

The rating report

(on basis of the Agreement No. 73/RA of September, 06th, 2011)



Insurer's stability rating according to the national rating scale:	uaAA (very high stability level)
Interpretation of the rating:	The company is characterized by a high level of financial stability in comparison to the 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
Date of rating assignment:	September, 9th, 2011
Rating update:	By the client request



Ukrainian Joint Stock Insurance Company "ASKA" (full name of the company)

83052, Donetsk, Ilych ave., 100
(legal address of the company)

83052, Donetsk, Ilych ave., 100
(postal address of the company)

Registration date:	20.06.1990
Date of actual start of operations:	20.06.1990
Name of first person of the Company and its position:	Shukatko Andrey, The CEO
USREOU code:	13490997
Account Bank:	ProCreditBank Ukraine
Auditor:	AUDEK
Contact person:	Kalyshevskiy Dmitriy, head of department, tel. (044) 282-99-52
The actuary providing the services to the company:	Ivanko Yuriy – The President of the Society of Ukrainian Actuaries
Tel.:	+38 (062) 348-38-00
Fax:	+38 (062) 348-38-87
E-mail:	aska_info@aska.com.ua
Web-site:	http://www.aska.com.ua

The IC is licensed for the following types of voluntary insurance: Health insurance (permanent health insurance), Medical expenses insurance, Accident insurance, Health insurance against disease, Railway transport insurance, Motor transport vehicle insurance (except railway transport), Water transport insurance (incl. sea inland waters, and other watercrafts), Freight and luggage insurance, Insurance against fire and Acts of God related risks, Other property insurance, Civil liability insurance of owners of land transport (including carrier's liability), Motor transport owner's civil liability (including carrier liability) insurance, Third party legal liability insurance, Credit insurance (including borrower liability insurance against existing loan), Financial risks insurance, Legal expenses insurance, Air transport insurance, Air transport owner's civil liability (including carrier liability) insurance.

The IC is licensed for the following types of compulsory insurance: Motor transport owner's civil liability insurance, Civil aviation insurance, Personal insurance of health care and other workers against HIV infection, Civil liability insurance of the owners of weapon, Liability insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo, Liability insurance of economic entities against damage in case of fire and emergencies in extra-hazardous facilities, Insurance of nuclear facilities operator's public liability against damage caused by a nuclear incident, Personal insurance of the personnel of departmental and rural fire prevention teams and members of volunteer fire prevention teams, Personal insurance against traffic accidents, Insurance of athletes of higher categories, Health insurance.

STATE INSURANCE: of life and health of judges, of the Officials of the central executive body in the sphere of technical regulation and consumer policy, of the Officials of state authorities in affairs of consumer rights protection, of employees of state forest guard, of the Officials of inspections in state architectural-building control, of workers of departmental and rural fire protection and of members of volunteer fire brigades (teams), of state executives, of the Officials of the State Tax Service.

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

1. Overview of the Company

The Company has been incorporated on June, 20th, 1990 in Donetsk, as the subsidiary of “ASKO” (Moscow). Since 1992 the Company started to form a network in the territory of Ukraine. The first branches have been opened in Gorlovka, Mariupol, Makeyevka, Cherkassy, Chernigov, in 1993 - in Kiev.

In 1995 the holding “ASKO” dissociated, thereafter the Company begun an independent activity under a new name “ASKA” and a new logo.

In 1998-1999 “ASKA” has won a number of large tenders for insurance of significant investment projects, in particular – reconstruction of “Obolon” brewery and the object “Chernobyl shelter”.

In 2001 new shareholders joined the structure of Company founders that allowed to essentially increase the financial possibilities and to realize a number of internal investment projects, in particular - acquisition of office premises. Also forming of regional network of the Company has been practically completed. “ASKA” has acted as the founder of the Nuclear Insurance Pool.

In 2002 for the first time in the insurance market the round-o-clock telephone service for clients has been created. The President of the company A.I. Sosis was recognized as winner of the award “Person of the year” in the nomination “Manager of the year”. “ASKA” became founder of the Agricultural Insurance Pool.

In 2004 “ASKA” for the first time in the insurance market implemented the service “Fast Access to Insurance”: short code number 4-5-6 for subscribers of mobile communication.

In 2005 a contact-center in Donetsk has been created, reengineering of business processes begun. “ASKA” insured the construction of the stadium FC “Shakhtar”, acted as General Insurer of Luciano Pavarotti concert in Ukraine.

In 2006 the Company “ASKA” won the National Award “Financial Olympus” in the nomination ‘Insurance Company trusted by the clients’. The Company has successfully passed the audit on conformity to ISO 9001:2000 quality management system standards. The service of sale of policies through Company Internet site has been launched.

In the year 2007 “ASKA” paid out over UAH 228 m of indemnities, thanks to which became leader of the insurance market of Ukraine on this indicator. The largest insurance indemnity (over USD 30 m) has been paid out to “Azovstal” works. For the first time in the market the service of SMS order of policies was introduced.

In 2008 the statutory fund of the Company has been raised by UAH 80 m. Company accounting processes have been converted to INSIS platform which has large analytical capacities and allows to optimize back-office operations.

In 2009 the statutory fund of the Company has been raised by UAH 30 m. Despite reduction of the insurance market, “ASKA” managed to maintain financial stability. For the first time in the Ukrainian insurance market a possibility appeared to pay policies directly through the Company web site. **Andrey Shukatko** has been appointed general director of the company “ASKA”.

In 2010 “ASKA” has joined the top 20 Ukraine’s Most Reputable Companies by results of the research conducted by the company Reputation Capital with use of the certified international technique RepTrak of the Reputation Institute. In the same year “ASKA” occupied second place in the annual rating of reliability of the insurance companies, prepared by Expert Rating Agency, and also has been recognized winner of the regional stage of National competition of quality of produce (goods, works, services).

