimates of RA Expert Rating, the Company for the beginning of 2011 maintained adequate equity level, adequacy level can be named redundant taking into account high quality of assets.

Nevertheless, the Agency performed estimation of the possibilities of shareholders on additional capitalization of the Company in case such necessity appears. IC Brokbusiness as joint-stock company according to the current legislation discloses the information on the owners of large share holdings (*see fig. 2*).

Fig. 2 Structure of IC Brokbusiness shareholders as of beginning of 2011



Actually IC Brokbusiness has been under control of key shareholders of JSB 'Brokbusinessbank', brothers **Alexander** and **Sergey Buryak**, and also 49,32 % of IC Brokbusiness shares have been controlled by Closed Non-diversified Investment Fund 'Cascade Invest'. The company had no active market of own shares and could only potentially dispose of resources available at shareholders. Considering that Alexander and Sergey Buryak control AB 'Brokbusinessbank', that is the bank with high credit rating which for already a long time belongs to first group banks on size of assets according to NBU, the Agency considered that shareholders whenever necessary can provide support to the Company. Still the identification of the level of such support remains problematic.

Estimating the adequacy of IC Brokbusiness capital, the Agency draws attention to that the insurer operated with profit over the last 5 years. Over the last three years IC Brokbusiness raised profitability level, i.e. actually the Company was able to generate cash flow ensuring it an additional capitalization.

Among factors which positively influenced profitability of Company work in the last 12 months, the following could be separated out:

- growth of direct sales in the regional network;
- work with large corporate clients.

To negative factors following could be referred:

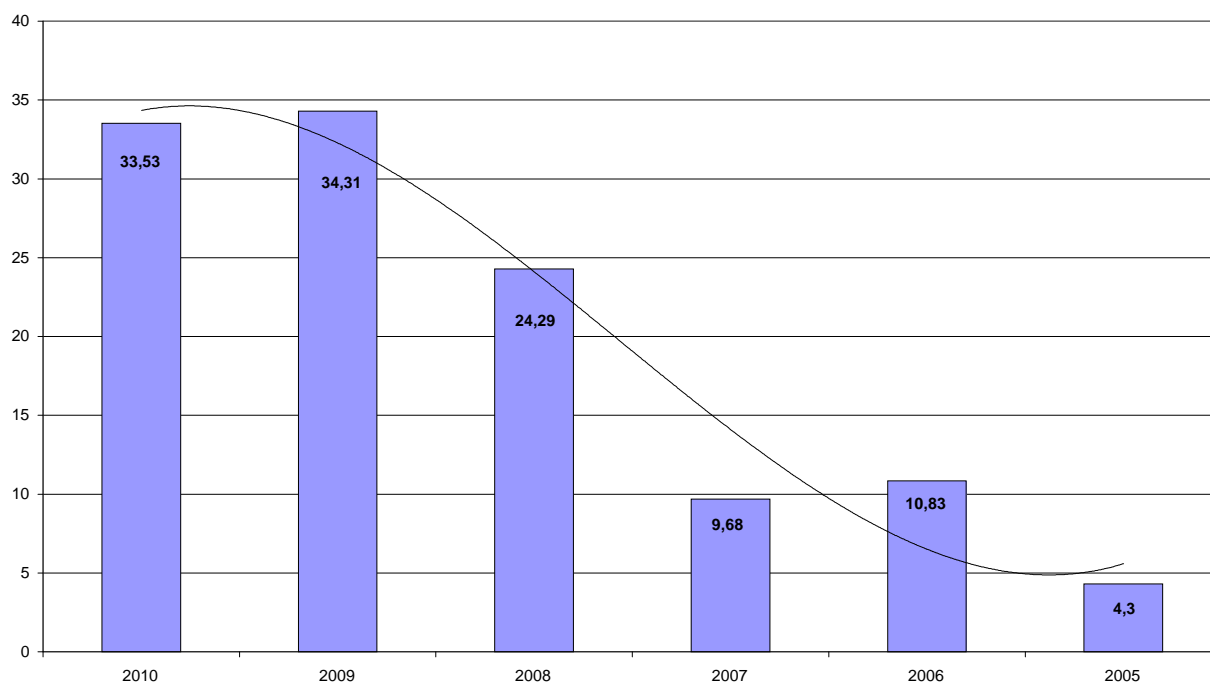
- Growth of car insurance share in the regional network and, as consequence, growth of unprofitableness of these kinds of insurance;
- Decrease in insurance budgets of legal persons (loss of insurance volumes raised from legal persons).

The management of the Company does not awaits essential changes in profitability indicators in 2011-2012.

