



Concorde Capital Investment Conference

National Joint Stock Insurance
Company ORANTA
The Leader in
the Non-Life Insurance Market

Speaker: Advisor to the Supervisory Board V.Stuley

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Kyiv



NJSIC ORANTA review

- ✓ Company highlights
- ✓ Distribution network
- ✓ Summary



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Oranta Headquarters
Zhylianska, 75, Kyiv, Ukraine

Company highlights

ORANTA

has set the highest standards in national insurance since 1921



1921-27



1927-93



1993-2007



2007- to date

Oranta is the oldest insurance company in Ukraine

Oranta is the undisputed leader by gross premium written (GPW) with a 11,5% market share in actual non-life insurance

Growth of Oranta by GPW has outpaced the growth of the actual non-life insurance sector and is one of the highest on the market

Oranta has the largest customer base with 5.4 million insurance policies sold in 2008 and 4,4 million insurance policies in 2009

Oranta has the highest brand recognition in the Ukrainian market – 84% (GfK survey)

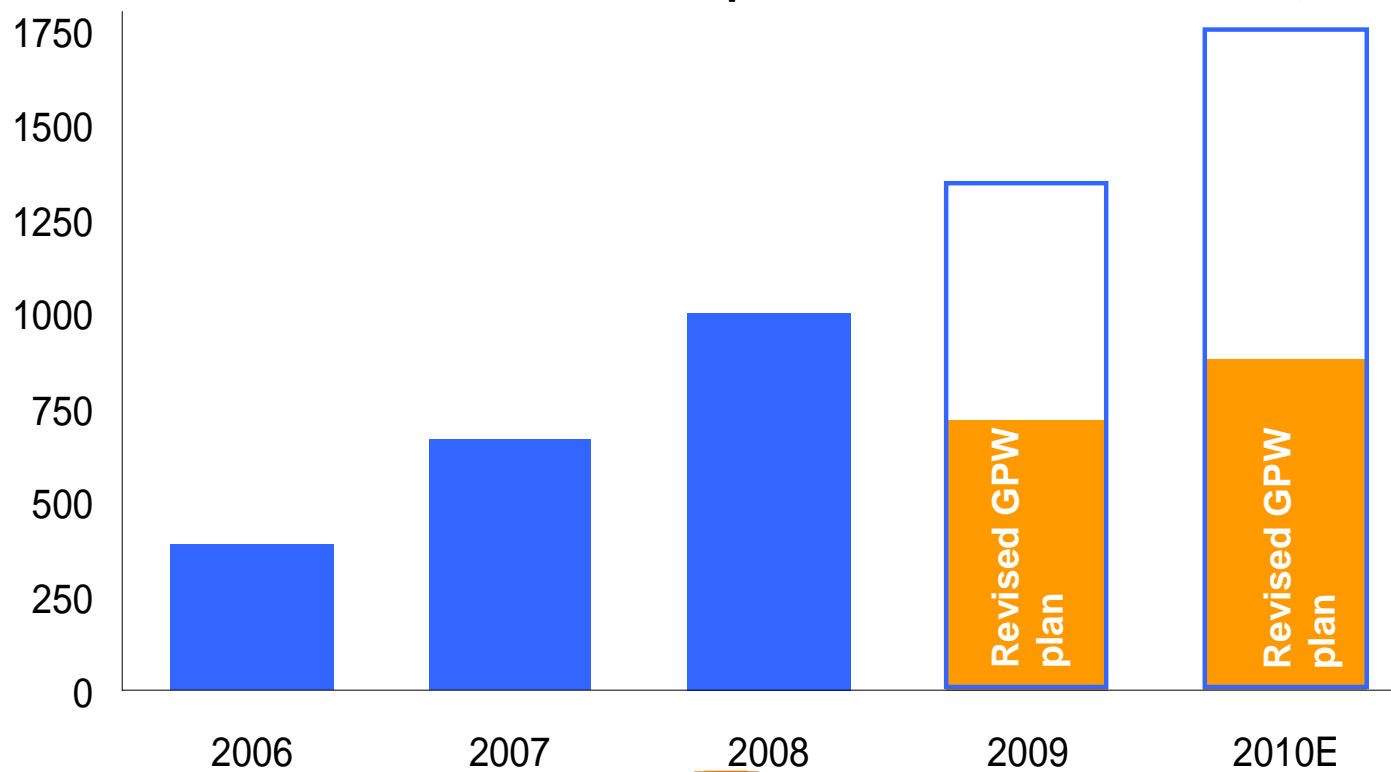
Oranta owns the largest diversified distribution network, far beyond that of any competitor

Company highlights

Oranta's GPW increased to 717'975'701 UAH in 2009, implying 29% yoy drop

Oranta is the market leader in the three fastest growing non-life insurance segments: motor own damage (MOD), obligatory motor third party liability (OMTPL) and property insurance

NJSIC "Oranta" revised its 2010 plan from 1.35 bln. UAH to 0,88 bln. UAH



Company highlights

Euromoney Magazine Insurance Survey 2009 awards:

- Best insurer in Ukraine
- Best for innovation
- Best for price
- Best product range
- Best for claims resolution

Reputation Institute (USA) included Oranta, as the only insurance company, in "TOP-20" Ukrainian companies for reputation evaluation *

MasterCard 2008 annual awards competition – "Insurance company of the year"

Ukrainian Awards 2008

Winner of the insurance ranking "Most valuable brand", "Socially responsible business" and "Innovations" held by "Gvardia" national ranking program

"The most recognizable insurance company" award by Ukrainian insurers ranking held by "DELO" business magazine

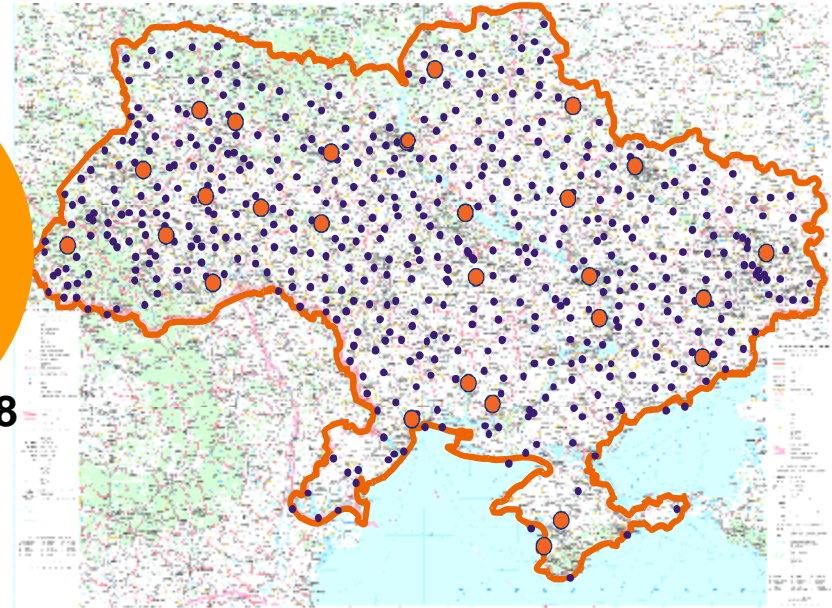
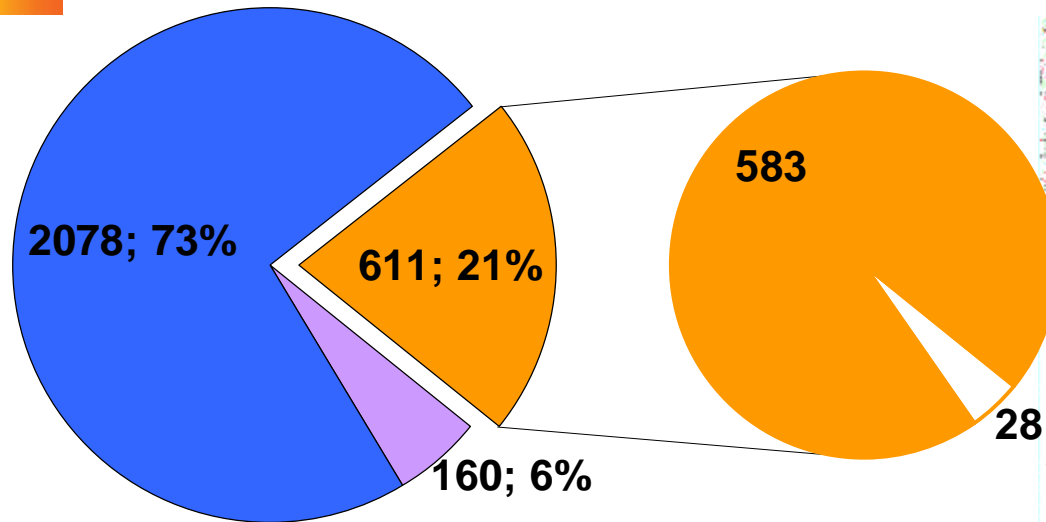
1st place in financial strength rating by "Expert – Rating" national rating agency

