

## Report on the rating research

Customer:	PRIVATE JOINT STOCK COMPANY UKRAINIAN INSURANCE COMPANY 'KNYAZHA VIENNA INSURANCE GROUP'
Incorporation date:	07.08.1997
USREOU code:	24175269
Head office location (city, post code, street):	44, Glybochytska str., Kiev, 04050 Ukraine
The name of the auditor company which approved the accounts the last fiscal year:	Auditor firm STEN AUDIT
Key account bank:	JSC Erste Bank
Top executive, title:	Grytsuta Dmitry, Chairman of Board
Number of regular personnel at the time of questionnaire filling:	667
Telephone/fax:	(044) 207-72-72
Web-site:	<b>www.kniazha.com.ua</b>
Rating type:	Insurer financial strength rating (general insurance types)/credit rating
Rating revision period:	Quarterly
Date of rating:	26.09.2012
Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	<b>uaAA+ (stable outlook)</b> The insurer with the rating uaA has very high financial strength as compared with other Ukrainian insurers. The level of financial strength is sensitive to the influence of adverse commercial, financial and economic conditions.
<b>Correlation of the national scales with the international scale in the countries of operations:</b>	
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.	
<b>Information use restrictions:</b>	
The report on rating research has no restrictions to distribution. When using materials contained in the report, the reference on RA "Standard Rating" (Ukraine) is mandatory. The Agency considers true all information contained in the report on rating research.	
<b>Ratings use limitations:</b>	
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 opinion of Agency analysts on rating object and subject.	

## Contents:

#	Title	Page.
<b>1.</b>	<b>List of licenses and permits in possession of the Company</b>	<b>2</b>
<b>A.</b>	<b>Company history</b>	<b>3</b>
<b>B.</b>	<b>Business activity and competition</b>	<b>4</b>
<b>C.</b>	<b>Business diversification</b>	<b>5</b>
<b>D.</b>	<b>Assets quality</b>	<b>6</b>
<b>E.</b>	<b>Quality of reinsurance</b>	<b>7</b>
<b>F.</b>	<b>Adequacy of reserves</b>	<b>7</b>
<b>G.</b>	<b>Capital adequacy and solvency margin</b>	<b>9</b>
<b>H.</b>	<b>Support by shareholders</b>	<b>9</b>
<b>I.</b>	<b>Other factors influencing the rating</b>	<b>10</b>
<b>2.</b>	<b>Summary of rating components</b>	<b>11</b>

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

### Licenses on voluntary insurance

1. Voluntary air transport insurance, series AB no. 483142 of 01.10.2009.
2. Voluntary insurance of freight and luggage, series AB no.483131 of 01.10.2009.
3. Voluntary insurance of civil liability of air transport owners (including carrier liability), series AB no.483141 of 01.10.2009.
4. Voluntary insurance of civil liability of water transport owners (including carrier liability), series AB no.483149 of 01.10.2009.
5. Voluntary insurance of third party liability [except civil liability of ground transport owners, aviation liability, liability of water transport owners (including carrier liability)], series AB no.483124 of 01.10.2009.
6. Voluntary insurance against fire risks and act of God risks, series AB no.483129 of 01.10.2009.
7. Voluntary insurance of water transport (maritime, inland waters, and other types of water transport), series AB no.483139 of 01.10.2009.
8. Voluntary insurance of guarantees (sureties) issued and accepted, series AB no.483136 of 01.10.2009.
9. Voluntary insurance of investments, series AB no. 483140 of 01.10.2009.
10. Voluntary insurance of ground transport (except r/w), series AB no.483132 of 01.10.2009.
11. Voluntary insurance of credits (including borrowers' liability for non-repaid loans), series AB no.483127 of 01.10.2009.
12. Voluntary insurance of property [except railway, ground, air and water transport (inland waters and other maritime transport), freight and luggage], series AB no.483133 of 01.10.2009.
13. Voluntary insurance of medical costs, series AB no.483137 of 01.10.2009.
14. Voluntary accident insurance, series AB no.483130 of 01.10.2009.
15. Voluntary insurance of judicial costs, series AB no.483138 of 01.10.2009.
16. Voluntary insurance of financial risks, series AB no.483143 of 01.10.2009.
17. Voluntary insurance of civil liability of ground transport owners (including carrier liability), series AB no.483147 of 01.10.2009.

