

Wala Cooperative Insurance Co.

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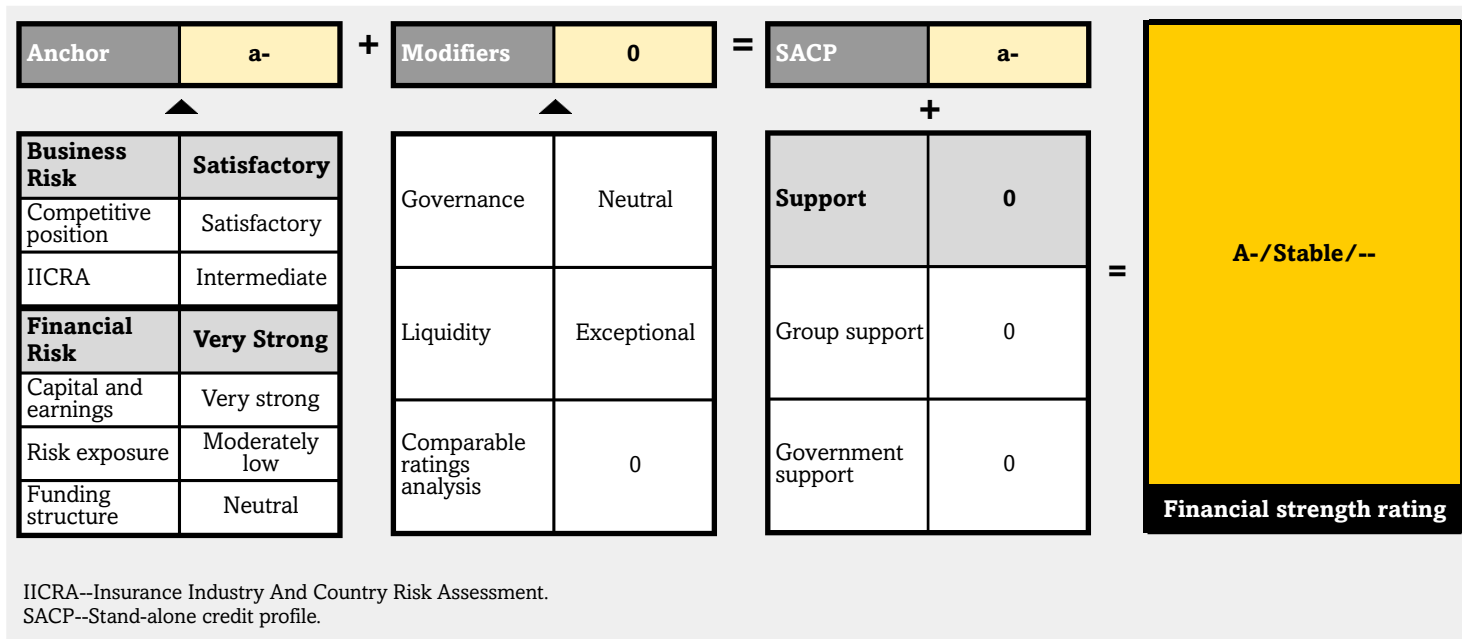
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Walaa Cooperative Insurance Co.



Credit Highlights

Overview	
Key strengths	Key risks
Capital adequacy expected to remain in line with our 'AAA' benchmark to support prospective business growth.	Ambitious growth strategy could result in capital and earnings volatility.
Holds about two-thirds of its investments in fixed income securities.	Exposed to the highly competitive motor line, which is largely retained, and could continue to constrain underwriting results.

S&P Global Ratings expects Walaa Cooperative Insurance Co. (Walaa) to maintain its 'AAA' capital adequacy level over the next two years. Walaa's 'AAA' capital adequacy came under pressure due to net losses in 2021 and 2022. However, in 2022 the insurer completed a merger with SABB Takaful, raising Saudi riyal (SAR) 300 million in capital. This was part of Walaa's plan to raise SAR775 million in mergers and acquisitions to support its growth strategy and expansion in Saudi Arabia. We therefore believe that its capital adequacy will remain a rating strength over the next two years, supporting its growth ambitions.