"Choice of the year" awards in motor and property insurance nominations by "Choice of the Year" competition

Prize winner in OMTPL, GPW and claims payments categories, competition "TOP – 100" companies in financial sector held by "Investgazeta"

* Project "The Ukraine's Most Reputable Companies 2008" Reputation Institute (USA)

Distribution network



- regional offices other companies
- branches other companies
- Oranta regional offices
- Oranta branches

2008

- 28 regional offices
- 670 branches
- 7,000 insurance agents

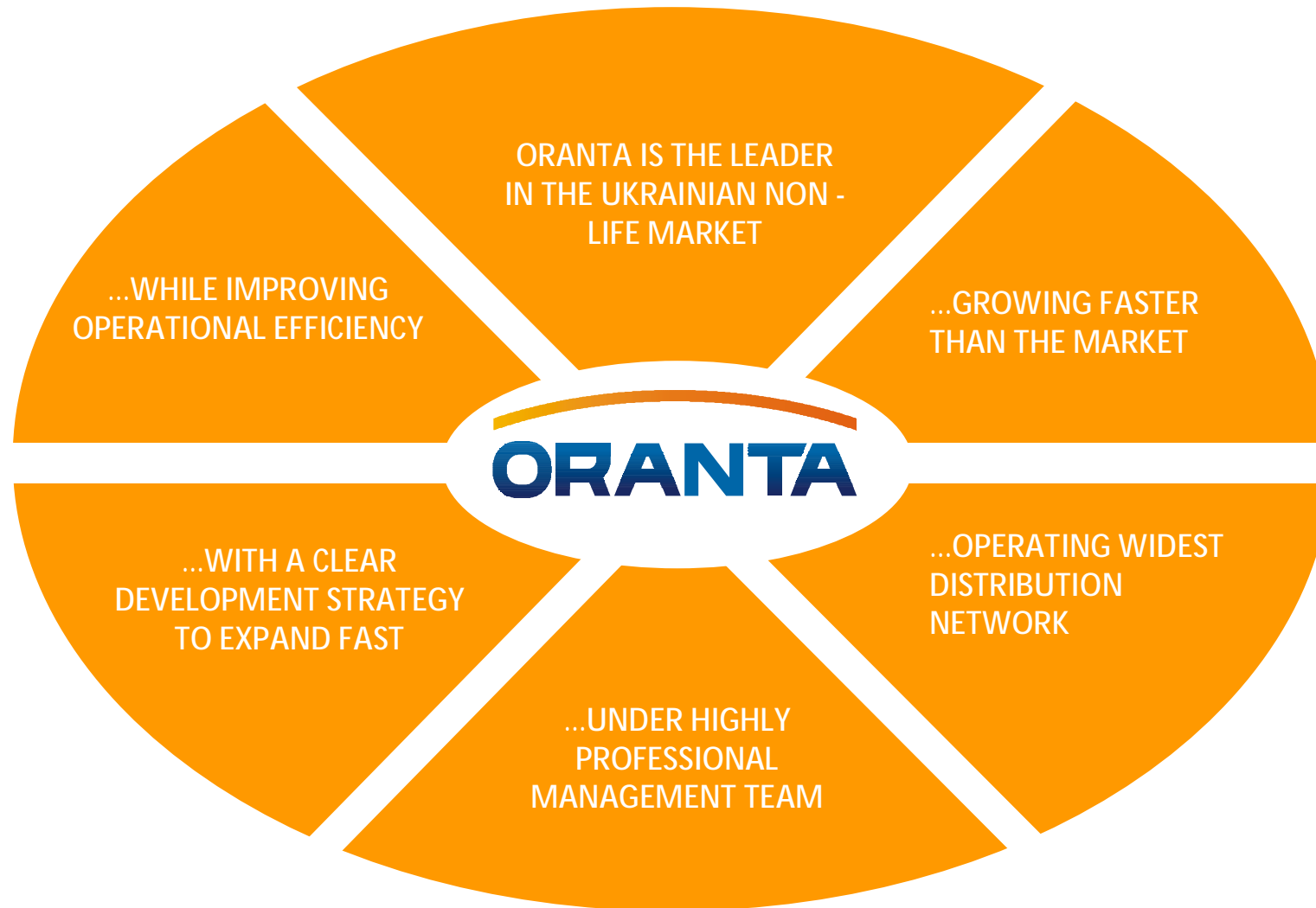
optimization



2009

- 28 regional offices
- 583 branches
- 7,000 insurance agents

Summary



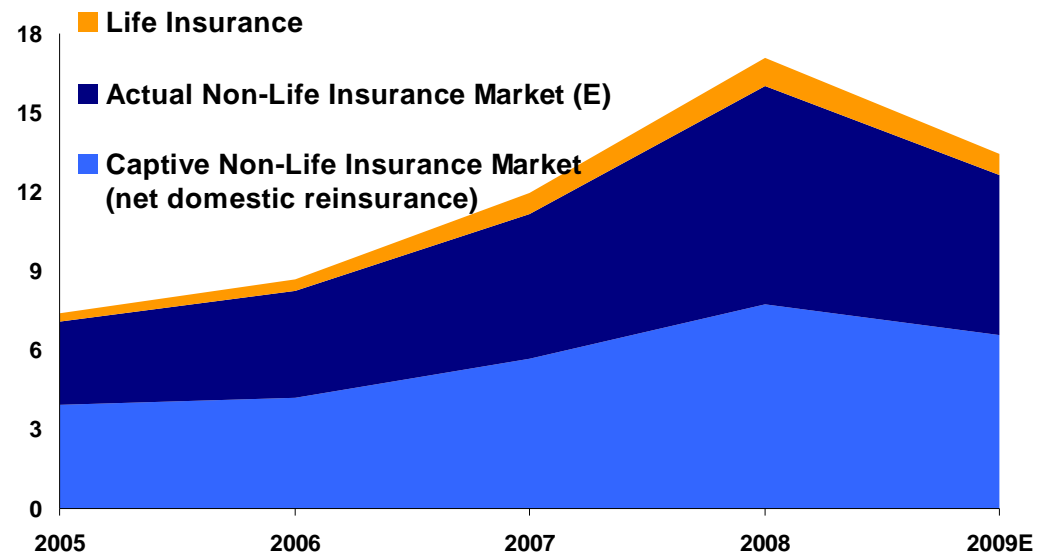
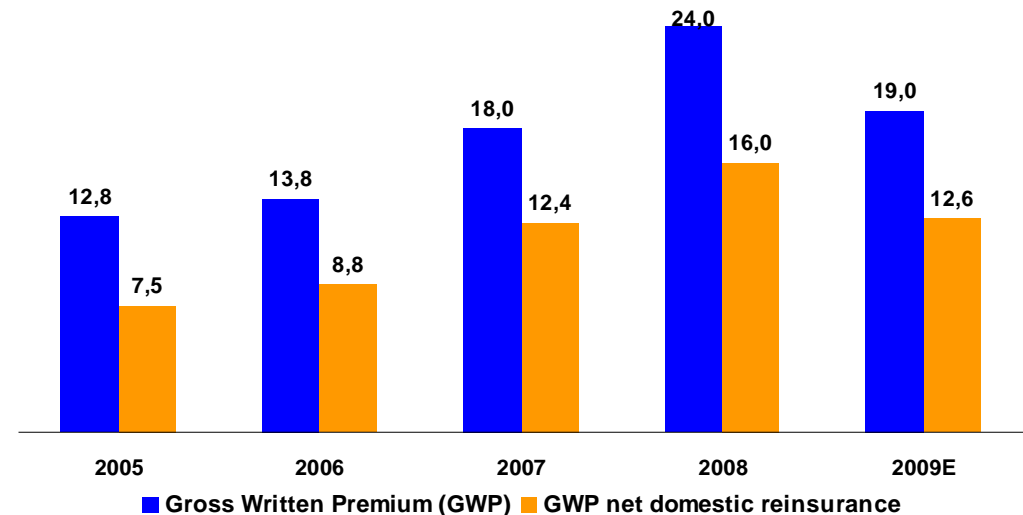
Ukrainian Insurance Market