### Licenses on mandatory insurance

1. Mandatory insurance of liability of exporter and person in charge of disposal of hazardous waste against compensation of losses which can arise for the health, property and environment during transborder transportation and disposal of hazardous wastes, series AB no.483125 of 01.10.2009

2. Mandatory insurance of the liability of citizens of Ukraine who are owners of weapon or possess it on other legal grounds against damage resulting from owning, keeping or using weapon, which can be caused to third parties or third party's property, series AB no.483146 of 01.10.2009.
3. Mandatory personal insurance against road traffic accidents, series AB no.483128 of 01.10.2009.
4. Mandatory insurance of dangerous cargo carriers against negative results upon carrying dangerous cargo, series AB no.483151 of 01.10.2009.
5. Mandatory insurance of liability of economic entities against damage in case of fire and emergencies in extra-hazardous facilities, including fire-dangerous facilities and facilities, which economic activities could result in environmental and sanitary-epidemiologic emergencies, series AB no.483144 of 01.10.2009.
6. Mandatory personal insurance of the personnel of departmental (except those employed in publicly financed organizations and entities) and rural fire prevention teams and members of volunteer fire prevention teams, series AB no.483148 of 01.10.2009.
7. Mandatory insurance of liability of dog owners (according to the list of breeds, established by the Cabinet of Ukraine), against damage caused to third parties, series AB no.483134 of 01.10.2009.
8. Mandatory insurance of highly qualified sportsmen, series AB no.483126 of 01.10.2009.
9. Mandatory civil aviation insurance, series AB no.483135 of 01.10.2009.
10. Mandatory insurance of civil liability of ground transport vehicles owners, series AF no. 569230 of 14.01.2011.

### **(A) Company history and general review of the Insurer**

The Ukrainian insurance company Knyazha has been registered by Shevchenkivskyi Kiev district state administration on August, 07th, 1997 as regional insurance company with head office in Rovno.

In 1998 the company became a member of the League of Insurance Organizations of Ukraine, and in 1999 UIC Knyazha got the status of associated member of Motor (Transport) Insurance Bureau of Ukraine. The company is a part of Ukrainian Health Insurance Bureau.

In 2001, with arrival to the company of new strategic shareholder Vienna Insurance Group, UIC Knyazha developed an active work in all the territory of Ukraine. Branches and representations have been created in most oblast capitals and cities of oblast subordination. At the same time considerable attention was paid to strengthening of personnel potential of the company by involving new skilled workers.

In the year 2004 head office moved to Kiev. Development of regional network continues; UIC Knyazha is present in all the regions of Ukraine. In 2005 UIC "Knyazha" becomes full member of Motor (transport) Insurance Bureau of Ukraine that allows it to sell own policies of international motor insurance Green Card.

In 2005 the large international insurance group with headquarters in Austria - «Wiener Stadtische» becomes the key shareholder of the company owning the control stock. After arrival of the new shareholder the amount of the authorized capital increased in 2 times. In September, 2009 new company name has been approved - Ukrainian Insurance Company Knyazha Vienna Insurance Group.

Today PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is a part of Austrian Vienna Insurance Group which works in the insurance market of Europe since 1824. Vienna Insurance Group is the leader of CEE insurance market. The financial strength is confirmed by the International rating agency Standard and Poor's which has awarded Vienna Insurance Group grade A+ with positive outlook. Vienna Insurance Group has 50 representations in 25 countries of the world. Belonging of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP to the leading insurance group of Europe is a guarantee of high level of external support by major shareholder.

Total amount of insurance premiums underwritten by PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP in 2011 increased compared vs. previous year by UAH 12,605 million and made up UAH 168,782 million.

Following kinds of insurance have been profitable for the company in 2011:

- Voluntary insurance of freights and luggage;
- Mandatory insurance of weapon owners;
- Mandatory insurance of hazardous cargoes.

In H1 2012 PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP increased the volume of total business by 40,33 %, the gross premiums of the company in this period grew up to UAH 103,052 million. It is significant that in H1 2012 the payouts of the insurer have grown only by 4,48 %, thus due to that the payments grew more slowly than the gross premiums, payout level shrunk by 11,56 p.p. to 33,69 % (tab. 1).

