

The rating report

(version for publication)

(on basis of the Agreement No. 07/RA of May 15, 2009)



Insurer's stability rating,
Expert Rating RA scale:

aa

(high stability level, with a positive forecast)

National scale equivalent:

uaAA

Insurer's stability rating to the
international scale of the Expert
Rating RA:

BBB

(good stability level)

Interpretation of the rating:

There is high probability of that the company with the given
rating will discharge its obligations with the clients

Rating date:

March 30, 2007

Last rating report publication
date:

June 15, 2009



Private Joint Stock Insurance Company Busin

(Full name of the company)

Klimenko Street 23, 03110, Kiev, Ukraine
(Company legal address)

Klimenko Street 23, 03110, Kiev, Ukraine, 23
(Company de facto address)

Incorporation date	February 17, 1993
Date of start of operations	February 17, 1993
National enterprises register code	19492371
Account bank	JSCB Citibank (Ukraine) (Kiev)
Auditor	BDO Balance
Actuary	M.A. Bushanskiy (diploma no. 006 of 17.09.1999)
Registrar	JSCB VABank (Kiev)
Phone	+38 (044) 243-95-85
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Web address	http://www.busin.com.ua

The IC is licensed for the following types of voluntary insurance: Accident insurance; Air transport insurance; Insurance against fire risks and act of God risks; Liability insurance of aircraft owners; Motor transport vehicle insurance (except r/w); Watercraft insurance; Freight and luggage insurance; Third party legal liability insurance; Financial risks insurance; Motor third party liability insurance; Property insurance.

The IC is licensed for the following types of obligatory insurance: Traffic accident insurance; Insurance of nuclear facilities operator's public liability against damage caused by a nuclear incident; Aviation insurance.

1. Company description.

Retrospective review. The insurance company BUSIN was incorporated in 1993. In 1994, an insurance regulator was established in Ukraine, and JSIC BUSIN was among the first to receive the insurance license on April 14, 1994. In June 1994 JSIC BUSIN concluded the first international contract of aviation risks facultative reinsurance with the broker Bowring Aviation, Marsh & McLennan group. Further on it became a turning point in the development of the company, which remains up to date one of the few companies in Ukraine maintaining direct contacts with largest international reinsurers.

In 1997 JSIC BUSIN concluded the contract on obligatory aviation liability insurance (up to 100m USD) in the international insurance market through insurance broker Marsh & McLennan. That has considerably enhanced the competitiveness of the company in the sector of aviation risks insurance of the Ukrainian insurance market.

The year 2002 was a tense one for the company: total indemnities paid out by JSIC BUSIN exceeded 1m euro. In 2003 JSIC BUSIN became the first representative of Ukraine in IUA (International Union of Aviation Insurers). IUA acts up to date as the single global co-coordinator of market players' interests in aviation and space risks insurance.

In 2005, JSIC BUSIN has concluded the largest (up to 600 million USD) obligatory risks reinsurance contract of third persons and passengers aviation liability in the history of the Ukrainian insurance market.

In 2006, the company adopted a new development strategy and, remaining an absolute leader in aviation insurance in Ukraine, decided to deepen the insurance portfolio diversification to increase penetration in the markets of corporate insurance of large property and liability risks.

In 2008, the company management has undertaken a number of successful administrative steps directed on increasing the share of earning assets in assets structure. Those steps have in part allowed JSIC BUSIN to raise investment efficiency.

Development trends. For the last 5 years the assets of JSIC BUSIN have grown by 3,9 times, shareholders equity — by 3 times, authorized capital — practically by 2.5 times, annual gross premiums — by 2.5 times (tab. 1). Despite the crisis phenomena of the second half of 2008 — the first half of 2009, the company managed to provide for growth rate of gross premiums in 2008 at the level of 31.28 %.

Table 1

Key performance indicators of JSIC BUSIN in the years 2004–2008

Indicators	2008	2007	2006	2005	2004	Growth rate %	
						2007–2008	For 5 yrs
Assets, th.UAH	72385.7	51577.0	48398.7	19602.9	18596.9	40.34%	289.24%
Shareholders equity, ths.UAH	46344.9	42416.9	40236.3	13092.6	15589.6	9.26%	197.28%
Shareholders equity / Assets. %	64.02%	82.24%	83.14%	66.79%	83.83%	-	-
Authorized capital, ths.UAH	24400.0	10125.0	10125	10125	10125	140.99%	140.99%
Gross premium, ths.UAH	53064.4	40420.3	31048.8	21812.2	21227.8	31.28%	149.98%
Share of premiums ceded for reinsurance	74.43%	77.23%	68.29%	78.58%	58.37%	-	-
Reinsurer's share in gross premium. %	19.43%	9.65%	7.92%	3.72%	3.78%	-	-
Total indemnities, ths.UAH	2617.2	2704.9	2446.2	10377.5	11861.4	-3.24%	-77.94%
Loss ratio. %	4.93%	6.69%	7.88%	47.58%	55.88%	-	-
ROE. %	40.22%	5.72%	1.99%	21.41%	34.25%	-	-
Net income (loss), ths.UAH	18641.4	2426.1	799.8	2803.0	5339.6	668.37%	249.12%

Source: Company data, data from company annual reports to Securities and Stock Market State Commission

For 5 years, gross premiums grew almost by 2.5 times and made up a historical peak of 53m UAH in 2008. Share of premiums ceded for reinsurance remained relatively stable throughout 5 years. The decrease of loss ratio to 4.93 % is a significant fact. Along with that and the growth of earning assets share in company assets, despite that 2008 was a crisis year, the ROE of the company following the results of the year exceeded 40%. In 2008 the company reached a record ROE. The company's substantial 2008 financial result explains itself by the following facts:

1. Earning assets share in company assets grew.
2. There was a relatively conservative assets management strategy, due to which the company has not practically suffered from the banking crisis.
3. Company business grew by 31.28 % in the crisis year.

