

July 24, 2008

**Research Update:**

**Kuwait Reinsurance Co. K.S.C.  
Outlook To Positive; Operating  
Performance Expected To Improve**

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## Research Update:

# Kuwait Reinsurance Co. K.S.C. Outlook To Positive; Operating Performance Expected To Improve

## Rationale

On July 24, 2008, Standard & Poor's Ratings Services revised its outlook on Kuwait-based reinsurer Kuwait Reinsurance Co. K.S.C. (Kuwait Re) to positive from stable reflecting the enhanced operating performance expectations. At the same time, Standard & Poor's affirmed its 'BBB' long-term counterparty credit and insurer financial strength ratings on the company.

The ratings reflect Kuwait Re's very strong capitalization, enhanced risk management and strategy, and strong investments, partially offset by its historic underwriting performance and adequate competitive position.

### Major rating factors:

- Standard & Poor's Ratings Services views Kuwait Re's capitalization as very strong, based on the company's excellent capital adequacy, very good quality of capital, continued prudent reserving, and appropriate use of retrocession.
- Kuwait Re has strong investments and liquidity. It has consistently maintained a very liquid investment portfolio, a reasonably high but controlled exposure to equities, and relatively low credit and market risk; although the increased exposure to the Kuwaiti property market exerts pressure on both the quality of investments and the liquidity of the company.
- Kuwait Re's historic operating performance is marginal, although expectations for future profitability have improved. Establishing this track record will be key to the development of this rating. Our expectations improved due to the increasing scale and improved expense management that the company has demonstrated. Furthermore, Kuwait Re's relatively large investment portfolio has enabled it to report a net profit for at least the past seven years. Standard & Poor's expects underwriting performance to continue to improve, with Kuwait Re achieving a combined ratio of below 100% in 2008.
- Kuwait Re has an adequate regional competitive position. It is positioned as a small regional reinsurer with limited pricing power. It does, however, have the benefit of having Transatlantic Reinsurance Co. (Transatlantic Re; AA-/Negative/--) as its major shareholder and a business partner. Kuwait Re and Transatlantic Re are working together to expand into new geographic areas and diversify risk acceptance, thereby improving Kuwait Re's competitive position, which to date has been dependent on long-standing business relationships.

## Outlook

The positive outlook reflects Standard & Poor's expectation that the company's improved underwriting performance will be maintained at sub-100% combined ratio levels for 2008 and 2009.

Positive momentum in rating has also been achieved by the increasingly technical approach taken to underwriting, driven by the recent management changes.

Capitalization should remain at least strong, driven principally by an excellent (although falling) capital surplus at the 'AAA' level. Investments and liquidity are also expected to remain strong.

If Kuwait Re achieves its targets and establishes a track record of underwriting profitability across the rating horizon, then the ratings could be raised to 'BBB+'. Failure to successfully improve underwriting profitability, or a negative shift in the competitive environment for Kuwait Re, could put downward pressure on the ratings.

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
Kuwait Reinsurance Co. K.S.C.		
Counterparty Credit Rating		
Local Currency	BBB/Positive/--	BBB/Stable/--
Financial Strength Rating		
Local Currency	BBB/Positive/--	BBB/Stable/--

### Additional Contact:

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