

Saudi Re for Cooperative Reinsurance Co.

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Corporate Profile: A Strongly Capitalized Start-up Benefitting As The First Domestic Reinsurer In KSA

Competitive Position: Good Medium-Term Business Prospects As KSA's Only Locally Established Reinsurer

Management And Corporate Strategy: Management Team Balances Technical Expertise With Local Market Knowledge And Influence

Enterprise Risk Management (ERM): Adequate, And Expected To Develop As Saudi Re Grows In Complexity

Accounting: IFRS Accounting On A Cooperative Basis, With Separate Policyholder And Shareholder Accounts

Operating Performance: Currently Marginal Earnings Expected To Become Satisfactory By 2012

Investments: Liquid, Low-Volatility Assets Held, With No Imprudent Concentrations of Risk

Liquidity: Strong Liquidity Under All Realistic Scenarios

Table Of Contents (cont.)

Capitalization: Will Remain At Least Strong Into The Long Term

Financial Flexibility: Strong, With Limited Prospective Needs For Additional Funding

Saudi Re for Cooperative Reinsurance Co.

Major Rating Factors

Strengths:

- Strong capitalization of Saudi Arabian riyal 1 billion (\$268 million).
- Effective management team combining technical expertise with local knowledge and influence.
- Balance sheet factors (investments, liquidity, reserves, capitalization) expected to remain strong into the long term.
- Competitive advantages as the only domestic reinsurer in the Kingdom of Saudi Arabia.

Weaknesses:

- Inevitably for a start-up, earnings are marginal due to low premium volumes and high operating costs, while investment yields are also low and tax liabilities (zakat) high.
- Economic and industry risks, with economic and geopolitical concerns compounded by somewhat soft reinsurance rates.

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

BBB+/Stable/--

Rationale

The ratings on Saudi-Arabia-based reinsurer Saudi Re for Cooperative Reinsurance Co. reflect its very strong paid-up capitalization of Saudi Arabian riyal (SAR) 1,005.6 million (\$268 million), its expert and influential management team, its broadly based and supportive shareholders, and the attractive potential that this 2008 start-up company enjoys for sustainable growth in the Kingdom of Saudi Arabia (KSA) and neighboring Gulf Cooperation Council (GCC), Middle Eastern, Asian Islamic, and North African reinsurance markets. The main offsetting weaknesses are the inevitably still-developing business position and the consequent marginal near-term earnings prospects due to business volumes and investment yields that are both very low, compounded by relatively high operating costs and zakat tax charges.

Despite slow growth in premium revenues during 2008 and 2009, Saudi Re is nevertheless expected to develop much more rapidly from 2010 onward given its now complete management and underwriting teams, its competitive strengths in its home market, and its potential to develop operations elsewhere within the GCC region, and the wider Arab and Islamic world.

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' view that Saudi Re enjoys good prospects for success in the medium and long term, but that the start-up characteristics of the young company will likely preclude a stronger rating during the current two-year outlook period. Meanwhile, regional reinsurance rates are softening on many lines, and although many regional cedants are prepared to work with Saudi Re, it is less clear that they are as yet willing to offer the new company a sufficient volume of good quality, appropriately priced business to allow it to generate good overall earnings.

We nonetheless expect Saudi Re's capitalization, investments, liquidity, and financial flexibility to remain at least strong in coming years despite likely rapid growth. Meanwhile, we expect the competitive position and earnings to show steady improvement, with net combined ratios starting to stabilize by 2012 at or below the mid-90% range, and return on revenue rising towards 10%. In the longer term, both competitive position and operating performance have the potential to become strong. At the same time, the adequate enterprise risk management (ERM) processes already in place are expected to continue to develop as the company grows.

The current outlook already reflects the expectation that Saudi Re will ultimately prove successful in establishing a good, diversified, and potentially strong competitive position in Saudi Arabia and beyond, while generating sufficient revenues to cover costs and, in the medium term, to generate satisfactory returns for shareholders. However, if the company consistently falls short of its revised performance targets, the rating could be negatively affected.