- ✓ Insurance market
- ✓ Insurance Penetration In Ukraine
- ✓ Structure of the Ukrainian Insurance Market
- ✓ Competitive Environment
- ✓ Summary



Insurance market

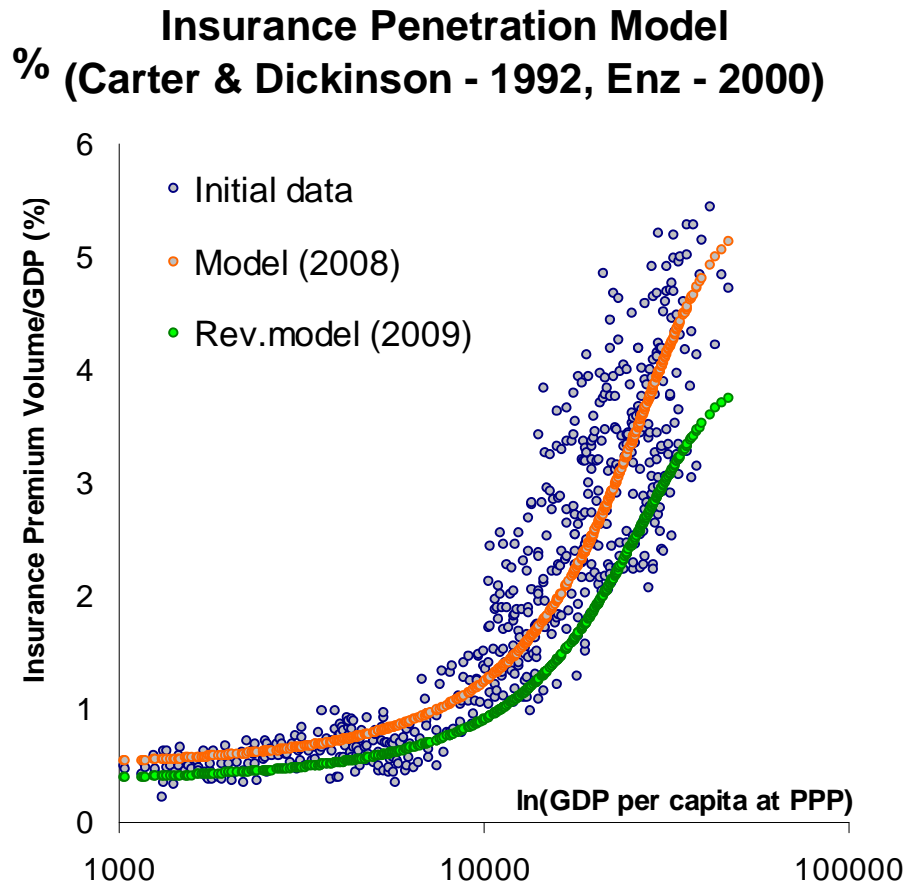
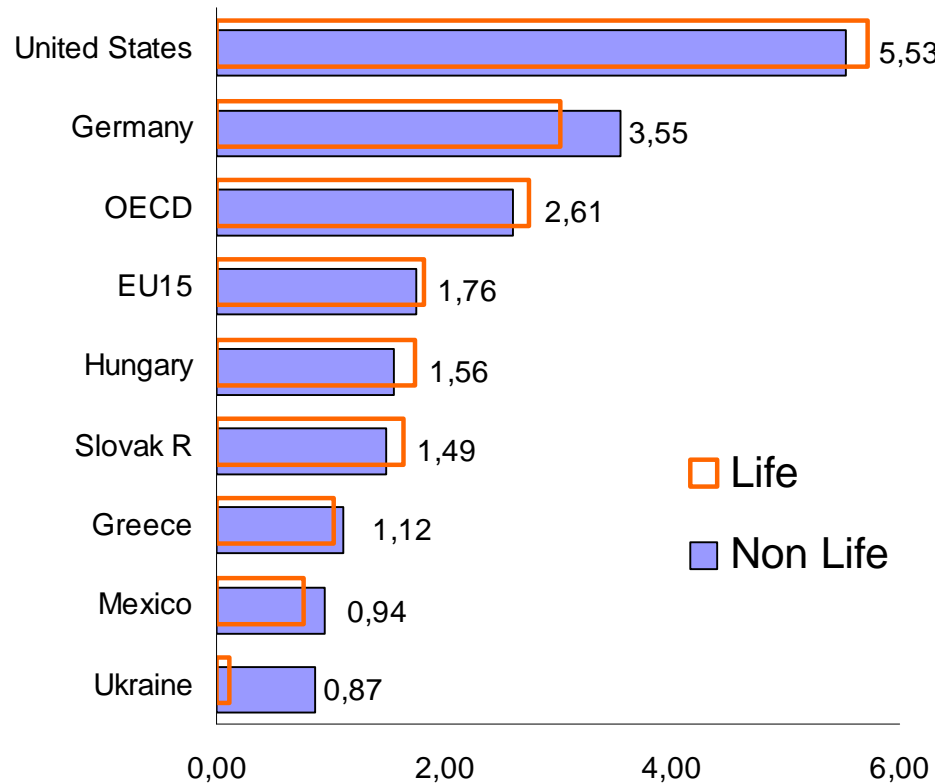
- ✓ In 2002-2008 the actual non – life insurance market CAGR was above 40%
- ✓ In 2008 overall insurance market reached 24 billion UAH, a 33% yoy growth (in 2009 12,7% 1Q on 1Q drop, in 6 months 2009 to 2008 15,7% drop, in 9 months 2009 to 2008 18,4% drop)
- ✓ Insurance market net of domestic reinsurance was 16 billion UAH, in 9 month of 2009 it reached 9,6 billion
- ✓ Retail non – life insurance market increased to 7.6 billion UAH (31.8% of the total market), in 9 months of 2009 it reached 4,3 billion UAH (30,62% of the total non-life market)
- ✓ Non – life insurance accounts for above 95% of the market (2008 and 9 months of 2009)
- ✓ Actual insurance market increased to 6,4 billion UAH (net of captive business) *



* Source: Committee for Regulation of Financial Services, NJSIC "Oranta" estimates