In 2011 “ASKA” won the nomination “Leader of the insurance market on speed of losses settlement” under the version of the magazine “Bankir”, and the General Director of the Company Andrey Shukatko has been recognized Top-manager of the year.

Presently the largest clients of “ASKA” are the following: PJSC Iron and steel works “Azovstal”, PJSC “Khartsyzsk pipe plant”, PJSC “Enakievo iron and steel plant”, PJSC “Ilyich Iron and Steel Works of Mariupol”, Private JSC “Makeyevka metal works”, PJSC “Zaporozhskoks”, PJSC “Avdeevka coke chemical plant”, PJSC “Donetskkoks”, SPO “Inkor and Co.” Ltd, Private JSC “Central ore-dressing and processing enterprise “Kolosnikovskaya”, PJSC “Northern ore-dressing and processing enterprise”, PJSC “Central ore-dressing and processing enterprise”, PJSC Ingulets ore-dressing and processing enterprise”, Private JSC “Komsomolsk mine group”, “Vostokenergo” Ltd, “Tekhprompoastvka” Ltd, ‘Donbass Merchant Marine Fleet’ Ltd, “Airline UTair Ukraine” Ltd, PE “VTB Leasing Ukraine”, “Astelit” Ltd, and a number of foreign companies: “Ardemar Marine Ltd”, “Pencilo Invest and Trade Limited”, “Urigel Investments Ltd”, “Quart Shipping Limited”.

Over the last 5 years the total annual volume of IC “ASKA” business grew by almost 35%. The Company achieved essential progress in H1 2011: in comparison with the similar period of 2010 gross premiums of “ASKA” grew by almost 20%.

Another distinctive feature of “ASKA” is high level of capitalization. As of 01.07.2011 the ratio liabilities/shareholder equity of the Company constituted 34%, and money funds covered more than 80 % of insurer liabilities.

Also the Agency notes decrease in unprofitability of work of the Company in H1 2011. So for the first 6 months of 2011 the loss constituted UAH 8,6 m, compared to UAH 16,14 m of the same period of 2010. Unprofitable work is common for most large Ukrainian insurers, but in the case of “ASKA” not only loss ratio decrease in 2011 was observed, but also ROE indicators were insignificant in comparison with shareholder equity size.

Table 1

Key performance indicators of the Company, (UAH th., %)

Indicators	Q2 2011 (01.07.11)	Q2 2010 (01.07.10)	Growth rate 01.07.10 - 01.07.11	2010 (31.12.10)	2009 (31.12.09)	2008 (31.12.08)	2007 (31.12.07)	2006 (31.12.06)	Growth rate 2006-2010
Assets	397340	392286	1,29%	379707	410829	407030	334634,5	224113,1	69,43%
Liquid assets (Cash and cash equivalents)	81536	72062	13,15%	72432	95730	59380	41128,7	32690,9	121,57%
Shareholder equity	296356	306309	-3,25%	294257	322455	315316	215323,7	154044,7	91,02%
Authorized capital	174585	174585	0,00%	174585	174585	144585	64585	64585	170,32%
Gross premiums	170564	142539,9	19,66%	291684,9	351952,5	406555,9	334386	216626	34,65%
Share of premiums coming from reinsurers in gross premium, %	3,40%	2,70%	-	3,07%	4,69%	3,26%	1,00%	0,84%	-
Share of premiums directed to reinsurers in gross premium, %	40,00%	40,79%	-	43,96%	45,15%	44,44%	34,28%	30,44%	-
Total indemnities paid out	56403,3	57172,7	-1,35%	120093,9	140639,8	141950	228086,1	76162,2	57,68%
Loss ratio, %	33,07%	40,11%	-	41,17%	39,96%	34,92%	68,20%	35,20%	-
ROE, %	-2,90%	-5,27%	-	-9,05%	-6,99%	0,02%	1,40%	9,84%	-
Net income (loss)	-8603,4	-16146	46,71%	-26616	-22533	65,1	3019	15161,8	-275,55%

Source: Company data; calculations by Expert Rating RA

Thus, presently “ASKA” belongs to the group of the largest universal Ukrainian insurance companies with annual volume of premiums UAH 292 m, following the results of 2010. Since 2001 “ASKA” makes part of SCM - largest financial and industrial group of Ukraine - that imparts the Company stability and guarantees support of shareholders, both on business volumes, and when needed to increase capital.

2. Market share and business activity of the company

UJSIC “ASKA” stably enters the top 15 companies practically on all classical sectors of insurance market, for example following the Q1 2011 data:

- 1) the CASCO Market – 14th-15th place according to the Company; throughout 2009 - Q1 2011 the Company share in the CASCO insurance market, by Agency estimations, constituted nearly 1,6 % (slightly fluctuating within 1,55-1,7 %).
- 2) OMI market – 10th place, share of the market of 2 % (insignificant fluctuation within 1,9-2,1 %).
- 3) VHI Market – 6th place, share of 3,4 % (essential growth in comparison with 2010, the share in 2010 constituted ca. 2 %).
- 4) Property insurance market (insurance against fire and of Acts of God risks, and other property insurance) - following the results of Q1 2011 the Company occupied 1,8 % from the total amount of the given sector of insurance market.

When estimating the share of the Company per sectors the Agency excluded the captive companies or the companies with large percentage of schemed insurance from branch rankings.

