

Research Update:

Kuwait Reinsurance Co. K.S.C. Upgraded To 'BBB+' On Improved Underwriting Results; Outlook Stable

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Overview

- Kuwait Re has reported continued profitable underwriting, which reflects action taken in the past few years to focus on a technical profit.
- We have therefore raised the ratings on Kuwait Re to 'BBB+' from 'BBB'.
- The ability of the company to generate underwriting profits indicates that the company's competitive position is stronger than we had previously believed.
- The stable outlook reflects our expectation that the company will maintain its improved underwriting performance.

Rating Action

On Sept. 24, 2010, Standard & Poor's Ratings Services raised its rating on Kuwait Reinsurance Co. K.S.C (Kuwait Re) to 'BBB+' from 'BBB'. The outlook is stable.

Rationale

The upgrade reflects the company's ongoing improvement in underwriting results; it has made an underwriting profit in the last three years, and is expected to do so again in 2010. This reflects Kuwait Re's increased focus on technical underwriting, which is likely to lead to returns consistent with a higher rating in the future. In addition, it provides evidence of the strength of the company's competitive position and effectiveness of its enterprise risk management application.

The ratings reflect its strong capitalization, in particular, its extremely strong capital adequacy, its strong investments and liquidity, and its good track record of underwriting performance in the past few years. Offsetting these strengths are the small absolute size of the company, which limits its competitive position, and the execution risks it has generated by expanding outside its core markets.

Outlook

The stable outlook reflects our expectation that the company will maintain its improved underwriting performance. This is reflected in the company's continued ability to underwrite profitably in both its historical core

business and newer regions.

Much of Kuwait Re's business consists of proportional treaties, which offer less volatility than nonproportional reinsurance, but also offer lower profit margins. As such, Standard & Poor's expects that the company will deliver consistent, albeit modest, underwriting profits in the medium term. We expect that the combined ratio for 2010 will be better than 100%.

In addition, we expect that Kuwait Re's developing businesses outside the Middle East region will also produce underwriting profits in the medium term, though we acknowledge that this business has less of a track record with the company and may therefore display greater volatility. Continued underwriting profitability, both in the core Middle East book and in the overseas operations, would demonstrate the strength of the company's competitive position.

Further positive ratings momentum is unlikely in the medium term. Negative ratings action would be prompted by deterioration in the operating performance trend and material weakening of capitalization.

Related Criteria And Research

Interactive Ratings Methodology, April 22, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action

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

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Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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