Insurance Penetration in Ukraine

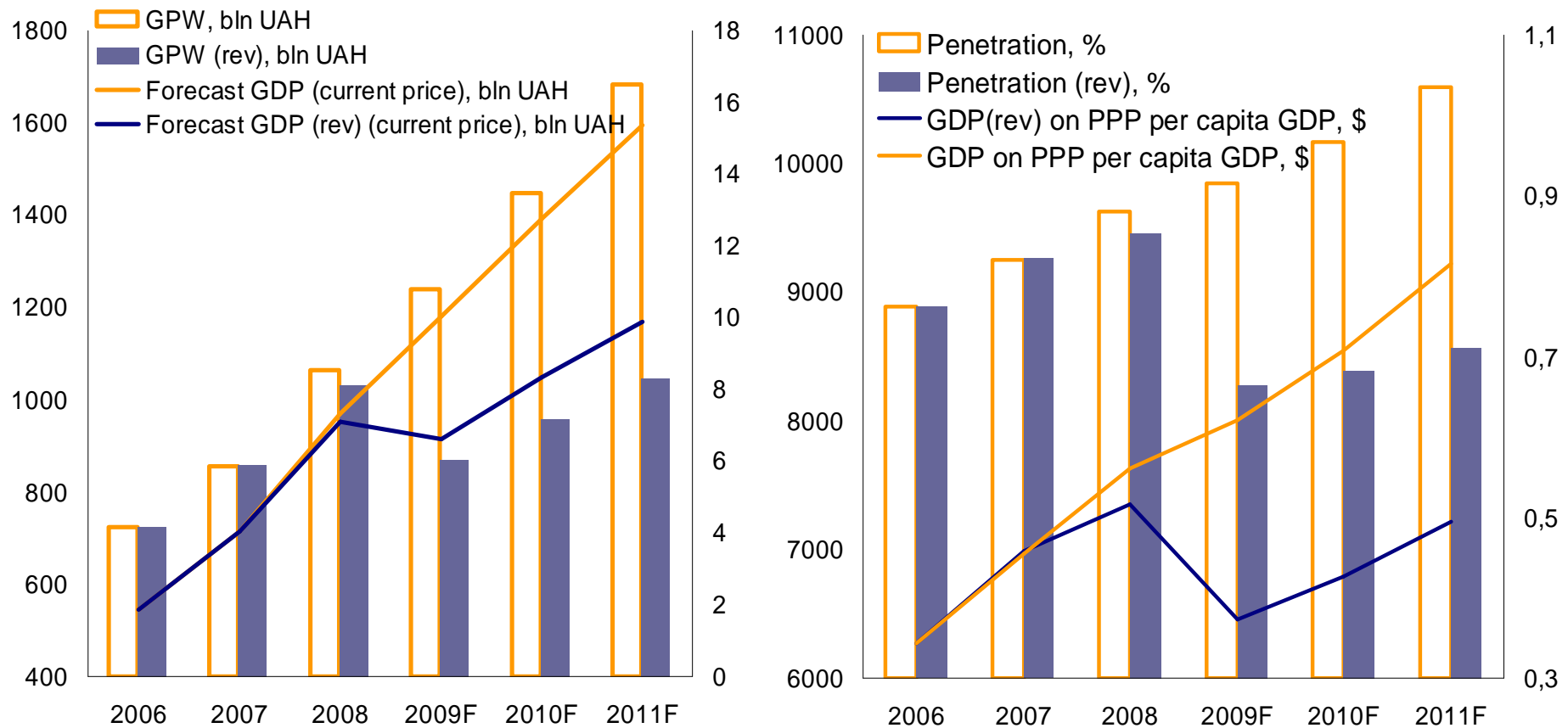
Actual Non-life and Life GPW relative to GDP, % (Carter & Dickinson - 1992, Enz - 2000)



Source: Dataset: Insurance indicators Penetration. OECD.Stat (<http://stats.oecd.org/>), Ukrainian penetration based on NJSIC "Oranta" estimates of actual market net of captive business

Insurance Penetration in Ukraine

Actual insurance market (net of captive business)

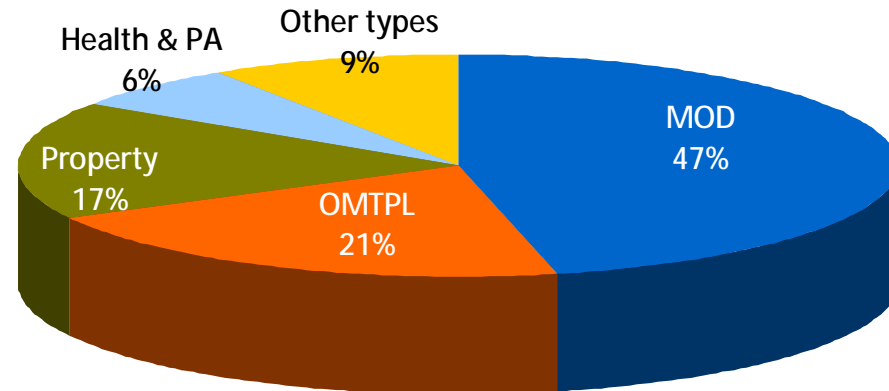


Pre-crisis and crisis estimation of gross domestic product from a database IMF, World Economic Outlook

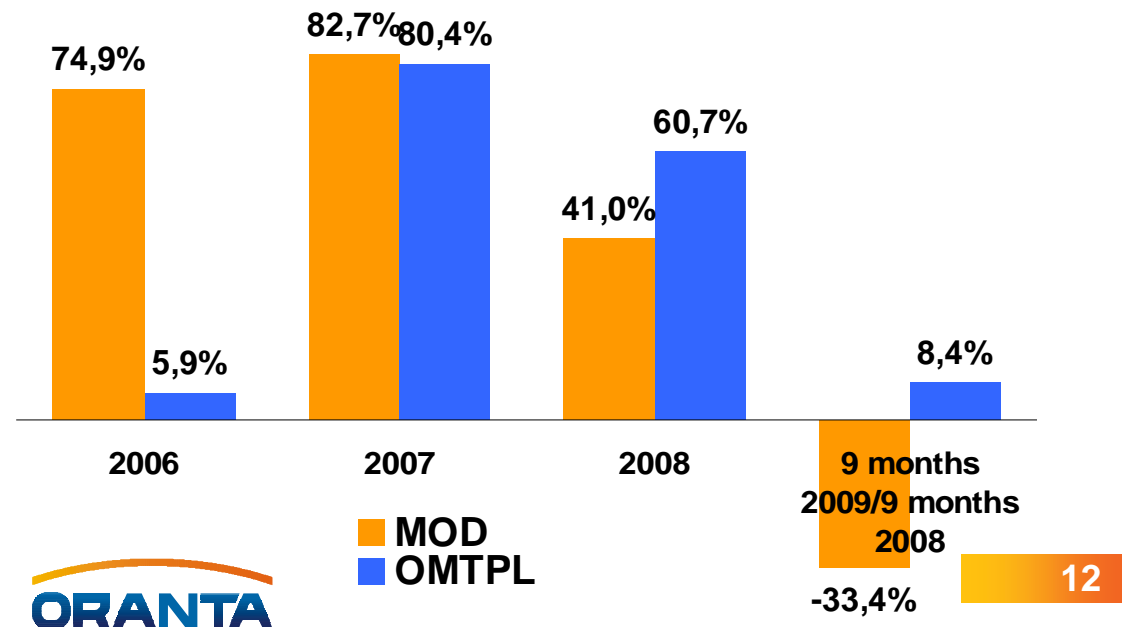
Structure of the Ukrainian Insurance Market

- ✓ Share of the motor vehicle related insurance increased to 63% of the non – life insurance premiums in 2008
- ✓ In 2008 6.7 mln. motor third party liability (TPL) policies sold
- ✓ The third largest non-life segment is property related types of insurance with 19% of market premiums (2008)
- ✓ OMTPL and MOD insurance segments was the fastest growing segments with 60% yoy and 43% yoy growth respectively (2008)
- ✓ MOD insurance segment is leading the fall – with 33,4% (9 months 2009 on 9 months 2008)
- ✓ OMTPL insurance segment is growing – 8,4% (9 months 2009 on 9 months 2008)

