

April 26, 2018

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Key rating assessment  
factors

## ACRA assigns BBB(RU) to Sterkh Insurance Company, outlook Stable

The credit rating assigned to [Sterkh Insurance Company JSC](#) (the Company) is based on a high systemic importance of the Company for the economy of the Republic of Sakha (Yakutia), [ACRA rating: A\(RU\), outlook Stable](#) (the Region) and a very strong influence of the Republic on the Company operations. On the other hand, as compared with other Russian peers, the Company is characterized by a moderate standalone creditworthiness assessment, which is a result of a weak business profile, a weak financial profile and a satisfactory quality of corporate governance.

The Company is a regional insurer ranked 56<sup>th</sup> in Russia in terms of insurance premiums (the market share is less than 1%). Over 60% of insurance premiums comes from the Region. In 2017, the Company held the leading positions in the Region in terms of CMTPLI (66%), corporate property insurance (49%), VHI (43%), auto hull insurance (25%), incident insurance (24%), and other types of insurance (57%). Over 84% of Region's residents have compulsory health insurance policies with Sakhamedstrakh, a 100% subsidiary of the Company. The Company is 94.62% controlled by the Ministry of Property and Land Relationships of the Republic of Sakha (Yakutia) that owns 63.4% shares plus 16.83% shares through Republican Investment Company JSC and 14.39% shares through RIC Plus JSC.

**The high likelihood of support from the republican government** is explained by the Company's leading positions in the insurance market of the Region, its high role in the social development (a full-fledged insurance protection for individuals and companies throughout the Region) and a moderate risk for the Region's budget in case of a default of the Company. A very high degree of influence of the authorities of the Region is expressed in the shareholding and operational control over the Company, in the formation of its capital through the repeated capital injections by the authorities, capitalization of undistributed profits and the contributions by the Ministry of Property and Land Relationships of the Republic of Sakha (Yakutia) and its subsidiaries in the authorized capital of the Company, as well as the Company's participation in regional development programs. ACRA assesses the likelihood of support from the Region as high. ACRA's opinion on the level of support is expressed in the resulting rating of the Company on par with the Republic of Sakha (Yakutia), reduced by three notches.

**The weak business profile** is attributable to a weak operating performance expected in the medium term amid the market average growth rate of insurance premium. At the same time, the Company's market positions are assessed as stable. The diversification of the Company's client base is medium as per the ACRA criteria. ACRA assesses the sales channels of the Company as diversified. About 53% of the total volume of insurance premiums come through the controlled channels, including direct sales and a network of agents. The Agency assesses the customer loyalty, brand and reputation of the Company as neutral. The quality of the Company's product range is assessed as medium because the product range is diversified inside the Region and limited outside the Region. The Company's insurance portfolio comprises the following segments: CMTPLI (65.7%), other types of insurance (20.4%), corporate property insurance (8.2%), VHI (2.9%), auto hull insurance (2.8%). About 62% of the Company's insurance business is concentrated in the Region. In 2017, the Company showed a growth rate of insurance premiums significantly higher than the market average (178%) thanks to the Single RAMI Agent system designed to increase the availability

of CMTPLI policies in the "toxic" regions<sup>1</sup> and obliging the Company to sell CMTPLI policies in such regions. Since the introduction of the Single RAMI Agent system, the share of high loss contracts in the Company's portfolio have grown. According to the Company's estimations for 2018, the growth rate of insurance premiums in the CMTPLI segment outside the Region will not exceed 103%.

According to ACRA criteria, the Company's operating performance indicators are assessed as weak. At the end of 2017, the combined loss ratio was 1.15. In 2018, the ratio is projected to be at a level close to but not exceeding that of 2017. The projected estimate in the "market-level" category reflects ACRA's opinion on the Company's ability to maintain the market average growth rate of insurance premiums.

**The weak financial profile** stems from the assessment of the quality of the Company's assets. The risk adjusted capital ratio calculated in accordance with the ACRA methodology is 1.46, which, in combination with other estimates, results in the medium assessment of the Company's capital adequacy.

The weak assessment of liquidity (4.0) is determined by current and long-term liquidity ratios (0.98 and 1.13, respectively).

The overall assessment of the financial profile (4.3) is limited by the quality of assets. The capital to assets ratio (0.21 at the end of 2017), together with the risk index estimate (2.8), results in the overall assessment of asset structure close to medium (3.3). However, the increased concentration of assets worsens this estimate down to 4.3.

**The governance quality** is assessed as satisfactory based on neutral assessments of such sub-factors like management experience and structure, strategic planning and management, actuarial function, risk management and corporate governance procedures.

## Key assumptions

- The regional government will retain its shareholding and operating control over the Company;
- The Company will retain the share of the regional insurance market (except the life insurance segment) equal to that in 2017;
- The combined loss ratio will not exceed 1.15;
- The growth rate of insurance premiums in the CMTPLI segment outside the Region will not exceed 103%.

## 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:

- A growing systemic importance of the Company for the Region;
- An upgrade of the credit rating of the Region.

### A negative rating action may be prompted by:

- A lower degree of shareholding and operating control of the regional government over the Company or a decline in the systemic importance of the Company for the Region;
- A downgrade of the credit rating of the Region.

## Rating components

**SCA:** bb.

**Adjustments:** on par with the Republic of Sakha (Yakutia), minus 3 notches.

## 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, the [Methodology for Analyzing](#)

<sup>1</sup> Regions where insurers incur heavy losses in the CMTPLI segment.

[Relationships Between Rated Entities and the State](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating has been assigned to Sterkh Insurance Company JSC for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (April 25, 2018).

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

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

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

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