

Report on the rating research

Customer:	Private Joint Stock Company «Insurance company «Alfa Insurance»
Former name:	Closed Joint Stock Company «Ukrainian insurance company «Vesta»
Registration date:	07.06.2000
USREOU code:	30968986
Head office location (city, mail index, street):	Desyatinnaya street 4/6, Kyiv city, 01025
The name of the auditor company which approved the statements of the last financial year:	Audit firm «Consulting LTD.», LLC
Key account bank:	PJSC «Alfa-Bank», Kyiv city
Top executive, position:	Jacek Mejzner , Chairman of Board
Number of regular personnel at the time of questionnaire filling:	471 persons / 1200 out of staff
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Rating type:	Financial stability of the insurer (general insurance) / credit rating
Rating revision period:	Quarterly
Date of rating assignment:	11.01.2013
Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	uaAA (stable) The insurer with rating uaAA is characterized by a very high financial stability compared to other Ukrainian insurers.
Rating according to the international scale of RA 'Standard Rating' (Ukraine) (outlook):	A++ (Stable)
Correlation of the national scales with the international scale in the countries of operations:	
The correlation of Ukrainian scale ratings and the international scale ratings reflecting the rating in the countries of Agency operations is set by GPRC "Standard-Rating" Rating Committee.	
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All the ratings by the Agency are not recommendations for purchase of securities, use of services or taking any economic decisions. The ratings irrespectively of the scale have to be perceived solely as opinions of Agency analysts on rating object and subject.	

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1. List of licenses and permits in possession of the Company

Voluntary insurance licenses

1. Voluntary Accident Insurance Series AB № 500291, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
2. Voluntary Medical Insurance (Continuous health insurance) Series AB № 500283, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
3. Voluntary Health Insurance Series AB № 500286, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
4. Voluntary Railway Transport Insurance Series AB № 500284, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
5. Voluntary Motor Insurance (except for railway transport) Series AB № 500285, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
6. Voluntary Water Transport Insurance (maritime inland and other types of water transport) Series AB № 500281, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
7. Voluntary Insurance of Cargo and Baggage (fright baggage) Series AB № 500301, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
8. Voluntary Insurance against fire and natural disaster risks Series AB № 500288, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
9. Voluntary Property Insurance (except for railway, surface, air, water (including maritime inland and other types of water transport) transportation, cargos and baggage (fright baggage) Series AB № 500287, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
10. Voluntary Credit Insurance (including liability of borrowers for not-paying the credit) Series AB № 500280, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
11. Voluntary Insurance of Financial Risks Series AB № 500292, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
12. Voluntary Third-Party Liability Motor Insurance (including the liability of carriers) Series AB № 500355, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
13. Voluntary Third-Party Liability Insurance (except for the civil liability of surface transport owners, of air transport owners, of water transport owners (including the liability of carriers)) Series AB № 500290, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
14. Voluntary Medical Costs Insurance Series AB № 500282, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
15. Voluntary Third-Party Liability Insurance of water transport owners (including the liability of carriers) Series AB № 520930, 18.02.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.

16. Voluntary Aircraft Insurance Series AG №569367, 08.02.2011, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
17. Voluntary Third-Party Liability Insurance of aircraft owners (including the liability of carriers) Series AF №569366, 08.02.2011, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.

Compulsory insurance licenses

1. Compulsory Third-Party Liability Motor Insurance (for car owners) Series AB № 546527, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, valid till 08.07.2013.
2. Compulsory Civil Aviation Insurance Series AB № 500300, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
3. Compulsory Personal Traffic Accident Insurance Series AB № 500302, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
4. Compulsory Civil Liability Insurance of Economic Entities against the loss caused by fire, accidents at high-risk locations including the ones associated with fire and explosion risk and the ones where the economic activity can cause environmental and sanitary-and-epidemiologic emergencies Series AB № 500303, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
5. Compulsory Liability Insurance against emergencies during hazardous cargo transportation Series AB № 500304, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
6. Compulsory Personal Insurance of Departmental (except for state-funded enterprises) and Village Firefighters as well as Volunteer Fire Brigade Members Series AB № 500305, 13.01.2010, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.
7. Compulsory insurance of the mortgage from the risks of sudden destruction, sudden injury or damage Series AB 584980, 19.09.2011, The State Commission for Regulation of Financial Services Market of Ukraine, perpetual license.