It will be recalled that in 2006–2007 the company undertook a number of measures assisted by involved financial and legal advisers, auditors, assets management companies etc. to improve performance. The expenses incurred by JSIC BUSIN, have been directed on putting the accounting, reporting and paper circulation systems in line with international standards. According to Agency, during several recent years the company was really in a need of these measures, because JSIC BUSIN is active enough on international insurance market, although it is present there through brokers. Transition to the international reporting and office standards, along with a qualitatively new transparency level allowed the company to improve conditions of work with already available foreign partners and to involve the new ones.

Estimation by Expert Rating RA of the stability of JSIC BUSIN RA included the complex analysis of the insurer's reporting, including Q1 2009. The analysis revealed a number of trends, taken into consideration by the Rating Committee:

1. Lift of ROE of the company does expressively prove the efficiency of company's financial and marketing policy for the last three years. The Agency draws a special attention to that in conditions when the majority of insurers are subject to decrease in volumes of business and to huge losses, JSIC BUSIN shows quite the contrary tendencies.

2. In 2007–2008 equity-assets ratio of the company decreased to 64%. According to the Agency, the given indicator is not a key one for an insurer at the moment, and its value still shows surplus in capitalization. By Agency estimations, the company could decrease equity-assets ratio to 40% without damage to the credit rating.

3. On June 1, 2009 after the detailed analysis of JSIC BUSIN finance results in 2008 and Q12009, the Rating Committee of Expert Rating RA took a unanimous decision to raise the rating from **uaA** to **uaAA**. The Agency notes the professionalism of company management, which has undertaken a number of successful administrative steps that allowed the company to show good finance results even in the conditions of crisis.

4. JSIC BUSIN takes nearly 40% of aviation risks insurance market in Ukraine. After the Supreme Council of Ukraine ratified the Montreal Convention, which regulates liability of air carriers to passengers, the Agency expects for a growth of aviation risks insurance market volumes in 2009–2010 that should positively affect financial conditions of the company.

Rating research of JSIC BUSIN activities showed high level of company's competitiveness in the sector of aviation and financial risks insurance, extensiveness of international contacts, satisfactory level of client diversity, high quality and diversification of company assets.

The contents of the given rating report reflect the basic results of rating research carried out by Expert Rating RA in respect of JSIC BUSIN and are a substantiation to put JSIC BUSIN stability rating according to Expert Rating RA scale for the Ukrainian insurance companies to the level **aa** (high level of stability, with a positive forecast). The given rating does completely correspond to credit rating **uaAA** of the company according to the national scale.

2. Market share and business activity of the company.

The company takes leading place in the aviation insurance market. By results of 2008 about 90% of premiums paid to JSIC BUSIN came from insurance connected with aviation risks.

Influence of legislation. In Ukraine, according to article 7 of the Law 'On insurance', aviation liability insurance is referred to obligatory insurance category. The given rule of the Ukrainian legislation completely corresponds to the international practice. The explanation of this rule of the article of Law of Ukraine 'On insurance' is given in the Ministry Decree no. 1535 of 12.10.2002, which establishes the Procedure and rules of obligatory civil aviation liability insurance. The decree 1535 establishes several kinds of obligatory insurance:

- Insurance of air carrier liability to passengers;
- Insurance of aircraft operator liability to third parties;
- Insurance of crewmembers and other aircraft staff;
- Aircraft hull insurance.

The Decree no. 1535 establishes the limit of domestic airlines liability to passengers on domestic flights at the amount of \$20000, i.e. it actually establishes the limit of indemnity that determines market capacity of obligatory insurance of air carrier liability to passengers. The limit of liability on domestic flights is established at the maximum amount allowed by the Warsaw convention, adopted in 1929, which limits airline liability to passengers by a range from \$8300 to \$20000. In 1999, the Montreal convention was signed establishing indemnity limit of the insurance company in case of an air crash at the amount from \$135000 to infinity. 31 countries members of the International Civil Aviation Organization (ICAO), including the USA, Canada, Japan, Greece, Slovakia, the UAE, Mexico, etc, signed the convention. Ukraine ratified the Montreal convention in December 2008. However, as of June 2009 the Government did not yet fixed by a relevant order the rules of insurance, which would implement into our legislation main principles of passengers insurance protection, fixed by Montreal convention. Expert Rating RA expects that aviation risks insurance market capacity would grow by approximately 6 times.

Within the nearest 5–7 years, depending upon development of air transportation market in Ukraine, a revival should be expected in the market of aviation risks insurance.

First, Ukraine remains one of the five countries in the world having a complete cycle of civil aircraft production. In the nearest years, production of new Antonov planes will increase, for their use both on internal and international air transportation market.

Secondly, Ukraine has already ratified the Montreal convention to avoid difference between foreign and domestic airlines in passengers' insurance protection.

Thirdly, in the light of the Euro-Atlantic aspirations of Ukraine, it can join rules of the European Civil Aviation Conference (ECAC) that regulates limits of airlines liability inside EU. ECAC rules establish limits of liability at the level of \$300–350 ths.

It will be recalled that Expert Rating RA already in 2006 predicted the ratification of the Montreal convention and growth of aviation risks insurance market capacity.

Share market examination. Definition of JSIC BUSIN real share in the market and of its change dynamics is possible using only indirect analytical methods. First, there is no reliable statistics of the 'real' market

of insurance in Ukraine. The data provided by State Commission on Regulation of Financial Services Markets include among other the insurance directed on taxation optimization, and therefore do not allow for a substantiated forecasts of development dynamics for certain insurance types. Secondly, there are no statistical data on development level of certain insurance products. Therefore, for example, insurance of property and CAR/EAR insurance is considered property insurance, without differentiation of separate products. Since 2008, the regulator stopped providing market information on the state of aviation risks insurance market.

