



NULI

NATIONAL UNION OF LIABILITY INSURERS



ANNUAL REPORT 2014

NATIONAL UNION OF LIABILITY INSURERS

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Brief glossary

NULI, the Union – the National Union of Liability Insurers;

Federal Law No. 225-FZ, Law No. 225-FZ – Federal Law No. 225-FZ of 27.07.2010 «On compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object»;

Federal Law No. 67-FZ, Law No. 67-FZ – Federal Law No. 67-FZ of 14.06.2012 «On compulsory liability insurance of a carrier for damages to life, health, property of passengers and the order of indemnity for such damages caused during the transportation of passengers by underground trains»;

AIS of NULI – Automated Information System of the National Union of Liability Insurers.



Andrey Yuryev

President of NULI

1. Welcome address from the President

Dear Colleagues,

2014 became a year of severe challenges for almost all classes of insurance, including liability insurance. However, amid the deteriorating economic environment in general, insurance still remains one of the most effective means of social protection for citizens in our country.

While presenting the 2014 Annual Report of the National Union of Liability Insurers, I want to mention the steps that have been taken by the Union in order to support and develop the liability insurance of a carrier, general and employer's liability insurance of owners of hazardous objects during the time of economic crisis.

Significant work was done by the Union on the improvement of Federal Law No. 225-FZ and Federal Law No. 67-FZ. Mechanisms aimed at strengthening the protection of citizens injured in accidents involving hazardous objects and during the transportation of passengers by underground trains were developed by the Union in cooperation with the Ministry of Finance of the Russian Federation.

Changes in the political and geographical situation in the country did not pass by the insurance market. The Republic of Crimea and the federal city of Sevastopol acceded to the Russian Federation, setting the objective of establishing the legal mechanism for compulsory classes of insurance. The Union held a series of workshops in the Republic of Crimea with representatives from carriers and owners of dangerous objects, in order to ensure insurance coverage over the new territory of the Russian Federation.

The year of 2014 strengthened the practice of constant information support in creating awareness of citizens on their right to receive compensation. Furthermore, the cooperative work of NULI and the Moscow underground in carrying out compensation payments to victims of the tragic underground accident in July, 2014, is very illustrative. As a result, all victims received full compensation, provided by the law on compulsory liability insurance of a carrier for damages to the passengers' life, health, property. Personal acknowledgments received from the Head of the Moscow underground point out the significance of the work done by the Union's employees.

Bearing in mind the ever increasing role of information technology in all sectors of the economy, the Union emphasized the launch of new AIS of NULI services as well as the improvement of the pre-existing services. This includes the Bureau of insurance records on compulsory liability insurance of a carrier for damages to life, health, property of passengers contracts, the calculator for estimating basic rates, the insurance premium and the safety level coefficient for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object, and the reports and analytic charts allowing control of key indicators in the activities of insurance companies in comparison with the average.

Looking back at the year of 2014, I want to express confidence that the high level of professionalism and the daily hard work within the atmosphere of constantly-changing reality will help the insurance community, in general, and NULI, in particular, to honourably get through the crisis period. I sincerely appreciate the effective work of all colleagues and their contribution to the development of insurance and look forward to new collective successes.

2. General information about NULI

According to its Charter, NULI is a non-profit organisation, the only Russian professional association of insurers that carries out compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object and/or compulsory liability insurance of a carrier for damages to life, health, property of passengers and acting to ensure cooperation, as well as the formation, control and execution of standards and rules of professional activity in the implementation of compulsory insurance.

2.1. Main objectives of NULI:

to ensure cooperation of the Union members in the realisation of business activities related to:

- ✓ compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object;
- ✓ compulsory liability insurance of a carrier for damages to life, health, property of passengers;
- ✓ reinsurance of risks under the contracts of compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object;
- ✓ reinsurance of risks under the contracts of compulsory liability insurance and reinsurance of a carrier for damages to life, health, property of passengers.

to develop national insurance in the Russian Federation, as well as:

- ✓ compulsory general and employers' liability insurance and reinsurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object;
- ✓ compulsory liability insurance and reinsurance of a carrier for damages to life, health, property of passengers;
- ✓ other classes of compulsory insurance as stipulated by the legislation of the Russian Federation.

2.2. Corporate structure of NULI

The corporate management system of the Union consists of:

- ✓ the General Assembly of NULI members - the supreme governing body of the Union;
- ✓ the Presidium of NULI - the permanent governing body of the Union coordinating the general direction and management of the Union;
- ✓ the President of NULI - the sole executive body of the Union coordinating the general management of the Union;
- ✓ the Management Board of NULI - the collegial body of the Union coordinating the current activities of the Union.

The President of the Union manages the administrative staff of the Union.

The Auditing Commission (Auditor) is the body controlling financial and economic activity.

Pic. 1. The structure of NULI bodies

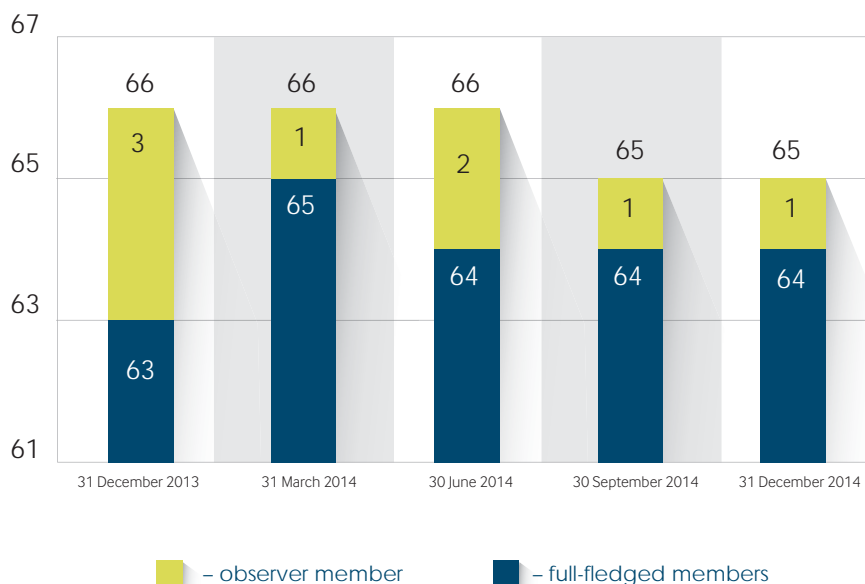


2.3. NULI membership

As of 31 December, 2014, 65 insurers were members of NULI.

Of the 65 insurance companies, 64 were full-fledged members and 1 was an observer member.

Pic. 2. NULI membership



Pic. 3. Territorial representation of NULI members*



*The picture shows the location of head offices of insurance companies – members of NULI – in each Federal District of Russia

** Insurance Company

3. Highlights of legal regulation for compulsory insurance in 2014

Amendments to the legal regulation of compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object

Pursuant to Federal Law No. 225-FZ, the Union developed, accepted and received approval for two regulatory documents and amended ten acting standards and rules of professional activity in the established order.

Legal regulation of compulsory liability insurance of a carrier for damages to life, health, property of passengers

Pursuant to Federal Law No. 67-FZ, the Union developed, accepted and received approval for four new standards and rules of professional activity and methodological recommendations in the established order. Ten acting standards and rules of professional activity were amended regarding the operation of the compulsory insurance system.

Legal regulation of carrying out compensation payments to the citizens of the Republic of Crimea and the federal city of Sevastopol by the National Union of Liability Insurers

The Russian Federation and the Republic of Crimea signed an agreement on 18 March, 2014, by which the Republic of Crimea acceded to the Russian Federation; the Republic of Crimea and the federal city of Sevastopol became new entities within the Russian Federation.