(A) Company history and general description of the Insurer

In 2000 in Ukraine there was established the company Closed Joint Stock Company «Ukrainian Insurance Company «Vesta», which got the licenses for main types of insurance in the same year.

In 2003 UIC «Vesta» through merging became the legal successor of Closed Joint Stock Company «IC «Garant-Farm». In the same year UIC «Vesta» entered the League of Insurance Organizations of Ukraine.

In 2007 UIC «Vesta» changed its owners and in 2008 the Company was renamed as IC «Alfa Insurance» by the decision of General Meeting. After the change of ownership IC «Alfa Insurance» entered TOP-30 of the leaders of the Ukrainian insurance market by business volume and opened divisions in all the regional centers of Ukraine.

In 2009 after a successfully passed external audit IC «Alfa Insurance» received an international certificate of quality ISO 9001:2008. Insurance premiums of IC «Alfa Insurance» have amounted to UAH 121,2 mln. at the end of 2009.

In 2010 IC «Alfa Insurance» continued its intensive development. During the year the Company repeatedly became the winner of the authoritative ratings and researches on the insurance market: «TOP-100», «Insurance TOP» and others. Insurance premiums of IC «Alfa Insurance» have amounted to UAH 167,4 mln at the end of year.

In 2011 IC «Alfa Insurance» became the leader of the National Award «Insurance TOP», the Supervisory audit confirmed the compliance of IC «Alfa Insurance» with the requirements of MS ISO 9001:2008, IC «Alfa Insurance» was the Award Nominee «HR-brand of Ukraine 2011». Insurance premiums of IC «Alfa Insurance» have amounted to UAH 359,5 mln at the end of the year, having shown one of the greatest dynamics of growth in the market. The Company entered the TOP-10 of the Ukrainian insurers by volume of net insurance premiums.

In 2012 IC «Alfa Insurance» repeatedly held high positions in the authoritative rating researches in Ukraine. According to various media, during the 2012 year IC «Alfa Insurance» repeatedly entered the number of winners as the best client oriented company, the best innovative company, the largest company in the field of personal insurance etc. IC «Alfa

Insurance» enters the TOP-10 backbone insurance companies, having the greatest impact on the development of the insurance market of Ukraine.

According to RA «Standard-Rating», the 9 months of 2012 were favorable for IC «Alfa Insurance» even despite the decline of the economic activity in the third quarter of 2012. Thus, gross premiums of the insurer reached UAH 307,523 mln in the 9 months of 2012 that was by 41,66% more than in the same period of 2011. (see table 1).

Table 1

Key performance indicators of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)	9 months of 2011 (01.10.2011)	Change	Growth rate, %
1	Total gross premiums	307522,9	217087,7	90435,2	41,66%
2	Insurance indemnities and compensations	81680,5	65580,2	16100,3	24,55%
3	Insurance indemnities/ gross premiums ratio	26,56%	30,21%	-3,65 p.p.	-
4	Shareholders' equity	114195,2	101435,2	12760	12,58%
5	Liabilities	110080	94315,7	15764,3	16,71%
6	Shareholders' equity/Liabilities ratio	103,74%	107,55%	-3,81 p.p.	-
7	Net profit	6073,5	-33433,2	39506,7	-118,17%
8	ROE	5,32%	-32,96%	38,28 p.p.	-
9	ROA	2,71%	-17,08%	19,79 p.p.	-
10	Interest bearing assets/ Liabilities ratio	116,34%	152,39%	-36,05 p.p.	-

The Agency also admits that as of 01/10/2012 IC «Alfa Insurance» maintained the ratio of shareholders equity to liabilities at the level 103,74% that characterized the capitalization of the company as excessively high. In the period from 01/10/2011 to 01/10/2012, despite the reduction by 36,05 p.p., the ratio of the interest bearing assets to the liabilities remained at a very high level compared to the average of this indicator on the system that indicated an excessively high liquidity of the insurer.