Nevertheless, evaluating the share of JSIC BUSIN in the Ukrainian insurance market, Expert Rating RA considers, that in 2008 gross premiums of the company have grown by 31%. Meanwhile, according to official data of the State Commission on Regulation of Financial Services Markets, in 2008 compared to 2007 gross premiums as a whole in the market have grown by 33 %. The Agency has all reasons to assume, that volumes of business of JSIC BUSIN grew in the last three years approximately proportionally to the market. It will be recalled that in 2006 Expert Rating RA evaluated company share in the market of aviation risks insurance at the level of 42%. The company share in the overall insurance market can be conventionally estimated as 0.2–0.3%. However, the significant volumes of optimization schemes and specificity of insurance field of the company prevent Expert Rating RA from using the above conventional estimate of market share for definition of its value and dynamics.

Table 2

Estimation of the share of JSIC BUSIN in the market of obligatory aviation insurance (OAI) in Ukraine

Indicators	2001	2002	2003	2004	2005
Gross insurance premiums in the market, ths. UAH	51756.5	90046.1	97986.7	93915.6	118218.2
Conventional share of JSIC BUSIN in total premiums. %	24.55%	19.74%	20.47%	17.77%	14.03%
Gross insurance indemnities in the market, ths. UAH	1909.1	7927.2	63038.6	50883.1	13605.6
Conventional share of JSIC BUSIN in total premiums. %	14.28%	92.70%	18.48%	17.77%	55.08%
Estimated share of JSIC BUSIN in OAI market *	25.8%	24.7%	39.9%	41.3%	43.1%

*Note: * — The estimation was made by Expert Rating RA based on the data of aircraft operators and of the State Aviation Authority of Ukraine.*

In 2007–2008 the State Committee on Financial Services had not published exact data on volumes of premiums collected in the market of aviation insurance in Ukraine. However, it is known that in 2007, the volume of premiums on obligatory aviation insurance in Ukraine made up 87.5m UAH, and it means that JSIC BUSIN took more than 45 % in the market of obligatory insurance of aviation risks in 2007. According to the analysts of Agency, there were no essential changes in the Ukrainian market of aviation risks insurance in 2008. That is why Expert Rating RA decided not to change estimation of 2008 market share for JSIC BUSIN, which has been fixed at the level of 43%. It should be recalled, that doing market share estimation in 2006, the Agency relied on the following conclusions:

1. As researches by Expert Rating RA have shown, the amount of gross insurance premiums on obligatory aviation insurance (OAI) includes also those payments which have been paid by the aircraft operators to their insurers, who in turn, not always directly, but in some cases through facultative reinsurance contracts have directed them to JSIC BUSIN, which has an obligatory contract of reinsurance that is exclusive for Ukraine, with a limit of liability \$650 m. That is, in the official statistical data of the overall market the same premiums are accounted twice.

2. As of the end of 2006, 94 legal persons in Ukraine had air carrier certificate. However according to the State Aviation Administration five airlines with major traffic volumes realized approximately 80% of passenger transportations. From those five most active aircraft operators two are clients of JSIC BUSIN already for several years. At the moment JSIC BUSIN serves in total 48 airlines and insures a fleet of roughly 230 aircrafts.

3. Taking into account the double account of premiums and non-uniform distribution of insurance payments proceeding from market participants, Expert Rating RA has made an independent estimation of OAI market share for JSIC BUSIN. The estimate by Expert Rating RA was based on the data of air operators on the revenues and the residual cost of capital assets. The estimation did not consider possible availability of leased aircraft fleet, data of aircraft operators, registered in the form of limited liability companies. Data for 2006 remained inaccessible due to their absence in the national information disclosure system.

In the aviation insurance sector JSIC BUSIN has the most acute competition with Credo-Classic, ASKA, IG ‘TAS’ and NJSIC ‘Oranta’. Among competitive advantages of JSIC BUSIN there is:

1. Known brand in the aviation insurance market. JSIC BUSIN is the first representative from Ukraine in the International Union of Air Insurers (IUAI).

2. Experience of work with large risks and large corporate clients. More than 230 aircrafts operated by more than 48 largest Ukrainian airlines are annually under insurance coverage of JSIC BUSIN.

3. Unique contracts on obligatory reinsurance. JSIC BUSIN is the only Ukrainian insurance company, which has the obligatory contract of reinsurance with following limits of liability: aircraft hull insurance - \$3m, third parties liability — \$650m. The availability of an obligator ensures best insurance conditions for aircraft operators.

4. High professional level of the employees of the company who are regularly trained at leading western insurance companies for the purpose of learning best practices and introducing in Ukraine of new business management technologies and new insurance products.

Weak competitive sides of JSIC BUSIN are:

1. Absence of a branch network, since regional airlines might consider it more convenient to work with the insurance company having a representation branch in their region.

2. Underdevelopment of insurance products aimed to the retail market (for example, medical insurance) since some clients might wish to work with a single company for all types of insurance. Besides, not having classical retail products, JSIC BUSIN cannot develop client loyalty programs through package offers of insurance products nor offer of retail types of insurance at low prices.

3. Rather small volume of shareholders equity does not allow to buildup the deductibles.

Expert Rating RA highlights additional factors, which, according to Agency, may influence on business activity of JSIC BUSIN:

1. A number of aircraft operators are linked with large formal and informal FIGs, or are dependent on them. JSIC BUSIN is involved in none of existing FIGs and remains an independent company. In practice the company experiences difficulties with attraction into number of its clients of aircraft operators being under control of domestic FIGs, which as a rule, do have in their structure own insurers.

2. Within 3–4 years along with penetration into Ukraine of the branches of large foreign insurers focused on the market of large risks, JSIC BUSIN may lose a unique market niche where it operates now having a large obligator. Imposing on the aircraft operators the insurers with absolute foreign capital or their branches together with leasing services may reduce JSIC BUSIN share in the OAI market.