Organic growth and M&A activity support Walaa's diversification efforts. Walaa is one of the most active mergers and acquisitions players in the Saudi market. The insurer completed the acquisitions of MetLife AIG ANB Cooperative Insurance Co. (MetLife KSA) in 2020 and SABB Takaful in 2022, supporting its expansion in Saudi Arabia's underdeveloped life market. Walaa also plans to grow organically and retain more business in other property/casualty (P/C) business lines to reduce its exposure to the motor line that caused underwriting losses in 2021-2022. We believe these factors should support its competitive position over the next two years.

Outlook: Stable

The stable outlook reflects our expectation that Walaa will maintain its robust capital adequacy while strengthening its competitive position and diversifying its operations over the next two years.

Downside scenario

We could consider a negative rating action over the next two years if Walaa's:

- Operating performance deteriorates rapidly due to underwriting or investment losses; or
- Capital and earnings weaken as a result of its growth or acquisition strategy.

Upside scenario

We see a limited likelihood of an upgrade during the outlook period. However, we could consider a positive rating action over the next two years if Walaa significantly increases its premium income. This would lead us to reassess its business risk profile as strong, while maintaining its excellent capital adequacy and low risk tolerance in the investment portfolio.

Key Assumptions

- We estimate real GDP growth in Saudi Arabia will moderate and will average 2.6% in 2023-2026, after reaching a 12-year high of 8.7% in 2022.
- Saudi Arabia's insurance sector will continue to grow rapidly, due to rate adjustments and new business opportunities across most business lines.

Walaa Cooperative Insurance Co.--Key metrics

	--Year-ended Dec. 31--				
(Mil. SAR)	2024f	2023f	2022	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Very strong	Excellent
Gross premium written	3,197	2,906	2,642	2,339	1,473
Net income	25-50	25-50	(27)	(122)	51
Return on shareholders' equity (%)	3-5	3-5	(2.9)	(14.1)	6.4
Net combined ratio (%)	99-100	99-100	112.6	114.7	91.8
Net investment yield (%)	2-3	2-3	1.9	2.2	1.2

SAR--Saudi riyal. f--S&P Global Ratings' forecast.

Business Risk Profile: Satisfactory

Established in 2007, Walaa is based in Al Khobar in the Eastern Province of Saudi Arabia. The company's shares are listed on the Saudi stock exchange with no single dominant shareholder. Walaa derives its business solely from Saudi's P/C insurance market, and operates in both commercial and retail lines. It mainly reinsures commercial lines while retaining retail lines, thereby being exposed to the nonperforming motor line. Walaa also benefits from being a

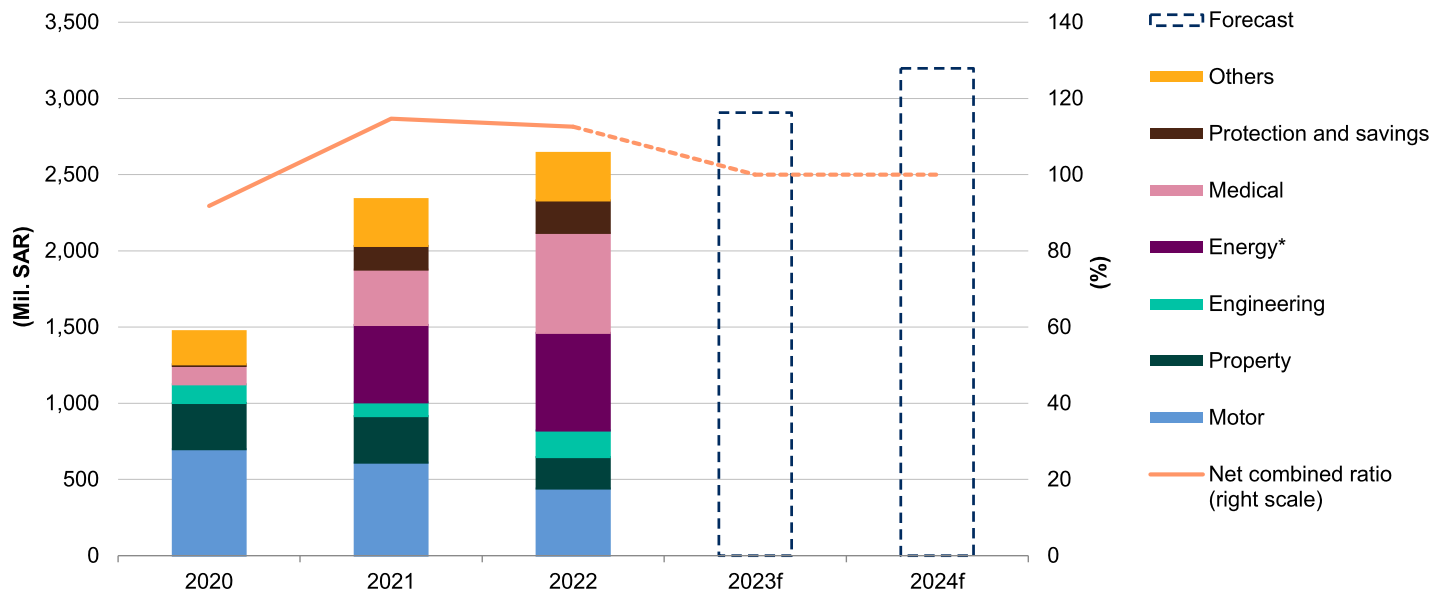
preferred partner for some global insurance companies to service their local clients.