Actual insurance market segments, 2008



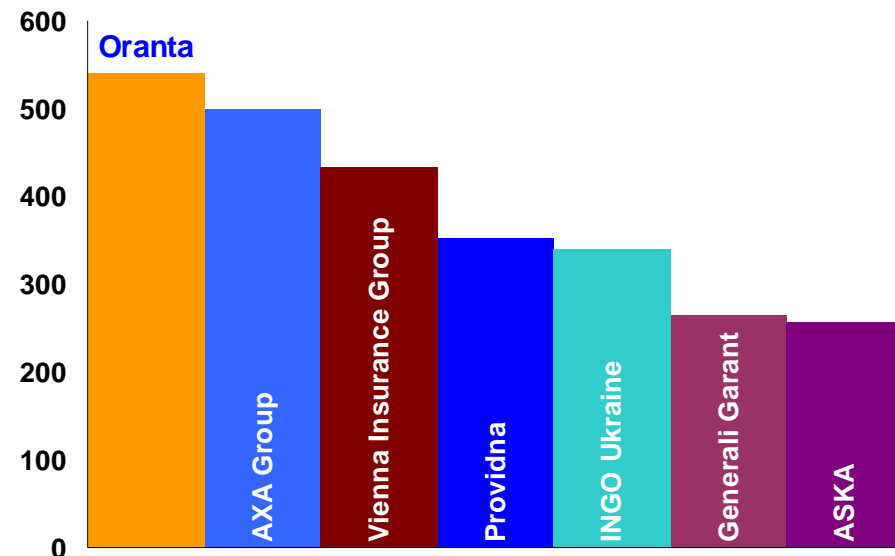
Motor vehicle insurance, growth/drop



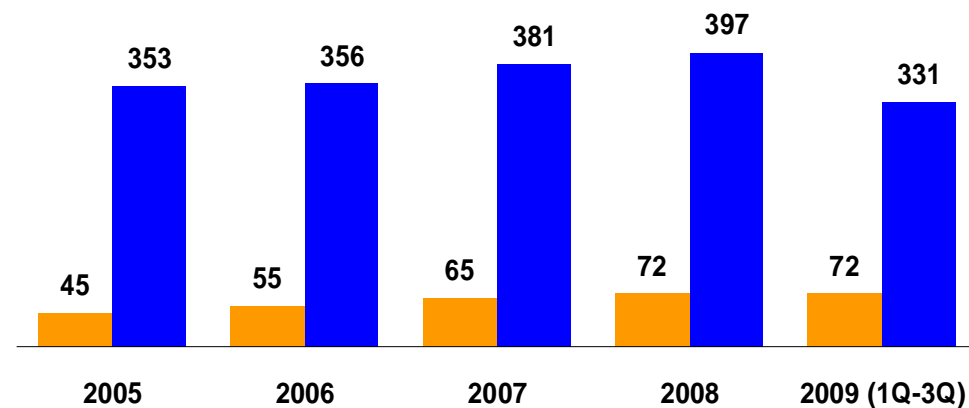
Competitive Environment

- ✓ “Oranta” is the largest company with the market share of about 11,5% of actual non-life market
- ✓ Top 7 insurance companies in the actual non life market by GPW: Oranta, AXA Group, Providna (Rosgosstakh group), INGO Ukraine (Ingosstrakh group), ASKA, Generali Garant, Vienna Insurance Group*
- ✓ According to experts’ estimates less that 100 companies operate in the actual non life market
- ✓ Above 200 companies booked less than \$1 mln in premiums in 2009
- ✓ Foreign insurers entered Ukrainian market: Generali, Allianz, Zurich, AXA, Vienna Insurance Group, UNIQA, Ingosstakh, Rosgosstrakh, PZU

TOP7 Ukrainian insurers, GPW bln. UAH 1Q-3Q 2009



Insurance companies registered



* Based on data of the Committee for Regulation of Financial Services

Summary

Insurance market growth due to low penetration

Based on estimations adjusted for insurance “schemes”, in 2008 non-life insurance premiums accounted for 0.8% of GDP. Strong economic growth potential, large population and underdeveloped market in Ukraine promise spectacular growth compared even to the peer group of countries

Consolidation and capitalization

The Committee for regulation of financial services will impose stricter regulatory requirements for insurance firms. The customers will show higher loyalty rate to the companies with good quality of service and reputation. The leading companies will increase their customer base at the expense of companies exiting the market.

Captive schemes on decline

Improvement of financial stability. Insurance supervisory forces companies to walk away from scheme business and take a more careful approach in allocation of reserves and capital.

Transparency is increasing

Similar to Russia there is a significant reduction in “grey schemes” business. IFRS accounts are slowly becoming the normal practice.

Strong growth factors in the long term

Economic growth potential, regulatory requirements, rising of the real disposable income and increasing middle class, development of the financial sector, increasing awareness of insurance services protection etc. all will contribute to the high growth rates of insurance industry



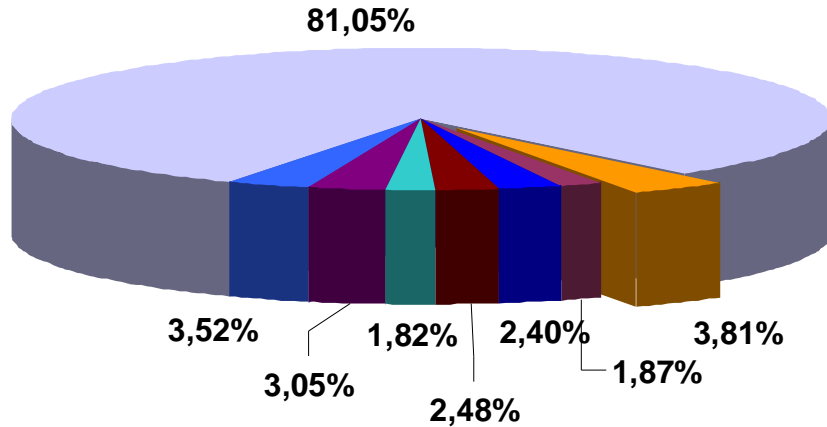
The Leader in the Non-Life Insurance Market

- ✓ TOP 7 non-life companies
- ✓ ORANTA performance and market share, 2005-2009
- ✓ Oranta Portfolio. Key business lines
- ✓ Oranta' distribution platform
- ✓ Oranta' financial performance 2009
- ✓ Response to the crisis