According to the Agency, the Company maintains leading positions on VHI market mainly for the account of:

- 1) Insurance of the personnel of large industrial enterprises in the East and the Southeast of Ukraine. UJSIC “ASKA” in 2010-2011 repeatedly won tenders on VHI market for 2010-2011: insurance of the collectives of “Metinvest”, “Southern ore mining and dressing plant”, “Farlep telecom”, “Volnogorsk ore mining and dressing plant”, “Krivorozhsky iron ore works” and others.
- 2) Advancement of budgetary programs of VHI in the regional retail markets, in cities with underdeveloped health care infrastructure and rather low (in comparison with Kiev) level of incomes of major part of population. These programs are mainly aiming at compensation of expenses of the insured on purchasing of medicines. The value of such programs constitutes about UAH 500/year.

Main competitors of UJSIC “ASKA”, entering the top 10 companies of the insurance market, are: AXA, Oranta, Providna, USG, TAC, UNIQA, PZU, Alpha insurance, NASTA.

The Company “ASKA” at conclusion of property insurance contracts concerning large property complexes develops individual insurance program, taking into account the needs of the insurer for concrete services and their price (the Company performs risk management). Thanks to that insurance programs have exclusively individual character, are of optimal price, and at the maximum meet the requirements of the insurers. Main plans of the Company are connected with active development of retail sales, mainly in the highly competitive market of Kiev.

By today there have been developed, and since August, 1st, 2011 actively promoted the programs of CASCO insurance directed on retail clients (competitive basic tariffs - 5,0-5,9 %, in the premium level program “Premier-forte” – there is present an option “Other risks” for provision of maximally complete insurance cover in situations beyond traditional risk coverage of CASCO insurance programs).

The structure of sales in UJSIC “ASKA” looked as follows:

- Direct sales (regular employees) - 56 % from total amount of sales.

- Agency network - 26 % from total amount of sales.
- Tenders (Head Company) - 1 % from total amount of sales.
- Insurance intermediaries - 5 % from total amount of sales.
- Non insurance intermediaries (banks, motor shows, car service stations, travel agencies, etc.) - 11 % from total amount of sales.
- Electronic channels - 1 % from total amount of sales.

In 2011 to achieve strategic goals of the Company on increase of the share of sales to physical persons, and also in connection with restoration of crediting in Ukraine main attention is given to agency and partner channel. For this purpose “ASKA” constantly involves and trains intermediaries, creates new centres of sales in the regions, develops new and improves the existing insurance products which account for the growing requirements of the client. According to Agency, there is no any dependence upon any channels of sales present, as the Company has no captive channels of sales. All the channels of sales of the Company are accessible for the competitors.

Within the limits of UJSIC “ASKA” financial stability analysis the Agency considered the marketing plan of the Company for the next 12 months and highly appreciates the strategy of Company products advancement in the Ukrainian market.

3. Diversification of insurance activity

Diversification per insurance types. According to the Agency, UJSIC “ASKA” throughout the last two years maintained a good level of total business diversification per insurance types. Insurance of fire and Acts of God risks occupied 27,41% from the total amount of gross business and was the largest type of insurance following H1 2011 results. General types of insurance, including OMI, have been second in importance, they occupied 21,4 % in “ASKA” portfolio (see table 2).

Table 2

Structure of gross premiums per insurance types, UAH thousands %

No	Insurance types	H1 2011		H12010		Growth rate	2010		2009		Growth rate
		UAH th	%	UAH th	%		UAH th	%	UAH th	%	
1	Gross premiums in total:	170564	100,00%	142539,9	100,00%	19,66%	291684,9	100,00%	351952,5	100,00%	-17,12%
2	Insurance against accidents	3000,1	1,76%	2906	2,04%	3,24%	6166,9	2,11%	6797,2	1,93%	-9,27%
3	Health insurance	22652,8	13,28%	13751,5	9,65%	64,73%	29453	10,10%	36915,6	10,49%	-20,22%
4	Health insurance against disease	2207,1	1,29%	3009,1	2,11%	-26,65%	5275,9	1,81%	5972,3	1,70%	-11,66%
5	R/w transport insurance	1317,9	0,77%	938,4	0,66%	40,44%	1193,1	0,41%	0	0,00%	-
6	Ground transport (except r/w) insurance	23718,9	13,91%	27839,5	19,53%	-14,80%	50826,3	17,43%	53931,5	15,32%	-5,76%
7	Air transport insurance	0	0,00%	0	0,00%	-	0	0,00%	189,2	0,05%	-
8	Watercraft insurance	5765,2	3,38%	2336,3	1,64%	146,77%	2839,4	0,97%	6121,7	1,74%	-53,62%
9	Freight and luggage insurance	7773,6	4,56%	3449,6	2,42%	125,35%	12382,5	4,25%	1324,5	0,38%	834,88%
10	Insurance against fire and acts of God risks	46756,6	27,41%	16542,6	11,61%	182,64%	53932,3	18,49%	22260,3	6,32%	142,28%
11	Property insurance	15591,6	9,14%	36641,6	25,71%	-57,45%	60839,3	20,86%	91542,7	26,01%	-33,54%
12	Ground transport owners civil liability insurance	432,2	0,25%	588,6	0,41%	-26,57%	1278,1	0,44%	1600,9	0,45%	-20,16%
13	Third party liability insurance	3892	2,28%	2264,5	1,59%	71,87%	5691,3	1,95%	61136,9	17,37%	-90,69%
14	Credit insurance	0	0,00%	865,8	0,61%	-100,00%	865,8	0,30%	2738,6	0,78%	-68,39%
15	Insurance of investments	0	0,00%	0	0,00%	-	0	0,00%	0	0,00%	-
16	Insurance of financial risks	117	0,07%	81,6	0,06%	43,38%	121,6	0,04%	965,3	0,27%	-87,40%
17	Insurance of judicial expenses	0	0,00%	0	0,00%	-	0	0,00%	0	0,00%	-
18	Insurance of sureties issued	2,5	0,00%	7,5	0,01%	-66,67%	7,5	0,00%	0	0,00%	-
19	Insurance of medical costs	847,1	0,50%	624	0,44%	35,75%	1714,5	0,59%	1399,4	0,40%	22,52%
20	Obligatory insurance, in total:	36490	21,39%	30693,3	21,53%	18,89%	59097,4	20,26%	59056,4	16,78%	0,07%