The Union developed «The procedure for carrying out compensation payments to the citizens (beneficiaries) of the Republic of Crimea and the federal city of Sevastopol, by the National Union of Liability Insurers».

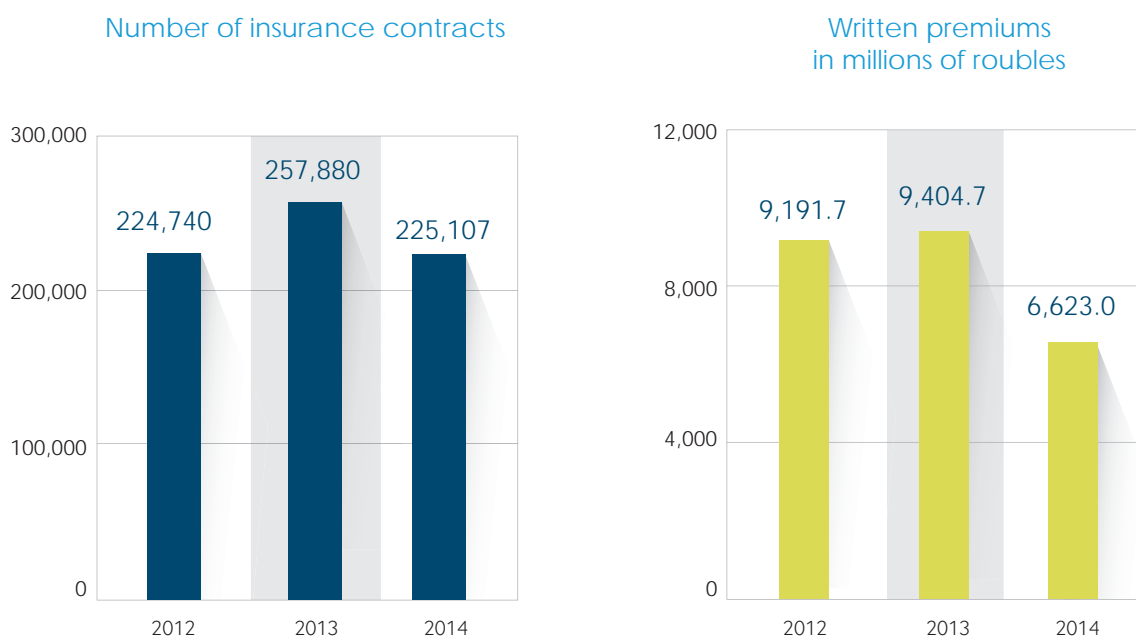
4. Key figures of compulsory liability insurance

4.1. The implementation of Federal Law No. 225–FZ «On compulsory general and employers’ liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object»

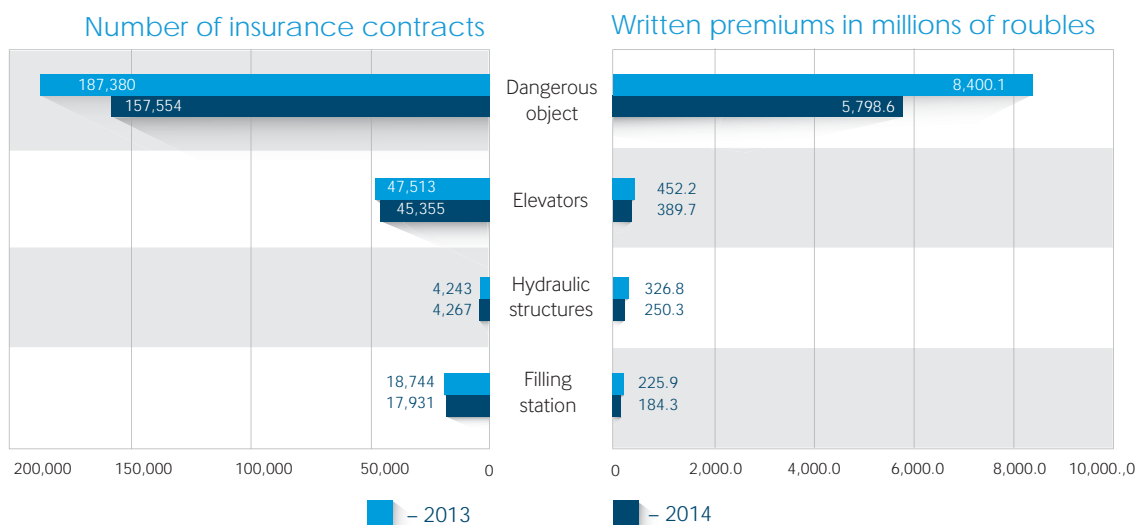
The dynamics of the concluded insurance contracts

Amendments to industrial safety legislation led to re-registration of hazardous objects in 2013, causing a decrease of 13 % in the number of concluded insurance contracts in 2014. Following the re-registration, the number of hazardous objects declined in the Federal Environmental, Industrial and Nuclear Supervision of Russia Register of hazardous objects. The drop of insurance premiums by 30 % was also due to the reduced number of concluded insurance contracts and to an increase of 30 % for the maximum discount for high safety levels from 01 January, 2014.

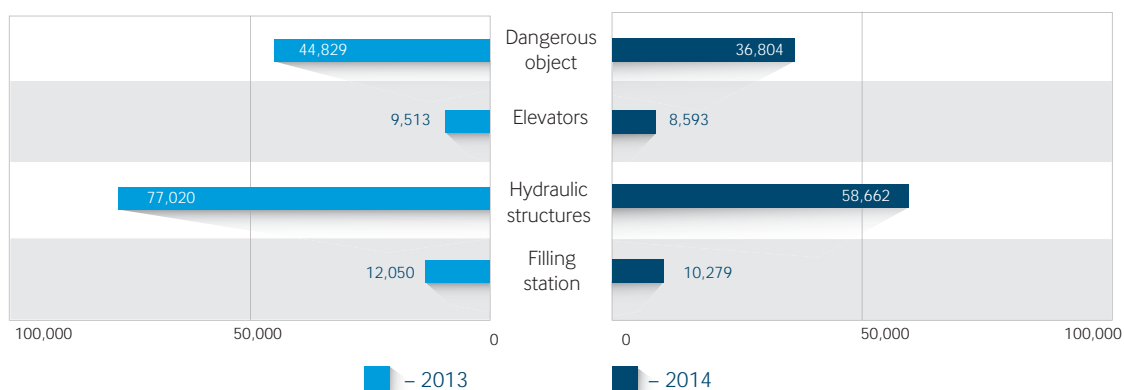
Pic. 4. The dynamics of insurance contracts