Table 1

**Key performance indicators of  
PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP, UAH th., %**

#	Indicators	HI 2012 (30.06.2012)	HI 2011 (30.06.2011)	Change	Growth rate, %
1	Total gross premiums	103052,4	73433,8	29618,6	40,33%
2	Indemnities and compensations	34718,5	33228,8	1489,7	4,48%
3	Payout ratio	33,69%	45,25%	-11,56 p.p.	-
4	Shareholders' equity	152561	115019,3	37541,7	32,64%
5	Liabilities	150554	192332,3	-41778,3	-21,72%
6	Equity/Liabilities ratio	101,33%	59,80%	41,53 p.p.	-
7	Net profit	230	216,5	13,5	6,24%
8	ROE	0,15%	0,19%	-0,04 p.p.	-
9	ROA	0,08%	0,07%	0,01 p.p.	-
10	Interest bearing assets/liabilities ratio	83,24%	74,64%	8.60 p.p.	-

Thus, as of today PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP belongs to the category of those few companies with participation of foreign capital which activity remains not only profitable, but also oriented towards increase of share in the Ukrainian market.

### **(B) Business activity and competition**

Escalation of volumes of insurance premiums and improvement of service quality are grounds of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP strategy. PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is a client focused company with special attention given to creation of new insurance products and continuous improvement of the system of settlement of losses.

PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is steadily occupying first place among the insurance companies of Ukraine on obligatory insurance of civil liability of motor vehicles owners on the conditions of international system of motor insurance Green Card. The insurer occupies leading positions throughout a long period thanks to the competent policy of sale of policies to clients, and mainly - thanks to the confidence of clients as regards timely settlement in case of insured event occurrence outside of Ukraine.

Besides that, the regional network of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is developed widely that allows to provide clients with full insurance support on the entire territory of Ukraine. Thanks to this factor the insurer occupies essential market share in Volyn, Zhytomyr, Zakarpatye, Kirovograd, Poltava, Rovno, Sumy, Ternopol, Cherkassy and Chernovtsy oblasts.

The nominal share of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP in the Ukrainian market on volumes of total business following the results of H1 2012 constituted 0,86 %. The estimated share of the insurer in the market of classical insurance in Ukraine, according to Agency, made up approximately 2 %.

The dynamics of gross premiums in H1 2012 showed that the company makes considerable efforts for increasing market share in Ukraine. Thus the business of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP has the following features:

- the share of the premiums received from physical persons is significant in the total business of the insurer, following the results of H1 2012 it was 68,46 %;
- the share of reinsurers in the total business is very small; in H1 2012 it was only 0,2 %;
- in H1 2012 the insurer achieved reduction of acquisition costs/gross premiums ratio by 7,17 p.p. that proves to the growth of company sales strategy efficiency (*tab. 2*).

Table 2

**Business performance indicators of  
PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP, UAH th., %, p.p.**

#	Indicators	H I 2012 (30.06.2012)	H I 2011 (30.06.2011)	Change	Growth rate, %
1	Total gross premiums, incl.:	103052,4	73433,8	29618,6	40,33%
2	from individual insured	70548,7	55722,9	14825,8	26,61%
3	from reinsurers	210,3	447,6	-237,3	-53,02%
4	Share of individuals in gross premiums	68,46%	75,88%	-7,42 p.p.	-
5	Share of reinsurers in gross premiums	0,20%	0,61%	-0,41 p.p.	-
6	Premiums ceded to reinsurers	18440,5	3613,5	14827	410,32%
7	Reinsurance dependence factor	17,89%	4,92%	12,97 p.p.	-
8	Net premiums	84611,90	69820,30	14791,60	-
9	Earned insurance premiums	74003,9	74660,7	-656,8	-0,88%
10	Financial result from operations	-2065	-342	-1723	-
11	ROS	-2,00%	-0,47%	-1,54 p.p.	-
12	Acquisition costs	25124,7	23165,4	1959,30	8,46%
13	Acquisition costs/gross premiums ratio	24,38%	31,55%	-7,17 p.p.	-

Thus, PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is dynamically developing company with already available considerable competitive potential.

### (C) Business Diversification

The level of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP business diversification has been recognized by the Agency as close to satisfactory (*tab. 3*).