Corporate Profile: A Strongly Capitalized Start-up Benefitting As The First Domestic Reinsurer In KSA

Regulated by the Saudi Arabian Monetary Agency (SAMA), Saudi Re is a 2008 start-up reinsurer based in Riyadh in the KSA. It is listed on the local Tadawul stock exchange, with no single shareholder holding more than 5% of the company. In addition to a robust balance sheet boasting shareholders' funds of SAR1.0 billion (\$268 million) and a now complete and highly experienced management team, the company also benefits from being the only reinsurer incorporated in the Kingdom. In addition to "first mover" advantage, Saudi Re also benefits from certain regulatory advantages, notably one whereby KSA-based insurers incur a 5% withholding tax on any premiums ceded to foreign reinsurers. Meanwhile, Saudi Re enjoys the goodwill of shareholders, local insurers, and the authorities, with the latter regarding the new reinsurer as a further important step toward the creation of a sustainable insurance and reinsurance infrastructure in Saudi Arabia.

Competitive Position: Good Medium-Term Business Prospects As KSA's Only Locally Established Reinsurer

Table 1

Saudi Re for Cooperative Reinsurance Co./Balance Sheet		
	--Year-end Dec. 31--(Unaudited)	--Year-end Dec. 31--(Audited)
(Mil. SAR)	2009	2008
Cash & bank deposits	821.5	1,026.1
Bonds	115.7	
Other investments	100.0	0.0
Total investments	1,037.3	1,026.1
Insurance debtors	25.4	2.3
Other assets	23.9	4.3
Total assets	1,094.1	1,033.3
Non-Life: Net outstanding claims provision	6.8	0.0
Non-Life: Net unearned premium provision	8.5	0.5
Total technical reserves	15.3	0.6
Other liabilities	73.2	7.2

Table 1

Saudi Re for Cooperative Reinsurance Co./Balance Sheet (cont.)		
Total liabilities	88.4	7.7
Adjusted common equity	1,005.6	1,025.5
Other quasi capital	0.0	0.0
Total adjusted equity	1,005.6	1,025.5

SAR--Saudi Arabian riyal.

Table 2

Saudi Re for Cooperative Reinsurance Co./Income Statement		
	--Year-end Dec. 31--(Unaudited)	--Year-end Dec. 31--(Audited)
(Mil. SAR)	2009	2008
Gross written premiums	51.1	3.2
Net written premiums	16.3	0.3
Net premiums earned	8.3	(0.2)
Gross claims incurred	(15.9)	(0.2)
Net claims incurred	(5.1)	0.0
Acquisition costs	(1.1)	0.0
Administration costs	(22.1)	(11.7)
Underwriting result	(19.9)	(11.9)
Net investment income	18.8	70.3
Total: Realized gains/(losses)	0.7	0.0
Total: Unrealized gains/(losses)	5.9	0.0
Other income	24.8	(32.5)
Operating result	4.8	25.9
EBITDA	4.8	25.9
Taxation	(24.7)	(0.3)
Retained Earnings	(19.9)	25.5

SAR--Saudi Arabian riyal.

Table 3

Whole Market: Kingdom of Saudi Arabia Insurer Retention Ratios By Line Of Business, 2005-2008				
(%)	2008	2007	2006	2005
Motor	97.0	94.1	94.5	93.7
Health	78.0	78.4	82.9	80.8
Accident, Liability and Other	41.0	38.0	42.0	43.1
Marine	33.0	31.9	28.8	29.5
Engineering	18.0	20.3	15.5	19.2
Property/Fire	12.0	11.3	10.5	10.8
Aviation	4.0	3.1	3.4	2.9
Energy	0.0	0.8	0.0	0.1
Total	67.0	64.6	62.4	60.9

Source: Saudi Arabian Monetary Agency (Insurance Supervision Dept.) Market Survey Report, 2009.

