Ratings On Kuwait-Based Warba Insurance Raised To 'BBB+' On Improved Risk Management; Outlook Stable

- We have revised our view of Warba Insurance's enterprise risk management (ERM) to adequate because we now consider that adherence to internally defined risk appetites, particularly those risk controls regarding investment asset allocation, has improved.
- Warba Insurance continues to enjoy a satisfactory business risk profile as the fourth largest insurer in Kuwait, while we assess its financial risk profile as moderately strong, supported by extremely strong capital adequacy.
- We have raised our ratings on Warba Insurance to 'BBB+' from 'BBB' based on the level of its business and financial risk profiles, combined with our revised assessment of its ERM.
- The stable outlook indicates that we do not expect to take a rating action on Warba Insurance over the two-year outlook period to late 2018.

LONDON (S&P Global Ratings) Aug. 23, 2016--S&P Global Ratings today raised to
'BBB+' from 'BBB' its counterparty credit and financial strength ratings on
Kuwait-based Warba Insurance Co. K.S.C.P. (Warba). The outlook is stable.

The chief factor behind the upgrade of Warba is our view that enterprise risk management (ERM) across the company has improved sufficiently to justify an assessment of adequate. In particular, we now consider that the company's clearly defined internal investment risk appetites, established through executive committees, can no longer be easily overridden when formulating investment strategy. Now that our earlier concerns in respect of

ERM have been substantially allayed, we have removed the negative one-notch modifier that we previously applied to the ratings. As a result, our ratings on Warba are now at the level of the 'bbb+' anchor that we derived by combining Warba's satisfactory business risk profile with its moderately strong financial risk profile.

We reassessed our view of Warba's ERM based on clear evidence demonstrating a better articulated risk management framework. In December 2014, the Risk Management & Development Department took responsibility for the definition and monitoring of the company's risk appetite. The company also created executive committees whose task is to define and periodically update the company's risk limits. In our view, this is a fundamental change in Warba's ERM. For example, the new structures help prevent the board from directly making decisions that could take the company outside its defined risk appetite, or that are contrary to the various executive committees' recommendations.

Our rating conclusions are also based on our view that Warba continues to enjoy a sustainable and adequate competitive position in the Kuwait insurance sector, while at the same time displaying strong capital and earnings. Its risk-based capital adequacy ratios are extremely strong, according to our model. As of year-end 2015, reported gross premiums totaled Kuwaiti dinar (KWD) 37.1 million; shareholder's funds were KWD45.3 million; and net income reached KWD1.7 million.

Based on the most recent interim accounts, published at end-June 2016, we consider that Warba continues to operate satisfactorily. Its gross premiums are up 2% at KWD20.3 million year on year and it has retained 52% of premiums while ceding the remaining 48% to external reinsurers. The net combined ratio for the half-year improved somewhat to 84% from 89% for the first half of 2015. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Overall net income after tax also slightly improved to KWD2.3 million from KWD2.1 million at the end of the first half of 2015. After a payment of shareholder dividends, reported shareholders' funds as of end June 2016 stood at KWD44.4 million (US$148.5 million).

The stable outlook indicates that we do not expect our ratings on Warba to change during the two-year outlook period to late 2018.

We do not expect to raise the ratings on Warba again within the two-year outlook period. In the longer term, we could raise the ratings if, in our view, its risk position had improved to an intermediate level from the present moderate level, and if other analytical factors remained at least stable.

We could lower the ratings on Warba if its current, somewhat elevated, exposure to equity instruments does not moderate within the coming 12-18 months to levels consistent with the company's own stated risk appetites and tolerances. The ratings could also be lowered if Warba experiences any particularly significant increase in its business risk exposure, or if capital adequacy according to our model falls below levels that we regard as very strong.