Table 3

**Top 10 largest types of insurance of  
PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP, UAH th., %**

#	Indicators	H I 2012		H I 2011		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Insurance of civil liability of transport owners (standard agreements)	34318,5	33,30%	36159,4	49,24%	-15,94	-5,09%
2	Insurance of civil liability of transport owners (additional agreements)	31871,6	30,93%	13195,2	17,97%	12,96	141,54%
3	Ground transport (excl. r/w ) insurance	18732,3	18,18%	12085,8	16,46%	1,72	54,99%
4	Insurance against fire risks and act of God risks	5979,4	5,80%	4664,2	6,35%	-0,55	28,20%
5	Third party liability insurance	3214,8	3,12%	2616,3	3,56%	-0,44	22,88%
6	Insurance of medical costs	3013,2	2,92%	0,0	0,00%	2,92	-
7	Insurance of civil liability of ground transport owners (incl. carrier liability)	1661,5	1,61%	380,8	0,52%	1,09	336,32%
8	Accidents insurance	1634,2	1,59%	1255,3	1,71%	-0,12	30,18%
9	Freight and luggage insurance	1088,0	1,06%	444,9	0,61%	0,45	144,55%
10	Insurance of property (other than specified in points 7-12)	439,8	0,43%	302,1	0,41%	0,02	45,58%
11	Other types of insurance	1099,1	1,07%	2329,8	3,17%	-2,11	-52,82%
12	Total:	103052,4	100%	73433,8	100%	-	40,33%

The insurer has strongly pronounced dependence on insurance of transport risks. In particular, following the results of H1 2012, 64,23 % of total business volumes corresponded to insurance of motor transport owners' civil liability. To compare, following the results of H1 2011 the share of civil liability insurance was 67,21 %. The decrease in share of the given kind of insurance on 2,98 p.p. in total amount of business of the insurer appeared as a progressive step to the deepening of company business diversification. However such dynamics still cannot be named sufficient for essential decrease of dependence on the market of motor transport owners' civil liability insurance.

The analysis of insurer client base diversification demonstrated very high level of diversification and practically total absence of dependence of the company on 10 largest clients or groups of clients (*tab. 4*).

Table 4

**Data on gross premiums from large insured of  
PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP, UAH th., p.p., %**

#	Indicators	H I 2012		H I 2011		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	From 1 (one) largest insured	2 949,7	2,86%	1 235,1	1,68%	1,18%	138,83%
2	From 3 (three) largest insured	5 146,2	4,99%	2 188,5	2,98%	2,01%	135,15%
3	From 5 (five) largest insured	6 462,6	6,27%	2 791,9	3,80%	2,47%	131,47%
4	From 10 (ten) largest insured	8 034,3	7,80%	3 839,2	5,23%	2,57%	109,27%
5	In total:	103 052,4	100,00%	73 433,8	100,00%	-	40,33%

Thus, the business of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP was expressly specialized on insurance of motor owners' liability; however the negative effect from such specialization was substantially dampened by very high level of insurer business' client diversification.

#### **(D) Quality of assets**

PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP considers achievement of the target return on investment and maintenance of company assets structure on the principles of diversification and balance between profitableness and level of investment risks as main goal of assets management.

Significant share of company assets are deposits. At placing deposits the list of banks of Vienna Insurance Group (VIG) wherein deposits placement is allowed without additional approval is considered. This list basically includes banks with foreign capital and state owned banks. If a deposit should be placed in a bank not present in this list, such placement should be additionally agreed with VIG. The Agency considers that availability of such limitations is positively influencing insurer's assets quality control by parent company.

The company practices placing of deposits 'under business', namely - for reception of accreditation in the banks, with the objective to further insure the clients of such banks. When placing deposits bank rating, interest rate level, optimum currency and period of placement are also considered.

As of 30.06.2012 the interest bearing assets constituted 72,2 % of earning assets of the insurer. 100 % of interest-bearing assets have been placed in banks with investment grade rating (*tab. 5*).



Table 5

**Structure of earning assets of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)		H I 2011 (30.06.2011)		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Balances on current accounts	9177,2	5,29%	23735,7	12,28%	-7,00 p.p.	-61,34%
2	Bank deposits	116146,8	66,91%	119821,8	62,00%	4,91 p.p.	-3,07%
3	Bank metals	0	0,00%	20,1	0,01%	-0,01 p.p.	-100,00%
4	Real estate	31723,5	18,28%	31885	16,50%	1,78 p.p.	-0,51%
5	Shares	210	0,12%	210	0,11%	0,01	0,00%
6	Claims to insured	16302,95	9,39%	17418,3	9,01%	0,38 p.p.	-6,40%
7	Cash in vault	25	0,01%	166,4	0,09%	-0,07 p.p.	-84,98%
8	Total earning assets	173585,5	100,0%	193257,3	100,00%	0,00 p.p.	-10,18%
9	Total interest earning assets	125324,2	72,20%	143557,5	74,28%	-2,09 p.p.	-12,70%
10	Interest earning assets with rating above uaBBB-	125323,2	72,20%	122181,5	63,22%	8,97 p.p.	2,57%
11	Share of assets with investment grade rating in interest earning assets	100,00%	-	85,11%	-	-	-
12	Financial income	8235	-	5581,5	-	-	47,54%
13	Earning assets efficiency	4,74%	-	2,89%	-	-	-