Source: Company data; calculations by Expert Rating RA

Considerable share of fire risks insurance is connected namely with that the Company performs insurance of large property complexes of the corporate clients: infrastructural objects (for example, “Donbass Arena” stadium), industrial complexes (Iron and Steel Works “Azovstal”, etc.).

At the same time in the retail segment the greatest inflow of premiums is provided at the expense of OMI and CASCO insurance. According to Agency, UJSIC “ASKA” has competitive tariffs for OMI and CASCO insurance programs. Also UJSIC “ASKA” has comprehensive programs of property insurance for large corporate clients, most of which are individually customized; therefore the analysis of their price competitiveness is complicated.

The Company has a developed network of sales: Company offices are located in all oblast centres. The company actively works in the perspective regional insurance markets. For more complete and qualitative provision of insurance services the Company constantly creates and develops sales outlets in the settlements of the oblasts.

Geographical diversification. The geographical structure of Company business is rather stable in the last 2 years. The greatest share of premiums corresponds to the city of Donetsk and Donetsk oblast (more than 20%), the lowest – to northwestern oblasts of Ukraine. It is connected with geographical location of UJSIC “ASKA” central office, historically formed strong positions of the Company in the oblasts (21 year of work in the insurance market, the Company began its development namely in the city of Donetsk).

In the future UJSIC “ASKA” plans to continue active development and strengthening of regional sales with focus on:

- Kiev and oblast (opening of new points of sales).

- Central regions: Poltava, Cherkassy, Chernigov, Vinnitsa, Zhitomir where the level of insurance companies presence in the retail market is minimal.
- Opening of customer servicing centres based on the companies - large corporate clients, - mainly, industrial enterprises of southeastern oblasts of Ukraine (provision of access to potential insurers-employees of these enterprises, granting of qualitative servicing).
- Strengthening of Internet sales channel. It is planned that this channel also will provide inflow of requests of clients in Kiev region.

These steps should improve the regional structure of UJSIC “ASKA” business and lower its dependence on Donetsk region.

Client diversification. The level of UJSIC “ASKA” client diversification is assessed by the Agency as satisfactory. Looking split per separate legal persons the Company received 7,9 % from one largest client in H1 2011 that proves to high level of diversification (see table 3).

Table 3

Distribution of gross premiums per large clients of the Company, %

no	Insurance types	H1		Difference	12 months		Difference
		2011	2010		2010	2009	
1	From 1 largest client	7,9%	7,7%	0,20%	5,7%	3,1%	2,60%
2	From 5 largest client	25,9%	22,3%	3,60%	20,6%	10,4%	10,20%
3	From 10 largest client	33,2%	29,9%	3,30%	28,4%	14,0%	14,40%

Source: Company data; calculations by Expert Rating RA

However, a number of legal persons - clients of the company belong to or are associated with “SCM”, one of the largest FIG of Ukraine. By Agency estimations, UJSIC “ASKA” receives more than 40% of premiums from SCM group. From the standpoint of client diversification the dependence upon one business group is a negative issue, however, it should be considered that SCM business is also diversified, and the Group is able to ensure very high level of external support. Therefore essential share of SCM in the total business of UJSIC “ASKA” is the factor negatively influencing the rating, but SCM group presence as UJSIC “ASKA” major shareholder positively influences the rating of the insurer. As the analysis of Company’s 2011 sales strategy has shown, UJSIC “ASKA” plans to increase the presence at retail sector that, undoubtedly, will improve client diversification in the future. Company business on indemnities payments when analyzed per large clients - legal persons, also has shown good diversification level that proves to the absence of captive features (see table 4).

Table 4

Data on distribution of payments per large clients of the Company, %

no	Insurance types	H1		Difference	12 months		Difference
		2011	2010		2010	2009	
1	From 1 largest client	15,9%	3,6%	12,30%	7,8%	6,7%	1,10%
2	From 5 largest client	20,0%	7,0%	13,00%	18,6%	10,4%	8,20%
3	From 10 largest client	21,8%	9,3%	12,50%	21,5%	12,7%	8,80%

Source: Company data; calculations by Expert Rating RA

Interpreting the results of UJSIC “ASKA” client diversification analysis it should be understood that to the largest clients of the insurer belongs a number of ore mining and metallurgy sector companies which also imparts to the client portfolio dependence on successfulness of situation development in the ore mining and metallurgical complex, thus bringing the industry risk into the activity of the Company.

UJSIC “ASKA” recognizes the presence of certain dependence of the business on SCM, however focuses attention of partners on the following mutual relations with Group enterprises:

1. These are classical mutual relations of the Insurer and the Insured, with elements of risk management which include recommendations on minimization of risks, protected by insurance methods. In other words, when working with these clients usual working procedure within the limits of concluded property risks insurance contracts is conducted.

2. Distinctive features of relations with the largest clients (including with large clients of Group) are:

- Preparation of programs on insurance on products new to Ukraine, in particular, GROUP BI (disruption of production), taking into account the specifics of the enterprise (for example, for power sector - taking into account proficiency in electric power production);
- Qualitative loss settlement with attraction of international specialists, and organization of collection of reimbursements from reinsurers in full volume and in clearly established terms.