Although still very modest in premium terms, with some SAR51.1 million of gross and SAR14.7 million of net

premiums written in 2009, Saudi Re is expected by 2012 to have developed a good and potentially strong business position in its principal market, Saudi Arabia. At the same time, management continues to promote geographic diversification through underwriting in other GCC markets, and also further afield in the wider Arab and Islamic world. Indeed, Saudi Re displays an absolute level of capitalization that ranks it as one of the leaders in terms of overall capacity among Middle Eastern regional reinsurers.

Despite sometimes intense competition from regional and global reinsurers, Saudi Re is expected to differentiate itself sufficiently from other reinsurers to win an increasing share of the steadily growing KSA and Islamic insurance world's need for reinsurance protection. Although the region's dominant primary lines of compulsory motor and health tend to be lightly reinsured, growing volumes of reinsurance business are available on the property, marine, and engineering accounts, while demand for life reinsurance may also develop from current low levels.

Historical

By the fourth quarter 2009, Saudi Re had established working relationships across the whole KSA insurance sector, actively reinsuring 27 local cedants, while writing with the support of some 20 brokers an overall book of business comprising 110 cedants in 14 countries. Geographically, 2009 premiums originated 84.2% from the KSA, 10.6% from other Middle Eastern markets, and 5.2% from Africa (mainly North Africa). Although some geographic diversification is being achieved, prudence is mainly being achieved by writing many smaller KSA risks across a variety of lines of business. Consequently, 42.1% of premiums related to fire, 28.5% to engineering, 19.1% to marine, 5.8% to motor, and 4.5% to other lines, including life and health. Although management is aiming to write Saudi Arabian treaty business on a direct basis, the company's total book of business was written 60% direct and 40% through brokers.

Despite successful penetration of the local reinsurance market, Saudi Re's premium volumes fell well short of planned levels in 2009. In part, this reflected the maintenance of strict underwriting standards despite somewhat soft underwriting conditions in the KSA, and often very soft conditions in neighboring markets given significant new capacity coming from other regional and international reinsurers. Low premium volumes at Saudi Re are also a reflection of a somewhat inward-looking focus in the young company's early months of operation as management continued to recruit technical staff, perfect its internal administration, and also iron out certain unintended limitations in its retrocession programs. During 2009, all these internal issues were satisfactorily addressed and the expectation is that the company will become much more expansive in its marketing and outreach activities in 2010. However, gross premiums written (GPW) this year are expected by Standard & Poor's to be around SAR70 million, with at least half of this amount likely to be retroceded.

On balance, Standard & Poor's remains confident that Saudi Re will continue to gain access to good quality, reasonably priced reinsurance business in the KSA and beyond, particularly given its combination of competitive strengths. These include a strong balance sheet (SAR1.0 billion of capital, largely cash investments, and no old-year reserve liabilities), and the advantages of incorporation in the KSA, as local cedants using Saudi Re avoid both the 5% withholding tax on premiums ceded to foreign reinsurers and also part of the regulatory fee payable to SAMA, which is calculated against gross premiums net of those ceded to local reinsurers. Additionally, in our view the calibre of the now complete senior management and underwriting teams brings an impressive new source of technical support to local insurers, which Saudi Re is able to capitalize upon by means of detailed technical advice to its clients as well as market training events and seminars.

A final competitive advantage, albeit one not yet enforced by the regulators, is existing regulation by which cedants

appear to be obliged to place at least 30% of their reinsurance business locally, if possible. Although it seems unlikely that SAMA would enforce this regulation while Saudi Re remains the sole local provider, the existence of this dormant rule does encourage insurers to work with Saudi Re on a voluntary basis lest the legislation be enforced. At the time of writing, there is no evidence of any other reinsurer seeking a license to write business from within the KSA. It therefore appears likely that Saudi Re will retain its "first mover" advantage in Saudi Arabia for some time to come.