3. A number of existing air carriers do have in their authorized capitals a share of state ownership that can be offered for sale which will result in management change. And though insurance conditions proposed to date by JSIC BUSIN to air carriers remain one of the most acceptable, after owner change the client might not always be guided by price or quality of insurance services provided.

The above-mentioned factors do not represent an essential threat for the solvency of JSIC BUSIN in the long-term period as the company has rather high level of obligations protection by shareholders equity.

3. Diversification of insurance operations

Insurance types diversity. Diversification of insurance activity remains a weak point of JSIC BUSIN. Following the results of 2008, 85% (in 2006 — 90%) from 53m UAH of gross premiums corresponded to obligatory aviation insurance and 2.5% — to voluntary aircraft insurance. The Agency sees it obvious that JSIC BUSIN is gradually eliminating the strict dependence on the aviation risks insurance market. However, this process proceeds rather slowly. At the same time, in the period of an economic crisis, aviation risks insurance market can serve as a ‘quiet’ harbor for the company, providing it a stable growth of business volumes and a due level of business activity.

The company is completely dependent on OAI market situation. However due to the specificity of the aviation insurance market itself, the unsatisfactory diversification level by insurance types cannot essentially influence on the stability of the company. JSIC BUSIN cedes the majority of the accepted risks to the first class non-resident reinsurers. It will be recalled, that by results of 2008 the company ceded ca. 74% of the collected premiums. Nevertheless, Expert Rating RA at the overall rating assessment accounts for the unsatisfactory diversification of insurance types because the company as such is subject to industry risk, and the amount of its premiums depends on the situation in the industry of air transportation. Analysts of Expert Rating RA believe that business recession in the country will inevitably worsen the financial conditions of air carriers. The Agency assumes that JSIC BUSIN may encounter delays in insurance premiums reception in 2009; however, this process will not cardinaly affect company’s work.

The company intends eliminate its dependence on one branch throughout several next years. For 2010-2012 is planned an active escalation of premiums on property insurance, CAR/EAR risks and third party liability that should help to increase client diversification and insurance types diversity.

Table 3

Information on the structure of premiums collected, ths.UAH

Insurance types	Premiums for 2008		Premiums for 2007		Growth rate
	2008	Share in total premiums	2007	Share in total premiums	
Total insurance premiums:	53064.4	100.00%	40420.3	100.00%	31.28%
Accident insurance	133.5	0.25%	74.5	0.18%	79.19%
Motor transport vehicle insurance (except r/w);	4466.9	8.42%	2394.0	5.92%	86.59%
Air transport insurance	1322.6	2.49%	942.1	2.33%	40.39%
Watercraft insurance	0	0.00%	0.2	0.00%	-100.00%
Freight and luggage insurance	404.7	0.76%	64.2	0.16%	530.37%
Insurance against fire and acts of God	206.9	0.39%	194.7	0.48%	6.27%
Property insurance	210.0	0.40%	176.5	0.44%	18.98%
Motor third party liability insurance	9.4	0.02%	23	0.06%	-59.13%
Liability insurance of aircraft owners	422.4	0.80%	292.9	0.72%	44.21%
Third party liability insurance	885.9	1.67%	1461.5	3.62%	-39.38%
Insurance of financial risks	2390.7	4.51%	25.4	0.06%	9312.20%
Obligatory insurance. in total:	45366.6	85.49%	35213.7	87.12%	28.83%

Source: sections 3 and 4 of the report complying with the Order by State Committee on Financial Services Markets no. 39 of 03.02.2004

JSIC BUSIN has rather diversified insurance products range:

1. Aviation insurance:

- 1.1. Obligatory aviation insurance.
- 1.2. Voluntary aviation insurance.
 - 1.2.1. Voluntary aircraft (hull) insurance.
 - 1.2.2. Voluntary third party, passengers and freight insurance.
 - 1.2.3. Voluntary insurance of crews against accidents.

2. Property insurance:

- 2.1. Real estate insurance.
- 2.2. Inventories insurance.
- 2.3. Insurance of integral property complexes.
- 2.4. Insurance of industrial facilities (plants, factories etc.).
- 2.5. Equipment insurance (processing equipment, industrial equipment etc.).
- 2.6. Insurance of machinery and equipment against breakage.

3. Ground transport insurance:

- 3.1. Hull insurance of inland transport.
 - 3.1.1. Passenger car transport.
 - 3.1.2. Cargo transport.
 - 3.1.3. Special machines.
- 3.2. Motor third party liability insurance.
- 3.3. Transport accident insurance.

4. CAR/EAR insurance.

5. Cargo insurance:

- 5.1. Insurance of ordinary cargos.
- 5.2. Insurance of cargo carrier liability.
- 5.3. Insurance of dangerous cargos transportation risks.

6. Insurance of financial risks:

- 6.1. Borrower liability insurance against existing loan.
- 6.2. Trade credit insurance.

7. Third party liability insurance:

- 7.1. Commercial general third party liability insurance (CGL).
- 7.2. Directors and officers liability insurance (D&O).
- 7.3. Insurance against IPO connected risks.
- 7.4. Hotel, Restaurant, Cafe/Catering liability insurance. (HoReCa).
- 7.5. Insurance of mortgage loan risks.

The most perspective sectors of the market are:

- *Property insurance.* To date the largest share of insurance premiums on this type of insurance correspond to land vehicles insurance, and mortgage subject insurance. Tat the same time are deprived of due care: CAR/EAR insurance, cargo insurance, insurance of machinery against breakages and many other types of insurance. Sales in this sector are connected mainly with the obligation of the insurer to conclude insurance contract.

- *Voluntary third party liability insurance.* This sector is not developed at all in Ukraine. Any eventual sales belong to liability insurance of motor vehicles owners, medical insurance, and insurance of persons leaving abroad. Such products as insurance of the general commercial liability, insurance of liability of directors and officers, insurance of the risks connected with IPO, and many others are absolutely absent in the market.