All the work with the enterprises which owner is the main shareholder of “ASKA”, is based exclusively on market grounds. The given enterprises conduct open bids and choose the insurer taking into account the attractiveness of insurance programs and tariffs, without experiencing any pressure from side of the owner.

When working with insurance tariffs on large risks UJSIC “ASKA” continues to be guided by the conditions received from reinsurance partners.

4. Quality of assets and of reinsurance coverage

From 01.07.2010 to 01.07.2011 Company earning assets have grown on 3,5 %. For the same period the share of bonds and money funds on bank accounts has grown insignificantly, and the share of stocks decreased to 59,22 % (see table 5).

Table 5

The structure of earning assets of the Company per types of assets, UAH th., %

no	Asset type	01.07.2011		01.07.2010		Change of structure	Growth rate
		UAH th.	%	UAH th.	%		
1	Shares	146147,5	59,22%	154411,50	64,75%	-5,53 p.p.	-5,35%
2	Bonds	19096,20	7,74%	12000,00	5,03%	2,71 p.p.	59,14%
3	Funds on current accounts	81536	33,04%	72062,0	30,22%	2,82 p.p.	13,15%
4	Cash funds	2,5	0,00%	2,7	0,00%	-	-7,41%
-	Total earning assets:	246788,0	100,00%	238482,0	100,00%	-	3,48%

Source: Company data; calculations by Expert Rating RA

As of 01.07.2011, the stock portfolio of UJSIC “ASKA” was estimated as UAH 146 m. Conventionally the portfolio of shares of the company could be divided on: shares of the companies which belong to SCM or to Group sphere of influence, liquid shares traded in the market, and the shares which liquidity is difficult to identify. By estimates of “Expert-rating” RA, over 80% of UJSIC “ASKA” shares could be referred to as liquid or identified as investments into subsidiaries and associated companies of the Group. Such state of affairs ensured high quality of UJSIC “ASKA” assets. And the growth of funds on bank accounts and investments into bonds proved to the growth of liquidity of the Company in the conditions of essential gain of total business volumes.

In UJSIC ‘ASKA” asset management is performed on the basis of balance of interests of shareholders and clients of the Company and is directed on provision of corresponding level of capital yield taking into account timeliness and completeness of settlements with clients of the Company according to the obligations undertaken. Decision-making at the management of earning assets is based on ensuring of maximization of funds placement profitability at observance of standard requirements to insurance reserves and maintenance of company solvency. With that goal in view a constant work is performed in the Company on studying the key segments of the financial market wherein the Company can place resources. Also the Agency has revealed that Company risk management system includes assessment of and response to currency, credit, percentage risks and liquidity risk.

Table 6

Rating structure of Company earning assets, UAH th.

no	Rating group of assets	01.07.2011		01.07.2010		Change of structure	Growth rate
		UAH th.	%	UAH th.	%		
1	uaAAA	7948	3,22%	1520	0,64%	2,58 p.p.	422,89%
2	uaAA	18407	7,46%	15783	6,62%	0,84 p.p.	16,63%
3	uaA	33525	13,58%	41212	17,28%	-3,70 p.p.	-18,65%
4	uaBBB	40182	16,28%	22951	9,62%	6,66 p.p.	75,08%
5	Under uaBBB-	0	0,00%	0	0,00%	-	-
6	Non rated assets:	146726	59,45%	157017	65,84%	-6,39 p.p.	-6,55%
	Earning assets, in total:	246788,0	100,00%	238482,0	100,00%	-	3,48%

Source: Company data; calculations by Expert Rating RA

According to “Expert-rating” RA, UJSIC “ASKA” asset management system is efficient and effective: at appropriate level of insurance provisions and stable level of interest income it allows ensuring timeliness of payments at the growing volume of operations.

Procedure of decision-making by UJSIC “ASKA” on deposit placing in bank, first of all, presumes assessment of banking institution reliability. Secondly, the establishment of long-term partner relations with bank and acceptable level of profitability of the placed resources are taken into consideration.

The company focuses on independent management of asset portfolio. Thus only an insignificant part of portfolio of securities (up to 2 % of the portfolio) is ceded in management to an AMC.

UJSIC “ASKA” adheres to the requirements of the Law of Ukraine “About insurance” and wholly places assets which are subject to rating, into the instruments with the rating above uaBBB - (see table 6). The Agency positively estimates rating structure of Company assets and assesses as optimal the actual structure of assets as of 01.07.2011.

Estimating quality of UJSIC “ASKA” reinsurance coverage, it should be understood that the Company works in the framework of ISO 9000 quality management system, i.e. according to the accepted and developed business-processes. In particular, according to “Reinsurance” business-process, all reinsurers undergo the relevant accreditation to work with the risks of the Company. Annually a corresponding order is issued in this respect. At pre-assessment the following issues are considered: experience of work of the company in the market, whether it is Lloyd's broker or no, whether is it registered in FSA (the Body supervising insurance and reinsurance activity in Great Britain), whether positive experience of work with the given broker is available.

As of 01.07.2011, approximately 70 % of UJSIC “ASKA” reinsurance coverage has been provided by reinsurers with investment level rating (see table 7). The Agency estimates as high the level of UJSIC “ASKA” reinsurance coverage.