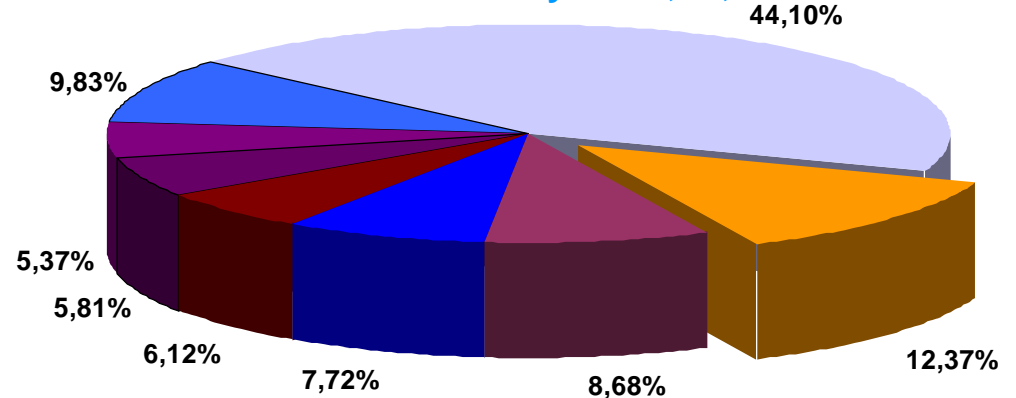


TOP 7 non-life companies

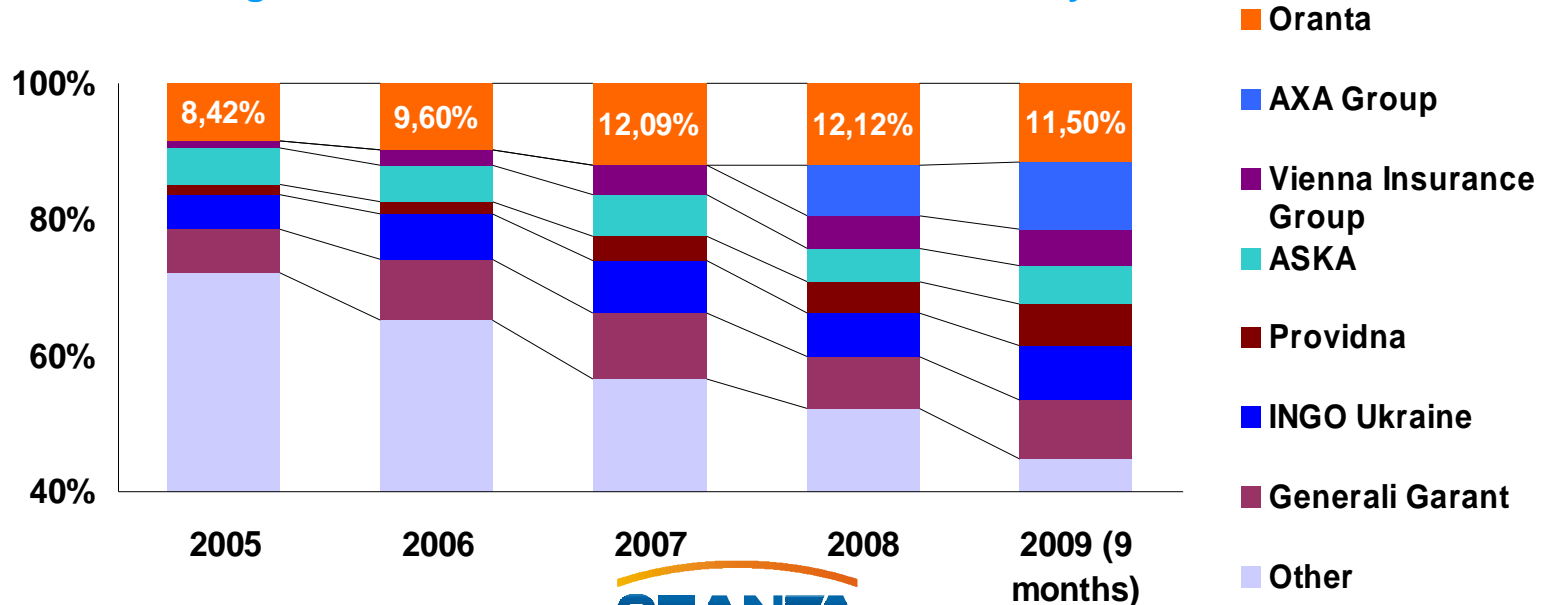
TOP 7 non-life companies in the overall insurance by GPW, %, 9 months 2009



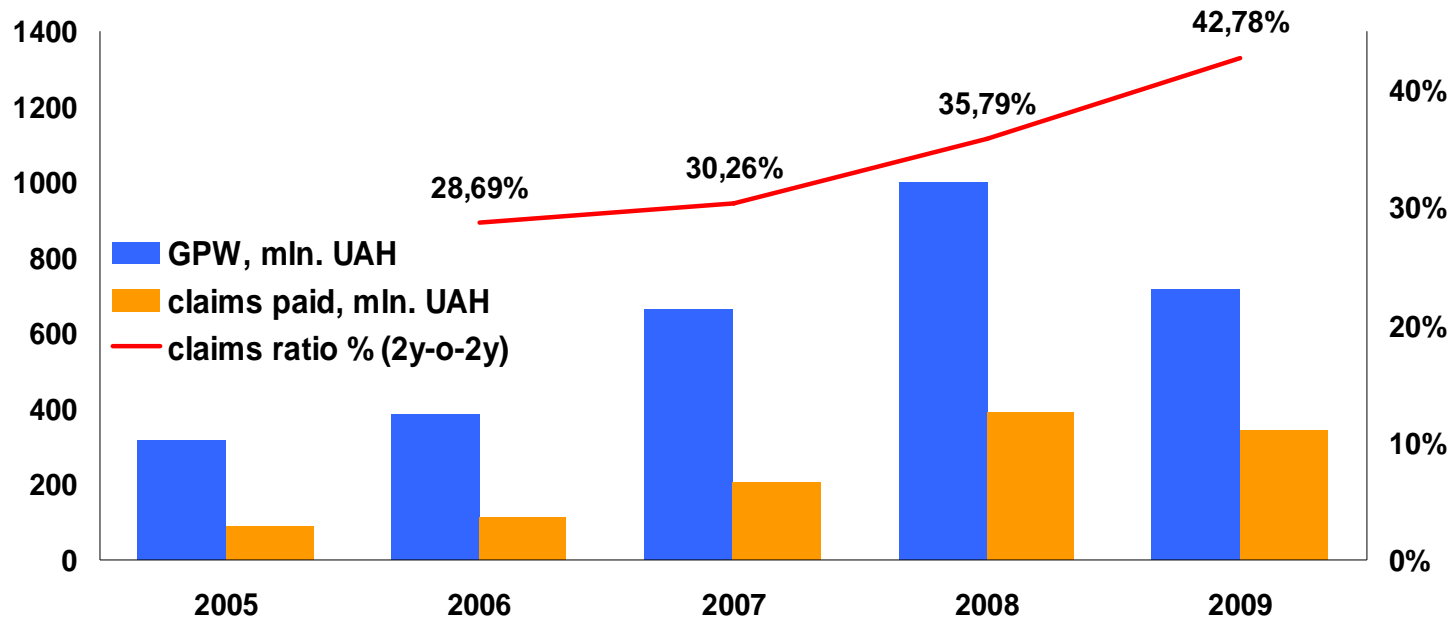
TOP 7 non-life companies in the actual non life insurance by GPW, %, 2009E



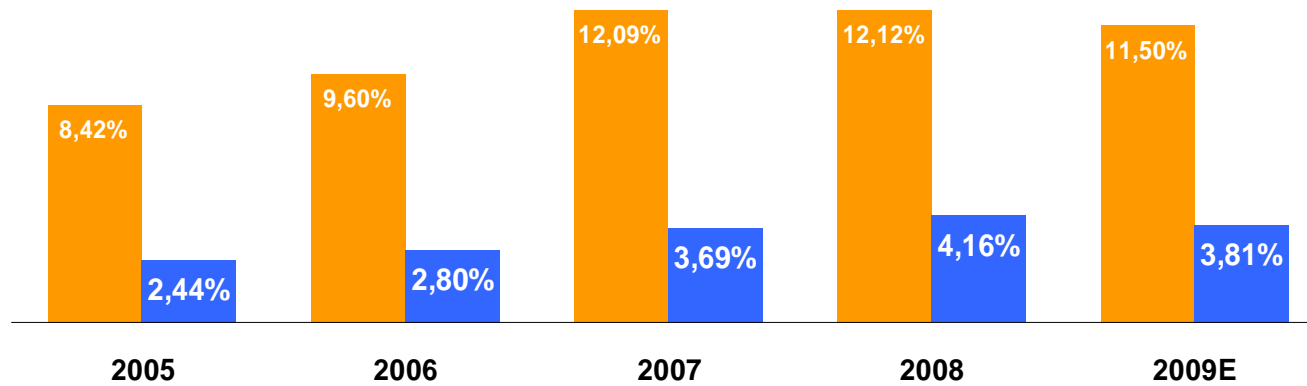
Largest insurers in the actual non life insurance by share, %