Therefore, RA «Standard-Rating» identified IC «Alfa Insurance» as a dynamically developing overcapitalized company with an excessive level of liquidity.

(B) Business activity and competition

Based on the various rankings, which are published in the Ukrainian mass media, in particular «Insurance TOP», IC "Alfa Insurance" is the leader in such insurance types as hull insurance, voluntary health insurance, accident insurance.

In 2009-2012 IC "Alfa Insurance" continued working not only on the increase in the insurance portfolio, but also on the quality and the structure of business. According to RA «Standard-Rating», the structure of the client portfolio of IC "Alfa Insurance" remains balanced over a rather long period of time.

Besides, the company has standard, transparent and comprehensible approaches to taking insurance risks. For example, it was developed and introduced the underwriting policy of VMI, which formulates unified approaches to this type of insurance. Offering new options to the customer, classic insurance products are constantly being improved.

According to the results of the 9 months of 2012 RA «Standard-Rating» estimates the calculated share of IC "Alfa Insurance" in the Ukrainian insurance market at the level 2,1%, in the segment of classic insurance the share of IC "Alfa Insurance" amounts to 4-4,2%, in the Agency's opinion. Key competitors of IC "Alfa Insurance" are IC «AXA-Insurance», IC «Providna», IC «ASKA», IC «UNIQA», IC «Ingo», IG «TAS», IC «PZU Ukraine».

RA «Standard-Rating» gives a positive assessment to the level of business activity of the insurer according to the results of the 9 months of 2012: gross premiums have grown by 41,66%, net premiums – by 43,14%, earned premiums – by 51,55%. The company also didn't have a clearly expressed dependence on the reinsurers (see table 2).

Table 2

Indicators of business activity of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)	9 months of 2011 (01.10.2011)	Change	Growth rate, %
1	Total gross premiums, including	307522,9	217087,7	90435,2	41,66%
2	from insurants-individuals	237004,5	155148,9	81855,6	52,76%
3	from reinsurers	2716,1	3141,7	-425,6	-13,55%
4	Proportion of individuals in gross premiums	77,07%	71,47%	5,60 p.p.	-
5	Proportion of reinsurers in gross premiums	0,88%	1,45%	-0,56 p.p.	-
6	Insurance payments sent to reinsurers	12381,7	10895,2	1486,5	13,64%
7	Coefficient of dependence on the reinsurers	4,03%	5,02%	-0,99 p.p.	-
8	Net premiums	295141,20	206192,50	88948,70	43,14%
9	Premium earned	294046,1	194023,3	100022,8	51,55%
10	Financial result from operating activity	4381,3	-36141,4	40522,7	-112,12%
11	ROS	1,42%	-16,65%	18,07 p.p.	-
12	Acquisition costs	73408,4	63649,8	9758,6	15,33%
13	Acquisition costs/Gross premiums ratio	23,87%	29,32%	-5,45 p.p.	-

The Agency also draws attention to the decrease in the ratio of acquisition costs to gross premiums of the insurer. Thus, according to the 9 months of 2011 this ratio amounted to 29,32%, according to the 9 months of 2012 it already amounted to 23,87%. Despite a decrease in this indicator, it remains to be rather high that is caused by the industry structure of premiums of IC "Alfa Insurance" and the leading positions of the company in the insurance retail, in the Agency's opinion.

Despite a rather high level of acquisition costs, IC "Alfa Insurance" managed to return to the profitable activity according to the 9 months of 2012. Thus, the financial result from operating activity of the insurer amounted to UAH 4,381 mln in the 9 months of 2012 against the loss of UAH 36,141 mln in the 9 months of 2011. Net profit amounted to UAH 6,073 mln in the 9 months of 2012 against the loss of UAH 33,433 mln in the same period of past year.

It is namely the return of the Company to the profitable activity in 2012 appears a factor, which strengthens the credit rating and the financial stability rating of IC "Alfa Insurance" against the background of the insurer manages to keep significant growth rates of gross premiums.