Adequacy of risks. By estimates of RA Expert Rating, throughout 2005-2010 IC Brokbusiness supported adequate level of reserves, sufficient for coverage of indemnities payout. However ceding to overall tendencies of the market for last 5-6 years the ratio of payments and total volume of IC Brokbusiness business grew in several times. The given tendency remains alerting as it constrains the Company to maintain redundant level of reserves under future

expenses. At present moment liquidity reserve is sufficient to cover payment requirements of IC Brokbusiness. A minor decrease of loss ratio in 2010 compared vs. 2009 should be regarded as positive tendency (*fig. 3*).

Fig. 3 Loss ratio of IC Brokbusiness in 2005-2010.



Three largest (on size) payments of indemnities for the last 12 months have been the following (in decreasing order):

1. UAH 4,433 m.
2. UAH 3,156 m.
3. UAH 1,631 m.

The indemnities have been paid out due to occurrence of insured event, namely the damage inflicted to the insured property of the legal person. The sum of not settled losses as of 01.04.2011 made UAH 9,308 m.

Thus, according to RA Expert Rating, the insurer possessed sufficient level of capitalization to meet the obligations under accepted risks in the nearest 12 months, and the shareholders of IC Brokbusiness could provide external support to the Company. However the level of such support remains uncertain and besides that, considering current financial condition of the Company, is unnecessary.

6. Other factors considered at rating

Members of Board of Directors, Trustees, Members of Supervisory board of IC 'Brokbusiness' (20344871) have no criminal records.

There are no proceedings of court connected with the activity of the Company abroad.

The proceeding considered in the courts of Ukraine, are mainly connected with:

1. Realization by the insurance company of the right of recourse.
2. Issue of indemnities payment in case of realization by the insurance company of the right of refusal in payment.

Last random inspection by the Ukrainian regulator of insurance market Statefinservices has been performed from 27.09.2010 to 25.10.2010. It found a number of minor infringements of insurance legislation which have been corrected in the term established by Statefinservice. Besides that, internal measures have been undertaken which will allow to avoid occurrence of similar infringements in the future.

As of the date of report publication there have been no claims of enforcement bodies and regulators (Statefinservices, NBU, Statefinmonitoring, SCSSE, STAU, Ministry of Internal Affairs, Office of Public Prosecutor).

7. Conclusions

During the period from May, 18th till July, 4th RA Expert Rating conducted rating research of PJSC Insurance Company 'Brokbusiness'. The purpose of rating research is to award the Company the rating of financial stability. By results of research of the PJSC 'Insurance company 'Brokbusiness' (USREOU code 20344871) the Rating Committee of the Agency assigned the rating of insurer stability according to the national scale at the level **uaAAA-** (high level of stability) that fully corresponds to the rating **A** – according to the international scale of RA Expert Rating.

By results of rating research the following main conclusions can be drawn:

1. IC Brokbusiness belongs to the category of large insurance companies of the segment of general kinds of insurance. The volume of total business of the Company in 2010 exceeded UAH 219 m, nominal share of the insurer in the Ukrainian insurance market is estimated at 1%, share of IC Brokbusiness in the segment of classical insurance makes 3,5-4 %, by estimate of RA Expert Rating. The company has an extensive experience of participation in various tenders and a good corporate client base.

2. The company maintains good level of portfolio diversification per insurance kinds. The largest kind of insurance corresponds to only 21 % in 2010, three other largest kinds correspond to nearly 60%.

Following the results of 2010 IC Brokbusiness showed one of the highest indicators of client diversification among the clients of RA Expert Rating in insurance sector. So, the share of the largest client was only 2,3 % of the collected premiums.

3. On the beginning of 2011 IC Brokbusiness showed high quality of assets and adequate approaches to reinsurance coverage provision. During the year 2010 in the portfolio of ratable earning assets the share of assets with non-investment grade increased: from 0,54 to 14,6 %, but the share of assets with the highest rating uaAAA has grown to 9,5%. The share of reinsurers with ratings in the portfolio of IC Brokbusiness remained insignificant that is a common problem of domestic market - presence of small number of companies with ratings of investment grade.

4. The shareholders of the company, according to the Agency, can when necessary provide it adequate level of external support, however presently such support is not needed. Over the last 5 years the activity of IC Brokbusiness remains profitable, and during the last three years the Company shows raised level of ROE, i.e. the Company generates cash flow which can be directed on additional capitalization.

5. According to the Agency, top management of IC Brokbusiness adheres to conservative financial strategy. Raised level of capital adequacy is accompanied by high quality of assets and redundant liquidity. So, as of the beginning of 2011 more than 100% of the obligations of the insurer were covered by money resources available on Company accounts.

The full substantiation of rating by RA Expert Rating is contained in the rating report.

