INSURANCE EVOLUTION
we are developing together with you
LEADERSHIP
VSK operates since 1992 and is one of the recognized leaders in the insurance services market of Russia.

TRUST
VSK protects over 10 million Russians and more than 130 thousand enterprises and organizations.

RELIABILITY
Every year VSK confirms the highest national rating of A++ "Exclusively High Reliability Level" according to Expert RA Rating Agency.

SCALE
Regional VSK Network consists of more than 600 branches and offices in all subjects of the Russian Federation, allowing for efficient support of the insurance contracts and settlement of losses in the entire country.

MERITS
The high level of Company's work has been recognized by the professional associations and experts of the insurance market and was twice honoured with Commendation of the President of the Russian Federation for the great input into the development of the insurance business (in 2002 and 2007). VSK is a prize winner at "Company of the year 2013" National Competition in the "Insurance Company" category.
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Dear Ladies and Gentlemen!

In 2014 the Russian economy has undergone considerable changes, which influenced business as well as the end users. Underwriters encountered a difficult situation, carrying a double burden. On the one part we must faithfully perform our obligations in full, and on the other part we must maintain our stability.

The last year for the insurance industry experiences stricter control over the operations of market participants from the Central Bank. Despite all the strictness of demands I believe that the events initiated will definitely result in invigoration of the market, and implementation of the international standards of financial reporting will make it more transparent and stable.

I can confidently say that I have all grounds to be proud of the professional work of VSK staff in the new conditions. We managed to not only reduce the costs but also to increase the efficiency of the company’s business processes. A Road Map was developed as part of the VSK development strategy, which includes the main tasks for the mid-term. As a result of the incurred measures the company’s net income based on the annual results has almost doubled.

The balanced approach to the portfolio formation under various business lines guarantees the financial stability for VSK, and the product offers conforming to the market demand with the high service level secure the stability for the company’s customers and partners.

We have passed strict check and proved once more our ability to meet our obligations in full despite the circumstances. Implementation of the plans included in the strategy together with coordinated work of the professional team will let us confidently meet the new challenges of the market!

Chairman of the Board of Directors of IJSC “VSK”
Sergey Tsikalyuk
Dear Ladies and Gentlemen!

Summarizing the year of 2014, we are glad to mark the high level of trust from our customers and partners. During the past year we provided insurance protection to over 130 thousand of organizations and over 13 million citizens. Our work resulted in risks coverage amounting to over 2,480 trillion rubles. The net company income has almost doubled compared to 2013 and amounted to 497 million rubles.

The constant increase in the technical level of our business, development of the new products and sales channels is an integral part of our work. The main accent in 2014 was made on the “box” proposals – simple and understandable, which aim to assist in protecting yourself, your relatives and property from the most common risks. VSK Internet products line was supplemented with proposals on life, health and property insurance of the individuals and four-folded growth of the amount of sales of our insurance policies for people travelling abroad via site confirmed the increasing consumer’s interest in online insurance.

While confirming its reliability, VSK stayed with its customers and did not transfer the offices for MTPL losses settlement for hundreds of kilometres away. The Company has once again demonstrated its capacity of quality work under any, even the toughest conditions.

In the situation with mass bankruptcy of tour operators we have once again proved that we can be trusted. Despite a large inflow of applicants we managed to precisely arrange our work and meet our obligations in full. Within the shortest terms employees of VSK all over the country have accepted and considered about 32 thousand applications, and made over 180 million rubles of payments.

Thanks to the daily work on improvement of the products and service quality we provide professional financial protection to the businesses and population. We strive to change the attitude towards the insurance by forming a responsible approach to the own welfare in the peoples’ consciousness.

General Director of IJSC “VSK”
Oleg Ovyanitskiy
VSK MISSION AND VALUES

Mission
We strive to be a company of the national scale and importance that will change the attitude towards the insurance in Russia, having proved that it can be based on partnership and trust.

- We develop the insurance market paying special attention to economics of the regions
- We support our corporate customers and partners in their attempt to build a stable business
- We consider performance of all of our obligations as the main condition for insurance development in Russia
- We build long-term and mutually beneficial relations giving confidence to the people and safeguarding their familiar lifestyle

Values

Honesty and Openness
We believe that only open and honest relations can be called partnership. All the work between the company employees and sub-divisions, as well as with all the partners and customers is based on the honesty and openness principles.

Focus on the common result
By interacting internally, with our customers and partners, we base on the idea that we are doing a common business, we have common goals, achievement of which is beneficial for all of the participants.

Respect for each employee, customer and partner
All our colleagues, customers and partners deserve equal respect.

Professionalism and development
For the whole team to be strong, each of its members should share the company philosophy, be a part of the whole and perform the tasks posed to them the most effectively. It is important for us not to stop where we are, but persist in perfection and development. As true professionals we are always ready to take on the responsibility for our deeds and actions.

Succession and traditions
Maintenance of the established and creation of new traditions is an integral part of the company’s corporate culture. Our history is the experience and knowledge allowing us to succeed.
INSURANCE MARKET IN 2014

According to the results of 2014 the total amount of insurance premiums (excluding obligatory health insurance) amounted to 988 billion rubles, having exceeded the indicator of the similar period of the last year by 9.2%. The amount of compensations has increased by 12.2% and reached 472 billion rubles. Against the background of growth of the main insurance market indicators the compensations ratio has reached 48% according to the results for 2014 (47% in the previous year).

Collections and payments in the Market

Insurance share in GDP increased to 1.39% in 2014 (1.36% in 2013). The same can be said about the share of population’s spending share on insurance from the total costs of households for consumer goods. In 2014 it amounts to 1.4% vs.1.3% in 2013.

The main contribution to the collection amount was from such insurance types as comprehensive auto insurance (218.6 billion rubles), property insurance (201.9 billion rubles), MTPL (150.9 billion rubles), voluntary health insurance (124.1 billion rubles), life insurance (108.5 billion rubles), accident and illness insurance (95.5 billion rubles) and civil liability insurance (37.9 billion rubles). Positive dynamics is observed in all of the segments.

The number of companies operating in the market continues to decrease stably. Overall, there were 404 underwriters registered in the register of subjects of insurance business at the end of 2014. The sector was deprived of 16 players over the year. The share of 10 major companies increased by 2 percentage points and reached 59%.

VSK Positions in the Insurance Market

According to the results of 2014 VSK has demonstrated stable growth in priority insurance types and took the sixth place by the revenue amount in RF. VSK share of the insurance market amounted to 3.8%.

VSK steadily stays in TOP-5 of insurance companies of the RF in such categories as MTPL (3rd place with the market share of 5.5%), obligatory civil liability insurance of the hazardous facility owners (3rd place with market share of 10.6%), accident and illness insurance (4th place with market share of 5.2%), citizens’ property insurance (4th place with market share of 5.8%), comprehensive auto insurance (5th place with market share of 6.0%).

The Company’s insurance portfolio remains one of the most balanced in the market. At the same time it conforms to the general collections structure in the RF by separate types as well as by obligatory and voluntary segments of insurance.
Insurance requires maximal precision and operational efficiency in the solving tasks.

Thousands years ago the human race learned to use the simplest computing devices.

The progress gave us innovative means for data processing, which assist in quality management of the processes on any level.
KEY PERFORMANCE INDICATORS

According to the results for 2014, the Company demonstrated stability of the key financial indicators:

- insurance premium for 38.5 billion rubles was signed
- insurance compensations for the amount of 21.2 billion rubles were paid that is 2.7 billion rubles more than in 2013
- portfolio loss ratio, as the main parameter describing the quality of insurance portfolio and re-insurance coverage, as well as justification of the tariffs used, amounted to 58%
- profit before taxation amounted to 734 million rubles, which is 315 million rubles more than in 2013
- net profit amounted to 496.9 million rubles
- return on equity reached 6%, which is 2% more than in 2013

Capital

According to the results for 2014 the Company’s own capital exceeded 9.3 billion rubles and made up 20.6% in the balance liabilities structure.

Structurally the capital is distributed as follows based on the results of 2014:

- authorized capital – 3 650 million rubles (39.3% of equity)
- additional capital – 1 648 million rubles (17.7%)
- reserve capital – 275 million rubles (3%)
- undistributed profits – 3 720 million rubles (40%)

Actual solvency margin exceeds the standard by 3.5 billion rubles. The excess amounts to 59.8%.

Insurance Reserves

The created structure and amounts of insurance reserves adequately reflect the Company insurance liabilities. The insurance reserves amount to 29.1 billion rubles with their share in the liabilities balance making up 64.6%.

According to the results of 2014 the structure of the capital is distributed as follows:

- unearned premium reserve – 12.9 billion rubles (44.2% of the insurance reserve amount)
- loss reserve – 15.3 billion rubles (52.6%)
- equalization provision – 0.93 billion rubles (3.2%).

VSK is a profitable Company in all key business areas. Achievement of such results became possible thanks to regular monitoring of tariffs, insurance portfolio quality and balanced reinsurance coverage.