As a whole, the Agency recognizes high quality of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP assets. The portfolio of company earning assets is managed according to collegiate principles and is well diversified. Thus, availability of additional control on assets management from parent company will undoubtedly positively influence the quality of insurer assets in the future.

**(E) Quality of reinsurance cover**

In H1 2012 82 % of payments to reinsurers have been directed to parent company. Considering that Vienna Insurance Group has high ratings on the international scale and has shown excellent financial results in H1 2012, the Agency considers such practice acceptable, and also guaranteeing high level of reinsurance cover (*tab. 6*).

Table 6

**Structure of reinsurance cover of PRJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)		H I 2011 (30.06.2011)		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Vienna Insurance Group AG	14 675,61	81,99%	2 244,73	60,35%	21,64 p.p.	553,78%
2	VIG Re Zajistovna a.s.	2 374,01	13,26%	4,71	0,13%	13,14 p.p.	50338,62%
3	PJSC "IC "Kryina"	259,37	1,45%	0,00	0,00%	1,45 p.p.	-
4	PrJSC "IC "Inter-Police"	197,70	1,10%	269,71	7,25%	-6,15 p.p.	-26,70%
5	Gen Re	122,90	0,69%	0,00	0,00%	0,69 p.p.	-
6	Other reinsurers	270,19	1,51%	1 200,55	32,28%	-30,77 p.p.	-77,49%
7	Total insurance payments ceded to reinsurers	17899,78	100,00%	3 719,70	100,00%	-	381,22%
8	Insurance payments ceded to reinsurers with rating above uaBBB-	17326,5	96,80%	2 443,70	65,70%	31,10 p.p.	609,03%
9	Share of investment grade reinsurers	96,80%	-	65,70%	-	-	-

In H1 2012 96,8 % of premiums sent to reinsurers, corresponded to companies with investment grade rating. The agency recognizes the current quality level of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP reinsurance as very high.

**(F) Adequacy of reserves**

At present the reserves of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP are formed on the basis of legislative requirements confirmed by the relevant law and regulations of insurance Regulator. Actuarial estimates of reserves are performed regularly through the actuaries of the parent company Vienna Insurance Group on which basis sufficiency of use of local requirements to generation of reserves is verified.

As of 30.06.2012, 50,01 % of reserves consisted of unearned premiums reserve, 23,84 % - reserve for loss reported but not paid and 20,96 % - reserve for loss variation (*tab. 7*).

Table 7

**Structure of technical reserves of PRJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)		H I 2011 (30.06.2011)		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Unearned premium reserve	59489,7	50,01%	43303,5	37,34%	12,67 p.p.	37,38%
2	Reserve for loss reported but not paid	28364,5	23,84%	37662,3	32,48%	-8,63 p.p.	-24,69%
3	IBNR loss reserve	6165,8	5,18%	8411,5	7,25%	-2,07 p.p.	-26,70%
4	Reserve for loss variation	24939	20,96%	26583,4	22,92%	-1,96 p.p.	-6,19%
5	Catastrophe reserve	0	0,00%	0	0,00%	-	-
6	Other reserves	0	0,00%	0	0,00%	-	-
7	Technical reserves, in total	118959	100,00%	115960,7	100,00%	-	2,59%

The company seeks to payout all indemnities in the terms specified in the contracts of insurance. For each insurance product there are specific terms for decision making on insured event. After taken decision on insured event, the company performs payment of indemnity. In especially complicated cases, for example, if there are suspicions on roguish behavior of insured or third parties, the Company according to the conditions of insurance performs verification of the given circumstances in the terms specified in the contracts.

In H1 2012 the volume of insurer payouts grew on 4,48 %, payout level decreased on 11,56 p.p. Partially it (*tab. 8*) can be due to decrease of the share of physical persons in the amount of total business of the insurer, and also to the market trends.