(C) Business diversification

By types of insurance IC "Alfa Insurance" relates to the companies, which maintain a good level of diversification. Accident insurance accounts for 36,7% of gross premiums of the insurer according to the results of the 9 months of 2012. The insurer consciously increased its share in this market and at the same time decreased its dependence on transport risks (see table 3).

Table 3

TOP-10 of the largest types of insurance of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Accident insurance	112848,5	36,70%	57836,2	26,64%	10,05 p.p.	95,12%
2	Hull insurance	68496,6	22,27%	70155,1	32,32%	-10,04 p.p.	-2,36%
3	Medical insurance (permanent health insurance)	37920,9	12,33%	27368,6	12,61%	-0,28 p.p.	38,56%
4	Financial risk insurance	37267,3	12,12%	25310,6	11,66%	0,46 p.p.	47,24%
5	Property insurance	20399,1	6,63%	11992,5	5,52%	1,11 p.p.	70,10%
6	CMTPL insurance	14718,6	4,79%	17545,6	8,08%	-3,30 p.p.	-16,11%
7	Third party insurance	9371,9	3,05%	2164,1	1,00%	2,05 p.p.	333,06%
8	Health insurance in case of illness	1800	0,59%	239,8	0,11%	0,47 p.p.	650,63%
9	Medical expenses insurance	1770,4	0,58%	1365,7	0,63%	-0,05 p.p.	29,63%
10	Railway transport insurance	1274,9	0,41%	1356,6	0,62%	-0,21 p.p.	-6,02%
11	Other types of insurance	1654,7	0,54%	1752,9	0,81%	-0,27 p.p.	-5,60%
12	Total:	307522,9	100,00%	217087,7	100,00%	-	41,66%

Analysis of diversification of the insurer's client base revealed a very high level of diversification and almost the whole absence of the company's dependence on the 3-10 largest clients or groups of clients. The Agency also positively estimates the decrease in the proportion of the 10 largest clients from 22,62% according to the results of the 9 months of 2011 down to 7,9% according to the results of the 9 months of 2012 (see table 4).

Table 4

Data of the structure of gross premiums of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	From the largest insurant	13606,6	4,42%	12445	5,73%	-1,31 p.p.	9,33%
2	From the three largest insurants	17232,4	5,60%	30097,6	13,86%	-8,26 p.p.	-42,74%
3	From the five largest insurants	20229,8	6,58%	40293,9	18,56%	-11,98 p.p.	-49,79%
4	From the ten largest insurants	24280,4	7,90%	49108,2	22,62%	-14,73 p.p.	-50,56%
5	Total:	307522,9	100,00%	217087,7	100,00%	-	41,66%

Therefore, business of IC "Alfa Insurance" is well diversified by types of insurance, the largest type of insurance – accident insurance, which traditionally relates to the profitable one and to the less competitive types of insurance, than hull insurance. The level of the client diversification of IC "Alfa Insurance" is recognized by the Agency as very high.

(D) Assets quality

Asset management of IC "Alfa Insurance" is performed on the basis of the collegial principles. Asset management in the company is carried out by the "asset management department" according to the internal normative documents, which, first of all, are aimed at the company's performance of normative requirements from the regulator and at the increase in the profitability of the company's assets.

As of 01/10/2012 the interest bearing assets accounted for 86,22% of the income assets. Only 9,91% of income assets were shares and 3,79% were rights of requirements to the reinsurers, the rest of the income assets of the company – cash at the accounts in the banks and cash (see table 5).