The acquisition of MetLife KSA and SABB Takaful, together with some large contracts won in the energy sector, have resulted in material top line growth over 2021-2022. Gross premiums written stood at SAR2.6 billion in 2022, up from SAR1.5 billion in 2020. At the same time, Walaa's exposure to motor and medical lines resulted in material losses. However, its insurance service result has improved to SAR4 million at Q1 2023, from negative SAR57 million during the same period last year due to rate increases, particularly in the motor line. Under our base-case scenario, we expect Walaa to restore its profitability during the next two years.

Walaa continues to diversify its business, aiming to further reduce its exposure to retail lines. For instance, the motor insurance share gradually decreased to 17% in 2022 from 47% in 2020. In addition, MetLife KSA's acquisition has given Walaa a license to write life business, notably in the underpenetrated protection and savings lines. Nonetheless, the insurer is likely to manage its future growth to maintain its capital in line with our 'AAA' confidence level.

Chart 1

Operating performance is likely to normalize over the next two years



*Walaa was writing energy before 2021, but only started reporting it separately from property in 2021 as the line became more significant. f--Forecast. SAR--Saudi riyal.

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Financial Risk Profile: Very Strong

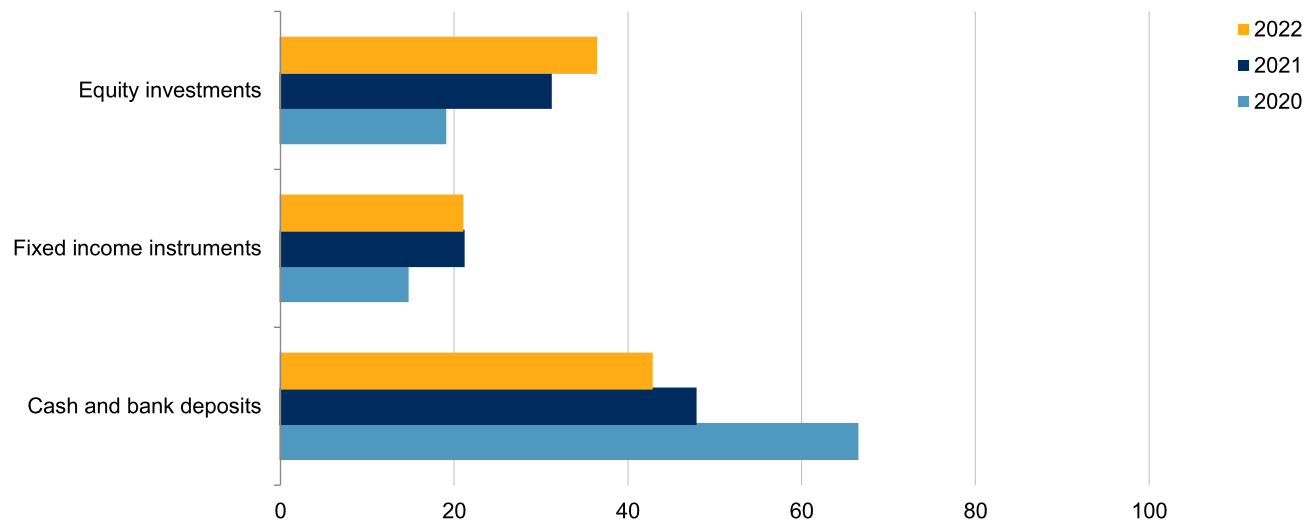
We expect Walaa's capital adequacy to remain in line with our 'AAA' level, after coming under pressure following a period of material business growth and net losses. Walaa has already raised SAR300 million of the SAR775 million

