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ACRA upgrades credit rating of Insurance Company "ARSENAL" LLC to BB(RU), outlook Stable

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Key rating assessment factors

The credit rating change of [Insurance Company "ARSENAL" LLC](#) (hereinafter, ARSENAL, or the Company) is due to the improvement in the assessment of the Company's management to "satisfactory." The rating level is due to the below average assessment of the financial profile with an average business profile.

Positive factors include comfortable indicators of the Company's actual and forecasted operational efficiency as well as adequate indicators of its liquidity. The rating level is negatively affected by the results of capital adequacy stress tests which limit the assessment of the Company's financial profile.

ARSENAL was established in 1997. Equal shareholding members of the Company are Rubicon-13 LLC and ARSENAL-CAPITAL LLC. The final beneficiary is Sergei Lobanov. In recent years, the Company has taken a leading position in the field of liability insurance in customs clearance (approximately 50% of insurance premiums). As of September 30, 2018, the Company conducted operations in 26 regions of the Russian Federation.

The below average assessment of the financial profile is due to the ratio of capital adequacy and capital at risk. Calculated according to ACRA's methodology, the value of the capital adequacy ratio amounted to 0.61 as of September 30, 2018. In combination with the assessments of absolute capital size (average) and access to sources of capital (limited), this value makes it possible to determine the value of capital adequacy as below average. In determining the indicator of available capital, ACRA elected to use adjustments including changes in asset assessments.

According to ACRA's methodology, the components of the financial profile have a limiting effect on each other. Therefore, higher assessments of asset quality and liquidity than capital adequacy do not affect the final assessment of the Company's financial profile.

The quality assessment of ARSENAL's assets is due to the combination of two factors: the weighted average asset risk index at an average level (3.1) and the high capital to asset ratio (0.58). At the same time, the Company is characterized by an increased concentration of assets: as of September 30, 2018, the ten largest investments amounted to approximately 60% of assets.

The adequate liquidity position is due to assessments of the liquidity ratio in the short- and long-terms, 1.15 and 1.36 respectively.

The Company's average business profile is due to limited market positions and average operating indicators. According to data for 9 months of 2018, ARSENAL's market share was less than 1%. Taking into account the high share of the largest clients and the narrow geographical coverage of the insurance portfolio, the diversification of the Company's client base is assessed as average. ACRA defines the quality of ARSENAL's product range as weak due to the assessment of completeness and demand for insurance products offered by the Company. ACRA evaluates the diversification of the sales channels as moderate.

The average assessment of operating indicators is based on the forecast for ARSENAL's business. The combined ratio (excluding the CSPI contract) was 1.01 at the end of 2017. The ratio is expected to be in the range of 1.01 to 0.97 in the future. Since 2016, there has been a decrease in the volume of the Company's signed insurance premium (excluding the CSPI contract). ACRA expects that from 2018 to 2019, the growth rate of the Company's insurance premium will be lower than the market average. ACRA notes ARSENAL's accumulated competence in the field of liability insurance in customs clearance as a competitive advantage.

ARSENAL's satisfactory quality of management is due to neutral assessments of the following sub-factors: risk management, experience and structure of management, strategic vision and management, actuarial function, and corporate management. The change in the "risk management" assessment from negative to neutral is due to its increased role by the Company in overall management. However, ACRA believes that ARSENAL in some cases conducts risky policy when determining deductibles for fire insurance.

Key assumptions

- Implementation of the Company's business plans in accordance with the 12 to 18-month outlook;
- Combined ratio at 0.99%;
- Maintaining key positions in the field of liability insurance in customs clearance.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Improvement in the risk management system.

A negative rating action may be prompted by:

- Growth in the operating ratio above 0.99;
- Loss of key positions in the field of liability insurance in customs clearance.

Rating components

SCA: bb.

Adjustments: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Insurance Companies Under the National Scale for the Russian Federation, and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating assigned to Insurance Company "ARSENAL" LLC was published by ACRA for the first time on December 4, 2017. The credit rating and its outlook are expected to be revised within one year following the rating action date (November 30, 2018).

The credit rating is assigned based on the data provided by Insurance Company "ARSENAL" LLC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the RAS and IFRS financial statements of Insurance Company "ARSENAL" LLC. The credit rating is solicited, and Insurance Company "ARSENAL" LLC participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by Insurance Company "ARSENAL" LLC in its financial statements have been discovered.

ACRA provided additional services to Insurance Company "ARSENAL" LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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