Actuarial Policy

The Company actuarial policy is aimed at achievement of the maximum insurance business profitability in the long-term period via implementation of the tariff policy accepted in VSK with unconditional fulfilment of the liabilities accepted by the Company and the standards of the regulatory bodies for solvency and financial stability.

Actuarial service’s main activities are:

- tariffication of new insurance products
- the Company portfolio quality monitoring for the available insurance products and business areas
- assessment of the Company insurance liabilities based on the modern actuarial method
- assessment of reinsurance coverage of the Company portfolio, determination of optimal self-retention level and fair reinsurance price
- insurance compensations amount, insurance reserves and insurance portfolio quality forecast for the purposes of budget planning
- management of acquisition costs to get maximal margin from the insurance portfolio being formed.

The classical as well as original approaches and methods are applied to the specified insurance types. Namely, the multidimensional analysis method is used to analyse the initial data (OLAP – cubes), the regression models are used for budgetary planning, and approaches using the generalized linear models are used for the tariffication. Large data arrays are being processed using modern server SQL technologies.

The special type of the actuarial policy - operation within professional unions of insurers and, namely, actuaries to develop the measures for the macroeconomic stabilization of the insurance market under the conditions of slowing down economic growth as well as cooperation with the Bank of Russia in creation of the institute of master actuaries.
Insurance Portfolio Protection

Risks reinsurance is one of the key factors in ensuring the Company’s financial stability. One of the most effective risk reinsurance systems in the Russian insurance market is created in VSK. The Company thoroughly analyses the activities and financial situation of the reinsurance companies and cooperates with the most reliable of them with high international ratings of financial stability.

The following main obligatory agreements were in effect in 2014, ensuring complex and qualitative protection to the portfolio: Swiss Re, Hannover Re, Partner Re, Lloyd's etc.

The premiums on outgoing reinsurance in 2014 amounted to 1 253 million rubles. Effectiveness of reinsurance coverage is confirmed by high volume of compensations received from the re-insurers for large losses, paid by the Company to the insured and re-insured parties. Thus, in 2014 VSK received 169 million rubles as reinsurance compensation. The amount of the declared loss on re-insurers' share as of December 31, 2014 amounts to 1.27 billion rubles.

Assets Management

The investment strategy selection is dictated by the objectives set to the Company, the main of which are related to assets management:

* ensuring required solvency and, accordingly, high assets liquidity
* ensuring investments recoverability, and, accordingly, minimization of different risks, accompanying investment activities
* ensuring the competitive level of profitability of the investment portfolio

The Company applies centralized assets management. Based on the results of 2014 VSK income from investment activities according to IFRS amounted to 2 billion rubles. The amount of income is registered under the conditions of significant improvement of the creditworthiness of the Company’s investment portfolio.

In light of the difficult situation in the financial markets in 2014 the Company was actively increasing the share of emitters with investment and sub-investment rating in the investment portfolio. The duration of the securities portfolio was also significantly decreased to reduce sensitivity to high volatility of interest rates.

VSK bank deposits portfolio is composed by 80% with the banks with international rating agencies' rating of at least BB-, VSK
People always strived to protect themselves behind impregnable walls and solid gates. Gradually the structures became more complex and stronger, architects were looking for new solutions, and technologies were helping to create comfortable living conditions.

In the insurance business, just as in construction, using of modern technologies and new opportunities allows to protect people from unforeseen circumstances.
RESULTS OF INSURANCE OPERATIONS

Type of Insurance

Company Property Insurance

While maintaining the leading positions in the corporate client’s insurance market, VSK preserves a significant share in the corporate property insurance market segment. The Company takes effective measures in expansion of sales of corporate property insurance through own branches and agent network, expands work with large federal companies.

In 2014 VSK continued expansion of its interaction with companies from the different market segments: energy, petrochemistry, transportation machine building, and agriculture. Priority is still given to insurance of retail sector, fitness centres, medical institutions, public catering and hotel business companies. And the insurance products are adapted for the needs of specific clients. The Company actively participates in insurance auctions conducted by budget-financed organizations.

Traditionally, VSK remains the leader in insurance of pledged property and leased out property, facilitated by long-term partner relations and joint work on improvement of the services provided to the common clients.

VSK maintain long-term partner relations with its key clients and attracts new significant clients.

Our clients include:


Our insurance portfolio structure:
Agricultural insurance products take account of all requirements of the credit organizations for the insurance protection conditions and individual wishes of clients, allowing for more comprehensive insurance coverage of risks.

The level of responsibility of the Company just for agricultural animals insurance in 2014 amounted to 25 billion rubles.

In evaluation of the risk and settlements of losses in the agricultural insurance the Company cooperates with independent expert organizations and experts - specialists in crop and animal farming, including certified by the Ministry of Agriculture of Russia. VSK is a member of the Union "Single union of agricultural insurers - National union of agriculture insurers", which provides additional protection for the agricultural insurance agreements with state support from the compensation payments fund established by the union.

VSK portfolio in agricultural risks is reliably protected by the leading global reinsurers, reliability of which was confirmed by years-long partnership and experience in receipt of real payments.

In this sector the Company has set growth points that foresee expansion of insurance in federal districts of RF by types of agricultural animals (including fish, aquaculture, furbearers insurance) and expansion of insured areas of winter and spring-planted agricultural crops.

During the past year VSK was actively developing business processes automation technologies: introduced in the commercial use new product "WEB - property" based on automatic underwriting of corporate property insurance agreements that takes into account specifics of the assets insured.

This product covers the entire insurance agreement conclusion process: from filling-in of an electronic application by the client, the data from which is automatically sent to an insurance policy, to billing and conversion of concluded and paid for insurance agreement in the Company's database. Technical capabilities of the product allow not only for prompt preparation of insurance policies, but also significantly reduce the risk of human errors during preparation of agreements, as well as comprehensive analytical analysis of the insurance portfolio.

The methodology insurance base underwent significant review and expansion, allowing for maximum adaptation of VSK products and services to our clients' needs. The Company has developed and implemented new editions of rules of insurance of corporate property, specialized machinery, and rail transport.

Competence of the staff is achieved through regular training using the most advanced technologies.

Agricultural Risks Insurance

For over 20 years VSK hold stable leading positions in the classical agriculture insurance market, providing insurance services in crop and animal farming, on commercial basis and with state support under Federal law dated 25 July 2011 No. 260-FZ "On state support of agriculture insurance and on amendments to Federal law "On agriculture development".

In 2014 the Company has concluded over 1200 insurance agreements with agricultural producers in 64 regions of the Russian Federation.


VSK is a strategic partner of banks issuing credits to agricultural enterprises, including: OJSC Sberbank of Russia, OJSC Rossiyiskiy selskohozyaystvenniy bank, OJSC Vozrozhdeniye, OJSC Gazprombank, Vnesheconombank Group, OJSC VTB.
Insurance of Construction and Installation Risks

In 2014 VSK continued active operations in the CIR and builders’ civil responsibility risks, firmly staying among the leaders in these types of insurance.

Formation of CIR and builders’ responsibility insurance portfolio was strongly affected by legislative and economic changes. Starting with the second half of 2014 the costs of insurance was excluded from consolidated cost estimates, causing transition to CIR insurance at the cost of subcontracting organizations without compensation of costs of insurance by the clients. The said changes lead to decrease in the insurance charges in 2014 compared to the results of 2013.

Nevertheless, requirements for CIR insurance at the contractor’s expense remain in many construction contracts and agreements, thus providing for the real insurance protection of newly built or reconstructed facilities at the minimum rates.

Insured assets in 2014 included construction projects in various sectors, mainly road, residential, administrative and social sector construction facilities. Insurance premiums collection in 2014 amounted to 791 million rubles.

CIR insurance portfolio

Crisis events in the economy affected the portfolio of builders’ civil liability insurance within SR0. Due to reduction of financing and lack of orders part of the construction companies ceased membership in SR0, and, therefore, there is a decrease in the number of potential insured parties. Also, some of SR0 decided to organize collective insurance of their members and refuse individual insurance. In spite of the difficulties, based on 2014 results the amount of insurance fees was 285 million rubles, the Company continues to hold a leading position in this segment.

VSK monitors market dynamics and holds an active position, participating in various contact groups on these types of insurance, in meetings of NOSSTROY committees. Today the Company gives much attention to collective insurance of civil liability, develops new approaches and forms of insurance documents.

Insurance of Aviation Risks

In 2014 VSK confidently holds the leading positions in the insurance of comprehensive aviation risks and liability, occupying sixth spot in premiums collected.

The total premiums collected were 490 million rubles. Compensations 69 million rubles.

VSK clients include air carriers and avia enterprises from Russia, neighbouring and remote foreign countries. In addition to Russian air carriers and enterprises VSK provides insurance to planes from CIS countries, Middle East, Africa, Australia and Scandinavian countries. During the year the Company has concluded 1 200 comprehensive aviation risks and liability insurance agreements.