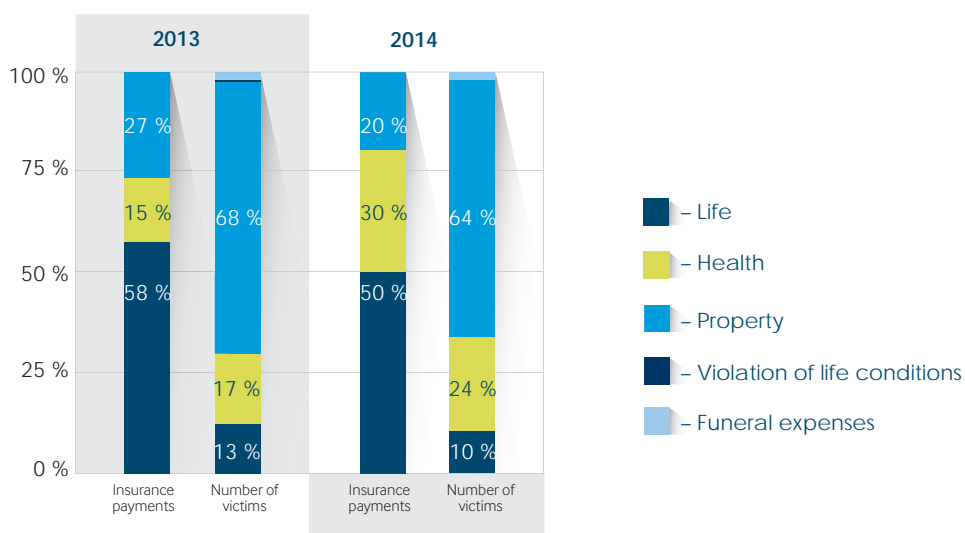
Pic. 5. The dynamics of key figures for different types of hazardous objects



Pic. 6. Average insurance premiums for different types of hazardous objects in roubles



Pic. 7. Distribution of insurance payments by types of damages caused



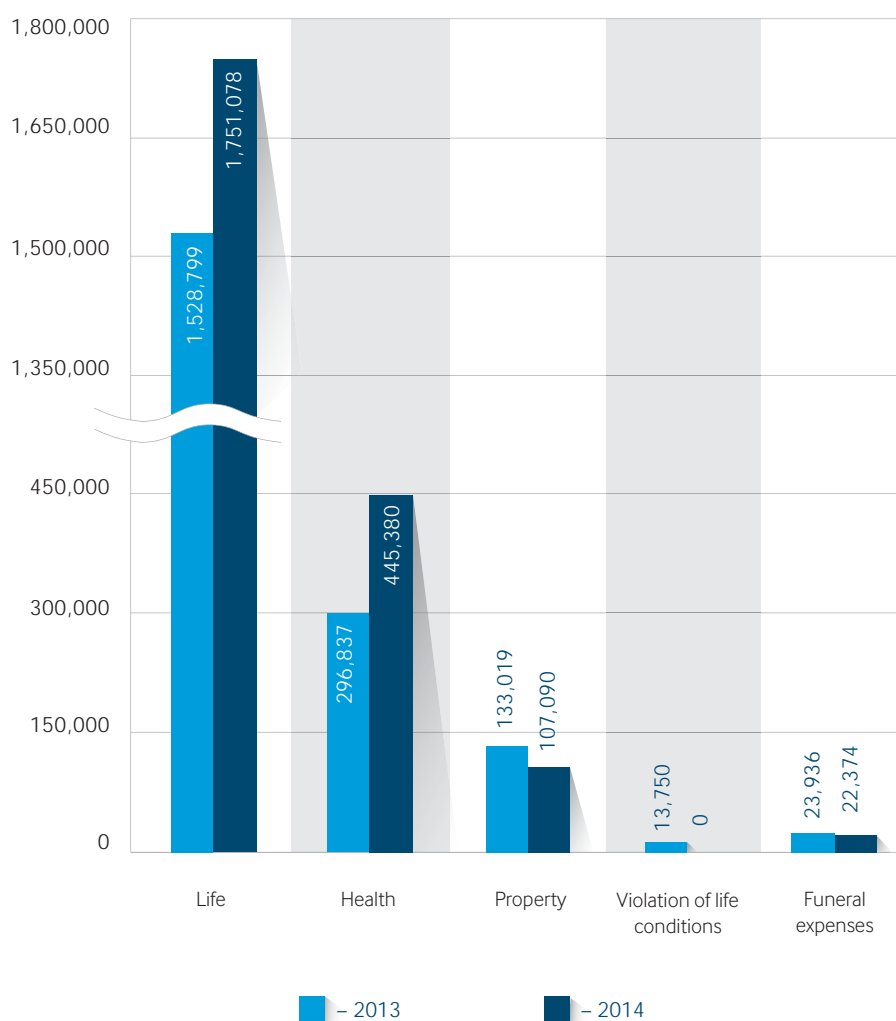
In 2014 the average insurance payment increased by a factor of one-and-a-half in comparison to 2013. This occurred due to the growth in the number of victims with serious injuries, as well as to the significant reduction of victims with minor injuries applying for payments (bruises, scratches and cuts).

An average insurance payment for damages caused to health has increased in 2014 by means of reducing the overall share of provisional payments, as well as by reducing the number of beneficiaries/dependents who have not yet received their part of the insurance payment.

There were no claims for violation of life conditions in 2014.

The Union came up with a radically new scheme of insurance payments for violation of life conditions after analysing the current situation. The main point was to carry out fixed payments to the victims for each day of violation of life conditions, which was incorporated into the bill. The Union expects a significant increase in insurance payments after the implementation of the new system.

Pic. 8. Types of damages caused: average insurance payment per injured person in roubles



Compensation fund of the compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object

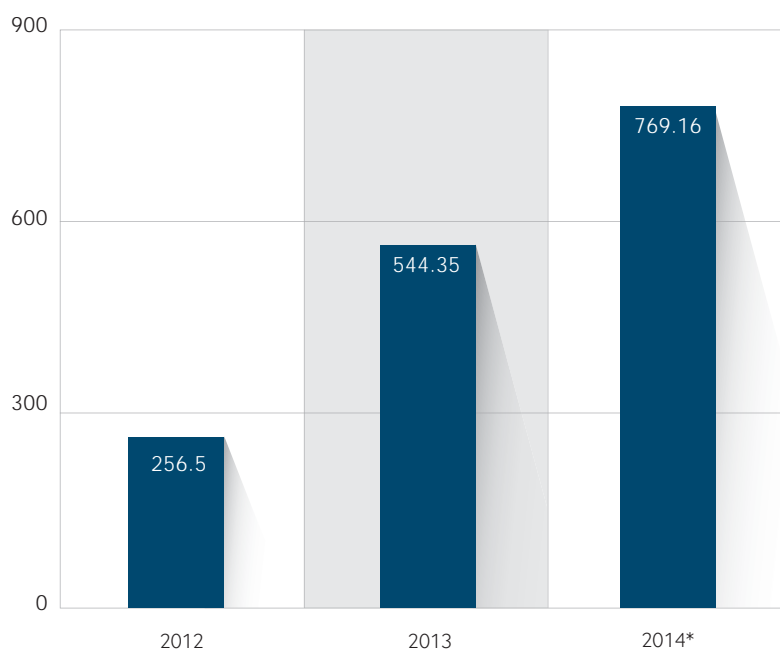
By the end of 2014, the volume of the compensation fund amounted to 769 million roubles*.

The Union carried out three compensation payments for dependents of the following three accidents involving hazardous objects in Arzamas, Kazan and Pyatigorsk.

Two compensation payments were made because the owners of the previously-mentioned hazardous objects had not insured their liability under Federal Law No. 225-FZ, the other because of the revocation of an Open Joint-Stock Insurance Company «Rossiya» insurance license.

The total amount of compensation payments came to 6 million roubles.