ORANTA performance and company market share, 2005-2009

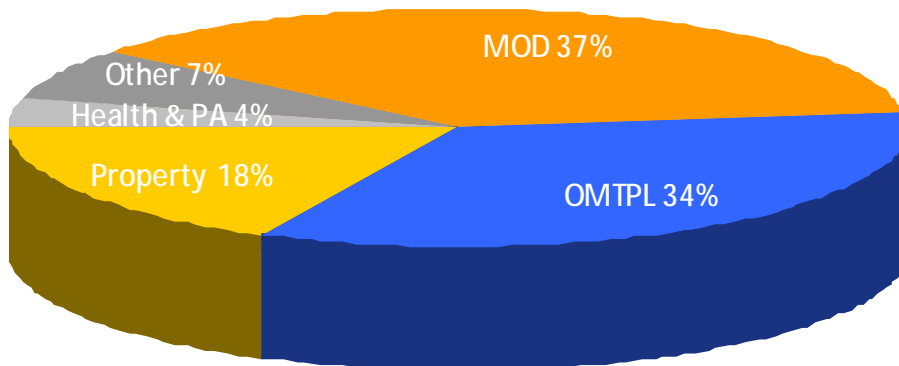


■ share in the actual market, % ■ share in the overall market, %

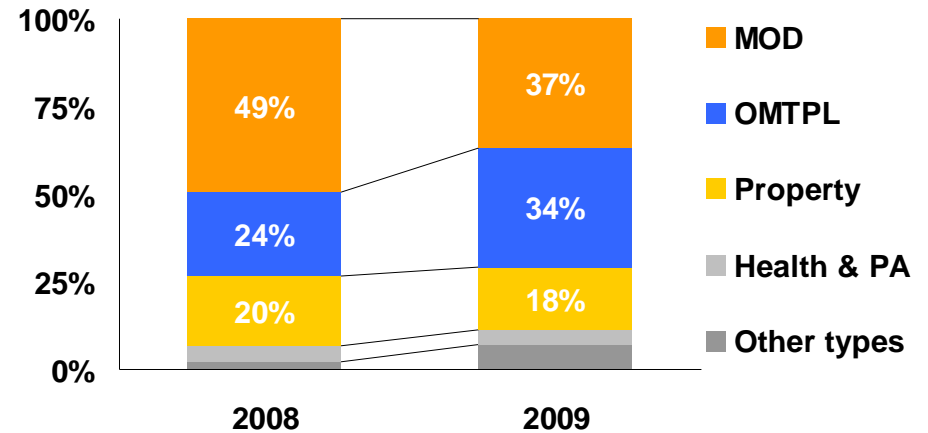


Oranta Portfolio. Key business lines

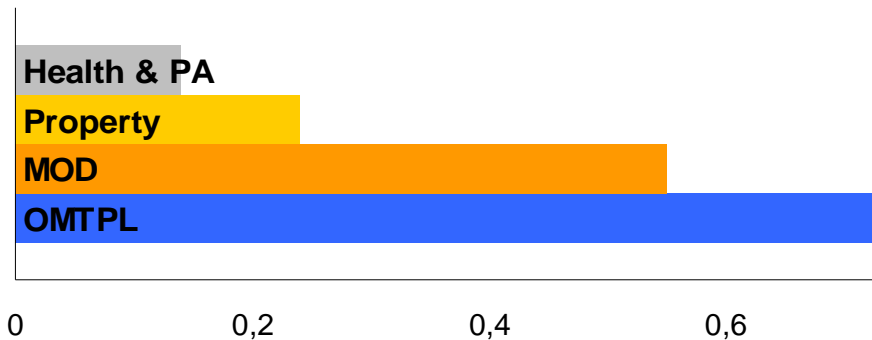
Oranta Portfolio, 2009



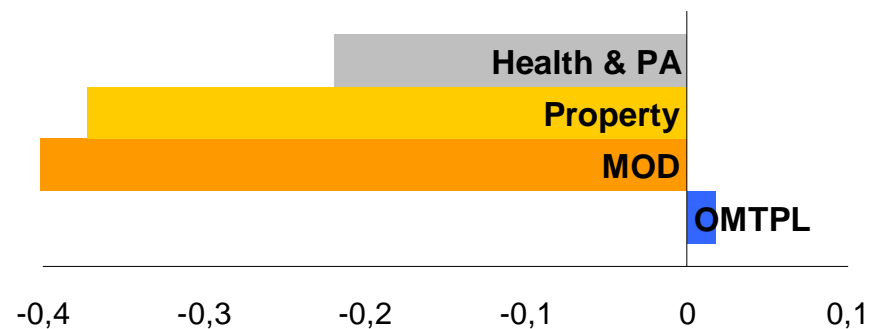
Oranta Portfolio, 2008 to 2009



Business lines growth, 2008 yoy



Business lines growth/drop, 2009/2008

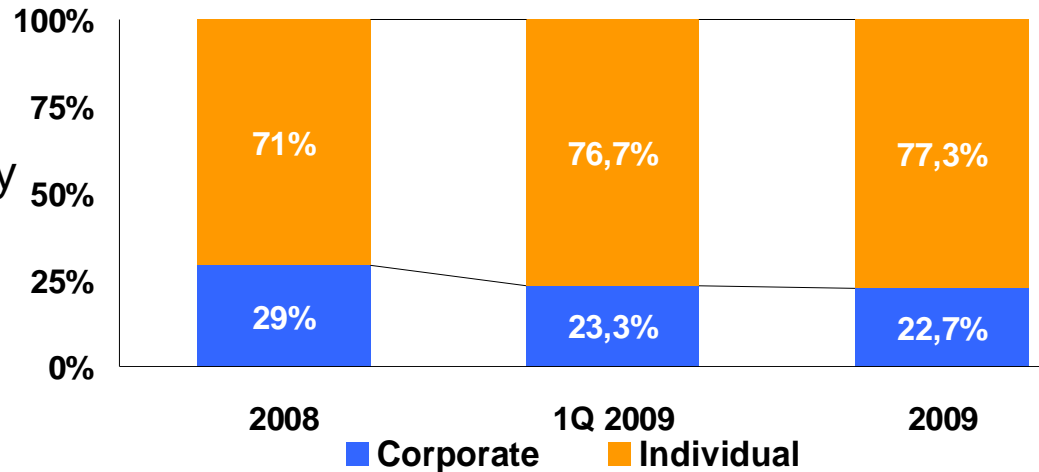


- ✓ NJSIC "Oranta" OMTPL insurance grew 1,8% 2009 on 2008 while market posted 4,7% growth respectively
- ✓ NJSIC "Oranta" MOD insurance dropped 41,4% 9 months 2009 on 9 months 2008 while the MOD market was down 33,4%

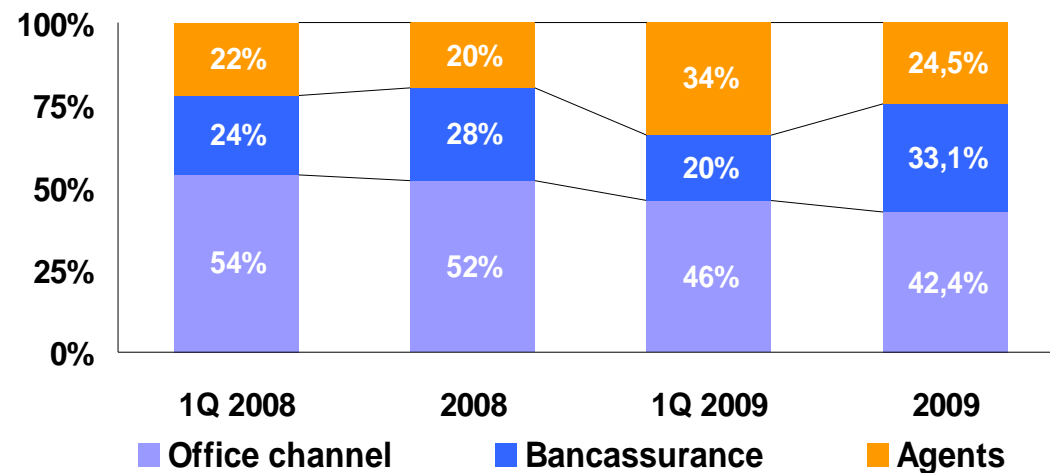
Oranta' distribution platform

- Oranta has traditionally focused on retail segment; the sales to individuals account for 71% of company revenue in 2008 and 77,3% in 2009
- Oranta diversified distribution channel mitigated the sales slump through the bancassurance channel
- Extensive network of agents contributes to the insurance contracts renewal and cross selling
- Oranta leverages on exceptional regional presence beyond reach of closest competition in the next 3-5 years