VSK clients can take advantage of complex air carriers’ proprietary interests insurance programs, as well as separate insurance products for all types of aviation risks. VSK provides insurance protection in almost every region of the world, offering the highest level of service and quality of insurance agreements support.

VSK has effective comprehensive aviation risks reinsurance agreements with up to USD 20 million limits and liability insurance up to USD 75 million with worldwide coverage.
An undoubted advantage of VSK is insurance coverage on all stages of development, production, transportation and operation of space equipment, and insurance ground-based infrastructure staff, insurance of liability of to the third parties engaged in space activities, accident insurance of specialists from the search and rescue crews of the Ministry of Emergency Situation of Russia during search and rescue operations.

In 2014 VSK continued taking active part in insurance of international space risks.

### Insurance of Cargo and Carriers' Liability

High demand of transportation companies for insurance protection of cargo haulage remained in 2014. Cargo insurance is demanded by transportation operators not only as an integral part of the services offered to the clients, but also as the most efficient method of protection from possible claims from the cargo owners.

Since the liability insurance does not give full protection of the carriers' interests, more and more transportation companies are viewing cargo insurance as the only guaranteed instrument for protection of their interests and preservation of relations with the clients in case of damages during transportation.
In 2014 we continued active conclusion of cargo insurance agreements with transportation and forwarding sector companies. VSK has continued and expanded cooperation with such large companies as: LLC ITEKO, LLC Company Alidi, LLC LTK, LLC Logistics Solutions, LogLab, LLC FNS SNG, STS Logistics, LLC SPSR-Express, First Logistics Company.

Being an insurer of majority of the biggest Russian banks for many years, VSK has accumulated and is successfully applying significant experience in development and sale of cash transportation insurance products.

In spite of effect from international sanctions and difficulties with reinsuranse in 2014, by applying the accumulated experience the Company concluded new and extended previous agreements for special defence industry cargoes insurance with such large enterprises as: VPK NPO machinostroyeniya, OJSC OPK Oboronprom, OJSC Scientific Production Corporation Uralvagonzavod of F. E. Dzerzhinsky, OJSC CNII Burevestnik, NPO Basalt.

According to the data of Russian Statistics Agency, in 2014 the volume of cargo haulage by organizations involved in all types of economic activities (without private pipeline and rail transport) amounted to about 6203.4 million tons. According to the analysis of the modern cargo insurance market in Russia share of insures cargo turnover does not exceed 20%.

The selection of competitive cargo insurance products for various areas of the economy will be the growth vector of VSK in the cargo insurance market in 2015.

Continuing active work with passenger carriers, VSK has maintained 6% share of revenues from obligatory carrier’s civil liability insurance. Among permanent VSK clients for this type of insurance: CJSC PAK-Invest (Kazan), OJSC Tihoretskoye PATP, OJSC Avto-kolonna-2068, MUP Borskoye PAP, MUP KPATP No. 5, MUP PATP-1, OJSC Kimskoye ATP, CJSC Yaroslavl Transport Company.

Legal Entities’ Liability Insurance

In 2014 the Company continued active work on obligatory insurance of liability of owners of hazardous objects for damages caused by accidents at hazardous objects, which allowed it to maintain 3rd place in insurance premiums collection and number of agreements in this sector of the market.

Based on the results for the reported period VSK has also established itself in the professional liability insurance market. This was contributed to by successful implementation of the program for cooperation with the professional markets participants and expansion of the active contacts with non-commercial partnerships, unions and self-regulatory organisations (SRO) from various areas of professional activities, in particular, with such institutes as notarial chambers of subjects of RF, SRO of arbitration administrators, guilds of real estate professional and many others. Today VSK is certified in more than 60 of such unions.

Increase in the fees for manufacturers’ liability insurance allowed the Company to become one of the top-10 leaders in this type of liability insurance. In 2014 VSK continued cooperation in this area with such biggest enterprises as: OJSC "Perm Motor Plant", "Corporation Uralvagonzavod", "Miratorg Group of Companies", "Saint-Petersburg OJSC "Krasniy Oktyabr", OJSC "218th
Aviation Repair Plant”, OJSC 123rd "Aviation Repair Plant”, OJSC "Urals Civil Aviation Plant" and many others.

Key clients in general civil liability insurance include network of coffee shops "Shokoladnitsa”, network of optics shops "Linz-master”, network of stores "L’etoile”, chain of stores "Dixi" and others.

In 2014 the Company continued modernization of the liability insurance product line and today offers more than 90 civil and professional liability insurance programs. Among the new ones - liability insurance for enterprises - sources of high risk.

In addition to that the Company carried out preparation work for launch of product “Insurance of cost of localization and liquidation of emergency situations and responsibility for consequences of fires”.

Due to enactment of Federal law dated 23.06.2014 N 169-FZ "On amendments of articles 31 and 61 of the Federal law "On mortgage (real property pledge)”, VSK together with the All-Russian Union of Insurers (AUI) prepared and approved the Rules of borrower's liability insurance for violation of obligations under agreements. The Company’s product line was also supplemented with Creditor’s financial risks insurance rules.

Being a member of AUI and the National Union of Liability Insurers (NULI), VSK takes an active part in the work to change regulatory documents that govern the operations of the said unions, and legislative acts. In particular, under NULI and with active participation of VSK changes were developed to the Federal law dated 27 July 2010 N. 225-FZ "On obligatory civil liability insurance of owners of hazardous object for damages caused as a result of an accident at hazardous object" that presume, in particular, increase in the insurance coverage for some hazardous objects, increase in the payment limits claimants, and expansion of the list of recipients of payments. The final version of the document was agreed with the Ministry of Finances, Central Bank and other agencies, and is waiting for its consideration in the State Duma of RF.

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Auto Insurance

In 2014 the total amount of VSK auto insurance premiums has exceeded 22 billion rubles, where voluntarily auto insurance policies account for 13.2 billion rubles, and MTPL agreements - 8.3 billion rubles. The amount of premiums from corporate comprehensive coverage has increased significantly from 4.23 billion rubles in 2013 to 5.56 billion rubles in 2014.

According to the results for 2014 VSK holds third place among insurance companies in revenues from MTPL with 5.4% market share, and 5th place in comprehensive coverage revenues with market share of 6%.

It should be mentioned that 2014 turned out to be one of the most difficult years in the entire auto insurance history in modern Russia, which was caused by rapid depreciation of ruble relative to foreign currencies and significant increase in the cost of repairs of motor vehicles.

Implemented in 2014 new methods of insurance portfolio forecasting and management using generalized linear models on the basis of Emblem software complex allowed VSK to promptly react to changes in the macroeconomic conditions and preserve the auto insurance profitability on the planned level.

Changes in the economic conditions and falling sales of motor vehicles with credit financing raised consumers’ interest in cheaper products of voluntarily auto insurance, allowing to in-
Citizens’ property and liability insurance has once again demonstrated significant growth rate - 25%, while keeping high margin and insurance portfolio profitability indicators, overall and for separate product groups.

Active development of the product line and changes in the model of motivation of selling units allowed to expand Company’s presence in the regions and strengthen its positions in the citizens’ property insurance market.

The Company remains in the TOP-5 of insurance companies for citizens’ property and liability insurance, demonstrating revenues of over 2.4 billion rubles.

In order to support dynamic growth of this insurance area, since 2014 the Company is actively reorienting its product line, developing “targeted” insurance solutions sold through different channels and allowing for maximum satisfaction of the citizens’ demand for insurance.

Citizens’ property and civil liability insurance portfolio structure (except for automotive)

Since 2014 the Company is actively modernizing current and developing new IT solutions to simplify the business processes of conclusion, support and regulation of insurance agreements.

Development of Internet insurance products in 2015 will allow the clients to purchase long-term and short-term (for a period of vacation) policies without additional time spending on visits to the Company.
**Mortgage Insurance**

VSK is among the leaders in the Russian market in mortgage insurance. In spite of significant decrease in the growth rate of this insurance market segment, in 2014 the Company did not lose its position and continues to successfully sell complex mortgage insurance services, actively developing partner relations with national and foreign credit organizations. High indicators of mortgage insurance portfolio demonstrate its high stability and profitability.

Development and implementation of new IT solutions in 2015 will allow for prompt resolution of current operational issues with interaction with the banks, which together with reduction of the tariffs will significantly improve the client orientation and competitiveness of the Company.

The year 2014 demonstrated improvement of efficiency of the business processes in mortgage insurance. A significant result was produced by automation of the business processes initiated in 2012 and allowing to substantially reduce the costs in mortgage insurance.

Once again VSK has confirmed the high quality of organization of process of losses adjustment in mortgage insurance: the market was shown promptness and client orientation in payment of insurance compensations to victims of floods in Siberian in the summer of 2014. The strategic initiative for 2014 - centralization of prolongation portfolio management, constituting up to 65% of VSK revenues from mortgage insurance. The expected growth of business indicators against reduction of the costs due to centralization of the processes shows that this initiative together with the already implemented ones will allow VSK to maintain its leading positions in the mortgage insurance segment.

