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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			ERM and Management	0		Liquidity	0	Group Support	0	A/Stable/--
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 a very well-established Qatari insurance group with a strong shared brand in the Gulf Cooperation Council (GCC). It has grown rapidly in recent years outside its core territories, notably in the U.K. motor market in 2015.
- Outside the motor business, QIC has a diverse product offering (re)insurance services in all sectors in its local markets, and a track record of strong earnings from its mature GCC operations.
- Its intermediate industry and country risk primarily reflects that of its material premium contribution from global property/casualty (P/C) reinsurance, U.K. motor business as well as its Qatari and GCC direct operations.

Financial Risk Profile: Strong

- Risk-based capital will be very strong through the next two years of continued development, boosted by retained profits sufficient to support further organic premium growth.
- The intermediate risk position reflects the weighting of investment exposure to regional equity markets and real estate, despite the well-diversified portfolio.
- Adequate financial flexibility, with a demonstrated ability to access capital should internal funds generation be inadequate. We consider the shareholders, which include the government, to be fully supportive of QIC's growth plans and financial requirements.

Other Factors

- The combination of these factors gives an anchor of either 'a' or 'a-'. We have opted for 'a' to reflect the strength of the group's competitive position, particularly its diversity of earnings and its financial risk profile--notably capital and earnings--following the capital increase in 2016.
- We consider enterprise risk management (ERM), management & governance, and liquidity to be neutral to 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 improve to very strong levels through 2016 and 2017 through retained earnings or asset risk reduction.

Downside scenario

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

- There are signs that the group's risk-based capital is unlikely to recover to the 'AA' level by year-end 2017. This could arise from weak earnings, excessive profit distribution, or material growth.
- There is a sustained weakening of its business profile through underperformance at its domestic or reinsurance operations.
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks, which would lead us to revise our assessment of the intermediate risk position.

Upside scenario

Although highly unlikely over the next 24 months, we could consider raising the ratings if QIC posts a strong combined ratio across its major operations.

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 2017.
- Economic growth in developed markets to improve, but remain sluggish, lagging growth in developing markets.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is "Intermediate"," published Sept. 8, 2015 on RatingsDirect.
- Economic growth in Qatar will continue albeit at a slower pace than in the past five years given lower commodity revenues. We forecast real GDP growth of about 4.0% to 4.5% annually in 2016-2018.
- For detailed macroeconomic forecasts, see "Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment," published Feb. 16, 2016 on RatingsDirect; and "Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is "Intermediate," published Sept. 8, 2015.

Company-Specific Assumptions

- We expect risk-based capital (measured using our model) to improve to very strong levels through 2016 and 2017 through retained earnings or reduction in asset risk.
- Gross premium to grow by about 10%-15% over 2016-2017 mostly through new business, notably the U.K. motor business.
- QIC will deliver net profits of around Qatari riyal (QAR) 1 billion annually, generating return on equity (ROE) and return on revenue (ROR) between 10%-15% in 2016-2017, largely supported by investment gains in line with prior years.

Key Metrics

QAR mil.	2017f	2016f	2015	2014
Gross premiums written	>10,000	>9,000	8,347	5,614
Change in Gross Premiums Written (%)	10-15	10-15	48.7	59.0
Net income (attributable to all shareholders)	982	996	1064	1025
Return on revenue (%)	10-15	10-15	12.1	12.8
Return on shareholders' equity (%)	10-15	10-15	17.9	18.1
P/C: net combined ratio (%)	96.9	95.5	96.4	99.6
S&P Global Ratings Capital Adequacy	Very Strong	Very Strong	Strong	Extremely Strong

f--Forecast. *2015 risk-based capital includes capital increase in H1 2016.

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, United Arab Emirates, Sultanate of Oman, State of Kuwait, United Kingdom, 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 49% of the gross premium in 2015). It 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 (10% of premium). It manages or owns international operations that are based in the United Arab Emirates (UAE), Oman, Kuwait, and Malta.
- Qatar Life & Medical is 85% owned by QIC (7.8% 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 (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 (1.8% of premium).

In 2015, gross premiums for the QIC group were QAR8.3 billion (US\$2.3 billion), of which 27% was attributable to domestic Qatari operations, UAE (10%), Kuwait (1%), and Oman (2%), and 60% to its international operations at Qatar Re (43 percentage points [pps]) and Antares (17 pps). QIC listed on 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 developing global reinsurance arm.

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

We consider QIC's industry and country risk as intermediate, reflecting its principal exposure to what we consider as intermediate risk global P/C reinsurance sector, UK P&C (mostly motor), Qatar and GCC P&C.

QIC's global P/C (re)insurance sector income stream derives from Qatar Re, its Bermudian Class 4 reinsurance subsidiary as well as the Antares syndicate, acquired in 2014. This business segment has grown very rapidly for QIC in 2013-2015, and we identify it as carrying intermediate risk. While we recognise the level of concentration in the U.K. motor market, which believe that the group will manage earnings volatility if any. 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 when compared to global reinsurers.

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

Furthermore the group is subject to various regulatory environments in where they operate including Bermuda (Qatar Re) and PRA (Antares).