Pic. 9. Volume of the compensation fund in millions of roubles

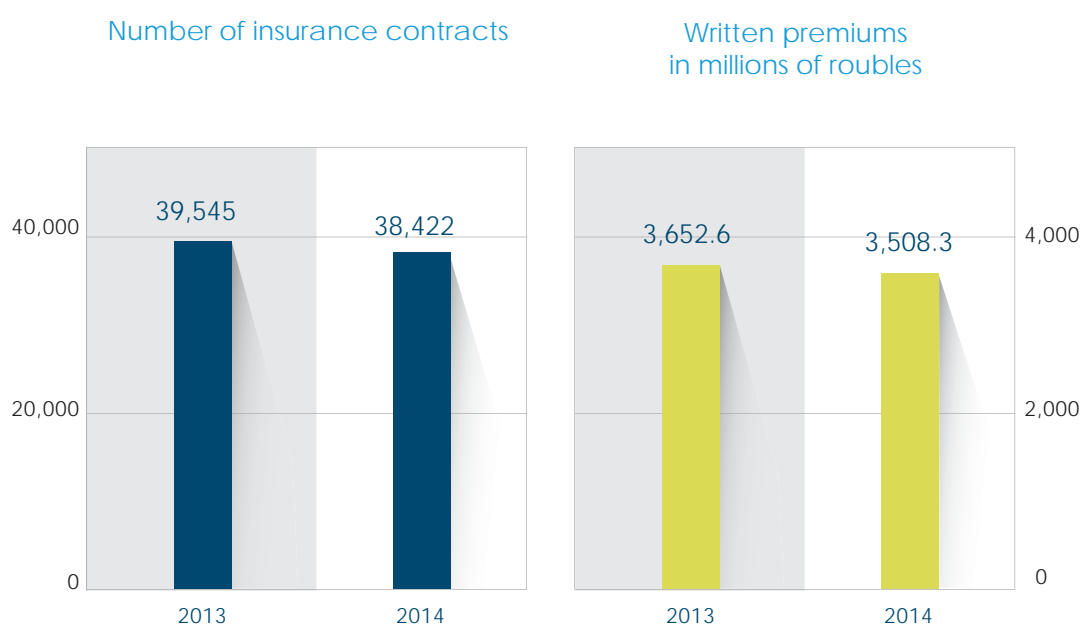


* The volume of the compensation fund in 2014 is stated as the balance of the compensation fund budget as of 26 February, 2014. In accordance with the standards and rules of professional activity «The order for financing compensation payments by members of the National Union of Liability Insurers» (clause 2.2.), payments for 2014 are submitted to NULI prior to 25 February, 2015.

4.2. The implementation of Federal Law No. 67–FZ «On compulsory liability insurance of a carrier for damages to life, health, property of passengers and the order of indemnity for such damages caused during the transportation of passengers by underground trains»

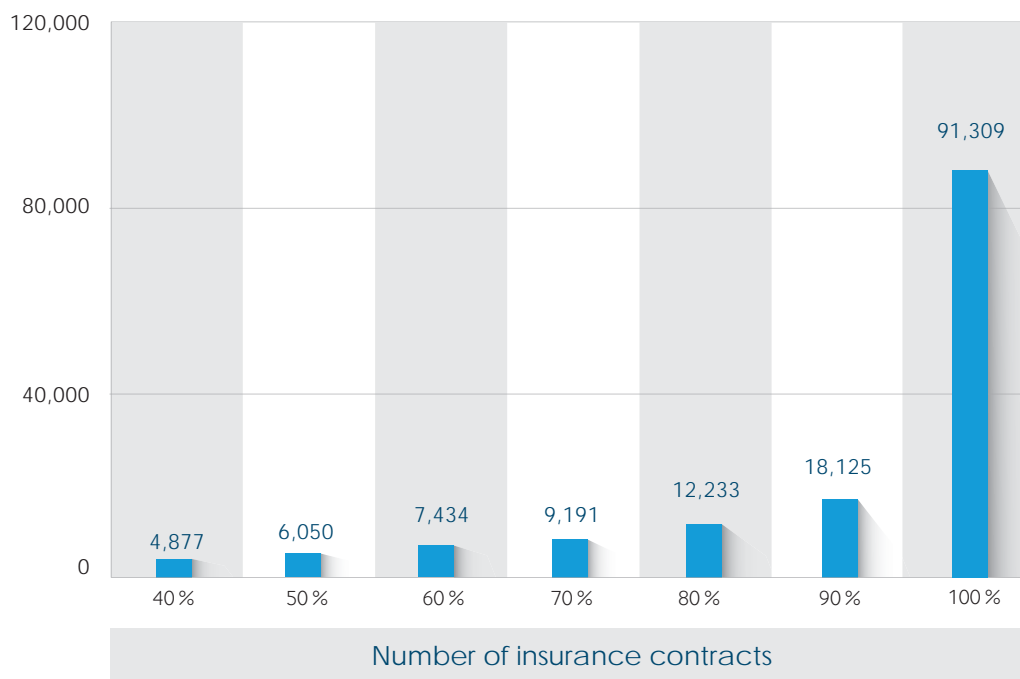
The number of concluded insurance contracts decreased by 3 % and written premiums went down by 4 % in 2014.

Pic. 10. The dynamics of insurance contracts



According to the information on the concluded insurance contracts, 90 % of all contracts were concluded with an insurance premium not exceeding 100,000 roubles, with an average of 18,125 roubles.

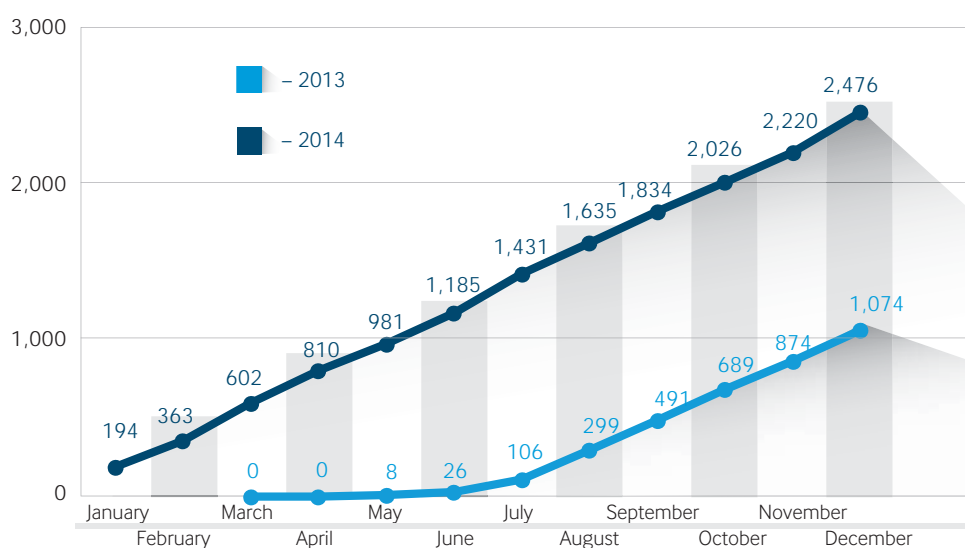
Pic. 11. Distribution of average insurance premiums in roubles