GPW by clients type



Distribution channels



Response to the crisis

Economic
downturn

Stock market
slump

Currency
depreciation

Banking
freeze

Real estate
value drop

- ✓ General economic crisis (2009/2008 y-o-y):
 - ü industrial output down 21,9%,
 - ü loans in the economy down 2,8%,
 - ü new car sales down 69.9%
- ✓ Insurance market decrease (2009/2008 y-o-y):
 - ü general market down 23% (including captive business),
 - ü companies' (UFU) insurance premiums down 20,23%,
 - ü MOD down 26,46% (UFU)
- ✓ Bancassurance:
 - ü insurance premiums in bancassurance down above 40%, (2009E)
 - ü practical freeze of mortgage financing and auto loans
- ✓ Insurance reserves inaccessible in the banks with NBU temporary administration – above 1,2 billion UAH (2Q 2009)
- ✓ Sharp depreciation of insurance companies assets: stock market values and company net assets value substantially declined
- ✓ Insurance companies solvency levels decreased:
 - ü 90% delay compensation payments including 40-50% of insurers do not pay insurance compensations,
 - ü dumping pricing policies more frequent

Response to the crisis

✓ Regulator response to the crisis: State Commission on Financial Services:

- ü tighten policies to enforce solvency requirements
- ü planning temporary administrations in insolvent insurance companies
- ü planning Insurance compensations' guarantee fund
- ü strengthen financial reporting requirements
- ü promote new obligatory types of insurance
- ü received the rights to control the Credit history bureau

✓ Market response to the crisis:

- ü Insurers resort to dumping pricing policies
- ü Insurance tariffs increased in MOD, OMTPL and other property and casualty types of insurance
- ü Insurance claims is up due to UAH depreciation
- ü Reduction in sales' commissions
- ü Sharp increase in fraud schemes
- ü About 50 insurers may exit the market
- ü Delays in insurance compensation payments
- ü The staff reduction in insurance sector is estimated at 20000 people
- ü Police enforce OMTPL policies controls

✓ NJSIC "Oranta" response:

- ü Introduction of more client risk profile oriented tariff policies,
- ü increase of weighted average tariff rates
- ü Changes in insurance contractual terms that decrease insurance risk
- ü Targeting more "balanced" diversified insurance portfolio
- ü Vigorous antifraud measures
- ü Review underperforming branches

- ü Focus on customer retention, new customer loyalty programs
- ü Continue leveraging on the large customer base by cross selling and changing added risk premiums in line with customers' insurance history
- ü New insurance programs (products)
- ü Investment in low cost sales channels
- ü Review commission and sales incentives policies
- ü Targeted marketing and media campaigns

- ü Reduction of fixed administrative costs
- ü Operating costs reduction through restructuring and IT solutions
- ü Staff reduction

Oranta Vision

- ✓ SWOT Analysis
- ✓ Corporate Strategy
- ✓ Corporate Restructuring
- ✓ New stock issue
- ✓ Summary



SWOT Analysis

Strengths

- ✓ recognized and trusted brand name
- ✓ the largest distribution network
- ✓ multi-channel distribution capability
- ✓ large customer base
- ✓ market leader in key segments
- ✓ reengineered processes for underwriting, claims, sales and distribution
- ✓ experienced and professional team

Weaknesses

- ✓ customer service still not ideal
- ✓ high customer acquisition costs
- ✓ underdeveloped IT infrastructure

Opportunities

- ✓ capitalize on new products
- ✓ utilize cross-selling opportunities
- ✓ increase sales force productivity
- ✓ enhance loyalty programs
- ✓ complete image transformation
- ✓ implement IT system to increase efficiency
- ✓ continue improving core processes

Threats

- ✓ aggressive competition from foreign companies
- ✓ worsening of the country's economic situation
- ✓ continued political instability
- ✓ world financial crisis

Corporate Strategy

- Retain growth rate above the industry average
- Increase non-life insurance market share to 15% by 2011
- Increase GPWs to 0,88 billion UAH in 2010
- Improve Oranta combined ratio to 96% and expense ratio to 43% by 2011
- Diversify non-life insurance product portfolio
- Boost customer service quality through development of our servicing subsidiary Garant Assistance
- Further develop diversified distribution model
- Introduce best practices in underwriting policies, claims management, planning & controlling and corporate governance
- Complete IT infrastructure redesign (implement INSIS by FADATA) to increase efficiency

Corporate Restructuring

DONE OR CLOSE TO COMPLETE

- Company re-branding
- Division of commercial and retail distribution
- Separation of claims management from sales
- Re-design of product lines
- Transfer of claims assistance to an outside firm
- Reorganization of offices and branches
- Review of financial, business and operating models
- Approval of internal audit procedures
- New incentive scheme for sales agents

PLANNED FOR NEAR FUTURE

- Sustain annual GPW growth rate above the actual non-life insurance market
- Close unprofitable branches
- Further develop other (indirect) distribution channels
- Implement new client servicing standards within Garant Assistance
- Complete installation of insurance IT system (INSIS by FADATA)
- Improve management IT system
- Implement new risk management tools
- New remuneration model for personnel
- Business strategy focused on shareholder value creation
- Compliance with generally accepted corporate governance principles
- Implementation of best practices in internal auditing and control
- Developing internal IFRS reporting capabilities

New stock issue

Additional equity capital allocation

OPPORTUNITIES	STRATEGY	INITIATIVES/PROGRAMS	CAPITAL ALLOCATION
<ul style="list-style-type: none"> § Capitalize on market shares of insolvent companies exiting the market § Take a leading position of new obligatory types of insurance, introduction of new types of insurance to target segment and emerging needs § Capitalize on strong national representation through further development and national service coverage § Cross selling and loyalty programs § Sales force productivity § Enhancement of company image of leading and reliable company in distressed market § Restructuring and core processes enhancement § Corporate governance principles 	<ul style="list-style-type: none"> § Position company as a universal non – life insurer with the widest range of insurance coverage products § Capitalize on renewal of rapid expansion of retail segment § Retain growth above market § Set standards in service quality and expand national coverage § Diversify portfolio § Actively develop new low cost distribution channels § Improve combined ratio to 96% and expense ratio to 46% § IT infrastructure as a key competitive advantage § Brand development 	<ul style="list-style-type: none"> § Introduction of new loyalty programs § Promoting obligatory insurance through Ukrainian Insurance Federation, participation in Insurance Pools § Large scale image and products' promotion campaigns § Oranta online, selling over the phone § INSIS by FADATA, user web-interface, Cognos improvements, information security § Training, recruiting and new incentive schemes and promotions for agents § Opening new points of sale in underrepresented regions § Operating processes reorganization (back and front offices) § IFRS accounting transformation 	<ol style="list-style-type: none"> 1. Marketing and sales 2. Distribution development 3. IT 4. Personnel training and development 5. Restructuring 6. IFRS capability 7. Solvency requirements 8. Government relations

Summary

Leadership

- ü Market share at about 11,5%, with a Top-1 position in non-life
- ü Leadership in MOD, OMTPL, medical and property insurance (principle of diversification)
- ü Leadership in regions of Ukraine
- ü Growth of GPW above actual market growth`

Management and HR

- ü Highly experienced, entrepreneurial and well-regarded management team
- ü Good level of HR (developed skills, high qualification, professionalism)
- ü Effective system of motivation

Customer oriented company

- ü Customer service quality best –in-class
- ü Monitoring of customer satisfaction
- ü High level of customer loyalty
- ü Strong distinctive brand name

Financial strength

- ü Target to keep Combined Ratio below 96%
- ü Capital adequacy and real assets
- ü Growth of capitalization
- ü Leverage cross-sales and improving branch efficiency through centralizing back and middle office functions

Corporate Governance

- ü Transparency and disclosure (financial and non-financial)
- ü Independent audit for 2007 and 2008 by one of the Big 4 companies

Growth and scalability

- ü Geographical expansion
- ü Possible regional M&A – the successful experience of company acquisition and integration
- ü Positive IRR for investment projects – strong requirement
- ü Achieving efficient integrated IT system

Business Diversification

- ü Active development of non-motor segments
- ü Expansion into other business lines: pension products, asset management, banking products, including mortgage loans, credit cards, auto and consumer loans