Visualization of rating (*fig. 4*):

Fig. 4 Visualization of IC Brokbusiness rating

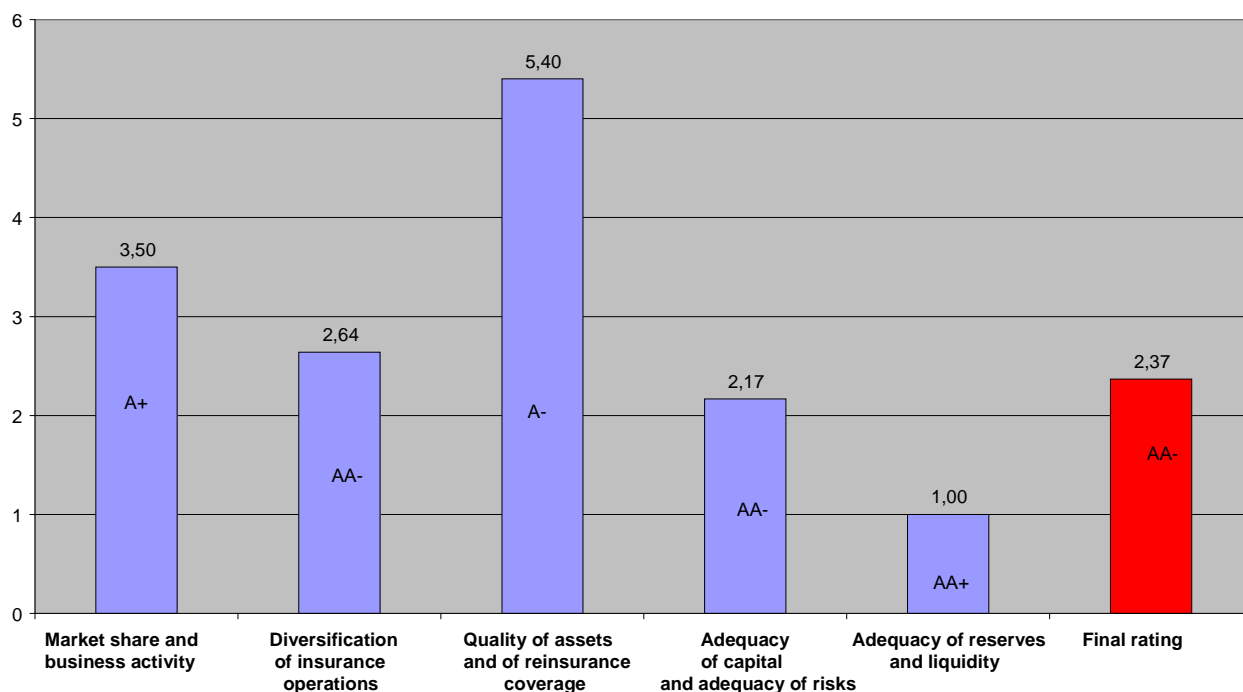


Table 9

Calculation and evaluation of main factors making part of the rating

No	Name of indicator	Numerator	Denominator	As of the date of questionnaire completion	Scoring	Weight	Calculation
1	Market share	Premiums collected by the Company P1: 010	Total premiums in the market	0,97	6	0,05	0,3
2	Investment ratio of insurance process	Underwriting (sales) expenses P1: 300+310	Gross premiums P1: 010	0	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	1,83	1	0,02	0,02
4	Receivables ratio	Accounts receivable F1: 050+160+170+180+190+200+210+060	Gross premiums P1: 010	0,25	1	0,01	0,01
5	Share of net premiums by insurance types	Gross premiums from the largest insurance type	Premiums collected by the Company P1: 010	0,34	3	0,18	0,54
6	Share of top 5 largest clients	Gross premiums from the top 5 largest clients	Premiums collected by the Company P1: 010-020	0,17	1	0,12	0,12
7	Poor quality assets ratio	Assets with a grade lower than investment grade	Earning assets F1: (040+045+220)	0,21	3	0,03	0,09
8	Reinsurance coverage ratio	Premiums ceded to reinsurers not having investment grade	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	0,44	6	0,075	0,45
9	Reinsurance coverage quality factor	Premiums ceded to reinsurers having investment grade	Premiums belonging to reinsurers P1: 020	0,007	6	0,045	0,27
10	Insurance risk ratio	Чистые премии, собранные Компанией P1: 010-020	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	1,26	1	0,15	0,15
11	Payout ratio	Net indemnities paid out P1: 240*	Net premiums collected by the Company P1: 010-020	0,47	3	0,025	0,075
12	ROE	Net income F2: 220 (225)	Shareholder equity F1: 380	0,19	1	0,05	0,05
13	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	-0,07	3	0,025	0,075

14	Adequacy of reserves	Indemnities paid out P1: 240	Reserves F1: 415-416	0,74	1	0,02	0,02
15	Coverage of net indemnities by capital	Чистые выплаты P1: 240*	Shareholder equity– Non tangible assets F1: 280-010-430-480-620- 630	0,59	1	0,14	0,14
16	Liquidity	Highly liquid assets F1: 230+240	Liabilities F1: 430+480+620+630	0,91	1	0,04	0,04
-	-	-	-	-	-	-	2,37

Appendix A

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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.