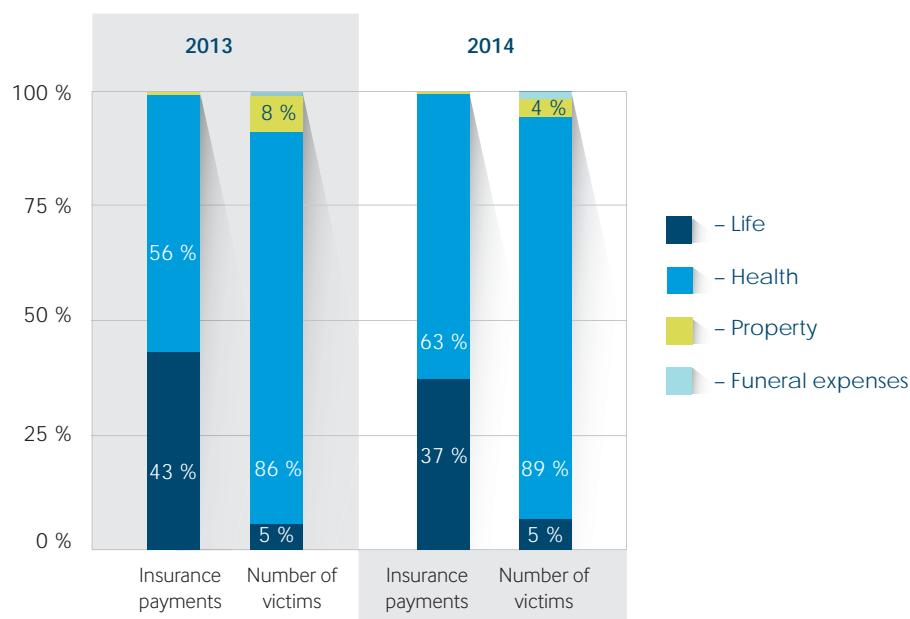
The dynamics of claims

The amount of received claims has increased by more than 29 % in 2014, with about a third of them relating to events that happened in 2013. There has also been a steady increase in the number of insurance payments; according to the Union this trend will continue in 2015.

Pic. 12. Monthly cumulative dynamics of insurance payments



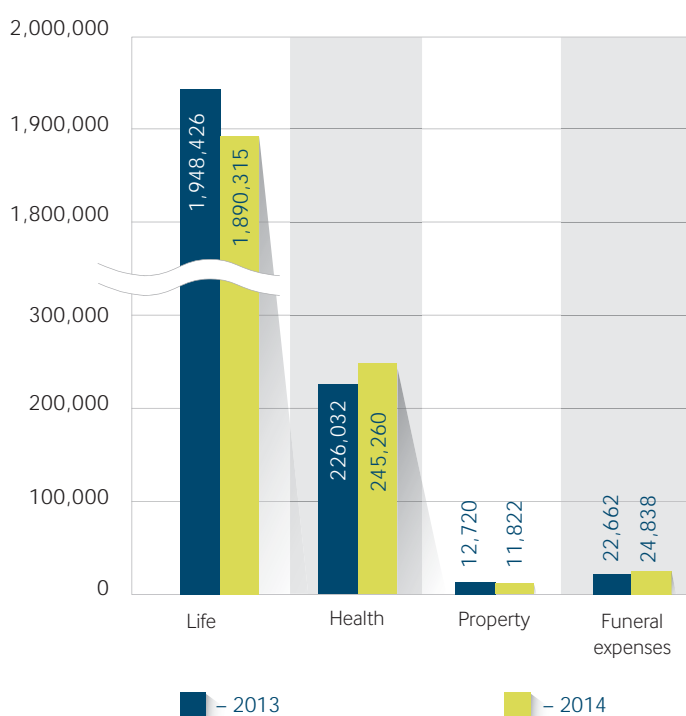
Pic. 13. Distribution of insurance payments by types of damages caused



The average insurance payment for damages caused to life is somewhat lower than the two million roubles established by the law (pic. 14). This occurs because casualties from 2014 will receive full insurance payments in 2015, while the provisional payments of 100,000 roubles were carried out in 2014.

The average insurance payment for damages caused to life has increased by 8.5 %.

Pic. 14. Types of damages caused: average insurance payment per injured person in roubles (excluding payments for concussions, dilacerations and other minor injuries of soft tissues)



The accident in the Moscow underground

In accordance with Federal Law No. 67-FZ the underground has a special status: it is obliged to carry out compensation payments to injured passengers and the beneficiaries for damages caused to life, health, property during transportation by underground trains, at its own expense.

On 15 July, 2014, 24 people were killed and more than 220 people were injured in a major accident on the Arbatskaya-Pokrovskaya metro line.

On the same day, the Union arranged a twenty-four-hour hotline and addressed the Moscow underground as well as the Department of Transport and Road Infrastructure Development of Moscow with a proposal to help organise compensation payments to the victims and relatives of the perished passengers.

The cooperation Agreement was signed between the Union and the Underground, with the main objective of implementing the requirements of Federal Law No. 67-FZ for carrying out compensation payments to the beneficiaries for damages caused to life, health, property during the transportation by underground trains, as well as to work on proposals for the improvement and development of legislation on compulsory liability insurance of a carrier.

The Moscow underground set up a workgroup a few days after the accident. Five employees of the Union joined the workgroup and took an active part in organising and supporting the underground in fulfilling obligations to the victims, including:

- ✓ development of standard application forms for victims;
- ✓ reception of victims' claims and documents;
- ✓ participation in «mobile groups» (visiting victims in hospitals);
- ✓ organisation of document flow;
- ✓ record of claims and payments;
- ✓ analysis and evaluation of documents;
- ✓ control of the payment deadlines;
- ✓ preparation of opinions for carrying out compensation payments.

Relatives of the 24 perished passengers, 229 injured passengers and 63 victims whose property was damaged or lost received compensation payments over the course of four months.

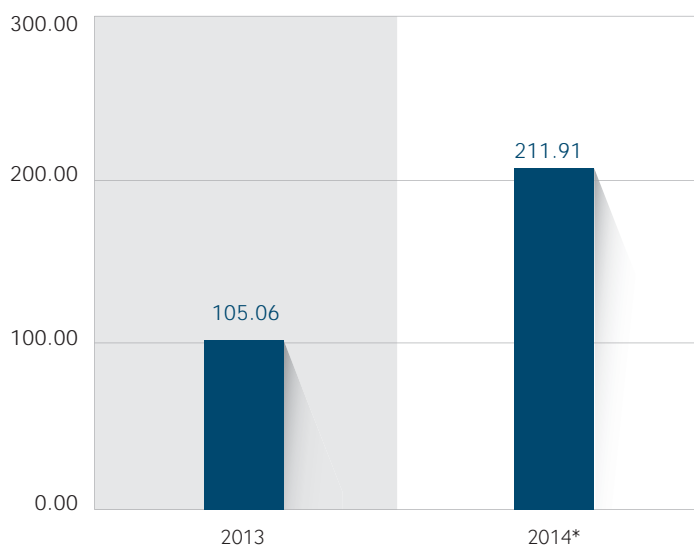
The total amount of compensation rounded up to 200 million roubles.

The Union and all directly-involved employees received acknowledgments from the Head of the Moscow underground on the work done in organising compensation payments.

Compensation fund of the compulsory liability insurance of a carrier for damages to life, health, property of passengers

By the end of 2014, the volume of the compensation fund amounted to 212 million roubles*.

Pic. 15. Volume of the compensation fund in millions of roubles



** The volume of the compensation fund in 2014 is stated as the balance of the compensation fund budget as of 26 February, 2014. In accordance with the standards and rules of professional activity «The order for distribution of liability among members of NULI for NULI's obligations in carrying out compensation payments, accounting transactions with means of the compensation fund, as well as controlling the designated use of the compensation fund's assets» (clause 2.2.), payments for 2014 are submitted to NULI prior to 25 February, 2015.*

In 2014, there were no claims from the compensation fund to be carried out in accordance with Federal Law No. 67-FZ.

