

## Qatar Insurance Co. Upgraded To 'A' On Continually Strong Competitive Position; Outlook Stable

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**Rationale**

On Feb. 16, 2006, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on Qatar-based underwriter Qatar Insurance Co. S.A.Q. (QIC) to 'A' from 'A-'. The outlook is stable.

The upgrade is driven by QIC's continuing dominance of the local market, as well as its growing presence across the Gulf Cooperation Council (GCC) region and the resultant earnings potential for the company.

The ratings on QIC reflect the company's extremely strong capital adequacy, strong and established competitive position, and very strong operating performance. These factors are partially offset by the potential for adverse operational volatility, QIC's very high reliance on reinsurance protection in certain lines of business, and the heavy local concentration of its investment portfolio.

Major rating factors:

- QIC's capital adequacy is extremely strong, and therefore a key rating strength. QIC's capital adequacy is expected to remain at least very strong, being supported by the recent rights issue, as well as the continuing strength of QIC's retained earnings.
- QIC has a strong competitive position in the State of Qatar (A+/Stable/A-1), where it is the leading "national" insurance company. This status gives QIC, and other Qatari national insurers, the right to quote to lead underwrite for all government-sponsored project risks. It is expected that QIC's "national" insurer status will be maintained for the foreseeable future.
- Operating performance is very strong. In view of the track record of the risk portfolio and the strengths of management, Standard & Poor's expects QIC to continue to post strong

results. Nevertheless, the energy/petrochemical focus of the risk book may lead to increased volatility in operating performance.

- Key risks to capital arise through the very locally focused investment portfolio, which is exposed to high levels of volatility, and QIC's very high reinsurance utilization on particular lines of business. Nevertheless, capital adequacy is considered able to absorb the potential economic investment risk. Also, the strength of the reinsurance relationships and security of the leading reinsurers used by QIC alleviate this risk to capital.

## Outlook

The outlook on QIC is stable, reflecting our expectations that:

- QIC's income stream will further diversify in 2006, both within the GCC region (through local branches and subsidiaries) and within the business lines it underwrites in Qatar.
- Underwriting profitability will not deteriorate from the currently very strong level, and, in particular, underwriting at all current branches and subsidiaries should remain profitable.
- Reinsurance utilization will remain substantial but gradually decrease, as QIC's internal risk management expertise continues to build and the company continues to slowly move away from the fee-based, high-economic-value energy risks.
- QIC will maintain a locally focused investment portfolio, although concentration risk will marginally improve year on year.

The outlook does not take into account the impact of any potential M&A.

## Ratings List

	To	From
Counterparty credit rating	A/Stable/—	A-/Stable/—
Insurer financial strength rating	A/Stable	A-/Stable

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