Prospective

We expect GPW to rise toward SAR70 million in 2010 after SAR51 million in 2009, and subsequently continuing towards SAR200 million in 2011. Initially, very prudent use will be made of proportional retrocession, although management aims to move more towards the use of excess of loss protection over time, the current proportional covers being expensive as they too attract the 5% withholding tax on premiums ceded to reinsurers outside the Kingdom. Consequently, the retained part of gross premiums may rise toward 90% by 2013, once underwriting is better diversified and more scientifically supported by experience and data.

Management And Corporate Strategy: Management Team Balances Technical Expertise With Local Market Knowledge And Influence

The Main Board and the now complete Executive Management teams at Saudi Re are seen as a considerable asset for the company in its formative, early stages, combining the technical skills and extensive regional contacts of the managers with the broader experience, prestige, and local influence of the main Board of Directors.

Management strategy for the company is to grow premium income reasonably rapidly from 2010 onwards while maintaining prudent underwriting standards, in particular targeting proportional treaty and, to a much lesser extent, selected facultative covers.

Operationally, the long-term objective is to turn Saudi Re into a respected, leading name in regional reinsurance while generating satisfactory profits for stakeholders. However, there is no short-term imperative to achieve rapid growth, and the currently modest levels of premium income are a disappointment to management but not yet an overt concern, particularly as they reflect prudent underwriting rather than any competitive failure on the part of the new company. In due course, management is aiming for net combined ratios on average around the 90% level, with both return on revenues and, more challengingly given the size of the capital base, return on equity in excess of 10%.

Asset risk will be largely limited to cash and near cash holdings, with some high quality bonds but only very modest exposure to equity instruments and property. This conservative investment strategy will almost certainly limit investment income to little more than the level of prevailing KSA "risk-free" rates.

Managing a total staff of 26 (inclusive of four Saudi trainee underwriters), the executive team at Saudi Re is headed by the Chief Executive, Nouhad Taleb, 61, a multilingual Lebanese national who has spent much of his long legal and reinsurance career operating in the Arab world, principally during 25 years with the former Cologne Re, which became part of Gen Re in 1998. Additional managers include the Chief Financial Officer, Mr. Alaa Fares, (previously with ARIG, Aviva, and Qatar General); the Chief Operating Officer, Mr. Arthur Underwood (Arch Re, PXRE, F&GRe, MEAD-Lafayette Re, CER Paris, Continental Insurance Co.); the non-life actuary and Risk Manager, Mr. Ralph ElFadl (CCR, Hannover Life Re); the life actuary, Mr. A. Selim (Egyptian Insurance

Supervisory Authority, Commercial International Life, El Shark Insurance, Legal & General, NAIC); the Head of Facultative Underwriting, Mr. Sami Sayegh (FM Global, Aon, Paris Re); and a Legal Compliance Officer, Mr. Amer Al Amer (ex-Tawuniya). Additional officers also include the facultative Area Managers Mr. Richard Rizk (ex-Allianz, Saint Paul, Adir Insurance) Mr. Hashim Al Hashim (ex-Walaa, Tawuniya, and Ahlea Kuwait), and the treaty Area manager Mr. Tariq Terhi (ex-Trust International).

Meanwhile, the Main Board comprises six members and is chaired by Mr. Mousa Al-Rubaian, along with Mr. Taleb representing the executive management, and Mr. Ahmad Sabbagh, an insurance professional, Mr. Mohamed Al Sheikh, a legal partner, Mr. Georges Lorenz (ex-director of AXA Re and Cologne Re), and a new member, Mr. Mishari Ibrahim Al Mishari, a board member of Aljazeera Bank and Saudi Investment Bank. Two directors resigned from the Board in 2009, Mr. Saud Algosaibi and Dr. Yahya Al Yahya, both for personal reasons.

On balance, Standard & Poor's believes the confidence of management in medium-term success for Saudi Re to be well-founded. The short-term policy of prudent, controlled growth and conservative investments appears likely to create a solid if unspectacular foundation on which more expansive, longer-term strategies can later be built.