5. Reinsurance pools

5.1. Reinsurance pool of the compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object

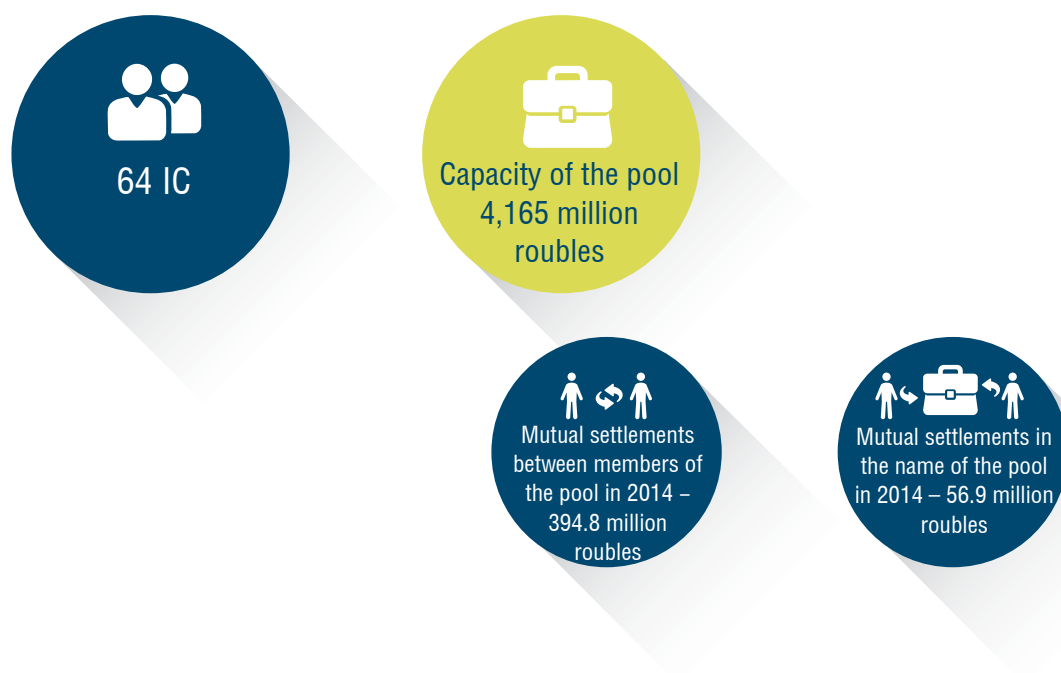
According to Federal Law No. 225-FZ, members of the professional association of insurers form a reinsurance pool to reinsure risks of general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object.

The reinsurance pool consisted of 64 insurance companies by the end of 2014. Throughout the year, two insurance companies acceded and two withdrew from the Agreement of the reinsurance pool.

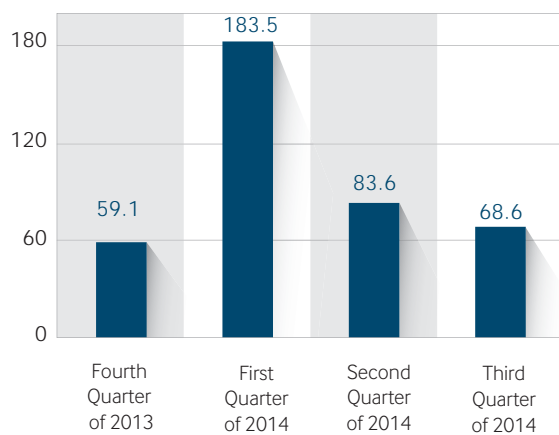
The capacity of the pool at the end of 2014 amounted to 4,165 million roubles.

Four settlement sessions were held in 2014, based on the results of the Fourth Quarter of 2013, the First Quarter of 2014, the first half of the year and nine months of 2014. Thus, 394.8 million roubles were involved in mutual settlements, 56.9 million of which were transferred to retrocession.

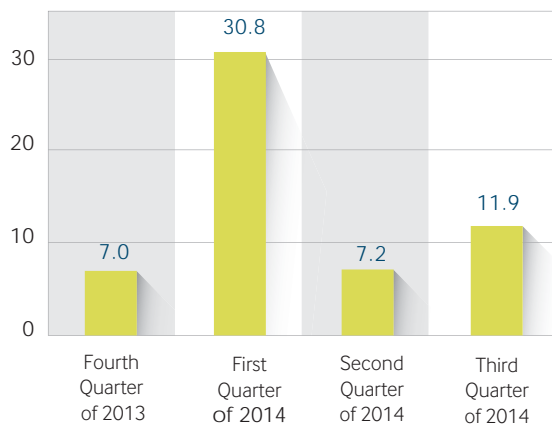
Pic. 16. Reinsurance pool



Pic. 17. Mutual settlements in the pool in 2014 in millions of roubles



Pic. 18. Mutual settlements in the name of the pool in 2014 in millions of roubles



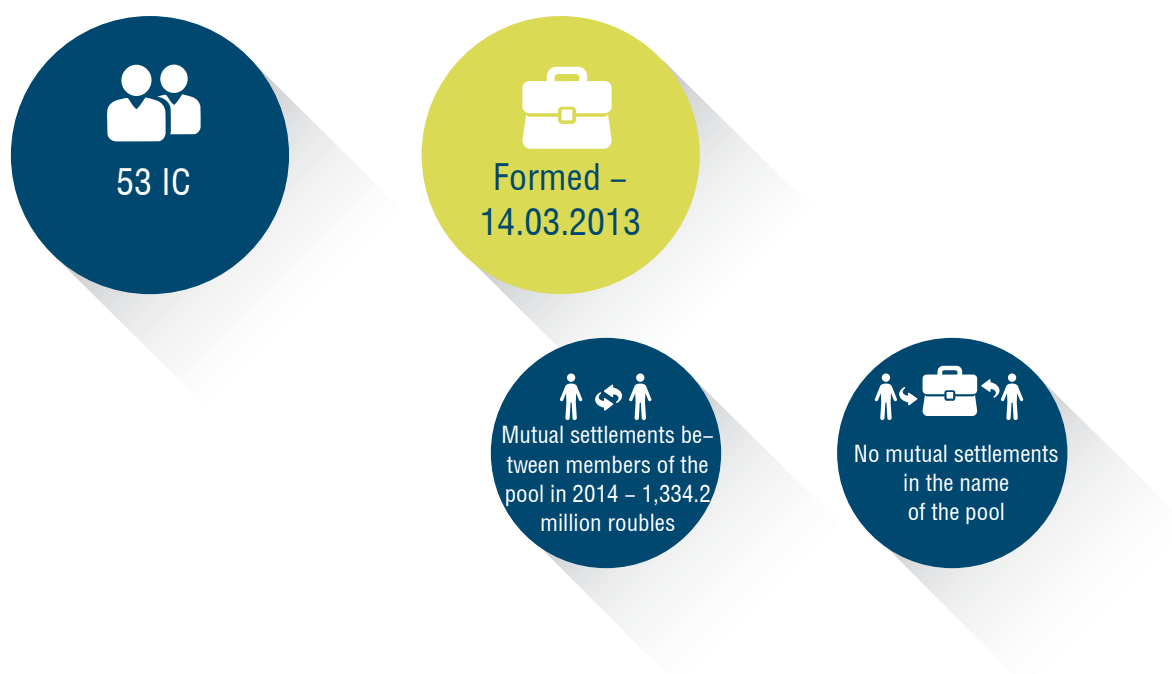
5.2. Reinsurance pool of the compulsory liability insurance of a carrier for damages to life, health, property of passengers

According to Federal Law No. 67-FZ, which came into force on 1 January, 2013, members of the professional association of insurers form a reinsurance pool to reinsure risks of compulsory liability insurance of a carrier for damages to life, health, property of passengers.