Table 7

Rating structure of Company reinsurance portfolio UAH th.

no	Rating group of assets	01.07.2011		01.07.2010		Change of the structure	Growth rate
		UAH th.	%	UAH th.	%		
1	AAA	851,1	1,62%	702,6	1,51%	0,11 p.p.	21,14%
2	AA	4355,8	8,31%	6112,4	13,16%	-4,85 p.p.	-28,74%
3	A	3999,0	7,63%	7479,4	16,10%	-8,47 p.p.	-46,53%
4	BBB	27435,9	52,34%	726,3	1,56%	50,78 p.p.	3677,49%
5	Under BBB-	12825,1	24,47%	29434,8	63,37%	-38,91 p.p.	-56,43%
6	Not rated:	1467,2	2,80%	879,8	1,89%	0,90 p.p.	66,77%
7	On nuclear danger:	1483,1	2,83%	1111,8	2,39%	0,44 p.p.	33,40%
	In total:	52417,2	100,00%	46447,1	100,00%	-	12,85%

Source: Company data; calculations by Expert Rating RA

5. Capital adequacy and adequacy of risks

The capital and the external support. Over the last 5 years UJSIC “ASKA” adhered to very conservative strategy of equity management. Shareholder equity of the Company traditionally covered Company liabilities by 2-3 times. According to Agency, UJSIC “ASKA” can afford increasing of liabilities approximately in 2 times, without any harm to the rating of the insurer (see table 8).

Table 8

Dynamics of equity and liabilities of the Company, UAH th., %

Indicators	Q2 2011 (01.07.11)	Q2 2010 (01.07.10)	Growth rate 01.07.10 - 01.07.11	2010 (31.12.10)	2009 (31.12.09)	2008 (31.12.08)	2007 (31.12.07)	2006 (31.12.06)	Growth rate 2006-2010
Liabilities	100984	85977	17,45%	85450	88374	91714	119310,8	70068,4	21,95%
Shareholder equity	296356	306309	-3,25%	294257	322455	315316	215323,7	154044,7	91,02%
Equity/Liabilities	293,47%	356,27%	-	344,36%	364,88%	343,80%	180,47%	219,85%	-
Gross premiums	170564	142539,9	19,66%	291684,9	351952,5	406555,9	334386	216626	34,65%
Gross premiums/equity	57,55%*	46,53%*	-	99,13%	109,15%	128,94%	155,29%	140,63%	-

* - not reduced to annual base.

Source: Company data; calculations by Expert Rating RA

According to Expert-rating RA, for the next 12 months the issue of authorized capital stock refunding is not actual for UJSIC “ASKA”. The key shareholder of the Company - SCM FINANCE LIMITED belongs to SCM Group and actually ensures control over UJSIC “ASKA” for the Group (see table 9).

Table 9

Information on the share of shareholders in the authorized capital stock of UJSIC “ASKA”

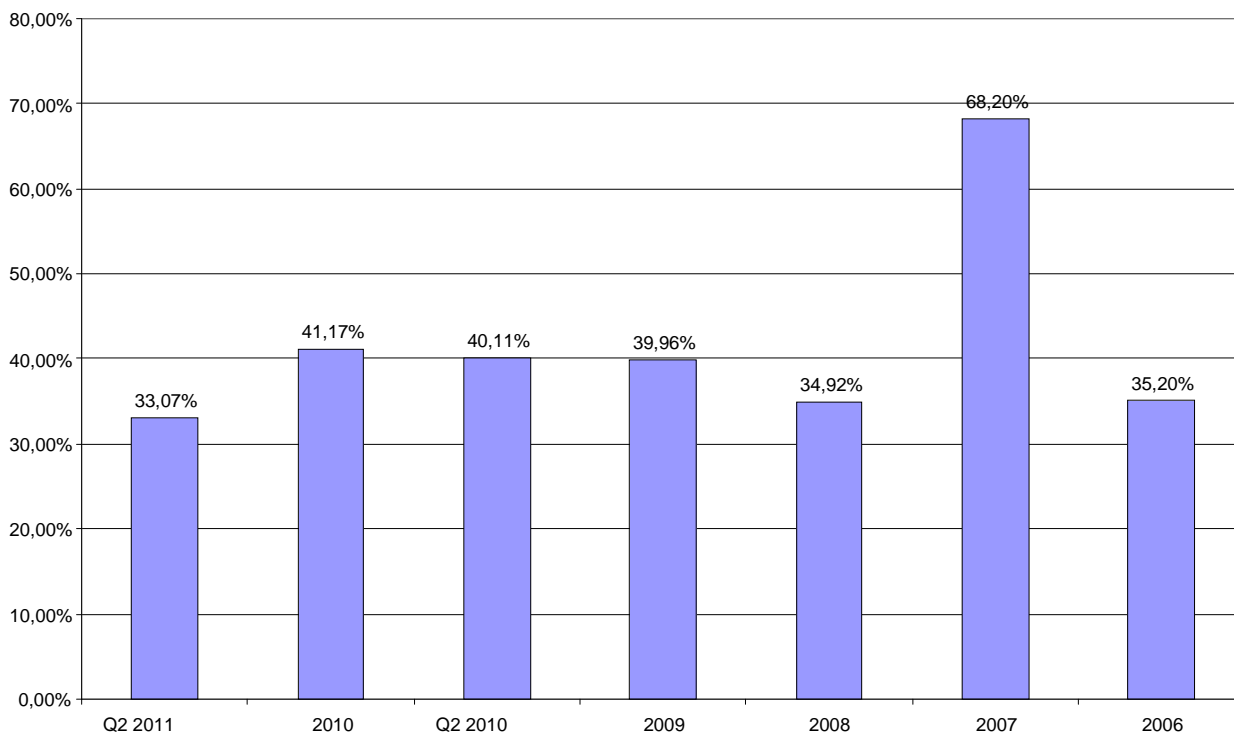
Complete name of the shareholder	01.09.2011	31.12.2010	31.12.2009	31.12.2008
SCM FINANCE LIMITED	89,06%	89,06%	89,06%	88,80%
Sosis Alexander Iosifovych	10,49%	10,49%	10,49%	10,47%
In total:	99,55%	99,55%	99,55%	99,27%

Source: Company data

According to “Expert-rating” RA, SCM Group at any moment can provide for increase of UJSIC “ASKA” authorized capital stock in the size necessary for the Company.