Table 1

Qatar Insurance Co. S.A.Q. Industry And Country Risk		
Insurance sector	IICRA	Business mix*
Qatar P/C	Intermediate	25

Table 1

Qatar Insurance Co. S.A.Q. Industry And Country Risk (cont.)		
Insurance sector	IICRA	Business mix*
Global P/C reinsurance	Intermediate	37
United Arab Emirates P/C	Intermediate	4
Kuwait P/C	Intermediate	1
Oman P/C	Moderate	2
United Kingdom P/C	Intermediate	30
Italy P/C	Moderate	1

*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 growing diversity of its international reinsurance platform

In our view, QIC has a strong and diverse competitive position, supported by its dominant domestic position, its 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 includes Syndicate 1274 at Lloyd's through QIC's acquisition of Antares Holdings in 2014. QIC's ownership of Antares has enabled 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 the international expansion of QIC as favorable, it does bring with it 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. Our base-case scenario assumes that the group's gross premium is likely to grow between 10%-15%.

Table 2

Qatar Insurance Co. S.A.Q. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. QAR)	2015	2014	2013	2012	2011
Gross premiums written	8,347	5,614	3,532	2,559	2,383
Change in Gross Premiums Written (%)	48.7	59.0	38.0	7.4	10.7
Net premiums written	7,157	4,340	2,471	1,551	1,383
Change in Net Premiums Written (%)	64.9	75.6	59.3	12.1	18.6
Net premiums earned	5,787	3,678	1,974	1,495	1,321
Change in Net Premiums Earned (%)	57.3	86.3	32.1	13.2	18.2
P/C: reinsurance utilization - premiums written (%)	14.3	22.7	30.0	39.4	41.9

Financial Risk Profile: Strong

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

Capital and earnings: Significant pressure on risk-based capital mitigated by recent capital increase

Over the past 12 months QIC's historically extremely strong risk-based capital reduced to still strong levels because of a very significant increase in premium and related reserve levels.

With the QAR1.9 billion capital increase in first-half 2016 and retained earnings, the group's risk-based capital recovered to the strong level. We expect this to improve further to the 'AA' level through 2016 and 2017 through retained earnings and modest growth. That said, we recognise that there is a propensity for significant growth levels as demonstrated in 2015 and our assessment of capital and earnings reflects this potential.

For 2016-2018, we forecast the group will post combined ratios between 95%-97% in line with 2015. This is broadly in line with global reinsurers. The group's investment returns have been very favorable compared to 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 increases the group's investment yield slightly. 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 margin collateral in the report and accounts). Because the Qatari riyal is pegged to the dollar, there is no currency-exchange risk so long as 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. Hence we treat these borrowings as operational leverage.

We forecast underwriting gains coupled with investment income will likely generate profit levels of QAR1 billion or above annually over 2016-2018. We expect the group to retain sufficient earnings such that it reaches and maintains its risk-based capital in line with our expectations.

Table 3

Qatar Insurance Co. S.A.Q. Capitalization Statistics					
	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
Common shareholders' equity	5,994	5,924	5,382	3,793	3,529
Change in common shareholders' equity (%)	1.2	10.1	41.9	7.5	0.2

Table 4

Qatar Insurance Co. S.A.Q. Earnings Statistics					
	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
Total revenue	6,406	4,236	2,399	1,841	1,578
EBIT adjusted	775	543	483	411	352
Net income (attributable to all shareholders)	1,064	1,025	778	620	603
Return on revenue (%)	12.1	12.8	20.1	22.3	22.3
Return on shareholders' equity (reported) (%)	17.9	18.1	17.0	16.9	17.1
P/C: net expense ratio (%)	29.5	34.2	31.0	25.8	26.0
P/C: net loss ratio (%)	66.9	65.4	64.9	68.3	65.1
P/C: net combined ratio (%)	96.4	99.6	95.8	94.2	91.1

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

We consider QIC's risk position to be intermediate, which compares favorably to most peers--notably those that focus primarily on reinsurance business.

When compared to 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 1 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 22% of total invested assets (55% of its total adjusted capital under our definition) after the capital increase. This is higher than global peers. However, when compared to 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.

Post the capital increase, the assets cash portion is increased moderately in 2016. For 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. S.A.Q. Risk Position		
	--Year-ended Dec. 31--	
	2015	2014
Total invested assets	11,434	9,577
Net investment income	606	542
Net investment yield (%)	5.8	6.1
Net investment yield including realized capital gains/(losses) (%)	9.9	12.1
Portfolio composition (% of General account invested assets)		
Cash	31.0	27.9
Fixed Income (including Antares) and net of margin collaterals	37.9	33.4
Equities	27.5	34.8
Investment Properties	3.6	4.0
Total	100.0	100.0

Financial flexibility: Adequate 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 adequate. The new shares were offered at a discount (QAR50). 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).

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 remain fully supportive of any capital

raising activities albeit we do not expect it to raise capital in the near term.

The group makes no use of term debt finance, but this option remains available. It does have short-term credit facilities (QAR364 million drawn at the end of 2015). Its financial leverage is minimal and fixed charge coverage is very high.

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

Other Assessments

Enterprise risk management: ERM is adequate and neutral to the ratings

In our view, ERM is adequate, which is neutral for 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 finalised.

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 levels 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 the group'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 billion at the end of 2015]) comfortably cover the net technical reserves.

Related Criteria And Research

Related Criteria

- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage - October 31, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Qatar Insurance Co. Ratings Affirmed At 'A'; Outlook Stable, June 20, 2016
- Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is "Intermediate", Sept. 8, 2015
- Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment," Feb. 16, 2016

Ratings Detail (As Of June 23, 2016)

Operating Company Covered By This Report

Qatar Insurance Co. S.A.Q.

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

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/--

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

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