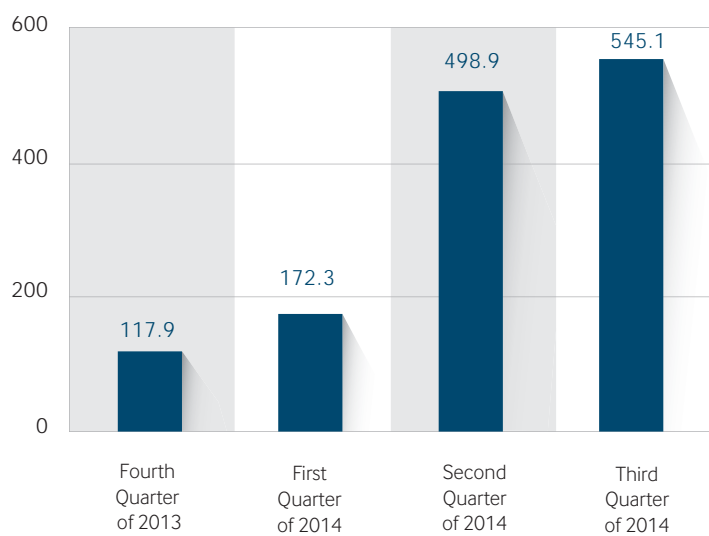
The reinsurance pool consisted of 53 insurance companies, by the end of 2014. Throughout the year, one insurance company acceded and one withdrew from the Agreement of the reinsurance pool.

Four settlement sessions were held in 2014, based on the results of the Fourth Quarter of 2013, the First Quarter of 2014, the first half of the year and nine months of 2014. Thus, 1,334.2 million roubles were involved in mutual settlements.

Pic. 19. Reinsurance pool



Pic. 20. Mutual settlements in the pool in 2014 in millions of roubles



6. Automated Information System

In 2012, the Union introduced the AIS of NULI into its operations. This is the first federal-level system in the insurance market, accumulating the main characteristics of all insurance contracts concluded by members of the professional association of insurers in relevant classes of insurance as well as insured events, losses, payments, reinsurance operations and movement of strict reporting forms.

Main lines for the development of AIS of NULI 2014

Analytical System. The main approach in the development of the Analytical System in 2014 was the creation of a whole variety of mechanisms to control the accuracy of data and to respond in a timely manner to the critical deviation from the market average in the insurance organisation's activity.

For this purpose, a new section was created: the elaboration of reports and analytic charts to control key indicators in the activities of insurance companies in comparison with the average, as well as indicators and coefficients, determining the need for audits (coefficients of outstanding losses, payments, number of claims, return of insurance premiums, dynamics of termination, etc.). The visualisation of these key indicators allows the insurance companies to determine whether their activity exceeds the market average.

Another innovation is the specialised report on the verification of characteristics of contracts for compulsory general and employers' liability insurance of an owner of a hazardous object uploaded by members of the Union into the AIS of NULI, in comparison with the characteristics calculated using the AIS of NULI algorithms. The insured sum, the basic rates, the safety level coefficient and the written premium are subjected to verification.

Rules for formal logical control. Formal logical control refers to the verification of compliance with the formal data requirements while receiving messages sent by insurance companies into the AIS of NULI. The purity of data in the system is the most important attribute which, in conjunction with constant renewal of information, guarantees the adequacy of the data located in the AIS of NULI. Over 350 rules for formal logical control were developed and entered into the system by the Union throughout 2014.

The development of electronic services on NULI's website.

The certification of insurance verification. NULI continued the development of electronic services offered on the Union's website in 2014.

The mechanism for obtaining information on the insurance contract status, based on the taxpayer identification number of the insurer, was added to the pre-existing alternatives for verifying the certification of insurance (based on the contract number, the number of the object from the Register of the Federal Environmental, Industrial and Nuclear Supervision of Russia or the license-plate number of the vehicle). Furthermore, the list of displayed information on the insurance contract has expanded. This service is available not only to members of the insurance market and representatives from branch regulatory authorities, but also to any members of the public visiting the website.

Bureau of insurance records. NULI launched the mechanism of «insurance history» for the compulsory liability insurance of a carrier for damages to life, health, property of passengers in 2014. The Bureau of insurance records is a system for informing members of the Union about the financial discipline of the insurer and their contract portfolio, as well as about the number of insurance payments.

Members of NULI can now receive:

- ✓ full list of compulsory liability insurance of a carrier for damages to life, health, property of passengers contracts, based on the taxpayer identification number of the carrier;
- ✓ detailed information on a particular compulsory liability insurance of a carrier for damages to life, health, property of passengers contract;
- ✓ information on vehicles used by the carrier and on the number of transported passengers.

NULI is planning to expand the Bureau of insurance records service to cover compulsory general and employers' liability insurance of an owner of a hazardous object contracts in 2015.

Calculator for the compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object.

The system operation demanded that an ergonomic, interactive calculator be created, which could be accessed via the Internet. Moreover, there was a need to provide insurance companies with a convenient tool for displaying their calculations on a public resource, as well as for use by tender commissions during tender procedures. A calculator for the compulsory general and employers' liability insurance of an owner of a hazardous object was created on the Union's website, enabling the prompt generation of quotations and the display of calculations that fully meet the requirements of the legislation.

Information exchange with federal executive authorities. NULI embarked upon a program for improving upon the information exchange system with the Federal Environmental, Industrial and Nuclear Supervision of Russia in 2014. The main objective of this large-scale modification of the AIS of NULI is to provide the Federal Environmental, Industrial and Nuclear Supervision of Russia with the functionality allowing it to automatically verify the parameters of insured hazardous objects.

Electronic archive. In 2014, the AIS of NULI introduced the electronic archive of documents into operation. The usage of the electronic archive by the Administrative office of the Union ensures reliable storage of documents, their confidentiality and differentiated access.

The Republic of Crimea. The Republic of Crimea and the federal city of Sevastopol acceded to the Russian Federation, thereby creating the need for a number of modifications to the AIS of NULI due to the adjustment to the peculiarities of business operation in the new entities within the Russian Federation. In particular, the modifications referred to the electronic numbers of authorisation algorithms for insurance contracts with regard to the current practice of legal entity identification and vehicle registration in the AIS of NULI on the territory of the Republic of Crimea and the federal city of Sevastopol.

7. Controlling activity by NULI

Normative framework

In accordance with the standards and rules of professional activity «The order for conducting audits of members of the National Union of Liability Insurers», every full-fledged member of the Union is subjected to off-site audits implemented on the basis of reports, information and documentation submitted to the Union in accordance with the standards and rules of professional activity or in compliance with the Union's request.

Controlling activity of the Union's members enforces compliance with the legislation requirements for compulsory insurance under Federal Law No. 225-FZ, Federal Law No. 67-FZ and standards and rules of professional activity.

Audits

Over 200 off-site audits of compliance with the legislation requirements for compulsory insurance were conducted in 2014:

Due to complaints against members of the Union (145 appeals and complaints) received from:

- ✓ members of the Union – 128;
- ✓ LLC «Insurance Payment System» – 13;
- ✓ federal executive authorities – 2;
- ✓ citizens – 2.

65 thematic audits were conducted:

- ✓ 32 on the correctness of the compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object contracts conclusion for hazardous objects in chemical, petrochemical and oil-refining industries;
- ✓ 15 on compliance with deadlines for the revocation of the authorisation number of the compulsory liability insurance of a carrier for damages to life, health, property of passengers contract;
- ✓ 18 on the completeness and timeliness of submitting information on members of the Union to the Register of NULI's members.

265 written inquiries for information and documents were sent to the members of the Union:

- ✓ 215 based on the results of received appeals and complaints;
- ✓ 50 within thematic audits.