Enterprise Risk Management (ERM): Adequate, And Expected To Develop As Saudi Re Grows In Complexity

ERM at Saudi Re is fully adequate relative to the company's still-modest risk exposure. Sophisticated management information systems and underwriting controls are now well-established, with detailed day-to-day supervision being provided by the Risk Manager, the Compliance Officer, the Chief Operating Officer, and the second actuary, with higher-level monitoring coming from senior management and the Board, as well as from very thorough monitoring by the regulator, SAMA.

Accounting: IFRS Accounting On A Cooperative Basis, With Separate Policyholder And Shareholder Accounts

Saudi Re's annual and interim accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and present a transparent picture of the company's operations. The accounts are externally audited on a dual basis by the Riyadh offices of Deloitte & Touche Bakr Abulkhair & Co., and UHY Al Bassam Certified Public Accountants & Consultants. The reinsurer has also retained the services of Price Waterhouse Coopers as consulting actuaries.

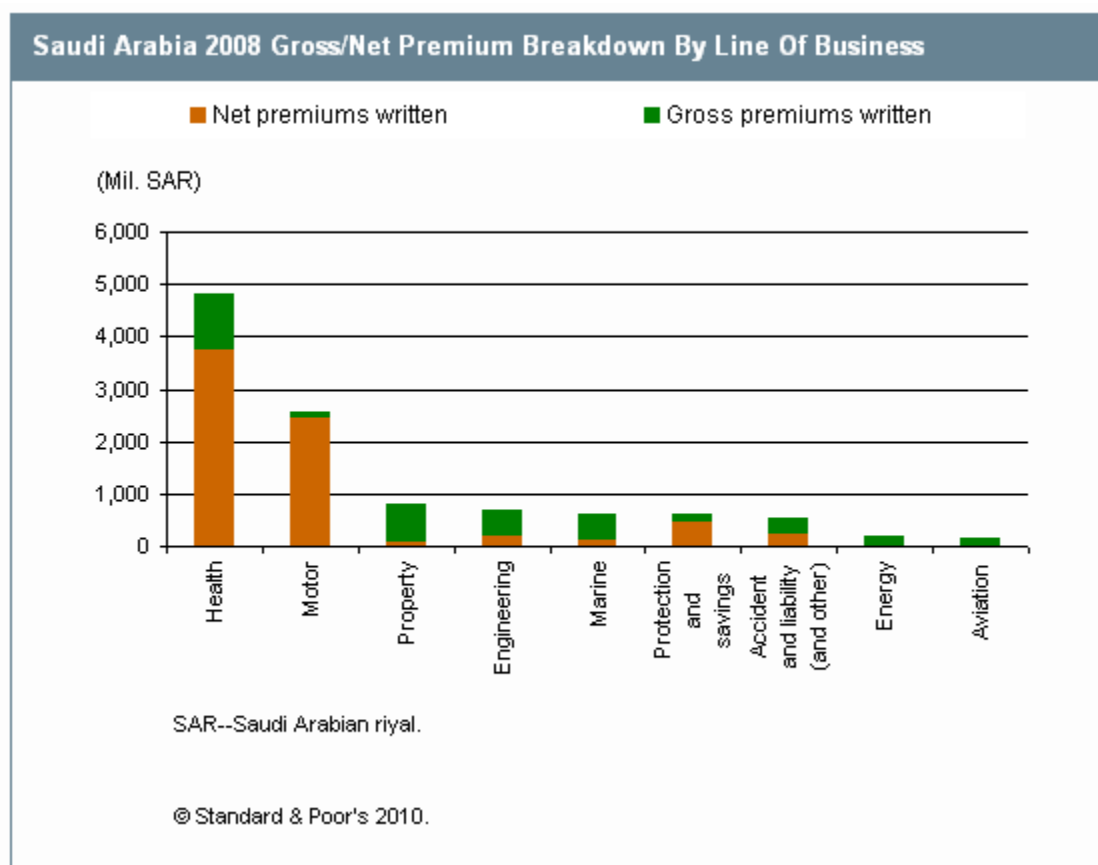
Like all KSA-based insurers and reinsurers, Saudi Re is obliged by regulation to operate on a cooperative basis in the interests of Sharia Law compliance, with separate policyholder and shareholder accounts.

