

# Kuwait-Based Warba Ins. Co. Rating Affirmed At 'BBB' After Review Of Liquidity; Outlook Stable

- We have revised our assessment of Warba's liquidity to strong because we estimate that it has higher future liquidity needs.
- We are therefore affirming our 'BBB' insurer financial strength rating on Warba.
- Our ratings are supported by our assessment of Warba's business risk profile as satisfactory and its financial risk profile as moderately strong, but depressed by our assessment of its enterprise risk management as weak.
- The stable outlook reflects our expectation that Warba will maintain extremely strong capital adequacy, while gradually diversifying its investment portfolio and improving its risk management practices; this should lead to greater stability in its underwriting earnings.

DUBAI (Standard & Poor's) March 18, 2014--Standard & Poor's Ratings Services today affirmed its 'BBB' counterparty credit and insurer financial strength ratings on Kuwait-based Warba Ins. Co. K.S.C. The outlook is stable.

The ratings on Warba reflect our view that it has a satisfactory business risk profile and a moderately strong financial risk profile. That said, we assess its enterprise risk management as weak.

Warba has an adequate competitive position in its domestic market; it is one of the top five insurers in the small and competitive Kuwaiti insurance market. We assess industry and country risk in Kuwait as intermediate.

Our assessment of Warba's financial risk profile as moderately strong reflects its strong capital and earnings, constrained by a moderate risk position. The latter mostly reflects the high investment risks Warba carries, such as investment leverage and

concentrations. Warba also changed its reinsurance program in 2013, materially shifting its risk profile to excess-of-loss from proportional treaty. This could influence its underwriting earnings and bottom-line volatility. Our base-case scenario assumes that Warba will deliver combined ratios lower than 100% and return on equity above 3% over 2014 and 2015. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.)

We assess Warba's enterprise risk management as weak, reflecting our view of its underdeveloped tools to monitor exposures within a pre-set risk appetite framework, particularly for its investment portfolio.

We have revised our assessment of Warba's liquidity to strong from exceptional because we estimate that it has higher future liquidity needs, based on our forecast developments for both Warba's and the local market's likely earnings and underwriting liabilities over the next two years.

The stable outlook reflects our expectation that Warba will maintain extremely strong capital adequacy, while gradually diversifying its investment portfolio, and improving its risk management practices. This should lead to greater stability in its underwriting earnings.

We could raise the ratings if we see:

- Continuing strengthening of the risk control framework Warba is currently introducing, causing us to view ERM as adequate instead of weak;
- Continued diversification of Warba's investments, resulting in an improved assessment of risk position; and
- The operating performance expectations that underlie the rating being met or exceeded.

We could lower the ratings if we see:

- The underwriting performance deteriorating further and materially underperforming our base-case expectations; or
- Signs that Warba is undermanaging its business growth and thus eroding its capital strength.