S&P Global Ratings

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Qatar Insurance Co. S.A.Q.

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Qatar Insurance Co. S.A.Q.

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	Modifiers	0	a		0		Financial Strength Rating
Business Risk	Strong	ERM and Management	0	Liquidity	0	Group Support	0	A/Stable/--
Financial Risk	Strong	Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Qatar Insurance Co. S.A.Q. (QIC) is an established Qatari insurance group with a recognized brand in the Gulf Cooperation Council (GCC). It has expanded rapidly in recent years outside its core territories, notably in the U.K. motor market and the reinsurance market.
- Outside the motor business, QIC has a diverse product offering, including providing (re)insurance services in all sectors in its local markets, and a track record of good earnings.
- It is exposed to the challenging pricing conditions in the global property/casualty (P/C) and reinsurance sectors, and U.K. motor business, although we expect it maintain its pricing discipline.

Financial Risk Profile: Strong

- We expect risk-based capital likely to remain extremely strong thanks to a rights issue in 2016 and the hybrid issuance in 2017.
- Favorable risk profile supported by fairly diversified and liquid investment portfolio and moderate level of catastrophe exposure relative to its robust capital.
- Sufficient levels of financial flexibility demonstrated once again by the above-mentioned capital increase and hybrid issuance.

Other Factors

- QIC's ratings are not immediately affected after a group of governments--including Saudi Arabia, United Arab Emirates (UAE), Bahrain, Egypt, Libya, and Yemen--moved to cut diplomatic ties, as well as trade and transport links, with Qatar.
- With a strong business risk profile and a strong financial risk profile, our anchor for the group could be either 'a' or 'a-'. We chose the higher anchor that results in a higher rating predominantly because, in our view, the group will retain the relative strength of its competitive position and its financial risk profile--notably strong capital and earnings.
- We believe that enterprise risk management (ERM), management & governance, and liquidity support the rating.

Outlook: Stable

The stable outlook reflects our expectation that QIC's capital and earnings will be strong and sufficient to support its expansion plans over the next 24 months. We expect that QIC's risk-based capital will be at least at very strong levels through 2017-2018.

Downside scenario

We could lower the ratings over the next 24 months if:

- There are signs that the group's risk-based capital is likely to drop below 'AA' level. This could arise from a combination of weak earnings, excessive profit distribution, material growth or acquisitions.
- We see a sustained weakening of its business profile through underperformance.
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks.

Upside scenario

Although highly unlikely over the next 24 months, we could consider raising the ratings if QIC demonstrated that it could post strong combined ratios.

Base-Case Scenario

Macroeconomic Assumptions

- Government yields to increase over the next two-to-three years, but to remain below long-term historical norms until at least 2018.
- The global economy continues to improve into 2017, with the U.S. economy strengthening and the eurozone recovery remaining resilient, albeit slightly decelerating in the face of growing populism and increasing political uncertainty.
- Economic growth in Qatar will continue although at a slower pace than in the past five years given lower commodity revenues. We forecast real GDP growth of close to 3.0% annually in 2017-2019.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk Assessment: Qatar Property/Casualty," published March 9, 2017 on RatingsDirect; and "Insurance Industry And Country Risk Assessment: Global Property/Casualty Reinsurance" published March 17, 2017.

Company-Specific Assumptions

- We expect risk-based capital (measured using our model) to remain at extremely strong levels during 2017-2019 through retained earnings.
- Gross premium to increase by about 15% over 2017-2018 mostly through new business, assuming that the group retains the major accounts that make up the majority of its U.K. motor business.
- QIC will deliver net profits of around Qatari riyal (QAR) 1 billion annually, generating return on equity and return on revenue of 10%-12% in 2017-2018, largely supported by investment gains in line with previous years.
- We do not expect the recent move by various governments (notably Saudi Arabia and UAE) to cut diplomatic ties with the state of Qatar to hurt the QIC group. This reflects QIC's modest level of business exposure (see 'Company Description' for details) to these countries. Furthermore the group benefits from a robust level of capital relative to its balance sheet risks.

Key Metrics

(Mil. QAR)	2018f	2017f	2016	2015
Gross premiums written	13,095	11,387	9,901	8,347
Change in gross premiums written (%)	15	15	19	49
Net income (attributable to all shareholders)	1,028	981	1,052	1,064
Return on revenue (%)	~10	~10	8.6	12.5
Return on shareholders' equity (%)	10-15	10-15	14.5	17.9
P/C: net combined ratio (%)	98.0	98.0	98.0	96.4
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Very Strong

QAR--Qatari riyal. f--Forecast. P/C--Property/casualty.