Operating Performance: Currently Marginal Earnings Expected To Become Satisfactory By 2012

Table 4

Saudi Re for Cooperative Reinsurance Co./Operating Statistics		
	--Year-end Dec. 31--(Unaudited)	--Year-end Dec. 31--(Audited)
(Mil. SAR)	2009	2008
NL: Gross combined ratio (%)	211.1	3656.2
NL: Gross loss ratio (%)	79.3	62.0
NL: Net combined ratio (%)	339.3	(5,254.3)
NL: Net loss ratio (%)	61.1	(19.8)
NL: Net expense ratio (%)	278.1	(5,234.5)
NL: Acquisition expense ratio (%)	13.7	(1.2)
NL: Administrative expense ratio (%)	245.6	(5,233.3)
NL: Reinsurance result	3.9	(0.3)
NL: Return on revenue (%)	(239.3)	83.3
Yield (incl realised) (%)	1.9	0.0
ROE - Reported Equity (%)	(2.0)	5.0
Change in adjusted equity / Total adjusted equity (%)	(1.9)	N.A.
Retained profit/ total equity (%)	(2.0)	N.A.
Cons: EBITDA (excl non recurring)/ Total capitalisation (%)	0.5	5.0

SAR--Saudi Arabian riyal. N.A.--Not available.



Longer-term prospects for satisfactory performance and profits at Saudi Re by 2012 remain good. However, actual income in 2009 has proven disappointing given lower than expected premium volumes and, perhaps more disconcertingly, the structural problem that has emerged concerning the "zakat" religious tax on cash and bond assets in Saudi Arabia (see "Investments" below). Although all KSA-based insurers have been affected by this problem, the already fragile, start-up economics of Saudi Re have been particularly hard hit as some 90% of its assets were prudently held in cash in 2009, and compulsory, fixed rate zakat payments could again substantially offset the reinsurer's net investment income in 2010, as in 2009.

Historical

Looking at the published nine-month position as of end-September 2009, net written premiums of SAR13.6 million fell to SAR3.7 million at the earned level, against which net incurred losses reached SAR3.5 million and operating expenses were SAR15.5 million. Despite some recoveries through commissions and other acquisition costs, the net underwriting result was nonetheless a deficit of SAR16.0 million, a technical loss that appears to have risen to SAR20.5 million for the full year. Net incurred losses for the full year seem to have been slight relative to capital at just SAR5.1 million, or 34.7% of net written premiums of SAR14.7 million, despite very conservative reserving practices. The 2009 year-end numbers show continuing cost overruns, with the overall net underwriting loss of SAR20.5 million (inclusive of all operating expenses and claims incurred) representing 139.5% of net written premiums. The pre-zakat operating result for the year was SAR4.8 million, falling to a deficit of SAR19.9 million after payment of the substantial tax liability.

Prospective

Management remains confident that they will be able to write approaching SAR70 million of good quality gross premiums in 2010. This growth will help offset the burden of fixed costs, while any improvement in cash yields in the KSA or concessions from the authorities in respect of zakat taxes may help reduce bottom line losses in 2010 to modest levels, while creating the possibility of overall profitability in 2011 and, more particularly, in 2012.