- *Insurance of aviation risks.* Perspectives of the given sector are deriving from the necessity of replacement of aircrafts of the Soviet production by more modern aircrafts of foreign production. It will result in increase of insurance amounts and, accordingly, of insurance premiums.

JSIC BUSIN introduces a number of perspective insurance products:

- *Commercial General Liability Insurance (CGL Policies).* This product is popular in Europe and USA and is aimed at complex protection of the company against possible claims from persons who can suffer from entity's activity.

- *Directors and Officers Liability Insurance (D&O).* The product allows insuring possible financial losses of the company (officers) consequent to presentation to its management of claims blaming improper fulfillment of their obligations.

- *Trade credit insurance.* Under conditions of the crisis, sales volumes of the majority of the enterprises decrease on the one hand, and on the other hand payments discipline impairs and debt receivable grows. To struggle against these problems debt receivable insurance may be used.

Diversification by channels of sales. In connection with processing complexity of the sold insurance products and necessity of adjustment of a standard insurance product to requirements of the concrete insurer, 80% of all sales are done directly by JSIC BUSIN employees, 15% are carried out through agents and 5% — through brokers.

Geographical diversification. All sales are made through the central office of JSIC BUSIN located in Kiev. The clients are all over Ukraine: in Kiev, Crimea, Kirovograd, Mariupol, Dnepropetrovsk, Lvov, Donetsk, Kharkov etc. There is no regional specialization. JSIC BUSIN does not keep account of insurance premiums by geographical regions of Ukraine. Aviation risks make about 90% of the company portfolio. Accordingly, the insured objects are aircrafts, which fly worldwide, not in a specific region of Ukraine.

Client diversification. There are not so many airlines operating in Ukraine, therefore the number of potential clients on aviation insurance is limited. As mentioned in the section ‘market share and business activity’ of the report, major part of passenger traffic corresponds to five airlines. Non-resident companies incorporated and operating outside of Ukraine, which are clients of the company, add to the merits of JSIC BUSIN. This ensures additional diversification of risks.

Table 4

Information on the share of large clients in the structure of the collected premiums and paid indemnities, in % from total amounts on the company

No.	Insurance types	Premiums		Indemnities paid out to the same clients from which the premiums had been collected	
		2008	2007	2008	2007
1	From 1 largest client	17.3	38.9	21.8	37.3
2	From top 5 largest clients	66.9	62.1	57.0	72.0
3	From top 10 largest clients	86.9	70.5	73.2	84.3

Source: Company data; calculations by Expert Rating RA

After studying the JSIC BUSIN strategy of clients retention the Expert Rating RA estimates as equal to zero the probability of simultaneous loss by the insurer of 5 top clients which in 2008 have brought 66.9 % of premiums. Another positive point is also that among five top clients of JSIC BUSIN there is no company associated with the insurer. Besides, all the five top clients are independent from each other, do not have shareholders (at exception of the state) in common, and actually do compete one with other.

4. Quality of assets and of reinsurance coverage

As Agency research showed, JSIC BUSIN has good enough level of assets quality and market reinsurance cover unique for the Ukrainian market. Nevertheless, the decision-making system in assets management in the company has no team basis. The decision on investment of temporarily free cash is made by chief financial executive with allowance for terms of placing, risk level and yield. A conservative investment policy is preferred. The basic part of means is placed on fixed deposits. Efficiency of investments is evaluated through parity of investment incomes and average amount of resources available for investment. At placing bank deposits, the company takes into consideration the financial stability of the bank, yield of deposits, possibility of insurance of collateralized property. The fact deserving positive evaluation is the attraction to assets management of the professional assets management market player, - AMC ‘Effect’, with which JSIC BUSIN started cooperating already in 2007.

Table 5

Structure of earning assets of JSIC BUSIN in 2007–2008

Types of assets	Amounts of assets			
	2008		2007	
	Ths. UAH	%	Ths. UAH	%
Long term financial investments	168.9	0.45%	233.9	2.26%
Current financial investments	1579.2	4.21%	2146.8	20.78%
Cash and cash equivalents. total:	35759.8	95.34%	7952.8	76.96%
In domestic cash	13785.6	36.75%	322.5	3.12%
In foreign cash	21974.2	58.59%	7630.3	73.84%
Earning assets. total:	37507.9	100.00%	10333.5	100.00%
Share of earning assets in company assets. %	51.87%	-	20.03%	-

Source: Company data; calculations by Expert Rating RA

The great bulk of earning assets (more than 95 %) which were at the disposal of JSIC BUSIN have been placed on bank deposits (accounts). Such risky category of assets as ‘long-term and current financial investments’

took not more than 5 % in the structure of earning assets. The analysis of deposit portfolio of JSIC BUSIN allowed analysts of Agency to draw a conclusion that the company practically has not suffered from a bank crisis.

Table 6

**Rating structure of bank deposits portfolio (including banking metals)
of JSIC BUSIN according to the scale of Expert Rating RA by the end of 2008**

Rating category	Ths. UAH	%
A (high reliability)	6576,5	19,85%
B (acceptable reliability level)	8055,3	24,32%
C (satisfactory reliability level)	12782,3	38,58%
Deposits in banks not having Expert Rating RA pi rating	5713,6	17,25%
In total:	33127,7	100,00%
Including deposits in banking metals	4821,9	14,55%

Source: Company data; calculations by Expert Rating RA

At the beginning of 2008 JSIC BUSIN deposits have been placed in 11 Ukrainian banks. Expert Rating RA estimated the quality of bank deposits portfolio using the Agency internal scale (tab. 6).

All the deposits provide the right for prescheduled termination of agreement with simultaneous application of penal actions by the bank. 17.25% of company deposits or 5.7m UAH are placed in banks having no Expert Rating RA pi rating. However due to that about 45% of deposits are placed in banks with investment grade according to the internal scale of Agency and other 38% in banks with satisfactory rating of reliability, it is fair to say that JSIC BUSIN pursues risk management policy at satisfactory level.

