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Research Update:

Russian Reinsurer Unity Re Assigned 'BB-', 'ruAA-' Ratings; Outlook Stable

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Rationale

On Sept. 4, 2008, Standard & Poor's Ratings Services assigned its 'BB-' long-term counterparty credit and insurer financial strength ratings and its 'ruAA-' Russian national scale rating to Russian reinsurer Unity Re. The outlook is stable.

The ratings are based on the company's good capitalization and good quality of fixed-income investments. These positive factors are partly offset by the high industry risk of operating in the Russian Federation (foreign currency BBB+/Positive/A-2; local currency A-/Positive/A-2; Russia national scale rating 'ruAAA'), combined with Unity Re's marginal competitive advantages and limited operating performance track record.

Unity RE is a small regional reinsurer based in Moscow with gross premium income of Russian ruble 401.5 million in 2007.

Unity Re's competitive advantages are marginal when stacked against the high industry risk in Russia.

Unity Re ranks sixth among specialist Russian reinsurers and 10th among all companies in Russia writing reinsurance in terms of gross premiums written. However, Unity Re's overall market share was only a modest 1% for 2007, though this is typical for specialist reinsurers in Russia.

Unity Re operates primarily in Russia (85% of gross premium income), but also across countries in the Commonwealth of Independent States (CIS) and elsewhere.

Unity Re is exposed to high industry risk in Russia and the CIS insurance and reinsurance sectors as a result of the relatively immature state of their insurance markets, regulatory systems, and accounting standards.

While operating performance is adequate, reflecting good profits for the last three years, the company has a limited track record in generating sustained positive profit.

The company benefits from good capitalization, capital adequacy, and reinsurance protection.

Unity Re's investment policy is constrained by the quality of assets available in Russia. Unity Re's investments are regarded as marginal, although the quality of its fixed-income investments is good, with a rated portfolio of bonds and bank deposits.

Outlook

The stable outlook reflects our expectation that Unity Re will preserve its competitive position, maintain a good level of capital adequacy--despite the company's growth--and that the company will maintain its investment portfolio quality.

We would consider revising the outlook to positive if Unity Re develops stronger competitive advantages and if the shareholders show continued capital support for the company.

Conversely, any significant and sustained deterioration in earnings, capitalization, or investment portfolio quality could lead to negative rating actions.

Ratings List

Counterparty credit rating	BB-/Stable/--
Insurer financial strength rating	BB-/Stable
Russia national scale rating	ruAA-

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