**Voluntarily Health Insurance**

In 2014 VSK continued to move forward in the frame of adapted corporate strategy for VHI. The Company is actively expanding its VHI portfolio. With preservation of the planned profitability the revenues growth reached 39.9%, exceeding the market average indicator. In order to ensure dynamic growth of this type of insurance the Company has modernized the product line, developed new products, optimized business processes, updated the insurance rules and conditions.

Diversity of the products allows for efficient work in the corporate clients segment and in the citizen’s insurance segments.

Successful implementation of the voluntarily medical insurance program for foreign citizens "Everywhere like home" and "Medical aid for road accidents" program for citizens interested in insurance protection in case of road accidents helped to reach high results - the actual profitability of the products has significantly exceeded the planned one.

The Company has developed and implemented a new product for small and medium business - ready offer with fixed cost for groups of up to 100 persons.

In order to increase the volume and expand the territory together with "Best Doctors" company we have developed product "Medicine without borders" which includes healthcare services provision abroad. "BesDoctors" company is the leader in creation and management of unique healthcare programs that combine world-class medical expertise and provision of financial support in organization of high-quality medical aid anywhere in the world.

The program includes coverage for 5 types of treatment: oncology, coronary artery bypass surgery, heart valve transplantation, neurosurgery, transplantation of organs/bone marrow from live donor; second medical opinion from a foreign expert; arrangement and payment for transportation and living costs; provision of translation services; repeated treatment courses, support and payment for medicines after treatment.

In 2015 the Company plans to expand the product line by introducing VHI products with franchise, special products for privileged clients, "Second Opinion" product, etc.

Last year VSK actively developed technologies of automation of business processes - implemented web-solution for products "Everywhere like home", "Medical aid after road accidents" and "Anti-tick". Subsystems were improved (databases of medical institutions) as part of overall modernization of AIS LOTUS VHI. All these measures allowed for automation of ratification of medical institutions.

The year 2014 demonstrated improvement of efficiency of the business processes in mortgage insurance. A significant result was produced by automation of the business processes initiated in 2012 and allowing to substantially reduce the costs in mortgage insurance.

Once again VSK has confirmed the high quality of organization of process of losses adjustment in mortgage insurance: the market was shown promptness and client orientation in payment of insurance compensations to victims of floods in Siberian in the summer of 2014. The strategic initiative for 2014 - centralization of prolongation portfolio management, constituting up to 65% of VSK revenues from mortgage insurance. The expected growth of business indicators against reduction of the costs due to centralization of the processes shows that this initiative together with the already implemented ones will allow VSK to maintain its leading positions in the mortgage insurance segment.

Last year VSK actively developed technologies of automation of business processes - implemented web-solution for products "Everywhere like home", "Medical aid after road accidents" and "Anti-tick". Subsystems were improved (databases of medical institutions) as part of overall modernization of AIS LOTUS VHI. All these measures allowed for automation of ratification of medical institutions.

Today VHI is a profitable type of insurance, the portfolio structure is strictly balanced for price/quality/scope of services provided.

The analysis of financial indicators confirms the correctness of the course chosen by us. The priority task is ensuring efficient growth of the Company in the VHI market.
Health and Accident Insurance

For many years VSK has been one of the acknowledged leaders in the accident and health insurance market. Based on the results for 2014 the Company held 4th place with 5.2% market share in this type of insurance.

In 2014 the Company actively perfected use of IT in the accident and health insurance sector. Within its own front system the Company has consistently sold "box" accident ("Accident during car crash") insurance products, as well as multi-option universal products for accident and health insurance for car dealership clients, corporate borrowers of commercial banks.

In order to expand the corporate products line the Company got into highly specialized market segments requiring insurance coverage of military risks and terrorist - this gave insurance coverage to employees of Russian companies in Iraq and territories of other countries.

In 2014 the question of insuring journalists working in military conflict zones became very relevant. Importance of development of this business area is confirmed by draft law considered by the State Duma of RF on making corresponding changes in Law of RF "On mass media". VSK is actively insuring journalists, providing protection to this category of people all over the world, including zones of military activities and civil unrest. The Company cooperates with such organizations as FGUP MIA Russia Today, CJSC Television Company REN TV, FGBU Redaction of Rossiyskaya Gazeta, etc. In 2014 VSK paid compensation for tragic death of a Russian journalist in Ukraine.

Overall in 2014 VSK has concluded over 400 thousand agreement for accident and health insurance with physical bodies and over 20 thousand insurance agreements with legal entities. The Company’s clients include FGUP State Corporation for Air Traffic Control in the Russian Federation, FGUP Administration of In-house Security of the Ministry of Transport of the Russian Federation, LLC Lukoil-Energoseti, LLC Moscow Helicopter Plant of M. L. Mil and many others.

Travellers Insurance

In 2014 the amount of insurance premiums collected under travellers insurance program has exceeded 1 billion rubles, which is over 20% higher than in 2013. Compensations amount exceeded 300 million rubles.

VSK is a recognized leader in the travellers insurance sector. The Company has accreditation in all Embassies and Consulates. The biggest tour operators of Russia trust VSK with protection of their clients, such as: Biblio Travel, Tez Tour, Coral Travel, Odeon, Pegas Touristic, and others.

In the difficult for the tourism industry year the Company has meet its obligations in operators’ civil liability insurance, made biggest compensation payments in the history of this type of insurance to such companies as Labyrinth, Versa, Solvex Turne. The compensation amount exceeded 250 million rubles.

In April 2014 the Company has developed a new edition of Rules of insurance of medical and other contingency costs of individual leaving their permanent place of residence, allowing to reach a new quality level of service in settlement of insured events.

The Company continues to improve IT systems allowing to take the products and methods of their realization to a new, better quality level. The Company continues to actively expand the Internet sales, which in the near future will allow to fully meet all needs and expectations of the travellers in insurance.
Communication is a prerequisite for ordered organization of the society. Being an integral part of the modern human life, insurance uses the most innovative communication means. Modern and accessible communication is the cornerstone of quality organization of business processes and delivery of information to the insured parties.
Sales Channels

Direct sales in the corporate segment

Direct sales to the corporate clients in 2014 continue to be the most efficient sales channel in VSK. Revenues from insurance premiums amounted to almost 7 billion rubles. To make direct sales the Company has developed a vertical structure of universal client managers that allows for complex servicing of clients on all stages of economic activities pursuant to the identified demands.

• Building complex

During the pre-Olympic years the significant part of the construction and installation risks insurance agreements was oriented on construction of sports facilities and Olympic infrastructure facilities in Sochi. The total responsibility of VSK under the CIR insurance agreements at Olympic facilities exceeded 100 billion rubles.

The share of residential and industrial construction in CIR insurance agreements has increased in 2014. The insured projects include construction of Yuzhnyi block, cottage village in residential complex Novyi Vatutinki and residential complex Vershinino in Moscow, construction of residential complex Rozhdestvenskiy in Mytischi, and residential buildings with different numbers of floors in Republics of Dagestan and Tyva, Altay and Perm Krays, Novosibirsk, Omsk, Sahalin and other regions.

Among the industrial projects insured in 2014 - technical refurbishment and reconstruction of OJSC State Ryazan Instrument Building Plant Newly built and reconstructed power facilities, usually ordered by Interregional network companies, are insured in Bryansk, Voronezh, Volodga, Kursk, Lipetsk, Sverdlovsk, Chelyabinsk regions, Perm and Krasnoyarsk.

Starting with the second half of 2014 the insurance industry started transition to CIR insurance at the cost of subcontracting organizations without compensation of costs of insurance by the clients. Although funds for insurance are excluded from the consolidated cost estimates, many clients are more and more often including the requirements for CIR insurance in the construction contracts and agreements, thus ensuring the real insurance protection of newly built and reconstructed facilities at the minimum rates.

• Hazardous objects

The process of re-registration of hazardous objects was completed in the end of 2013. Therefore the number of hazardous objects in the country has reduced from 275 thousand to 190 thousand. Due to changes in the classification about 45% objects were removed from the register in March of 2013, and for some objects the hazard level was reduced together with the insured amounts.

In spite of a sharp contraction of the hazardous risks insurance market, VSK continues to occupy leading positions (3rd place for 2014 results and in collection of insurance premiums, and in the number of insurance agreements). And the share of VSK in hazardous objects insurance amounted to 11%.

Among the Company’s clients for several years there are such biggest enterprises, as OJSC "KAUSTIK", OJSC "Omskiy Kauchuk", OJSC "Schechinaoazot", "Kombinat Magnezit", OJSC "Amurgaz", OJSC "Syasskiy pulp and paper factory".