Quality of reinsurance cover. World market practice is such that aviation risks are reinsured exclusively through reinsurance brokers. Therefore, large part of reinsurance cover of JSIC BUSIN is made by reinsurers with an investment grade (above BB +). Warranting investment quality and reliability of reinsurance cover is the fact that brokers do independently select reinsurers, guided by their internal security-lists. Usually reinsurers have ratings not lower than BBB– according to the standard international scale. Nevertheless, a number of large and known companies in the Middle East, Asia, Australia, Japan have no ratings, or have ratings from their national Agencies. Therefore the brokers working with such large risks as aviation risks, are guided not only by ratings, but also do carry out their own stability analysis of the companies which for some reasons (often valid ones) have no ratings, but do match well the obligatory portfolio.

A major part of JSIC BUSIN operations was carried out through the international insurance brokers: Willis and AON. In the reinsurance portfolio of JSIC BUSIN at the beginning of 2008 there were more than 100 reinsurers from the USA, Italy, Great Britain, Japan, France, Germany, Korea, Austria and Russia. In total during 2008 JSIC BUSIN ceded to the non-resident reinsurers 36.7m UAH of premiums. About 90% of JSIC BUSIN non-resident reinsurance portfolio consisted of the reinsurers selected by brokers Willis Group and AON.

Both brokers take the leading position in the world market of risks management services, ceding in market share volume only to Marsh & McLennan (MMC). According to Expert Rating RA, Willis Group and AON by results of 2008 took second and third places in world ranking of insurance brokers (tab. 7).

Table 7

Ranking of international insurance brokers by volume of proceeds in 2007 (billion USD)

No.	Broker name	Revenue from brokerage operations	Stock exchange listing the broker (company ticker)	Place of incorporation
1	Marsh & McLennan	11.281	NYSE (MMC)	USA (New-York)
2	Aon Corp.	7.096	NYSE (AOC)	USA (Illinois)
3	Willis Group	2.463	NYSE (WSH)	Bermudas (Hamilton)
4	Arthur J. Gallagher & Co.	1.457	NYSE (AJG)	USA (Illinois)
5	Wells Fargo & Co.	1.282	NYSE (WFC)	USA (California)

Source: Expert Rating RA based on annual and quarterly company reports to the US Commission on Securities and Exchanges.

Specificity of brokerage business forced the parent holdings of brokers to incorporate in jurisdictions with a favorable tax climate. AON Corp. has been incorporated in the State of Delaware (business office in Chicago), Willis Group — on Bermuda Islands (business office in London and New York). However, both brokers with which affiliated structures JSIC BUSIN co-operates, have passed high-grade listing at the New York stock exchange, do regularly report to the US Commission on Securities and Exchanges and do adhere to high standards of corporate governance and transparency.

Table 8

Rating structure of JSIC BUSIN reinsurance portfolio for 2008

Rating	Insurance payments to non resident companies, Ths. UAH	Portfolio share
AAA	758.7	2.08%
AA	4027.8	11.04%
A	15530.2	42.58%
BBB	941.8	2.58%
Total of investment grade:	21258.5	58.29%
BB	0	0.00%
B	733.4	2.01%
Not rated	14479.1	39.70%
Totally in portfolio:	36471.0	100.00%

Source: Calculations of Expert Rating RA based on the data of JSIC BUSIN and of the reinsurance companies

Taking into account the rating structure of JSIC BUSIN reinsurance portfolio (tab. 8), it should be understood that in the conditions of obligatory reinsurance it is impossible to identify the exact rating structure of the portfolio major part of which is placed through the broker, for the following reasons:

- Brokers do often use services of other brokers or of syndicates formed by separate large reinsurers. There are nearly 15 such syndicates in JSIC BUSIN portfolio, mainly grouped in Lloyd's. In turn, these syndicates may include others etc. Rating exclusively on the lead-manager of the syndicate would not be quite correct as reinsurance obligations are incurred by all the members of syndicate. At syndicate formation rating restrictions are not necessarily considered;

- some part of reliable and stable insurers may have no need to be rated in their domestic markets, for example, due to that their parent structure is rated in the EU countries, the USA or Japan. Thus, the company from Czech Republic, Slovakia or Poland formally may have no rating; however, a very high credit rating is fixed upon their parent structure, which provides external support to such companies.

- some part of payments to non-resident reinsurers corresponded to the Russian companies which had no ratings or had ratings from rating agencies which Expert Rating RA is used not to take into consideration;

- among those companies which had ratings, there were many insurers having ratings from three or four rating agencies, often with different levels of estimations according to the international scale.

The study of reinsurance portfolio structure split by companies (syndicates) for which it was impossible to define the level of rating, showed the need to accept 100% of the portfolio offered by largest world brokers, as reinsurance cover of investment grade. In such a situation, there are no reasons not to trust the brokers, therefore it was decided to consider as not covered by rating only the payments ceded to the Russian and Ukrainian reinsurers.

The number of reinsurers with ratings of investment grade to which payments from JSIC BUSIN were made, included such companies and holdings as: Allianz (Germany), AXA (France), Berkshire Hathaway (USA), Hanover Re (Germany), Mitsui Sumitomo Insurance Company (Japan), Munich Re (Germany), Samsung Fire-Marine Insurance Co. (Korea), Tokyo Marine Nichido Fire Co. (Japan) etc. The mentioned insurers are recognized leaders of the world market of general types of insurance and do ensure reliable reinsurance protection.

5. Adequacy of risks and profitability

JSIC BUSIN listed the largest insured accidents in 2008:

1. 148.92 ths. UAH indemnity payment under financial risks insurance contract. Insured event: default from obligations of the loan agreement borrower.

2. 142.09 ths. UAH indemnity payment. The insured person is a physical person. Insurance type: motor hull insurance. Insurance event: road accident.

3. 121.49 ths. UAH indemnity payment. The insured is a physical person. Insurance type: motor hull insurance. Insurance event: road accident.