Table 5

Structure of income assets of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Cash at current accounts	36823,9	24,79%	59615,7	36,79%	-12,00 p.p.	-38,23%
2	Bank deposits	91244,7	61,43%	82593,7	50,97%	10,46 p.p.	10,47%
3	Shares	14714,1	9,91%	13068,4	8,06%	1,84 p.p.	12,59%
4	Rights of requirements to reinsurers	5622	3,79%	6678,3	4,12%	-0,34 p.p.	-15,82%
5	Cash on hand	126,6	0,09%	92	0,06%	0,03 p.p.	37,61%
6	Total income assets:	148531,3	100,00%	162048,1	100,00%	-	-8,34%
7	Total interest bearing assets	128068,6	86,22%	142209,4	87,76%	-1,53 p.p.	-9,94%

As a whole, the Agency recognizes the assets quality of IC "Alfa Insurance" very high and emphasizes an excessive level of the insurer's liquidity as of 01/10/2011 and 01/10/2012.

(E) Quality of reinsurance

The leading domestic and international reinsurance companies are chosen as partners of reinsurance. Decision to transfer risks to the reinsurers is made in IC "Alfa Insurance" according to the collegial principle.

The Company usually uses the protection from the reinsurers-non-residents with high credit ratings and high financial stability ratings of the insurer. According to the results of the 9 months of 2012 IC "Alfa Insurance" sent UAH 12,052 mln of premiums to the reinsurers-non-residents, 95,02% of which had the rating of investment level (see table 6).

Table 6

Structure of reinsurance of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	ATRADIUS CREDIT INSURANCE N.V.	3721,7	30,88%	2897,5	30,71%	0,17 p.p.	28,45%
2	Chartis Europe S.A.	2104,4	17,46%	0	0,00%	17,46 p.p.	-
3	Lloyd's	1304,7	10,82%	211	2,24%	8,59 p.p.	518,34%
4	Partner Reinsurance Europe Limited	1190,4	9,88%	1276,7	13,53%	-3,65 p.p.	-6,76%
5	SCOR GLOBAL P&C S.E.	1058,2	8,78%	1129	11,96%	-3,18 p.p.	-6,27%
6	Other reinsurers	2673,4	22,18%	3922	41,56%	-19,38 p.p.	-31,84%
7	Total insurance payments, sent to the reinsurers	12052,8	100,0%	9436,2	100,0%	-	27,73%
8	Insurance payments, sent to the reinsurers with ratings higher than BBB-	11452,6	95,02%	8720,9	92,42%	2,60 p.p.	31,32%
9	Reinsurers' proportion of coverage with ratings of investment level	95,02%	-	92,42%	-	-	-

In its portfolio the company has such significant players of the market as Chartis, Lloyd's, Partner Re and SCOR; this indicates that IC "Alfa Insurance" pays significant attention to the reinsurance protection. In RA "Standard-Rating" opinion, the quality of reinsurance protection, which was used by IC "Alfa Insurance" at the beginning of the fourth quarter, was very high.

(F) Adequacy of reserves

Reserves. IC "Alfa Insurance" forms reserves of unearned premiums according to the method pro rata 1/365. There are also reserves of losses in reserves of reported claims, reserves of occurred but not reported losses and reserves of fluctuations of losses. As of 01/10/2012 81,19% of technical reserves were presented as reserves of unearned premiums (see table 7).

Table 7

**Structure of reserves of
PrJSC "IC "Alfa Insurance", th. UAH, p.p., %**

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Reserves of unearned premiums	75850,8	81,19%	64879	78,71%	2,47 p.p.	16,91%
2	Reserve of reported but not paid losses	12185,1	13,04%	13774	16,71%	-3,67 p.p.	-11,54%
3	Reserve of losses, which occurred but not reported	4920,2	5,27%	3177,3	3,85%	1,41 p.p.	54,85%
4	Reserve of fluctuations of losses	470,5	0,50%	594,6	0,72%	-0,22 p.p.	-20,87%
5	Total technical reserves:	93426,6	100,00%	82424,9	100,00%	-	13,35%

In the Agency's opinion, in 2012 the company formed its reserves according to the Ukrainian legislation in full. The structure of the formed technical reserves of the insurer corresponds to the industry structure of the company's business as a whole.

Indemnities. The indemnities policy of IC "Alfa Insurance" is regulated by the internal regulations of the company, which, as a whole, correspond to the general accepted international practice. Indemnities of IC "Alfa Insurance" have grown by 24,55% in the 9 months of 2012. Due to the gross premiums were growing faster than the indemnities, the level of payments decreased by 3,65 p.p. according to the results of the 9 months of 2012 and amounted to 26,56% that approximately corresponded to the level of payments as a whole on the companies involved in classic insurance.