Company Description

QIC is an operating and holding company, established in 1964 as Qatar's first insurance company. It now comprises a multifaceted insurance/investment management group writing all lines of insurance across the GCC. Since the substantial expansion of its reinsurance subsidiary in 2013, it has written premium globally. The group currently operates in the State of Qatar, UAE, Sultanate of Oman, State of Kuwait, the U.K., Switzerland, Bermuda, Singapore, Malaysia, and Malta. The group's five majority-owned insurance subsidiaries (see below) benefit from a full parental unconditional guarantee:

- Qatar Reinsurance (Qatar Re) is 95.7%-owned by QIC (accounted for 43% of the gross premium in 2016). As part of its capital management plan Qatar Re cedes around 50% of its premium to QIC, where the majority of capital is held. Qatar Re was established in December 2009 to write international inward reinsurance business, and has been substantially expanded over the past three years.
- QIC International (QICI) is 95.7%-owned by QIC (near 10% of premium). It manages or owns international operations that are based in the UAE, Oman, Kuwait, and Malta.
- Qatar Life & Medical is 85%-owned by QIC (6.8% of premium). It was formed in 2011 and underwrites short-term life and medical business across the target GCC region.
- Kuwait Qatar Insurance is majority-owned by QICI (near 1% of premium).
- QIC Europe Ltd. was established in Malta in 2014 and is licensed to underwrite all classes of non-life general insurance and reinsurance business across the European Economic Area (11.2% of premium).
- Antares Underwriting Limited is 95.7%-owned by QIC (17% of the premiums) and gives QIC the control of Antares Syndicate 1274.

QIC has been listed on the Qatar Stock Exchange (previously known as the Doha Securities Market) since May 1997.

Business Risk Profile: Strong

We view QIC's business risk profile as strong, reflecting its dominant competitive position in its domestic Qatari market and its rapidly developed international reinsurance arm.

Insurance industry and country risk: Intermediate risk overall, from material global reinsurance platform and operational presence in Qatar and other GCC markets

QIC's global P/C (re)insurance sector income stream derives from Qatar Re, its Bermudian reinsurance subsidiary, and the Antares syndicate, acquired in 2014. This business segment has grew rapidly for QIC during 2013-2016. We believe that most of the business sourced from this segment is exposed to challenging pricing conditions of the global reinsurance market. We recognize the level of concentration in the U.K. motor market and we expect the group to manage any potential earnings volatility. On the property catastrophe side, we believe the group's exposure in terms of probable maximum loss (1 in 250 year event) is relatively small as proportion of its capital compared with global reinsurers.

Regulation of the sector in Qatar is overseen by both the Qatar central bank and the Qatar Financial Centre Regulatory Authority.

Furthermore, the group is subject to various robust regulatory environments in the places it operates including Bermuda (Qatar Re) and the Prudential Regulation Authority (Antares).

Table 1

Qatar Insurance Co. -- Industry And Country Risk		
Insurance sector	**IICRA**	**Business mix***
Qatar P/C	Intermediate	17

Table 1

Qatar Insurance Co. -- Industry And Country Risk (cont.)		
Insurance sector	**IICRA**	**Business mix***
Global P/C reinsurance	Intermediate	40
United Arab Emirates P/C	Intermediate	4
Kuwait P/C	Intermediate	1
Oman P/C	Moderate	2
United Kingdom P/C	Intermediate	36

*Based on gross premium written. P/C--Property and casualty. IICRA--Insurance Industry And Country Risk Assessment.

Competitive position: Strong competitive position reflects QIC's leading market shares in its key GCC markets and increased international business

In our view, QIC has a strong and diverse competitive position supported by its dominant domestic position, regional GCC operations, and the substantial reinsurance income stream, albeit concentrated in the U.K. motor market. We believe the broad diversity of its product offerings and geographies are key supporting factors.

QIC group has materially expanded its historically regional franchise through its rapidly growing reinsurance operations, which include Antares Syndicate 1274 at Lloyd's. This enables it to use Lloyd's global licenses, and thereby gain access to new markets. Antares adds further diversification to QIC as it writes business in 12 classes of predominantly short-tail insurance/reinsurance for a global client base. Although we view QIC's international expansion as favorable, it does bring some execution risk in the short-to-medium term.

We expect the group to maintain its strong competitive position, bolstered by its continued organic growth in the more mature (and so with a higher insurance penetration) territories through the reinsurance arm.