Table 8

**Payouts and coverage of payouts by interest earning assets of PRJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)	H I 2011 (30.06.2011)	Change, p.p.	Growth rate, %
1	Indemnities and compensations paid	34718,5	33228,8	1489,7	4,48%
2	Total gross premiums	103052,4	73433,8	29618,6	40,33%
3	Payout ratio	33,69%	45,25%	-11,56 p.p.	-
4	Total interest earning assets	125324,2	143557,5	-18233,3	-12,70%
5	IEA/payouts ratio	360,97%	432,03%	-71,05 p.p.	-

The level of IBA/payouts ratio for the 6 months following the results of H1 remains unprecedentedly high - 360,97 %, and even despite its decrease compared to H1 2011 on 71,05 p.p., such size of interest bearing assets proves to high reserve of company strength.

The research of insurer activity has shown availability of large payouts that excludes signs of fictitious activity or activity directed on offering services of 'schemed insurance'. For the recent 12 months the Agency captured the following large payouts:



Table 9

**Top 5 payouts by PRJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

Case number	Note	Risk	Event date	Payout amount, UAH
132736836	RTA, Italy	Injured person treatment costs	07.11.2010	3 582 756,06
132736836	RTA, Italy	Injured person treatment costs	07.11.2010	2 192 204,81
132745394	Property title loss	Financial risks	04.08.2008	1 937 628,74
132741325	Bridge pillar run over	Transport vehicle (RTA)	16.09.2011	500 338,62
132740838	Pylon and tree over run	Transport vehicle (RTA)	17.08.2011	495 156,07
132744959	RTA	Transport vehicle (RTA)	08.04.2012	353 614,96

Thus, according to Agency, the insurer forms reserves in sufficient volume and according to the obligations undertaken. The company performs payouts and has a considerable reserve of interest bearing assets for covering such payouts in the future.

**(G) Capital and solvency**

Last time the increase in authorized capital of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP was performed in September, 2011. The amount of the authorized capital has been increased by 4,256.

PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP has specific structure of shareholders' equity. As of 30.06.2012 the retained loss was UAH 160,222 million, therefore shareholders' equity of the insurer has been generated at the expense of additional capital amounting to UAH 218,592 million. Substantial losses of previous years were the consequence of establishment of the company and its regional network in the Ukrainian market. Most insurers with participation of foreign capital had similar equity structure that was caused by active use of dumping strategy in the past.

Table 9

**Structure of shareholders' equity of PRJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)		H I 2011 (30.06.2011)		Change, p.p.	Growth rate, %
		UAH th.	%	UAH th.	%		
1	Authorized capital	88744	58,17%	84488	73,46%	-15,29 p.p.	5,04%
2	Additional paid-in capital	218592	143,28%	155641,5	135,32%	7,96 p.p.	40,45%
3	Other additional paid-in capital	4274	2,80%	4274,3	3,72%	-0,91 p.p.	-0,01%
4	Reserve capital	1173	0,77%	779,4	0,68%	0,09 p.p.	50,50%
5	Retained profit	-160222	-105,02%	-130380	-113,36%	8,33 p.p.	-
8	Shareholders' equity, in total	152561	100,00%	115019,3	100,00%	-	32,64%

According to Agency, PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is sufficiently provided with capital, and capital structure of the insurer does not render any influence on its solvency margin. Thus, the Company is well capitalized; the size of its capital meets the obligations undertaken by the Company and stays within the norms established by the Regulator.

**(H) Support by shareholders**

VIENNA INSURANCE GROUP AG is the direct owner of 99,99363 % of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP shares. The last change of structure of shareholders has taken place in July, 2011. An individual shareholder, the resident of Ukraine, has sold the shares of PrJSC Jupiter life insurance Vienna Insurance Group in the amount of 371 pieces of shares (0,00635 % share in the authorized capital). Therefore, after the said transaction VIENNA INSURANCE GROUP has complete control over the insurer.