Despite a decrease in the ratio of the interest bearing assets to the indemnities down to 156,79%, this ratio remains significant. On 01/10/2012 the company possessed the liquid assets, which exceeded the indemnities more than in 1,57 times in the 9 months of 2012 (see table 8).

Table 8

**Indemnities and the ratio of the interest bearing assets to indemnities of
PrJSC "IC "Alfa Insurance", th. UAH, p.p., %**

#	Indicators	9 months of 2012 (01.10.2012)	9 months of 2011 (01.10.2011)	Change	Growth rate, %
1	Insurance indemnities and compensations	81680,5	65580,2	16100,3	24,55%
2	Total gross premiums	307522,9	217087,7	90435,2	41,66%
3	Insurance indemnities/ gross premiums ratio	26,56%	30,21%	-3,65 p.p.	-
4	Total interest bearing assets	128068,6	142209,4	-14140,8	-9,94%
5	Interest bearing assets/indemnities ratio	156,79%	216,85%	-60,06 p.p.	-

Analysis of the large indemnities of the insurer in the last 12 months showed that IC "Alfa Insurance" has experience in regulating large losses on different types of insurance. TOP-5 largest indemnities on hull insurance fluctuated from UAH 228,510 th. to UAH 502,440 th. TOP-5 indemnities on property insurance fluctuated from UAH 452,170 th. to UAH 874,400 th. The insureds in regulating losses were legal entities as well as individuals.

Therefore, in the Agency's opinion, the insurer forms reserves in sufficient volume and according to the taken liabilities. The Company performs indemnities including payments on large risks and has a significant reserve of the interest bearing assets for covering these indemnities in future.

(G) Capital adequacy and solvency margin

Last time the increase in the authorized capital was held in 2008. At the moment, there is no need to increase the shareholders' equity. As of 01/10/2012 the equity of the insurer covered the liabilities by 103,74%. In the period from 01/10/2011 to 01/10/2012 the shareholders' equity of the insurer increased by 12,58% up to UAH 114,195 mln (see table 9).

Table 9

Structure of equity of PrJSC "IC "Alfa Insurance", th. UAH, p.p., %							
#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		th. UAH	%	th. UAH	%		
1	Authorized capital	94480,0	82,74%	94480,0	93,14%	-10,41 p.p.	0,00%
2	Additional contributed capital	35699,5	31,26%	35699,5	35,19%	-3,93 p.p.	0,00%
3	Other additional capital	789,3	0,69%	915,5	0,90%	-0,21 p.p.	-13,78%
4	Reserve capital	3479,7	3,05%	3479,6	3,43%	-0,38 p.p.	0,00%
5	Retained profit	-20253,3	-17,74%	-33139,4	-32,67%	14,93 p.p.	-38,88%
6	Total equity:	114195,2	100,00%	101435,2	100,00%	-	12,58%

In the Agency's opinion, at the present moment the company doesn't need extra capitalization. The structure of the insurer's equity reflects the results of its activity in the past and due to the additional capital indirectly indicates the external support by the shareholder in the period of the unprofitable activity.

(H) Support by shareholders

At the moment of assigning the rating the Cyprus company «INNOCAST HOLDINGS LIMITED» controlled 99,9979% of shares of Private JSC «IC «Alfa Insurance». The Agency believes that the shareholder is able to provide IC «Alfa Insurance» with a very high level of external support. However, based on the results of the 9 months of 2012, this support is not required.

(I) Other factors influencing the rating

Relations with the authorities

As a result of examining circumstances of the interaction of Private JSC «IC «Alfa Insurance» with the state authorities it was revealed the following:

1. The last check of IC «Alfa Insurance» by Ukrainian tax authorities was held in August of 2009. The Act of violation was compiled on 12.08.2009. The results of this check can't considerably affect the financial state of the insurer.