Table 2

Qatar Insurance Co. -- Competitive Position					
	--Year-ended Dec. 31--				
(Mil. QAR)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written	9,901	8,347	5,614	3,532	2,559
Change in gross premiums written (%)	18.6	48.7	59.0	38.0	7.4
Net premiums written	8,578	7,157	4,340	2,471	1,551
Change in net premiums written (%)	19.8	64.9	75.6	59.3	12.1
Net premiums earned	8,360	5,787	3,678	1,974	1,495
Change in net premiums earned (%)	44.5	57.3	86.3	32.1	13.2
P/C: reinsurance utilization - premiums written (%)	13.4	14.3	22.7	30.0	39.4

QAR--Qatari riyal.

Financial Risk Profile: Strong

We regard QIC's financial profile as strong, chiefly because of its strong capital and earnings, supported by its favorable risk position and robust financial flexibility.

Capital and earnings: Significantly enhanced capital position post capital-raising in 2016 and hybrid issuance in 2017

Following the rights issue in 2016 (QAR1.9 billion) and the hybrid issuance in 2017 (QAR1.6 billion), the group's risk-based capital reverted to the extremely strong levels.

We expect the group to maintain at least very strong (AA) levels of risk-based capital such that its capital position supports its above-average growth plans compared with peers. We recognize that there is a propensity for significant growth and an appetite for material acquisitions. In particular this was demonstrated in 2015 and our assessment of capital and earnings reflects this potential.

For 2017-2018, we forecast the group will post combined ratios of around 98% broadly in line with peers with this product mix particularly global reinsurer.

The group's investment returns have been very favorable compared with most of its peers in the developed markets, partly due to favorable returns on its equity holdings and deposit yields. The group borrows U.S.-dollar-denominated cash and invests at local banks at higher interest rates in local currency and this slightly increases its investment yield. The group pledges its fixed-income instruments as collateral and the amount borrowed does not exceed a pre-determined limit of its fixed-income holdings (these are shown as short-term borrowings in the report and accounts). Because the Qatari riyal is pegged to the dollar, there is no currency-exchange risk provided the long-standing peg is in place. QIC does not take duration risk and the amount borrowed is placed as cash with terms of one-to-three months. We therefore treat these borrowings as operational leverage.

We forecast underwriting gains coupled with investment income will likely generate annual profit levels of QAR1 billion or above over 2017-2019. We expect the group to retain sufficient earnings such that its risk-based capital is at least at the 'AA' level.

Table 3

Qatar Insurance Co. -- Capital					
	--Year-ended Dec. 31--				
(Mil. QAR)	**2016**	**2015**	**2014**	**2013**	**2012**
Common shareholders' equity	8,468	5,994	5,924	5,382	3,793
Change in common shareholders' equity (%)	41.3	1.2	10.1	41.9	7.5

QAR--Qatary riyal.

Table 4

Qatar Insurance Co. -- Earnings					
	--Year-ended Dec. 31--				
(Mil. QAR)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	9,018	6,433	4,235	2,399	1,841
EBIT adjusted	778	802	543	483	411
Net income (attributable to all shareholders)	1,052	1,064	1,025	778	620
Return on revenue (%)	9	12	13	20	22
Return on shareholders' equity (reported) (%)	14.5	17.9	18.1	17.0	16.9
P/C: Net expense ratio (%)	29.0	29.5	33.6	29.8	24.6

Table 4

Qatar Insurance Co. -- Earnings (cont.)					
	--Year-ended Dec. 31--				
(Mil. QAR)	**2016**	**2015**	**2014**	**2013**	**2012**
P/C: Net loss ratio (%)	69.0	66.9	65.4	64.9	68.3
P/C: Net combined ratio (%)	98.0	96.4	99.0	94.7	93.0

QAR--Qatari riyal.

Risk position: Favorable risk position reflects investment portfolio mix and weighting of securely rated instruments

We consider QIC's risk profile compares favorably with most peers--notably those that focus primarily on reinsurance.

Compared with some reinsurance peers globally, QIC's catastrophe exposure is modest relative to shareholders' equity, partly reflecting that its business mix is less cat prone. Its net one in 250 probable maximum loss is about 10% of shareholders equity, compared with a materially higher percentage for global reinsurers.

On the investment side, the group's exposure to high risk assets (mostly local equities) is about 15% of total invested assets after the capital increase. This is higher than global peers. However, when compared with GCC peers, which tend to have a high investment risk appetite, QIC's exposure is relatively conservative.

The group's assets are geared toward the financial sector and it is well diversified by obligor.

After the capital increase, the asset cash portion increased moderately in 2016. For year-end 2017, we expect a moderate increase in fixed income and an equivalent reduction in cash. The average credit quality of QIC's bond portfolio and that of the banks holding its deposits is strong.