Table 10

**Key performance indicators of VIENNA INSURANCE GROUP  
for the 6 months of 2012 (Euro millions, %)**

#	Indicators	H I 2012 (30.06.2012)	H I 2011 (30.06.2011)	Change, p.p.	Growth rate, %
1	Total assets	40729,548	40292,584	436,964	1,08%
2	Cash and cash equivalents	827,776	1070,950	-243,174	-22,71%
3	Total investments	28229,753	27973,309	256,444	0,92%
4	Total shareholders' equity	5214,134	5098,275	115,859	2,27%
5	Total underwriting provisions	25390,103	24708,886	681,217	2,76%
6	Gross written premiums	5282,853	4729,247	553,606	11,71%
7	Net earned premiums	4656,415	4070,505	585,91	14,39%
8	Profit before taxes	301,694	282,169	19,525	6,92%
9	Profit for the period	238,511	230,483	8,028	3,48%
10	EPS	3,30	3,05	0,25	8,20%

As of 30.06.2012 the consolidated assets of VIENNA INSURANCE GROUP amounted to EURO 40,729 billion, and the consolidated volume of investments to EURO 28,229 billion, the company has EURO 827,776 million of liquid assets. The mentioned figures characterize the scales of work of the insurance group.

In H1 2012 VIENNA INSURANCE GROUP has shown record financial results. The total volume of Group business grew on 11,71 %, net earned premiums on 14,4 %, financial result on 4,87 %, net profit on 7,44 %. It is important to highlight that the profit received from operations in CEE countries, grew with faster rates, than on the average in the company and has shown growth rate of 13 %. The decrease of combined ratio by 0,5 p.p. to 96,6% is also a positive trend, proving to the growth of insurer activity profitability.

### ***(I) Other factors influencing the rating***

The study of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP interaction with state organs found the following:

1. Following tax audit insignificant infringements have been found on which PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP paid the penalties in full. The act of tax audit from 14.10.2009 no. 153/2201/24175269.
2. Unscheduled audit was conducted by Gosfinuslug on 12.07.2011, penalty provisions have been applied.
3. No inquiries by Gosfinmonitoring have been made for the last 12 months.

Research of the biographic data of top executives has shown availability of considerable experience in the Ukrainian insurance market on executive positions:

#### **Gritsuta Dmitry, Chairman of Board**

Education: In 1999 graduated with distinction from Taras Shevchenko National University of Kiev with the specialty "Finance".

Start of the career: In 1999-2002 worked at Taras Shevchenko National University of Kiev as Assistant Chair of Finance, Cash Turnover and Credit of Economics Department

Dmitry Gritsuta started to efficiently put into practice the received knowledge and skills in the economic area when holding the post of deputy chief of the Department for Trade and Economic Relations with the Countries of Europe, USA and Canada of the Ministry of Economics and European integration of Ukraine (2002-2003).

Holding the responsible post in The Ministry of Economics, Dmitry participated in the international negotiations, was engaged in coordination and arrangement of foreign trade activity of Ukraine with North American partners - the USA and Canada.

The position of the adviser of Chairman of Board of JSC Universal Bank (2003-2004) was the first post occupied by Dmitry Gritsuta in the commercial structures. Being the adviser of the Chairman of Board of JSC Universal Bank, Dmitry headed new direction in the work of

the bank structure – development of the system for improvement of interaction between the bank and the insurance company ‘Universalnaya’.

From 2004 to 2005 Dmitry Gritsuta worked in the corporation ‘Interpipe’ at the position of insurance business coordinator. Organization and arrangement of the system of budgeting, bank assurance issues, organization of interaction between insurance company ‘Oranta’ and the bank ‘UkrSotsbank’ belonged to his duties.

In 2005 Dmitry Gritsuta headed the insurance section in Investment and Finance Group "TAS" where he worked for almost two years in the position of Insurance Business Director.

On May, 24th, 2007 Dmitry Gritsuta has been appointed Chairman of Board of Insurance Group "TAS". IG TAS was one of the first among the insurance companies in Ukraine to perform back-office and accounts department centralization. Under the direction of Dmitry Gritsuta the new system of sales and agency network work has been developed and implemented. In 2010 the Insurance Group "TAS" has successfully finished the project on improvement of the system of settlement of losses.

From 28.03.2012 the Supervisory Board of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP appointed Dmitry Gritsuta Chairman of Board of the Company.

### **Krasovska Svetlana, Deputy Chairwoman of Board**

Krasovska Svetlana works in insurance since 1999. She began insurance career in Dnepropetrovsk regional office of Insurance Group "TAS" where for the 8 years of work she made her way from the position of specialist to the director of one of the largest regional offices.