Adequacy of risks. In the last 5 years UJSIC “ASKA” payout ratio fluctuated at the level of 33%-41,2%. The year 2007 became an exclusion, when the ratio between payments and gross premiums has reached the point of 68,2 % that was uncommon for the Ukrainian market. For H1 2011 the ratio between payments and gross premiums decreased to 33,07 % in comparison with the similar period of 2010 - 40,11 % (fig. 1). According to Agency, the decrease of indemnities/premiums ratio has occurred because of an essential growth of premiums in H1 2011.

Fig. 1 Payout/total business volume ratio of UJSIC "ASKA", %



As usual, the Agency studied the largest loss events for the last 12 months. No signs of fictitiousness have been found in Company work, all three cases concerned practical realization of large risks at manufacturing enterprises:

- The 23.01.10 due to short circuit in the cable of electric networks in the engineering unit a fire occurred in which result the property of engineering unit building and shopping mall has been destroyed (damaged). Indemnity payment has constituted UAH 9,389 m;
- The 28.05.09 due to failure of the elements of low pressure cylinder in the turbine of thermal power plant a disruption of production at power plant occurred. Indemnity payment has constituted UAH 8,956 m;
- The 13.06.09 due to lightning stroke to high-voltage electric main and substation distribution network of a plant an overvoltage occurred in the power lines, due to which the insured equipment has been damaged. Indemnity payment has constituted UAH 7,689 m.

The amount of non-settled losses has constituted UAH 26,277 m in 2010, UAH 30,874 m for 8 months of 2011. The number of insurance claims to the Company in 2010 constitutes 11, for the total amount of UAH 3,2 m. The number of claims to the Company in 2011 makes 12, for the total amount of UAH 0,24 m. The amounts of not settled losses and claims in courts, according to Agency, cannot essentially influence UJSIC "ASKA" financial solvency in 2011.

6. Other factors considered at rating

At the analysis of insurer financial solvency the Agency carried out monitoring of a number of additional factors.

The TOP MANAGEMENT of the Company has no convictions; most managers of the Company have experience in insurance field of more than 10 years. Last audit by tax inspection in UJSIC "ASKA" passed on March, 22nd, 2010 and has revealed no infringements.

7. Conclusions

During the period from September, 1st till September, 9th Expert Rating RA conducted rating research of financial stability of UJSIC "ASKA". By results of the research of UJSIC "ASKA" (USREOU code13490997) the rating committee of the Agency assigned the rating of stability of the insurer on the national scale at level **uaAA** (**very high level of stability**) that fully corresponds to **A** rating on the international scale of Expert Rating RA.

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

1. For the H1 2011 gross premiums of UJSIC "ASKA" grew on 19,66 % in comparison with the same period of 2010. The company gradually recovered the pre-crisis positions in the market: presently Expert Rating RA

estimates the share of UJSIC “ASKA” in the insurance market of Ukraine at the level of 2,9 %. Considering Company plans on increasing the presence in Kiev and Kiev oblast, and also in the Central oblasts, the market share of UJSIC “ASKA” will be growing.

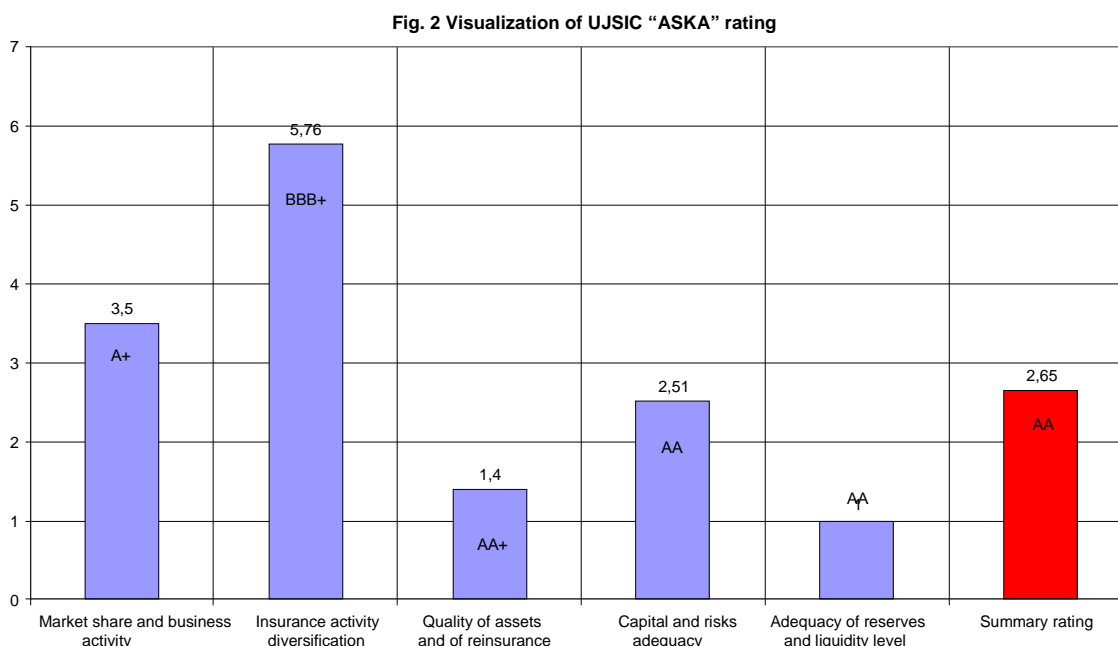
2. UJSIC “ASKA” showed good level of diversification following 2010 and H1 2011 per insurance types. 27,41 % of H1 2011 gross premiums corresponded to insurance of fire risks and Acts of God risks. Significant share of fire risks insurance is connected to that the Company performs insurance of large property complexes of the corporate clients, for example, “Donbass Arena” stadium. Also the company showed a moderate geographical diversification of business. Donetsk and Donetsk oblast have been the source of 20% of gross premiums.