Investments: Liquid, Low-Volatility Assets Held, With No Imprudent Concentrations of Risk

Table 5

Saudi Re for Cooperative Reinsurance Co./Investment Statistics		
	--Year-ended Dec. 31--	
(Mil. SAR)	2009	2008
Bonds & other fixed interest securities	115.7	0.0
Total investment return (incl. unrealized and realized) (%)	2.5	0.0
Investment leverage (incl p/h capital) (%)	57.0	0.0
(Insurance & reinsurance receivables)/Total assets (%)	2.3	0.2
Cash in/out (%)	86.5	155.1
Underwriting cash flow ratio (old basis) (%)	75.8	0.0
Operating cash flow ratio (old basis) (%)	90.2	588.9
Total investments	1037.3	1026.1
Bonds and other fixed interest securities (%)	11.2	0.0
Equities and other variable interest securities (%)	55.3	0.0
Cash and bank deposits (%)	23.9	100.0

Table 5

Saudi Re for Cooperative Reinsurance Co./Investment Statistics (cont.)		
Other investments (%)	9.6	0.0
NL: Other investments (%)	9.6	0.0

SAR--Saudi Arabian riyal.

End-2009 investment assets of SAR1,037.3 million (including a compulsory SAR100 million cash deposit with the regulator, SAMA) are deemed strong both in their amount relative to liabilities and in their nature, with 11.2% relating to good quality GCC government and quasi-government bonds rated 'A' or better, and the balance in cash or near-cash instruments spread across a selection of strong regional banks. Although previous placements were made at what now appear to be attractive yields, the reinvestment of maturing deposit balances is inevitably going to generate lower returns given the exceptionally low cash yields currently available from KSA banks.

In our opinion, the adoption of an appropriate, long-term investment strategy remains a conundrum for management as, although large cash and good quality bond investments make prudent sense for any reinsurer, such holdings attract zakat religious tax under Sharia law, and this is levied at a flat rate of 2.5%. As cash yields in the Kingdom are currently well under the equivalent of 1% per annum, this means that Saudi Re's prudent, cash-orientated investment strategies now risk generating losses.

Although yields of 5% or more can be obtained at banks elsewhere in the region, regulations make it difficult for KSA-based insurers and reinsurers to place more than 20% of their investments outside the Kingdom, and even this level of transfer may be objected to by the regulators.

Investment strategy

From 2010 onward, the asset breakdown is expected to shift gradually away from the current, predominantly cash position toward a more diversified, slightly more risky breakdown of approximately 60% cash and near cash, 20% bonds, 10% equities, and the balance in the form of a small land purchase intended to be made in Riyadh later this year, on which the company intends to build new offices for eventual own use.

Credit risk

The near entirety of the still young company's assets continue to be held in cash, most of which is on deposit with strongly rated banks. The small bond portfolio is expected to comprise only strong or very strong government or quasi-government issuers.

Market risk

The company follows prudent guidelines established by its Investment Committee. Although up to 15% of investments can be in equities, any such exposure will be limited and possibly in "capital guaranteed" instruments. Similarly, all such investments are expected to be in reputable regional and, possibly, international names, with no exposure to unlisted stock.

Asset-liability management

Asset-liability management (ALM) will remain entirely satisfactory, with Gulf region currencies totally or largely linked to the U.S. dollar and, as a result, to each other. The vast majority of unpaid loss reserves will be matched by Riyal-denominated cash and bank deposits or by bonds of maturities reflecting the tenor of the reserves. In the longer term, as a book of life reinsurance potentially develops, ALM may need to become a more significant element in the reinsurer's investment planning.

Liquidity: Strong Liquidity Under All Realistic Scenarios

Liquidity at Saudi Re will remain at least strong under all realistic scenarios through to 2012, and almost certainly beyond. The reinsurer's current cash and readily marketable securities (shares and bonds) of some SAR937.3 million are over 60 times the current level of net technical reserves of some SAR15.3 million. Even if very rapid growth occurs in coming years, cash and marketable securities are not expected to fall below 300% of net technical reserves before 2012. Meanwhile, even current and prospective maximum loss scenarios remain extremely modest relative to the reinsurer's liquid resources.