• Defence industry complex

Traditionally, VSK remains one of the main insurers of the national defence industry enterprises. The most demanded are Company’s services in insurance of their property, cargoes, transport, staff, and various types of liability. The Company's clients include: OJSC "Scientific-Production Corporation Uralvagonzavod", OJSC "Ul-an-Ude Aviation plant", OJSC "Rosvertol”, OJSC "KAMOB", OJSC "Moscow Helicopter Plan of M. L. MII", OJSC "Corporation Moscow Institute of Thermal Engineering", OJSC "Corporation Tactical Missile Weapons", OJSC "Air Defense Concern Almaz-Antei", OJSC "Concern Vega", OJSC "Concern Sozvezdiye".

• Agroindustrial complex and food industry

In 2014 VSK was able to preserve such large partners as APH "Mirovorg", OJSC "Sinergiya", CJSC "AVK Exsima", LLC "Prodimex-Holding", LLC "Russkoye Zerno".

Tender Sales

VSK is one of the leaders in the tender insurance products sales market.

In 2014 the Company has promptly redesigned its work due to changes in the legislation regulating procurements under Federal law dated 05. 04. 2013 No. 44-FZ "On contract system in procurement of goods, works, services for state and municipal needs".
The following objectives were set and achieved to meet this goal:
• for the most profitable types of insurance – citizens’ property (except for comprehensive insurance) and citizens’ accident and health insurance – increase in collection rates of current agents with profitable or mixed portfolios, attraction of new agents from the market
• for citizens’ comprehensive insurance – increase in the level of prolongation and growth of new business in target client segments through implementation of new profitable products with limited coverage corresponding to the key factors of consumer demand of owners of motor vehicles
• for MTPL insurance – preservation of business margin through focus on separate segments and increase in the cross-sales

The set objectives were resolved through:
• organization of system process of sales management, including operational management of agent network motivation and setting of focus objectives in monthly individual planned tasks of agent sales organizers
• start-up of the full cycle prolongation management system
• implementation of complex program for introduction of franchise and discount comprehensive insurance coverage products (product line update, training of chain in target products and sales skills in the current business situation)
• organization of training in forming of client demand in drawing up of obligatory insurance agreements;
• realization of motivational measures for improvement of the loyalty of the currently operating chain and hunting for specialized agents
• organization of “agent-handler” program allowing for reduction of permanent costs of agent network management system and attract established agent groups from the market
• development of franchise agencies

The described solutions allowed meeting the revenue plan in the retail segment by 105 %. The share of motor agreements with physical bodies on agent channel amounts to 62% in the monetary expression, the share of most profitable types (citizens’ personal insurance and property insurance) has increased and exceeded 17 %. The sales management system allowed 57 branches (over 75%) to fulfil the collection plan by more than 95%.

Retail Insurance

VSK carries out the entire cycle of organization and management of retail sales through agent channel and client rooms, as well as servicing of VIP clients of the Company.

The main goal of VSK operations in retail insurance in 2014 was improvement of the financial result through concentration of efforts on target client segments and most profitable products.
persons. The agents productivity indicators in 2014 have improved: for active agents the indicator has grown from 830 to 890 thousand rubles per year, including for “property type” agents - from 340 to 390 thousand per year, for “product type” - remained at 1.9 million rubles per year.

Overall, the retail segment with revenues of over 7.6 billion rubles in 2014 constituted 20% share in VSK portfolio.

**Affiliate Sales**

**Bank Insurance**

According to the results for 2014 VSK is still one of the leaders in the bank insurance market.

Efficient mutually beneficial cooperation with banks as with partners and clients is mainly implemented due to precisely built work of vertical structure of bank insurance in VSK branches, and due to possibility to offer banks and their corporate clients protection of risks and provide for high level of service in supporting and adjustment of insured events.

VSK is a partner of 409 banks in insurance of risks of corporate clients. 226 banks have entrusted VSK with insurance protection of proprietary interests and staff.

In addition to the classical cooperation options in mortgage insurance of banks’ corporate clients, another efficient growth point became start-up of a new web-product for banks’ clients in the micro-segment: accident and health insurance for small and medium business with unsecured lending.

In 2014 VSK jointly OJSC Sberbank of Russia began active development of proprietary types of insurance not related to credits. Based on the year results, the total amount of premiums amounted to just under 100 million rubles. The new technology can allow VSK to achieve planned indicators of 500 million rubles for this type of insurance in 2015.

In 2014 we have launched a joint project with 12 banks for accident and health insurance of borrowers in the SMB segment. The advantage from the projects implementation for the partner banks is the fact that software developed by VSK can be easily adapted to the demands of credit agreements of each partner.

VSK will service web-programs and train the banks’ employees. In order to connect to the software a bank employee has to simply enter a personal user name and password. Drawing up of a policy takes not more than 5 minutes. The convenience for the clients is the possibility to purchase insurance policies in bank’s offices directly from client manager without medical underwriting. Insurance amount for such policies cannot be reduced, and in case of loan repayment the beneficiary is the borrower himself.

Also at the end of 2014 the Company began development of new box products for small and micro business segment clients, which will be beneficial for clients and convenient for sales in partner banks’ offices.

**Leasing Companies**

In 2014 VSK maintained leading positions in the leasing operations insurance market, as confirmed by a diploma from Expert RA rating agency "Leader in leasing operations insurance". Another high mark from the market - trust from the federal and regional leasing companies, which is a result of years cooperation with the market leaders, and individual approach to each partner.

VSK provides reliable insurance protection to projects of the leading leasing companies, such as: CJSC Sberbank Leasing, CJSC Evroplan, LLC Karkade, GC Baltic Leasing, LLC Alpha-Leasing, KAMAZ-Leasing, LLC RaiffeisenLeasing, LLV Element Leasing, LLC Stone XXI, and many others.

VSK offers partner programs and solutions oriented at the specifics of work of each leasing company:

- conduction of joint actions with manufacturers and suppliers of equipment, special machinery
- monitoring of property provided on lease
- assessment of lease recipients
- installation of software developed for optimization of insurance agreements formalization by leasing companies employees

Being a member of United Leasing Association, VSK takes an active part in key leasing community events aimed at search for optimal business solutions for the industry.
Car Dealerships

Based on the results of 2014 VSK has maintained its leading positions in the segment of insurance sales in car dealerships thanks to implementation of new technologies for work with the clients, active cooperation with car manufacturers and banks, as well as provision of competitive in price and services insurance products. VSK is actively used "Motor vehicles insurance (with web interface)" system in the entire territory of RF and is constantly modernizing it. This program allows for optimization of costs and better quality control of compliance with the Company's tariff policy terms, as well as prompt selection of a service for the client that meets its demands.

In 2014 VSK continued to actively develop relations with car manufacturers and became one of the developers of "Honda Insurance" insurance program.

The Company continued to strengthen its positions in other previously launched insurance programs through its representative offices: Volkswagen, Audi, Skoda, Seat, Ford, Peugeot/Citroen, Hyundai, KIA. Insurance programs supported by car manufacturers - are special insurance conditions for those buying a new car from official dealers, and are designed to provide the car owner quality insurance protection for attractive prices. Special joint actions were launched to promote federal programs with the car manufacturers and support sales: "Goloye kasko" for KIA Rio, Ceed; "Spetstariff" for Volkswagen Amarok, Jetta; "Spetstariff" for Hyundai i40, ix35.

VSK holds leading positions in the market of sales through car dealers due to accreditation in all TOP-50 banks - leaders in the car loans market. The Company is an active participant and developer of joint programs with banks aimed at provision of beneficial insurance conditions. In 2013 the Company has implemented "Evrostandard" product for car loan borrowers of LLC Setelem Bank, which grants insurance protection for the entire loan term for an attractive lending rate. Many federal dealership chains have launched life insurance programs for thee clients, including as parts of car loan programs of partner banks.

From the perspective of cooperation with car manufacturers and dealers 2014 for VSK was the year when it has intensified work in two directions - receipt of new accreditations from importers and enhancement of efficiency of the current federal programs. Thus, in 2014 VSK became a rightful accredited insurer of the General Motors concern and has reached penetration level of 12%.

Also, VSK was able to win the tender for the right to participate in federal Mersedes-Benz Insurance program and for the first time take a significant share in executive-class cars insurance.

In the part of enhancement of the efficiency of the current federal programs with car manufacturers the Company was able to beneficially use the situation with car sales drop in the beginning of 2014 and, as a result, readiness of the car manufacturers to take steps towards the insurers. Thus, 2014 was the first year when was widely used the mechanism of comprehensive insurance policy dotation from the importer's funds (Mersedes, General Motors, Mitsubishi). At the same time, mid-segment brands (KIA and Hyundai) are positively reacting to the VSK initiative to fix the prices for spare parts on the official level without subsequent increase.

VSK continues to expand the line of products of trimmed format - began preparation of products "Kasko compact3.5" and "Trade in", that have produced high interest from such brands as Renault/Nissan, Ford, Volkswagen and Toyota.
Insurance does not stay still and constantly developing, preserving the most important inventions of the humanity.