2. The last check of IC «Alfa Insurance» by Ukrainian insurance regulator was held in December of 2012. The Act of violation was compiled on 12.12.2012. In the Agency's opinion, the results of the check by the National Commission for Regulation of Financial Services Markets can't considerably affect the financial state of the insurer.

3. The State Financial Monitoring Service of Ukraine didn't address the company with the queries during the last 12 months.

Management and staff

The study of biographical data of TOP management showed the presence of significant experience of work in the Ukrainian and foreign insurance markets in leadership positions:

Jacek Mejzner, Chairman of the Board of IC «Alfa Insurance», was born in 1969, is the citizen of the Republic of Poland. He has higher education, works in the insurance market for about 17 years and has experience in organization of sales through telephone banking. He also has work experience of more than 10 years in the international company in the field of

insurance. In addition, Mr. Mejnzer was trained in the Institute of Trade and International Finances, where he obtained his master's degree in international financial management. Besides, Mr. Mejnzer received the master's degree in management and marketing in the Nicolaus Copernicus University in Torun. Since November 23, 2007 Jacek Mejnzer is the Chairman of the Board of IC «Alfa Insurance».

Andrey Suprun, First Deputy Chairman of the Board of IC «Alfa Insurance». He was born in 1976. In the period from 1997 to 1999 he was a lawyer in Construction Administration No. 29 of KIEVGORSTROY-6 TRUST Public Corporation. In 1999 he graduated from the Faculty of Law of the Academy of Labour and Social Relations of the Ukrainian Federation of trade unions (Kiev), specialization "Financial, Insurance and Tax Law".

1999–2000 — CONSURPOL Agency of Law Technologies Ltd., Vice-President.

2000–2007 — SKIDE-WEST Public Insurance Corporation, later on PZU UKRAINE Insurance Group (non-life, life), Head of Law Department, Head of Law Administration, Director of Law Board. In 2002–2005 — PJSC IC "SKIDE-WEST-Life", member of the Board.

Since March of 2007 — First Deputy Chairman of the Board of IC «Alfa Insurance».

In general, as of 01/10/2012 there are 471 regular staff in IC «Alfa Insurance» and also about 1200 insurance agents out of staff. The personnel structure was determined by the business structure of the insurer and meets its needs (see table 10).

Table 10

Personnel structure of the insurer PrJSC "IC "Alfa Insurance"

#	Indicators	9 months of 2012 (01.10.2012)		9 months of 2011 (01.10.2011)		Change of structure, p.p.	Growth rate, %
		Pers.	%	Pers.	%		
1	Quantity of regular employees with experience of less 3 years	279	59,24%	336	68,99%	-9,76 p.p.	-16,96%
2	Quantity of regular employees with experience of more 3 years	192	40,76%	151	31,01%	9,76 p.p.	27,15%
3	Total quantity of regular employees	471	100,00%	487	100,00%	-	-3,29%
4	Quantity of insurance agents out of the staff	1200	254,78%	1200	246,41%	8,37 p.p.	-

Thus, the relations of the insurer with the state authorities assume no risk for the company, the insurer possesses sufficient quantity of staff, and the management has more than sufficient work experience in insurance, including outside Ukraine.

2. Summary of rating components

Summarizing the components of the rating assessment of IC «Alfa Insurance», RA "Standard-Rating" (Ukraine) decided to assign the credit rating (the financial stability rating of the insurer) at the level **uaAA** according to the national scale. The insurer with rating **uaAA** is characterized by a very high financial stability compared to other Ukrainian insurers. Making decision of assigning the rating, the Agency was guided by the following conclusions:

1. In the period from 01/10/2011 to 01/10/2012 the shareholders' equity of the insurer has increased by 12,58% up to UAH 114,195 mln. As of 01/10/2012 IC «Alfa Insurance» has maintained the ratio of shareholders' equity to liabilities at 103,74% that has characterized the company's capitalization as excessively high.