Capitalization: Will Remain At Least Strong Into The Long Term

Table 6

Saudi Re for Cooperative Reinsurance Co./Capitalization Statistics		
	--Year-ended Dec. 31--	
(Mil. SAR)	2009	2008
Total adjusted equity/total assets (bps)	9191.7	9925.1
NL: Solvency ratio (net assets/net premiums) (%)	6174.1	330187.3
Dividend cover	N.A.	N.A.
Total adjusted equity	1005.6	1025.5
Change in adjusted equity (%)	(1.9)	0.0
DAC (deduct) (%)	(0.8)	(0.1)
Reinsurance exposure ratio (%)	1.5	0.0
Investment leverage (incl. all quasi capital) (%)	57.0	0.0
NL: Reinsurance utilization ratio (%)	68.1	90.3
NL: Net technical reserves/gross technical reserves (%)	30.2	18.7
NL: Technical reserves/NWP (%)	93.8	185.9
NL: Loss reserves/NWP (%)	41.7	14.2
NL: Net claims reserves/net claims incurred (%)	133.3	100.0

SAR--Saudi Arabian riyal. Bps--basis points. N.A.--Not available.

As a 2008 start-up company, Saudi Re currently enjoys overwhelming balance sheet strength, with some SAR1.0 billion (\$267 million) of fully paid-up capital supporting still only modest current and prospective levels of asset, reserve, and underwriting risk. Over its first five full years of operation (2009-2013), Saudi Re is expected to maintain its capital base largely intact, though no significant growth in capital through retained earnings and asset appreciation is expected before 2012. Meanwhile, the quality of capital remains high, with no actual or intended use of debt, and no intangible or implicit assets.

Capital adequacy

Inevitably for a strongly capitalized start-up reinsurer, Saudi Re's current and even medium-term capital ratios appear extremely strong relative to the modest levels of balance sheet risk and underwriting exposure. Even if the young company's overly ambitious original business plan had been fully implemented in terms of premium growth through to 2013, modeled risk-based capitalization would still have remained very strong through to 2012, in our opinion.

Reserves

In just over one year of activity, we believe that Saudi Re has displayed very conservative reserving practices. Quite apart from the prudence of management, the company has felt no incentive to under-reserve as shareholders as yet have no expectation of any profit distribution, while taxation of earnings is not an issue. Conservative reserving will continue to be facilitated by the still short-tail nature of the risks being underwritten.

Reinsurance

In 2009, some two-thirds of Saudi Re's GPW of SAR51.1 million were ceded, SAR34.8 million for proportional and SAR1.6 million for excess of loss protection. This is deemed very conservative relative to actual exposure. Saudi Re's retrocessionnaires are all rated 'A-' or better, with Munich Re and various Lloyd's syndicates predominating. Management's aim is to avoid large losses, while using outward reinsurance to gain meaningful capacity to write facultative and treaty business. No single large loss on the marine and nonmarine accounts should cost the company more than \$1 million in retained claims. For motor, the net single event retention is capped at \$100,000. In 2010, these proportions are expected to remain broadly similar relative to a gross premium base expected to be around SAR70 million. However, over time, retentions are likely to increase while the use of excess of loss protection will grow.

Financial Flexibility: Strong, With Limited Prospective Needs For Additional Funding

Saudi Re benefits from strong financial flexibility relative to its still extremely low actual and prospective requirements for additional capital or liquidity. Current shareholders' funds of marginally over SAR1 billion suggest that Saudi Re will be self-sufficient to at least 2012 in terms of cash and capital. However, if management were to require additional capital--hypothetically, for example, to fund an acquisition--it could legitimately turn to shareholders or could issue debt capital or sukuk (Islamic bonds) into the local or international capital markets.

Ratings Detail (As Of February 22, 2010)*

Operating Company Covered By This Report

Saudi Re for Cooperative Reinsurance Co.

Financial Strength Rating

Local Currency

BBB+/Stable/--

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Domicile

Saudi Arabia

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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