An idea to preserve something that has been created over many years brings forward new insurance technologies and innovative solutions that take an important part in the complex mechanism of progress.
INSURANCE TECHNOLOGIES

Settlement of Claims
The most significant events in the area of claims settlements within the Company in 2014 became:
- changes in claims settlements under MTPL due to changes in the laws of RF
- crisis in the tour operators market in RF and insurance protection of consumers of tourism products
- development of the system of enhanced satisfaction of the clients with the quality of claims settlements

Key changes in the federal law on obligatory motor third-party liability insurance were reduction of the time for claim settlement to 20 calendar days, provision of possibility by the insurer to receive insurance compensation by the insured parties in the form of vehicle repair at a car repair shop, settlements using a unified damage calculation method approved by the Central Bank of RF, and introduction of mandatory claim stage for out-of-court settlement of a claim.

The Company has promptly changes the technology of claim review under MTPL and issued a unified complex regulation on settlement of claims under MTPL. Compliance with the provisions of the regulation and development of new work technologies allowed for achievement of the following results:
- the average settlement time was 12 calendar days
- 25% of clients received compensation under MTPL in the form of vehicle repair
- review of precourt claims under MTPL from applicants takes 1.5 working days

In the summer of 2014 the risks of impossibility of performance were applied by a number of tour operators. The Company ensured review of incoming claims from tourists within the terms set by laws. Because of these events we have considered 32 thousand claims and made over 160 million rubles worth of payments.

The Company continued to improve the level of satisfaction of the clients with the quality of the services provided in settlement of the claims: in the corporate website of the Company was added a form to get information on the status of case under comprehensive insurance and MTPL in the on-line mode, SMS and e-mail notification system of the status of property types of insurance and personal insurance including insurance for persons travelling abroad.

Partner relations of VSK in the area of claims settlements are being perfected to improve the comfort of communications between the clients and the Company. Thanks to a complex of measures implemented to change the conditions of interaction of the Company with auto service stations and introduction of a controlling system we were able to reduce the time required for acceptance of vehicle for repairs and terms for coordination of repairs between service centres and the Company.

Client’s satisfaction with the vehicle repair quality

![Client’s satisfaction with the vehicle repair quality chart](chart)

<table>
<thead>
<tr>
<th></th>
<th>Beginning of 2014</th>
<th>End of 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>88%</td>
<td>98%</td>
</tr>
<tr>
<td>No</td>
<td>12%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Evaluation of vehicle repair time by the clients

![Evaluation of vehicle repair time by the clients chart](chart)

<table>
<thead>
<tr>
<th></th>
<th>Beginning of 2014</th>
<th>End of 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs were done promptly</td>
<td>57%</td>
<td>81%</td>
</tr>
<tr>
<td>Acceptable repair term</td>
<td>28%</td>
<td>15%</td>
</tr>
<tr>
<td>Extensive repair term</td>
<td>15%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Thanks to these factors, the Company maintains reasonable combination of risk exposure and readiness to find complex solutions for the clients in protection of their material interests. At the same time guaranteeing stable long-term financial standing of the Company itself.

Even if a client’s request is relatively complex, VSK can offer individual insurance coverage conditions and costs. Flexible approach to evaluation of risk protection is a prerequisite for successful work in the insurance market, but at the same time retail sales laws pose high requirements for availability of ready solutions and ability to bring them to the clients. And here the team’s experience and availability of modern technologies allowed VSK of design an extensive line of ready insurance products, so the entire range of insurance services can be offered to each client.

Financial protection of insurance offers is always ensured by reinsurance programs of the leading Russian and international reinsurance companies and meets the highest requirements.

Differentiation of the product line allows VSK to equally efficiently work in the corporate clients segment, as well as in the physical bodies segment. Retail clients are offered a wide range of simple, including box products, allowing the client without any special knowledge to faster understand what insurance coverage exactly he needs and to save time spent on policy purchase. The Company also has high-class expert knowledge in development of individual box solutions for its partners’ clients.

The Company’s product line is thoroughly documented - processes of product development and their sale through the sales chain are united into single internal operations standards.

VSK is a Company with a high level of financial stability, so any of its clients, regardless of its insurance needs, can feel absolutely confident.

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Among the Company’s partners and counterparties there are 17 representative offices of vehicle manufacturers in RF, over 2.6 thousand service stations (most of which are official dealers), 345 independent expert organizations, 68 loss adjusters, 62 towing services and 130 international and Russian survey companies.

Overall in 2014 the Company has settled over 507 thousand insured events under property type of insurance, personal and liability insurance for the total amount exceeding 20.6 billion rubles.

Compensations amount in 2014

<table>
<thead>
<tr>
<th>Type of Insurance</th>
<th>Number of insured events, thousands</th>
<th>Amount of compensations paid, million rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL compensations</td>
<td>5071</td>
<td>20 621</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive auto insurance</td>
<td>176,7</td>
<td>9 999</td>
</tr>
<tr>
<td>MTPL insurance</td>
<td>173,2</td>
<td>5 049</td>
</tr>
<tr>
<td>Corporate property insurance</td>
<td>2,9</td>
<td>1 464</td>
</tr>
<tr>
<td>Citizens’ property insurance</td>
<td>3,7</td>
<td>323</td>
</tr>
<tr>
<td>Personal insurance</td>
<td>132,0</td>
<td>2 987</td>
</tr>
<tr>
<td>Liability insurance</td>
<td>18,3</td>
<td>652</td>
</tr>
</tbody>
</table>

Underwriting

VSK underwriting system combines two key elements of insurance company financial reliability development. First of all, these are high quality specialists involved in development of insurance products and evaluation of individual risks. Secondly, these are modern principles of organization of sales processes and information technologies.

VSK team - it’s a team of highest class professionals who have formed their competencies in the insurance market over many years.
Legal Support

In order to protect the legal rights and interest of insured parties VSK has a legal support system that has been successfully functioning for over 23 years. It includes employees of the Central office and over 148 lawyers in the Company's branch network, many of which with extensive work experience in the insurance market.

In 2014 the Company has strengthened and centralized the Legal department and made its operations more oriented on practical work with the branch office lawyers and direct conduction of the biggest cases.

The main direction of the legal work as an important element of economic safety and minimization of legal risks are:

- ensuring legality and justification of insurance compensations paid
- legal expertise of draft insurance rules and insurance agreements for their compliance with the requirements of laws, interests of insured parties and the Company
- protection of the Company's interests in arbitration courts and general courts
- identification and collection of losses from persons responsible for the losses compensated during performance of insurance agreement
- collection of overdue accounts receivable
- participation in identification and prevention of insurance frauds
- legal support for conformity of VSK operations to the legal requirements for clients' personal data protection
- representation and protection of the Company interests in controlling, supervision and court authorities during inspections, participation in auctions and tenders
- ensuring proper legal status of the regional network of VSK
- participation in the work of expert councils and work groups under the public authorities, All-Russian Union of Insurers, Russian Union of Auto Insurers, National Union of Agriculture Insurers and National Union of Liability Insurers

VSK clients who have insured their professional or civil liability in 2014 have not only received insurance protection, but also legal support from the Company.

For conclusion of insurance agreements with regular clients the Company's lawyer often goes on site and helps to go through the legal insurance perks and give required recommendations on selection of the optimal insurance protection option.

In settlement of the presented claims the Company's representatives take measures to resolve disputable moments, and VSK clients are able to get legal assistance from high-quality professionals in any region of Russia.

These and other measures allow VSK to not only maximally take into account the interest of insured parties, but also to consistently decrease the number of disputable situations from year to year.

In 2014 the court work found its reflection in automated system used for accounting of all claims received by the Company and results of their resolution.

This accounting allows to:

- better analyse the structure of declared claims, identify their reason and make required managerial decisions on reduction of court costs and improvement of the efficiency of litigation in general
- promptly identify and modify the procedure and terms of settlement at the pre-trial stage
- reduce the terms of payments on court orders.

The main VSK work principle - make everything possible to prevent court litigations with the clients and resolve possible conflict situation amicably in compliance with the principles of law and with respect of the rights of insured parties as consumers of the insurance services.

2014 became the year of close attention of the controlling and supervision authorities towards the activities of large insurers. This is confirmed by an increase in the number of inspections carried out by the territorial authorities of the Bank of Russia, Federal Antimonopoly Service of Russia, Federal Consumer Rights Protection Service of Russia, Investigations Office of RF and others.

The priority objective of such inspections is identification and termination of the rights of insured parties. In absolute majority of cases such inspections in VSK branch offices do not find any violations in insurance activities and protection of the consumer rights. This evidences, first of all, high professional level of the Company employees and proper organization of daily work aimed at strict observance of the RF laws.

Last year was marked by high competitive fight between the insurers during tenders, auctions and other insurance services procurement procedures. Today an insurer wishing to win a tender should not only meet the formal requirements of the law, but
have stable financial indicators of its activities, have successful experience and high quality of its employees, offer a potential client wide range of additional services related to performance of the insurance agreements.