2. The ratio of interest bearing assets to liabilities in the period from 01/10/2011 to 01/10/2012, despite the reduction by 36,05 p.p., has remained at a very high level compared to the average of this indicator on the system that has indicated an excessively high liquidity of the insurer. As of 01/10/2012 the interest bearing assets have occupied 86,22% of income assets. As a whole, the Agency recognizes the asset quality of IC «Alfa Insurance» as very high.

3. RA «Standard-Rating» gives a positive assessment of the business activity level of IC «Alfa Insurance» according to the results of the 9 months of 2012: gross premiums have grown by 41,66% compared to the same period of 2011, net premiums – by 43,14%, earned premiums – by 51,55%. Also the company did not have a strongly pronounced dependence on reinsurers.

4. By types of insurance IC «Alfa Insurance» relates to the companies, which maintain a good level of diversification. According to the 9 months of 2012 the accident insurance has accounted for 36,7% of gross premiums of the insurer. The insurer has consciously increased its share in this market and at the same time has reduced its dependence on transportation risks.

5. The diversification analysis of customer base of the insurer has revealed a very high level of diversification and an absolute absence of the company's dependence on the 3-10 largest customers or groups of customers. The Agency also positively estimates the proportion's decrease of the 10 largest customers from 22,62% according to the 9 months of 2011 down to 7,9% according to the 9 months of 2012.

6. In the Agency's opinion, the insurer forms reserves in sufficient volume and according to the undertaken liabilities. The company performs indemnities and has a significant reserve of the interest bearing assets for meeting these indemnities in future. The analysis of large indemnities of the insurer during the last 12 months has shown that IC «Alfa Insurance» has experience in settlement of large losses for various types of insurance. TOP-5 of the largest indemnities on hull insurance ranged from UAH 228,510 th. to UAH 502,440 th. TOP-5 of the indemnities on property insurance ranged from UAH 452,170 th. to UAH 874,400 th.

7. At the moment of assigning the rating the Cyprus company «INNOCAST HOLDINGS LIMITED» controlled 99,9979% of shares of Private JSC «IC «Alfa Insurance». The Agency believes that the shareholder is able to provide IC «Alfa Insurance» with a very high level of external support. However, based on the results of the 9 months of 2012, this support is not required.

Rating scale for estimation of insurer financial strength

National rating scale adapted by
RA 'Standard Rating' (Ukraine) for the assessment of financial strength
of insurance companies

Rating	Contents of insurer financial strength according to the national scale
uaAAA	The insurer with the rating uaAAA is characterized by an outstanding high financial strength in comparison with other Ukrainian insurers.
uaAA	The insurer with the rating uaAA is characterized by very high financial strength in comparison with other Ukrainian insurers.
uaA	The insurer with the rating uaA is characterized by high financial strength in comparison with other Ukrainian insurers. The stability level is sensitive to the influence of adverse commercial, financial and economic conditions.
uaBBB	The insurer with the rating uaBBB is characterized by sufficient financial strength in comparison with other Ukrainian insurers. The stability level depends upon influence of adverse commercial, financial and economic conditions.
uaBB	The insurer with the rating uaBB is characterized by credit solvency below the sufficient one in comparison with other Ukrainian insurers. There is high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaB	The insurer with the rating uaB is characterized by low solvency level in comparison with other Ukrainian insurers. There is very high dependence of stability level upon influence of adverse commercial, financial and economic conditions.
uaCCC	The insurer with the rating uaCCC is characterized by very low financial stability in comparison with other Ukrainian insurers. There is potential probability of suspension of activity, or temporary interruption of business process with further default of commitments to insured.
uaCC	The insurer with the rating uaCC is characterized by high probability of suspension of activity with further default of commitments to insured.
uaC	The insurer is expecting the suspension of activity and default of commitments to insured.
uaD	The insurer terminated its activity and started liquidation procedure.

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

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

Information for the insured:

The rating of insurer financial strength does not indicate the speed and probability of timely payouts. The rating of insurer financial strength is the opinion of Agency analysts on the probability of suspension of business processes in the company with the subsequent default to meet the obligations to insured. For the insurance companies which do not have substantial debts to banks nor performed bonded loans, financial strength rating coincides with the credit rating.