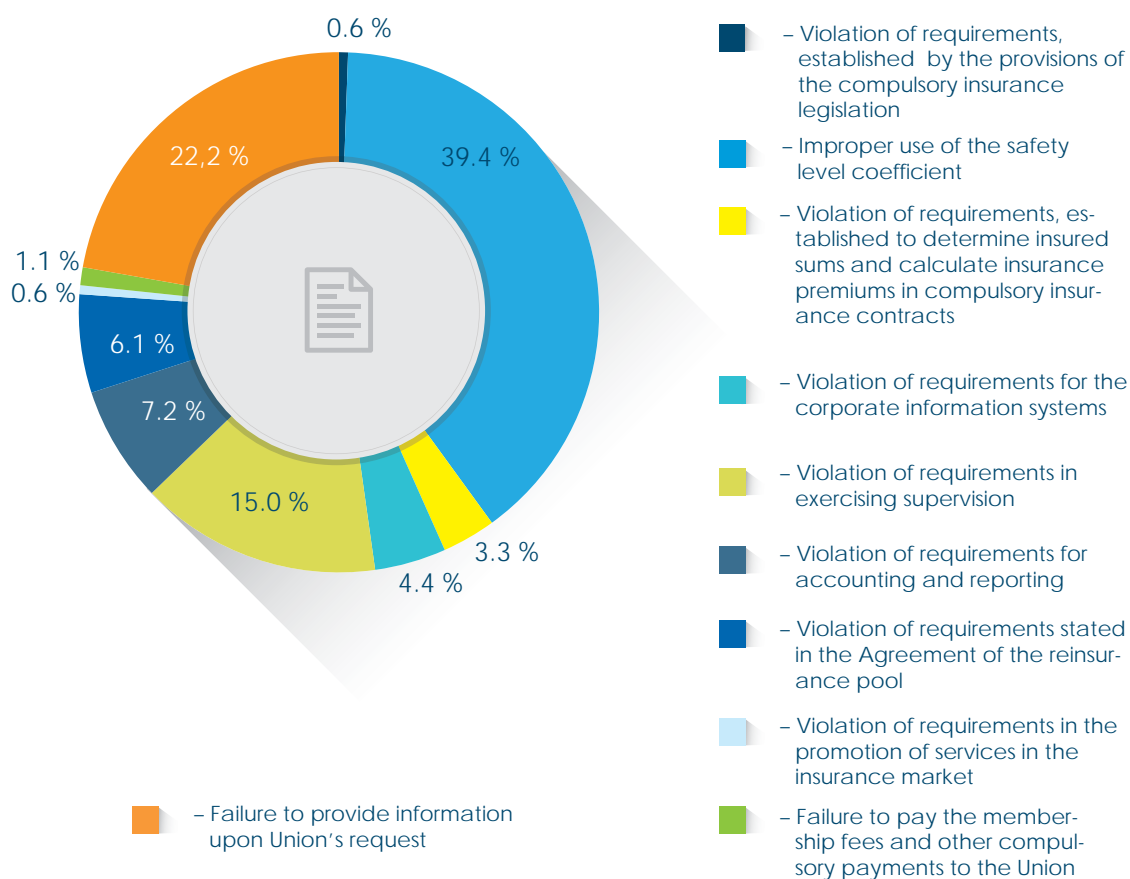
Two on-site audits of compliance with the legislation requirements for compulsory insurance, standards and rules of professional activity were also conducted in 2014.

Disciplinary infractions

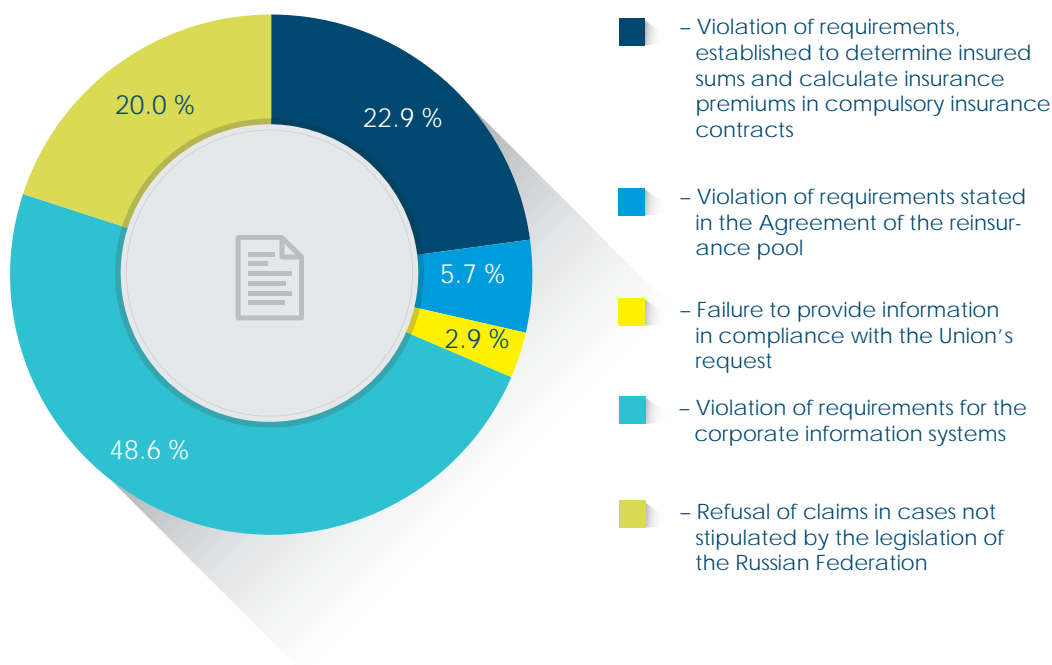
In accordance with the standards and rules of professional activity «The order to enforce and account for sanctions and other measures imposed upon the members of NULI, their officials and employees, as well as control over their execution», 215 proceedings for disciplinary infractions were initiated, including:

- ✓ 180 for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object,
- ✓ 35 for compulsory liability insurance of a carrier for damages to life, health, property of passengers.

Pic. 21. Standard violations in compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object



Pic. 22. Standard violations in compulsory liability insurance of a carrier for damages to life, health, property of passengers



Disciplinary liability

157 orders for disciplinary liability were imposed, including:

- ✓ 134 for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object,
- ✓ 23 for compulsory liability insurance of a carrier for damages to life, health, property of passengers.

Disciplinary measures

The following disciplinary measures were imposed on the members of the Union in 2014:

financial sanctions in the amount of 7,692,483 roubles:

- ✓ 7,465,128 roubles for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object,
- ✓ 227,355 roubles for compulsory liability insurance of a carrier for damages to life, health, property of passengers.

17 notices were imposed, including:

- ✓ 1 for compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object,
- ✓ 16 for compulsory liability insurance of a carrier for damages to life, health, property of passengers.

19 orders were imposed in order to rectify the violation in compulsory general and employers' liability insurance of an owner of a hazardous object for damages in case of an accident involving a hazardous object.

Four sessions of the Union's Disciplinary Commission were held in 2014, in which 25 issues were addressed. Reviews on the work done by the Disciplinary Commission are available on the Union's website.

8. Extract from the Auditor's Report

**To the members of the
National Union of Liability Insurers**

Opinion

In our opinion, the accounting (financial) statements accurately present the Union's financial position in all material respects as of 31 December, 2014, as well as the results of financial, economic activity and cash flows for 2014 in accordance with the legislation of the Russian Federation in the preparation of accounting (financial) statements.

JSC «BDO Unicon»

Partner

24 March, 2014



L.V. Efremova

9. Contacts

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