**Subrogation Work**

One of the main priorities in the Company’s work in 2014 remains work on improvement of the quality and efficiency of subrogation rights realization. As a result of deep approach to resolution of this task the total amount of revenues from subrogation has increased compared to the previous period by 16% and reached 1.45 billion rubles. This was assisted by realization of large cases under special types of insurance.

Significant changes were made in subrogation work technology in 2014.

The subrogation rights realization methods are adapted to changes in the legislation, including FZ on MTPL, which allowed to reduce losses from motor types of insurance and improve the efficiency of work in realization of subrogation laws.

**HR Policy**

On 31 December 2014 the Company employed 5.6 thousand persons. Reduction of the staff numbers in 2014 compared to the previous periods under the conditions of increasing insurance premiums was accompanied by an increase in average salaries and labour productivity: in 2014 productivity has reached 178% of the 2014 level.

The demographic composition of VSK as of 31 December 2014 remains relatively stable.

**Demographic composition of VSK on 31 December 2014**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 30 years old</td>
<td>22%</td>
</tr>
<tr>
<td>30 to 60</td>
<td>30%</td>
</tr>
<tr>
<td>40 to 55</td>
<td>42%</td>
</tr>
<tr>
<td>over 55</td>
<td>6%</td>
</tr>
</tbody>
</table>

Improvement of the labour productivity is the result of complex work on improvement of the personnel quality.

The Company is perfecting its HR policy which is aimed at improvement of VSK attractiveness as an employer: implemented systematic corporate training aimed at improvement of qualification and support of the staff competencies in the current condition taking into account market demands; actively developing the HR reserve of perspective talented young workers, developing coaching and training by specialists of vertical business structures, increased requirements for candidates for vacant positions and quality of staff selection.

2014 became the period of active deployment of such com-
plex HR management programs, as evaluation and development.

The Company with direct participation of its business units has unrolled permanent assessment centre, has implemented “360 degrees” assessment capabilities, introduced standards of requirements for the competencies of employees and procedures of professional knowledge inspection, is actively using individual growth plans technologies for the key staff. At the same time the mandatory prerequisite for participation in assessment activities as an expert is passing of the required training.

The main results of the past year in training are:
• development of a corporate knowledge base corresponding to the requirements of business
• creation of tutors institute – trainers and experts from vertical business structures who directly participate in education as developers of training courses and tests, as administrators of specialized programs
• development of active and remote education methods
• maximum support of the business with education of all types

In 2014 VSK continued to create and develop traditions aimed at reinforcement of the corporate culture, involvement of the Company employees in regular physical education and sports exercises, popularization of healthy lifestyle.

A good practice became conduction of in-office gymnastics sessions for the Company employees during the work hours. Football and volleyball, table tennis and other individual sports, active team building activities are become more popular with support of the Company’s management.

VSK sports traditions got a noticeable development stimulus in all regional subdivisions in 2014. More than 40 branch offices took part in this work and formed programs of sports and health improvement work, thematic information stands, have organized the training process and are actively participating in regional competitions of various levels.

The First VSK Sport Games took place in 2014 as part of the sport traditions development project dedicated to 2014 Winter Olympics in Sochi. The Games passed in two stages (Novosibirsk, Moscow) in four types of disciplines: mini-football, volleyball, table tennis and darts.

12 teams from Novosibirsk, Tomsk, Kemerovo, Tyumen, Altay, Tver, Tela, Volgograd, Nizhniy Novgorod, Kaluga, VSK-Moscow branches and the Central office competed to win medals. The winner of the First VSK Games on the team level became the team of Tomsk branch, second place took VSK-Moscow branch, and the third place – Central office.
Even in the ancient time people tried to conquer the ocean of air to cover vast spaces by air.

Insurance, just as the modern air transport, does not have barriers in going through spaces or in possibilities to maximally promptly resolve issues anywhere in the world.

The geographic capabilities of insurance together with the benefits of progress create a powerful mechanism capable of resolving a problem of any complexity with the speed of an ultrasonic jet.
Central Federal District

Central Federal District occupies 3.8% of the RF territory and is the base macro-region of the country that sets the tempo of growth for the economy of the entire country. CFD is not only geographic, but also the financial centre of Russia. It accounts for about 40% of the total GDP, 21.6% of agricultural and 26.5% of industrial production of the country.

In CFD there are 17 branches, 153 offices and agencies operating. Based on the results of 2014 the Company holds 10th position in CFD in revenues with 3.4% market share.

Large clients in the district:

VSK portfolio structure by districts

VSK branches insurance portfolio in CFD
Privolzhye Federal District

Privolzhye Federal District occupies 6% of the RF territory and is one of the nation's leaders in industrial development, as well as one of the main agricultural districts of the country. The main areas of the economy in the district are: multi-industrial machine building and petrochemical complex.

In the district there are 15 branches, 79 offices and agencies operating. Based on the results of 2014 the Company holds 3rd position in PFD in revenues with 4.3% market share.

Large clients in the district:

North-western Federal District

10% of the RF territory belongs to the North-western Federal District. Access to the Baltic Sea, proximity of the Baltic States and Finland, and with well-developed Central district have a positive effect in the economic growth of the region.

The district has well-developed forest, wood processing and paper and pulp industry, instrument building and fishing. The district produces all types of ships and vessels for the national commercial and navy fleet.

In the district there are 11 branches, 51 offices and agencies operating. Based on the results of 2014 the Company holds 6th position in NWFD in revenues with 4.7% market share.

Large clients in the district:
Southern Federal District

Southern Federal District occupies 2.4% of the RF territory, is the key tourist region and has sufficient potential to convert into a world-class resort zone in time.

In addition to a well-developed sanatory-resort and tourist sector, the region has well-developed agroindustrial complex, agricultural machine building, food industry, metallurgy, chemistry and petrochemistry.

In the district there are 8 branches, 37 offices and agencies operating. Based on the results of 2014 the Company holds 2nd position in SFD in revenues with 6.8% market share.

Large clients in the district:
LLC PF VTS-Port, RA PK Delta-plus, PAO Astrahan Port, LLC Elektrospetsmontage, OJSC Caustic, OJSC ROSTVERTOL, OJSC ASTON food products and food ingredients, CJSC Don Tobacco, FGUP Rosto-na-Donu scientific research institute of radio communications, LLC Southern transportation company, CJSC Agrofirma Myshako, LLC Novointorg, JSC Kartontara, LLC Yuzhgasenergy.

Urals Federal District

Urals Federal District takes up 10.6% of the RF territory and is one of the richest with mineral resources regions of Russia. Over 65% of the national oil reserves and 75% of gas reserves are concentrated in the district’s territory. The district has significant deposits of iron, titanium-magnetic iron and copper ore, non-ferrous, precious and rare metals, precious and semi-precious stones. Leading areas of the region’s economy are fuel and energy complex, metallurgy and machine building.

In the district there are 7 branches, 37 offices and agencies operating. Based on the results of 2014 the Company holds 5th position in UFD in revenues with 4.6% market share.

Large clients in the district:
MUP Vodokanal, OJSC Urals Civil Aviation Plant, OJSC Kurgan Generating Company, LLC Kurganhimchak, OJSC Magnitogorsk Metallurgy Plant, OJSC Prokatmontage, LLC Tyumenstalsmost of Tyumen Komsomole, OJSC Urengoydorstroy, OJSC Kombinat MAGNEZIT, OJSC Yuzhuralzoloto Group of Companies, OJSC Agregat.

VSK branches insurance portfolio in UFD

VSK branches insurance portfolio in SFD
**Siberian Federal District**

Siberian Federal District occupies 30% of the RF territory and is the main transportation centre of Russia. Main transit flows of Russia (cargo and passenger haulage) pass through SFD from the European to Asian part of the country.

The leading areas of the economy in the district are: nonferrous metals industry, electrical power, forest, wood processing, chemical, petrochemical, food and fuel industry, machine building and metal processing.

In the district there are 12 branches, 38 offices and agencies operating. Based on the results of 2014 the Company holds 5th position in SFD in revenues with 5.1% market share.

Large clients in the district:
- OJSC OmPO IRTYSH
- OJSC OMUS-1
- OJSC DB of Transportation Machine Building, LLC Sovrudnik
- CJSC Noviy Enisey Forest-Chemical Complex
- OJSC Kuznetskiye ferospavy
- OJSC Belon
- OJSC EVRAZ ZSMK
- OJSC Sibneftegeofizika
- OJSC Movosibirskenergosbyt
- CJSC Company TransTelecom
- OJSC Ulan-Ude Aviation Plant, LLC Drostoyservice
- LLC Alpina
- LLC Vostok
- LLC Tomskvodokanal
- OJSC Tomsk house building company.

**VSK branches insurance portfolio in SFD**

- **Comprehensive auto insurance**: 29%
- **MTPL**: 21%
- **Personal insurance**: 19%
- **Property insurance (besides auto insurance)**: 6%
- **Liability Insurance (besides MTPL)**: 25%

**Far East Federal District**

Far East Federal District, with the greatest area, occupies 36% of the RF territory and is an important link in the country's economy. In the Far East there are 24 sea ports, their cumulative cargo turnover is 70 million tons or about 40% of the national cargo turnover. Far-east ports are used for foreign economic ties of Russia with many Pacific Basin countries.