recommended by its board in 2021, thanks to its merger with SABB Takaful. This should support the company's growth ambitions in the short to medium term, as it follows a consistent strategy of raising capital to support its premium growth. It also demonstrates proactive management that would provide the company with sufficient capital resources to absorb any unexpected earnings volatility, particularly given its relatively small size by global standards. At Q1 2023, total shareholders' equity stood at SAR1.1 billion (about \$304 million).

We view Walaa's investment portfolio as generally conservative. At end-2022, its total invested assets reached SAR2.4 billion, comprising 37% in cash and bank deposits, 36% in equities, and 21% in fixed income instruments. Since Walaa invests most of its assets in cash and fixed-income instruments with selected local banks, it is susceptible to concentration in the local banking sector, similar to other local insurers.

Chart 2

Despite increasing equity investments, most are still in cash, bank deposits, and fixed income securities



Source: S&P Global Ratings.
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In our opinion, Walaa has adequate risk controls for its relatively modest size of operations. The company's track record in effectively mitigating and managing underwriting and operational risks bolsters our assessment of the framework's effectiveness.

Walaa's business growth appetite and some acquisitions support its need for additional capital and liquidity. The company has a track record of raising capital when needed for supporting its growth ambitions. It can also manage its capital requirements by ceding more risk to its reinsurers. Walaa can also borrow from banks, although it currently has a debt-free balance sheet.

Other Key Credit Considerations

Governance

Walaa's senior management team and underwriters are well experienced, understand the local market, and continue to demonstrate a good track record of operational effectiveness. The company has a clear strategic plan, which management and the board are continuously developing and implementing. In our view, the company's strategy is consistent with its organizational abilities and market conditions. Corporate governance practices also appear appropriate with no dominant shareholders or directors, and the use of independent board members helps protect the interests of those shareholders who acquired shares through Walaa's original public listing.

Liquidity

Walaa maintains exceptional liquidity by global standards, largely reflecting its earnings generation capabilities, positive cash flows, and cash-oriented investment strategies. We do not expect a material change in Walaa's liquidity over the next two years.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Walaa.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology , July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model , June 7, 2010

Appendix

Walaa Cooperative Insurance Co. Ltd.--Credit metrics history		
	--Year ending Dec. 31--	
(Mil. SAR, unless stated otherwise)	2022	2021
S&P Global Ratings capital adequacy*	Very strong	Very strong
Total invested assets	2,435	1,481
Total shareholder equity	1,069	813
Gross premiums written	2,642	2,339
Net premiums written	1,327	1,151
Net premiums earned	1,303	1,042
Reinsurance utilization (%)	49.8	50.8

Wala Cooperative Insurance Co. Ltd.--Credit metrics history (cont.)

--Year ending Dec. 31--

(Mil. SAR, unless stated otherwise)	2022	2021
EBIT	(16)	(113)
Net income (attributable to all shareholders)	(27)	(122)
Return on revenue (%)	-2.6	-12.1
Return on shareholders' equity (reported) (%)	-2.9	-14.1
P/C: Net combined ratio (%)	112.6	114.7
P/C: Net expense ratio (%)	23.7	23.4
Net investment yield (%)	1.9	2.2
Net investment yield including investment gains/(losses) (%)	2.9	3.4

SAR--Saudi riyal. P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of August 8, 2023)*

Operating Company Covered By This Report

Wala Cooperative Insurance Co.

Financial Strength Rating

Local Currency

A-/Stable/--

Gulf Cooperation Council Regional Scale

gcAAA/--/--

Saudi Arabia National Scale

ksaAAA/Stable/--

Domicile

Saudi Arabia

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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