3. The quality of UJSIC “ASKA” earning assets is estimated as high by the Agency. As of 01.07.2011 approximately 60 % of the earning assets of the Company corresponded to shares. By Agency estimations, approximately 80% of company stock portfolio related either to the category of liquid shares with active market on PFTS and UX, or to subsidiaries and associated companies of SCM Group. 100 % of UJSIC “ASKA” ratable assets have been placed in instruments with rating above uaBBB-. Also the company maintained qualitative level of reinsurance cover, 70 % of cover had been provided by reinsurers of investment level.

4. For the last 5 years UJSIC “ASKA” adhered to the strategy of redundant capitalization. Shareholder equity of the Company exceeded obligations in 2-3 times. As of 01.07.2011, equity/liabilities ratio has constituted 294%, and the shareholder equity of the Company was equal to UAH 296 m. The last time when the Company increased its authorized capital (i.e. requested support from shareholders), was over three years ago.

5. As of 01.09.2011, 89,06 % of UJSIC “ASKA” stock belonged to the company SCM FINANCE LIMITED. As a matter of fact, the insurer makes part of the largest financial and industrial group of Ukraine that provides to it high level of external support. The Agency should remind that according to the data of financial reports of JSC SCM (not consolidated, without consideration of financial results of the enterprises of SCM Group) the net profit of the Company following the results of 2010 made UAH 3 b 716 m. The dividends obtained from the assets of SKM Group, as earlier, remain the main source of incomes of the management company JSC SKM.

See the complete substantiation of rating by Expert Rating RA in the rating report.
Visualization of rating (fig. 2):



Table

10

Calculation of factors making part of the rating

no	Name of indicator	Numerator	Denominator	For the last accounting period	Scoring	Weight	Calculation
1	Market share	Premiums collected by the Company P1: 010	Total premiums in the market	2,90%	6	0,05	0,3
2	Investment ratio of insurance process	Underwriting (sales) expenses P1: 300+310	Gross premiums P1: 010	10,62%	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	21,70%	1	0,02	0,02
4	Receivables ratio	Accounts receivable F1: 050+160+170+180+190+200+210+060	Gross premiums P1: 010	13,45%	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	27,46%	6	0,18	1,08
6	Share of top 5 largest	Gross premiums from the top 5	Premiums collected by the	25,90%	3	0,12	0,36

	clients	largest clients	Company P1: 010-020				
7	Poor quality assets ratio	Assets with a grade lower than investment level	Earning assets F1: (040+045+220)	88,80%	3	0,03	0,09
8	Reinsurance coverage ratio	Premiums ceded to reinsurers not having investment level rating	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	4,88%	1	0,075	0,075
9	Reinsurance coverage quality factor	Premiums ceded to investment level rating reinsurers	Premiums belonging to reinsurers P1: 020	53,85%	1	0,045	0,045
10	Insurance risk ratio	Net premiums, collected by the Company P1: 010-020	Shareholder equity – Non tangible assets F1: 280-010-430-480-620-630	34,93%	1	0,15	0,15
11	Payout ratio	Net indemnities paid out P1: 240*	Net premiums collected P1: 010-020	36,20%	3	0,025	0,075
12	ROE	Net income F2: 220 (225)	Shareholder equity F1: 380	-2,90%	3	0,05	0,15
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	2,03%	3	0,025	0,075
14	Adequacy of reserves	Indemnities paid out P1: 240	Reserves F1: 415-416	79,63%	1	0,02	0,02
15	Coverage of net indemnities by capital	Net indemnities paid out P1: 240*	Shareholder equity– Non tangible assets F1: 280-010-430-480-620-630	12,65%	1	0,14	0,14
16	Liquidity	Highly liquid assets F1: 230+240	Liabilities F1: 430+480+620+630	80,75%	1	0,04	0,04
-	-	-	-	-	-	-	2,65

Appendix A

Use limitations of the rating report

The present report is an intellectual property of Expert Rating RA ltd. All intellectual property rights owned by Expert Rating RA ltd are protected in conformity with the legislation of Ukraine. No part of this report may be sold, reproduced or distributed by third parties without previous written approval of Expert Rating RA ltd. All information contained in the present report, had been obtained by Expert Rating RA ltd from sources which Expert Rating RA ltd considers as reliable. Due to the possibility of human or technical error, and other factors, Expert Rating RA ltd does not warrant the absolute reliability of the provided information. The rating of stability of the insurance company, and any part of the information contained in the report, should be regarded exclusively as an opinion on degree of resistibility of a financial institution to adverse influences, not as recommendation about purchase or sale of securities or recommendation about use of insurer services. Expert Rating RA ltd does not bear responsibility for any consequences of credit, investment or economic decisions of the third parties taken solely based on information on ratings, assigned by Expert Rating RA ltd.

Depositors, insurers, investors, when using the given rating report, do automatically agree that the contents of the given rating report are the opinion of analysts of Rating Agency Expert Rating.

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

Table A

Rating scale of stability level for insurance companies

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

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

Positive (+);

Neutral ();

Negative (-).

This appendix makes an integral part of any rating report