At the moment of rating research no judicial case has been considered initiated by an insured person where JSIC BUSIN would appear. The total sum of not settled losses constituted merely ca. 500 000 UAH.

Evaluating the capacity of shareholders to increase authorized capital, it is necessary to consider, that principal shareholders of the company are two physical persons — citizens of Ukraine to whom belongs 49.98% shares to each. Several last years the company replenished shareholders capital at the expense of earned resources and assets revaluation. In 2008, the company increased authorizing capital from 10.125m UAH to 24,4m UAH.

No essential changes were noted in the structure of shareholders for the last three years. The company plans to attract strategic investor that should open for the company the possibility to raise rating of stability. A new strategy of development for the period until 2011 is developed in the company, and reorganization took place aimed on raising competitiveness, efficiency and profitability of the company.

6. Other factors considered at rating

In 2005 in JSIC BUSIN one tax inspection has been conducted. No material breaches have been revealed, however the company deducted emission charge incorrectly. The infringement has been corrected, the company has incurred in expenses on removal of an infringement, which can be identified as insignificant ones.

In February 2007, a regular inspection by the State Commission on Regulation of Financial Services Markets took place at JSIC BUSIN. No material breaches influencing solvency or stability of the company have been revealed.

In 2008, there were no inspections by control authorities.

7. Calculation and estimation of main factors

Table 9

Calculation of factors making part of estimation

		Name of indicator	Numerator	Denominator	2008	Scoring	Weight	Calculation
Market share and business activity	1	Market share**	RA estimate	RA estimate	>40%	1	0.05	0.05
	2	Investment ratio of insurance process	Underwriting expenses P1: 300+310	Gross premiums P1: 010	3.48%	1	0.02	0.02
	3	Gross premiums growth rate	Change of gross premiums for the period P1: 010	Gross premiums over period previous to the reporting period P1: 010	32.5%	1	0.02	0.02
	4	Receivables ratio	Accounts receivable F1: 050+160+170+180+190+200+210+060	Gross premiums P1: 010	64.15%	1	0.01	0.01
Diversity of insurance operations **	5	Share of net premiums by insurance types	Gross premiums from the largest insurance type	Gross premiums, P1: 010	<90.00%	12	0.18	2.16
	6	Share of top 5 largest clients	Gross premiums from the top 5 largest clients	Gross premiums, P1: 010-020	>40.00%	6	0.12	0.72
Assets and reinsurance coverage quality	7	Poor quality assets ratio	Assets with a grade lower than investment grade	Earning assets	>15%	3	0.03	0.09
	8	Reinsurance coverage ratio	Premiums ceded to reinsurers not having investment grade	Shareholders equity – Non tangible assets F1: 280-010-430-480-620-630	<50%	1	0.075	0.075
	9	Reinsurance coverage quality factor	Premiums ceded to reinsurers having investment grade	Premiums belonging to reinsurers P1: 020	<40%	1	0.045	0.045
Adequacy of risks and profitability	10	Insurance risk ratio	Gross premiums P1: 010	Shareholders equity – Non tangible assets F1: 280-010-430-480-620-630	115%	1	0.15	0.15
	11	Payout ratio	Indemnities P1: 240	Gross premiums P1: 010	4.93%	1	0.025	0.025
	12	ROE	Net income F2: 220 (225)	Shareholders equity F1: 380	40.22%	1	0.05	0.05
	13	ROI	Income on investment F2: 110+120+130-140-150-160	Average amount of resources available for investment	<20%	1	0.025	0.025
Adequacy of reserves and liquidity	14	Adequacy of reserves	Indemnities P1: 240	Reserves F1: 415-416	69.71%	12	0.02	0.24
	15	Coverage of net indemnities by capital	Indemnities P1: 240	Shareholders equity– Non tangible assets F1: 280-010-430-480-620-630	5.64%	1	0.14	0.14
	16	Liquidity	Highly liquid assets F1: 230+240	Liabilities F1: 430+480+620+630	160%	1	0.04	0.04
		Amount calculated of II:						3.86

Notes to the table:

* — the payments reduced by the amounts, reimbursed by reinsurers.

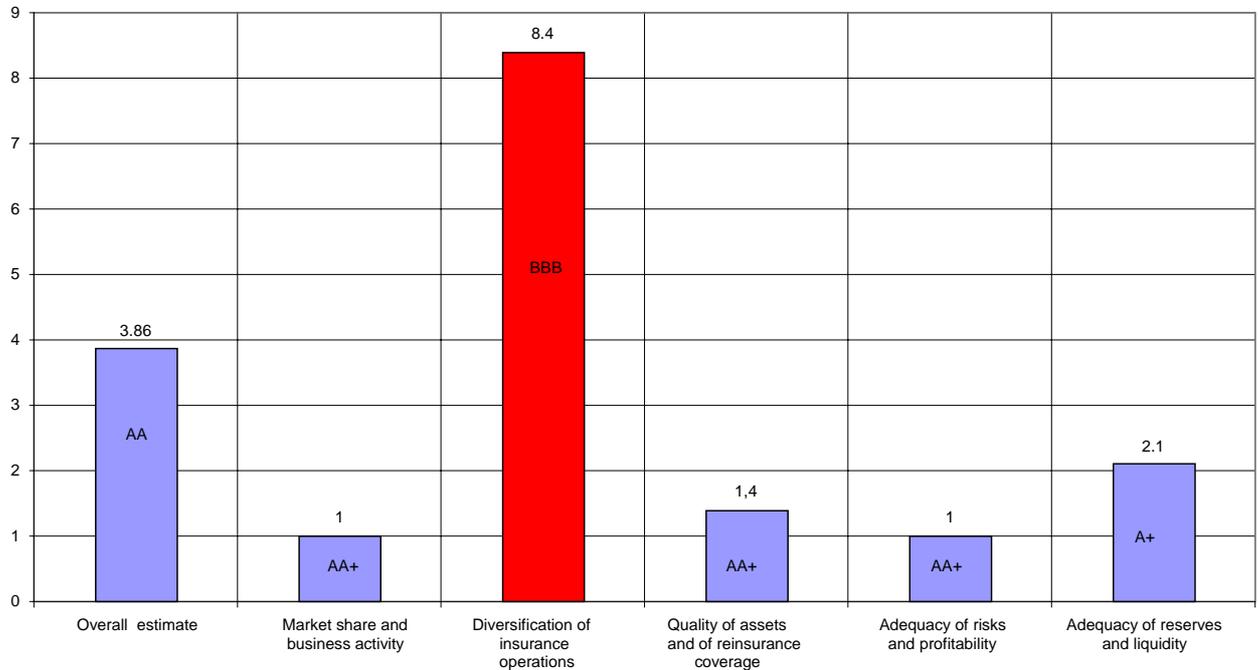
The following symbols are used in the table: F1 — balance, P1 — section 1 of the report, P3 — section 3 of the report, P4 — section 4 of the report, (H) — at the beginning of the accounting period, (K) — at the end of the accounting period, according to the Order of State Commission on Regulation of Financial Services Markets no. 39 of 03.02.2004.