Table 5

Qatar Insurance Co. -- Risk Position		
	--Year-ended Dec. 31--	
(Mil. QAR)	**2016**	**2015**
Total invested assets	19,122	14,613
Net investment income	646	633
Net investment yield (%)	3.8	5.2
Net investment yield including realized capital gains/(losses) (%)	5.6	8.8
Portfolio composition (% of general account invested assets)		
Cash and short term investments (%)	36.4	24.1
Bonds (%)	43.4	48.8
Equity investments (%)	16.4	23.7
Real estate (%)	3.1	2.9
Investments in affiliates (%)	0.7	0.6

QAR--Qatari riyal.

Financial flexibility: Strong support from shareholders, with a limited likelihood of needing external funding to finance development

We view QIC's access to new sources of capital and liquidity as good. The new shares were offered at a discount

(QAR50 per share). Out of total shares offered, 94% were subscribed and no material change in ownership (13.5% Qatari government, 10%-15% Qatari royal family and associates, 7% foreign institutional investors, and the remainder is free float). Furthermore, the group's hybrid issuance was oversubscribed by about 15x.

Over the next two years, we expect QIC to internally finance its capital needs; as a listed entity it benefits from strong relationships with its shareholders. We anticipate that its shareholders would continue to fully support any capital raising activities although we do not expect QIC to raise capital in the near term.

With the issuance of the hybrid the group's financial leverage increased to about 20% and we consider this reasonable at this rating level. Furthermore, its interest cost is well affordable with fixed charge coverage near 9x.

We treat the aforementioned cash borrowings as operational leverage given its structure.

Other Assessments

Enterprise risk management: Adequate and neutral to the ratings

In our view, ERM supports the rating. The QIC group now operates across many continents, which increases the complexity of its risks. In our view, this necessitates a comprehensive risk-control framework, which we consider QIC to have successfully embedded and which it continues to enhance as it undergoes integration of Antares and Qatar Re in particular.

We view ERM as being of high importance because of QIC's rapid expansion into new lines and operations, assumed reinsurance, and a multi-regional platform. We expect the group's risk management culture and key risk controls to continue to improve as a centralized and coherent group ERM framework is being developed. Risk modeling is well advanced in some parts of the group and will be further strengthened once a group model is finalized.

Management and Governance: Successful development, pursuit, and implementation of strategy

In line with many of its peers, QIC's management and governance is satisfactory, in our opinion. We note the significant growth level in 2015, which was well above the group's planned level. However, we anticipate that it will maintain the financial discipline to support its sound operating performance and capital. We expect the group to appropriately manage the recent growth such that it does not weaken its financial profile. We recognize that the group is highly committed to managing its risk-based capital at solid levels as demonstrated by the recent capital increase.

Liquidity: Strong supported by liquid assets

We regard QIC's liquidity as strong and sustainable. In our view, the group is unlikely to need additional liquidity support for major event losses, given the current controlled level of potential catastrophe exposure. Securely rated fixed-interest instruments and cash alone (excluding the aforementioned amount borrowed [around QAR3.7 billion at the end of 2016]) comfortably cover the net technical reserves.

Related Criteria And Research

Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions - October 22, 2012
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers - February 10, 2010
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage - October 31, 2014
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer
- Payments - February 09, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Guarantee Criteria - October 21, 2016

Related Research

- Most Qatar-Based Insurers Ratings Not Immediately Affected By Downgrade Of Qatar After Six Countries Sever Ties, June 12, 2017
- Bermuda-Based Qatar Reinsurance Company Subordinated Debt Issuance Assigned 'BBB+' Rating, Feb. 27, 2017
- Insurance Industry And Country Risk Assessment: Global Property/Casualty Reinsurance published, March 17, 2017,
- Insurance Industry And Country Risk Assessment: Qatar Property/Casualty, March 9, 2017

Ratings Detail (As Of June 20, 2017)	
Operating Company Covered By This Report	
Qatar Insurance Co. S.A.Q.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	A/Stable/--
Related Entities	
Kuwait Qatar Insurance Co. K.S.C.	
Financial Strength Rating	
Local Currency	A/Stable/--
Qatar Reinsurance Company Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
QIC Europe Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of June 20, 2017) (cont.)	
Issuer Credit Rating	
Local Currency	A/Stable/--
QIC International LLC	
Financial Strength Rating	
Local Currency	A/Stable/--
Q Life & Medical Insurance Company LLC	
Financial Strength Rating	
Local Currency	A/Stable/--
Domicile	Qatar

*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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