In the district there are 11 branches, 18 offices and agencies operating. Based on the results of 2014 the Company holds 2nd position in FEFD in revenues with 11.6% market share.

Large clients in the district:
- OJSC Bamstroymehanizatsiya, LLC Amur Broiler
- OJSC Ship Repair Centre Dalzavod
- CJSC Far East industrial-construction company
- CJSC Kolyma production-commercial concern ARBAT
- OJSC Susuman mining combine Susumanzoloto
- FGBU Administration of sea ports of Primorsk Kray and Eastern Arctica
- Far East basin branch of FGUP Rosmorport
- GUP Kamchatka Aviation Enterprise
- CJSC Universal Leasing Company
- Holding Company Transbunker
- LLC Tomskvodokanal
- OJSC Tomsk house building company.

**VSK branches insurance portfolio in FEFD**

- **Comprehensive auto insurance**: 44%
- **MTPL**: 21%
- **Personal insurance**: 19%
- **Property insurance (besides auto insurance)**: 17%
- **Liability Insurance (besides MTPL)**: 6%

**REGIONAL DEVELOPMENT STRATEGY**
In 2014 VSK continued to implement a number of measures aimed at fulfilment of the strategic objective of introduction of the unified insurance platform. We have selected the future platform, developed a plan of its implementation, implemented a number of projects that prepare the Company for introduction and oriented on fine-tuning of the processes that will be included in the Company’s insurance system in the future.

Successfully completes the key project of 2014 “Centralization”. As a result we have standardized accounting and reporting procedures, improved the efficiency of management in the part of budget planning and managerial accounting, reduced the labour costs, improved the quality and speed of the accounting, prepared for transition to a new chart of accounts.

In 2014 we have implemented SRF (strict reporting form) accounting and control system. This instrument allows to engage more participants in the process of accounting and control of SRF movement (accountable persons in branches), reduce the labour costs through automation of the procedures of writing off of forms during receipt and transfer of the insurance documents, improve the level of control of SRF movement.

Pursuant to the demands of the changing market and legislation the Company continues to actively develop its existing IT systems that support the processes of front office sales of insurance products, settlement of claims, billing.

The automated claims settlement system has all the required functions that provide for fulfilment of the requirements of the new edition of Federal Law 40-FZ.

The payments identification system was supplemented with the functions of online acceptance and processing of insurance premiums, which allowed to improve the efficiency and speed of identification of incoming payments, reduce the operating costs through exclusion of people from the technological payment processing process. This gave VSK the image of one of the most high-tech companies in the corresponding market segment, supporting the most advanced solutions for cash-less settlements and offering its partners and clients various payment services.
CHARITY ACTIVITIES

In 2014 the Company continued its years long tradition of helping citizens in need of social support and participating in actions aimed at enhancement of spirituality, physical culture and patriotic traditions in the society.

As in the previous years, the priority was given to the programs for children.

Since 1995 the Company is a permanent partner of the regional public fund "Illustrated books for small blind kids". In 2014 the Company purchased several dozens of new set of specialized books from "Illustrations perception atlas" series for children with impaired vision.

Also, VSK together with Volvo Inchcape company and "Life Line" Fund became the General Partner of the 2nd Charity evening dedicated to helping seriously ill children White Night Event.

Many regional subdivision of the Company took part in similar events, including Kaliningrad, Novgorod, Tyumen, Chelyabinsk regions. The aid went to orphanages, care homes, children's medical institutions, individual families with ill children. In Kalmykya and Bryansk the Company branches participated in furnishing of schools, purchases of school supplies for children from poor families.

In the summer of 2014 VSK has supported charity football tournament among orphanage teams organized by BF "Sharee the Warmth" together with the Professional Football Club CSKA. The football tournament was held between orphanage teams, participants were orphan kinds 12 to 14 years old from care homes and orphanages from different region of Russia: Tule, Ivanovo, Voronezh, Vladimir, Kaluga, Yaroslavl and Moscow regions.

Such charitable sports tournaments and dance contests were held in Kostroma and Tyumen.

We also pay attention to the veterans, whose life was dedicated to protection of the Fatherland and faithful service for the Motherland.

The Company branches everywhere are participating in providing them targeted material aid, e.g., in the Kaliningrad and Bryansk regions they help in improving the living conditions in nursing and retirement homes.

Years-long social support program is implemented for families of military men, especially border patrol troops, whose life and service passes in remote outposts and difficultly-accessible regions.

Every year the Company participates in support of projects and humanitarian actions with national cultural significance. Thus, for example, thanks to VSK financial support a memorial was built dedicated to the author of several generations of the rockets in the USSR Academician V.N. Chelomey on the 100th anniversary of his birth.

As part of its social responsibility the Company will continue making a real contribution to the public movement in support of the citizens experienced difficult life situations, and paying attention to the spiritual and cultural development of the people of Russia.
## BALANCE SHEET


### I. Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>11</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>4,698</td>
<td>4,577</td>
<td>4,860</td>
</tr>
<tr>
<td>Income bearing investment in material valuables</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial investments (except for cash equivalents)</td>
<td>24,373</td>
<td>22,346</td>
<td>18,094</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>472</td>
<td>89</td>
<td>78</td>
</tr>
<tr>
<td>Reserves</td>
<td>455</td>
<td>369</td>
<td>462</td>
</tr>
<tr>
<td>Value added tax of procured valuables</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share of reinsurers in the insurance reserves for life insurance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share of reinsurers in the insurance reserves for insurance types other than life insurance</td>
<td>3,426</td>
<td>2,934</td>
<td>2,742</td>
</tr>
<tr>
<td>Receivables</td>
<td>10,571</td>
<td>7,112</td>
<td>5,452</td>
</tr>
<tr>
<td>Premium deposits held by reinsurers</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>973</td>
<td>577</td>
<td>501</td>
</tr>
<tr>
<td>Other assets</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL FOR SECTION I</strong></td>
<td>45,022</td>
<td>38,025</td>
<td>32,215</td>
</tr>
</tbody>
</table>

### II. Capital and reserves

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>3,650</td>
<td>3,200</td>
<td>3,200</td>
</tr>
<tr>
<td>Own stock (shares) bought out from shareholders (participants)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revaluation of assets</td>
<td>1,243</td>
<td>1,127</td>
<td>1,166</td>
</tr>
<tr>
<td>Additional capital (without revaluation)</td>
<td>405</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reserve Capital</td>
<td>275</td>
<td>260</td>
<td>232</td>
</tr>
<tr>
<td>Undistributed profits (retained loss)</td>
<td>3,720</td>
<td>3,223</td>
<td>2,919</td>
</tr>
<tr>
<td><strong>TOTAL FOR SECTION II</strong></td>
<td>9,293</td>
<td>7,810</td>
<td>7,517</td>
</tr>
</tbody>
</table>

### III. Liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance reserves for life insurance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Insurance reserves for insurance types other than life insurance</td>
<td>29,086</td>
<td>26,414</td>
<td>21,989</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>-</td>
<td>-</td>
<td>450</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>417</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Estimated Liabilities</td>
<td>169</td>
<td>223</td>
<td>196</td>
</tr>
<tr>
<td>Premium deposits of reinsurers</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>5,983</td>
<td>3,491</td>
<td>1,979</td>
</tr>
<tr>
<td>Deferred income</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>74</td>
<td>73</td>
<td>78</td>
</tr>
<tr>
<td><strong>TOTAL FOR SECTION III</strong></td>
<td>35,729</td>
<td>30,215</td>
<td>24,698</td>
</tr>
</tbody>
</table>

**BALANCE SHEET**
II. Income and costs not related to insurance operations

<table>
<thead>
<tr>
<th>Indicator</th>
<th>For 2014</th>
<th>For 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3,627)</td>
<td>(3,741)</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>7,260</td>
<td>2,819</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(7,817)</td>
<td>(3,739)</td>
</tr>
<tr>
<td>Income (loss) before taxation</td>
<td>734</td>
<td>420</td>
</tr>
<tr>
<td>Current income tax</td>
<td>(213)</td>
<td>(138)</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>permanent tax liabilities (assets)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(87)</td>
<td>(49)</td>
<td></td>
</tr>
<tr>
<td>Changes in the deferred tax liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(403)</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Changes in the deferred tax assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>382</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(3)</td>
<td>8</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>497</td>
<td>294</td>
</tr>
</tbody>
</table>

Validity of the balance sheet of Insurance Joint-Stock Company VSK for the period from 01 January until 31 December 2014 is confirmed by CJSC AF Marillion. Main State Registration Number 1027700190253 dated 05.09.2002. Member of SRO “Auditors’ chamber of Russia”, ORHZ 10301026781

/Round seal: Closed Joint-Stock Company,
G.R.No. 331 249, Moscow, AF Marillion/
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