** — following the results of rating research owing to specificity of company operations, it was decided to estimate its market share based on the share in the aviation risks insurance market. The justification of this decision can be seen in the section 'Market share and company activity' of this report. To compensate share of influence the influence of group of indicators 'diversification of insurance activity' was raised by 20%, which is allowed by estimation technique. The following indicators have been also excluded from calculation: market participation factor (its weight is reflected by the indicator 'market share') and the indicator of regional diversification. The exclusion of regional diversification indicator is justified in the section 'Diversification of insurance activity'; the weight of indicator is shared equally by types of insurance diversity and client diversification.

8. Conclusions (Brief public substantiation of the rating)

During the period from June 1 to June 15, 2009 Expert Rating RA carried out rating research of insurance company JSIC BUSIN (Kiev). The purpose of rating research was to assign stability rating to JSIC BUSIN. Following the results of research JSIC BUSIN was awarded stability rating at the level **aa** (high level of stability, with a positive forecast) according to Expert Rating RA scale, what does completely match the rating **uaAA** according to the national scale. The components of rating estimate are visualized in the drawing below.

Graphic visualization of 2008 Integral Index for JSIC BUSIN



By results of rating research following basic conclusions may be drawn:

1. JSIC BUSIN takes an essential share of aviation risks insurance market, the insurance company serves the majority of large airlines of Ukraine, including Ukraine International Airlines, etc. Geography of flights of the airlines served by JSIC BUSIN is global and has no strict geographical binding or direction.

2. Specialization on aviation risks insurance affects negatively the level of diversification of the insurance business of the company and to some extent puts the successfulness of its operations in dependence upon business activity state in one branch. In addition, the size of premiums received is in part conditioned by the rules of obligatory insurance of the aviation risks established by the legislation of Ukraine. However, in 2006 the company has adopted new strategy of development providing for development of essentially new for Ukraine types of insurance connected with insurance of large risks. Adoption of new strategy and the first concrete steps of the company in the direction of non-aviation risks insurance markets for sure envisage the future improvement of diversification indicators by insurance types. Following the results of 2008, it is safe to say that the company had been successfully carrying out the development strategy and showed good financial indicators.

3. Expert Rating RA estimates as high the quality of assets of JSIC BUSIN: the company has no essential investments into shares or other non-liquid or hardly evaluatable instruments. 51% of company assets on the beginning of 2008 are identified as earning assets. The company practically has not suffered from the banking crisis in Ukraine.

4. Expert Rating RA estimates as high the quality of reinsurance cover. JSIC BUSIN has the largest in the history of the Ukrainian insurance market obligatory contract for reinsurance of aviation risks of aircraft operator liability to third parties and passengers (650m USD). Company obligations are underwritten by Berkshire Hathaway (USA), Hanover Re (Germany), Mitsui Sumitomo Insurance Company (Japan), Munich Re (Germany), Samsung Fire-Marine Insurance Co. (Korea), Tokyo Marine Nichido Fire Co. (Japan) etc. JSIC BUSIN cooperates with leading brokers listed on the New York Stock exchange and accountable to the US Commission on Securities and Exchanges of the USA.

5. JSIC BUSIN has no significant obligations and Expert Rating RA does not regard as possible or probable the risk of insolvency of the company. Company assets are covered by shareholders equity on 64 %; a high-quality reinsurance portfolio secures the risks accepted by the company. Now the company is exposed to risks of business activity reduction, which are rather connected with macroeconomic factors, not with the activity of the company.

6. JSIC BUSIN can expect in the future, for rating rise to the highest level of stability if the company will settle the problem of branch diversification and along with that quality of assets and reinsurance cover will stay at level of the year 2008.

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

Members of Rating Committee of Expert Rating RA:

1. **Vladimir Duhnenko**, Director of Expert-Rating RA ltd., ph.D. —

2. **Vitaliy Shapran**, Deputy Director,
Chief financial analyst of Expert-Rating RA ltd, ph.D., —

By the present, I confirm signatures of members of the Rating Committee of Expert Rating RA ltd:

Director of Expert-Rating RA ltd. _____ **Vladimir Duhnenko**

Appendix A

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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 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.

Company's name: "BUSIN" Ins. Co.
Type of business: General insurance
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Table 1

Key indicators of BUSIN Insurance Company (in thousand of UAH)

Indicators	2008	2007	2006	2005	2004
Total assets	72385.7	51577.0	48398.7	19602.9	18596.9
Shareholders Equity	46344.9	42416.9	40236.3	13092.6	15589.6
Shareholders Equity / Assets.%	64.02%	82.24%	83.14%	66.79%	83.83%

*Translated from Russian