In autumn of 2008 Svetlana Krasovska headed the Kiev regional office of IG "TAS", and in August, 2010 she was appointed Deputy Chairwoman of Board of IG "TAS" on work with corporate customers. In August, 2011 for the personal significant contribution to economic strengthening of the state, formation of market infrastructure in Ukraine and high professionalism Svetlana Krasovska has been awarded the certificate of honor of the Ministry of Power and Coal Industry of Ukraine.

On April, 2nd, 2012 the Supervisory Board of PrJSC UIC KNYAZHA VIENNA INSURANCE appointed Svetlana Krasovska to the post of Deputy Chairwoman of Board on sales. She has the following functions: regional network development, product range expansion, formation of balanced insurance portfolio of the company. Also madam Krasovska supervises issues of underwriting and insurance methodology.

As a whole as of 30.06.2012, 1144 persons are employed in the company, 555 from whom are salaried employees of the company, and 589 persons - out of staff insurance agents (tab. 11).

Table 11

### **Structure of personnel of the insurer PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP**

#	Indicators	H I 2012 (30.06.2012)		H I 2011 (30.06.2011)		Change, p.p.	Growth rate, %
		persons	%	persons	%		
1	Total regular staff	555	48,51%	496	52,43%	-3,92% p.p.	11,90%
2	Out-of-staff insurance agents	589	51,48%	450	47,57%	3,91% p.p.	30,89%
3	Total employed in the company:	1144	100,0%	946	100,0%	-	-

Thus, relations of the insurer with state authorities do not bear risks for the Company, the insurer possesses enough personnel, and the management has more than sufficient working experience in insurance area.

## 2. Summary of rating components

The following factors influenced the rating:

1. PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP belongs to the category of dynamically developing companies. In H1 2012 the insurer increased the volume of gross premiums to UAH 103,052 million, or on 40,33 % in comparison with the similar period of 2011, that in times exceeded the average market growth rates. Following the results of H1 2012 the nominal share of the company in the Ukrainian market was 0,86 %, company share in the segment of classical insurance in Ukraine has been estimated by Agency at 2 %.

2. The level of insurer business diversification by insurance kinds has been recognized by the Agency as close to satisfactory. The company had strongly pronounced specialization on insurance of motor transport owners civil liability; following H1 2012, 64,23% of gross premiums corresponded to this kind of insurance. The negative influence on the rating was somewhat smoothed by high level of client diversification. Following H1 2012, 7,8 % of total company business only corresponded to 10 largest clients of the insurer.

3. The agency recognizes high quality of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP assets. The portfolio of earning assets of the company is managed according to collegiate principles and is well diversified. Availability of additional control over assets management from parent company will positively influence the quality of insurer assets in the future. As of 30.06.2012, 72,2 % of company earning assets have been referred by the Agency to the class of interest bearing assets, 100 % of interest bearing assets had credit rating of investment grade.

4. In H1 2012, 96,8 % of the premiums ceded to reinsurers, were sent to companies with investment grade rating. The agency recognizes the current quality level of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP reinsurance as very high. 82 % of the premiums sent in H1 2012 to reinsurers have been directed to parent company. Considering that Vienna Insurance Group has high ratings on the international scale and has shown excellent financial results in H1 2012, the Agency considers such practice acceptable.

5. According to the Agency, the insurer forms reserves in sufficient volume and according to the obligations undertaken on. The company performs payouts and has considerable reserve of interest bearing assets to covering such payments in the future. As of 30.06.2012 the interest bearing assets in 3,61 times exceeded the volumes of payouts in H1 2012.

6. By Agency estimations, PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP belongs to the class of well capitalized companies, and under condition of continuation of the practice of profitable work in the next 12 months will not demand additional capitalization. The insurer also has high liquidity level. As of 30.06.2012 IBA/liabilities ratio constituted 83,24 % that is much higher than the average indicators accepted in the market.

7. One of primary factors supporting high credit rating of PrJSC UIC KNYAZHA VIENNA INSURANCE GROUP is the external support by shareholder. As of 30.06.2012 the consolidated assets of VIENNA INSURANCE GROUP constituted EURO 40,729 billion, and the consolidated volume of investments EURO 28,229 billion, thus the company had on balance highly liquid assets for the amount of EURO 827,776 million. The mentioned figures characterize scales of work of the insurer and correspondently – its readiness to support its business in Ukraine. In H1 2012 VIENNA INSURANCE GROUP has shown record financial results. The total volume of Group business grew on 11,71 %, net earned premiums on 14,4 %, financial result on 4,87 %, net profit on 7,44 %.

## 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.*