STANDARD & POOR'S RATINGS SERVICES

# RatingsDirect®

# Doha Bank Assurance Co. LLC

**Primary Credit Analyst:**
Dina Patel, London (44) 20-7176-8409; Dina_Patel@standardandpoors.com

**Secondary Contact:**
Kevin Willis, Dubai (971) 4-372-7103; kevin_willis@standardandpoors.com

## Table Of Contents

## Table Of Contents (cont.)

# Doha Bank Assurance Co. LLC

## Major Rating Factors

**Strengths:**

- Strategic importance to Doha Bank, its parent company.
- Extremely strong capital adequacy and strong capitalization.
- Good financial risk profile, supported by strong liquidity and conservative asset allocation.

| Operating Company Covered By This Report |
|---|
| **Financial Strength Rating** |
| *Local Currency* |
| BBB/Stable/-- |

**Weaknesses**

- Marginal business position in a market dominated by larger players.
- Slower-than-anticipated growth in 2011 as key strategic goals were realized later than planned.
- Relatively modest operations with low premium income.

## Rationale

The ratings on Doha Bank Assurance Co. LLC (DBAC) reflect Standard & Poor's Ratings Services' view of its strategic importance to its parent, Doha Bank Q.S.C. (A-/Stable/A-2), the company's strong capitalization and extremely strong capital adequacy, and its good financial risk profile. These factors are offset by DBAC's marginal business position, which is restricted by slower-than-anticipated progress with its strategic initiatives and its relatively small size in the competitive Qatari market that is dominated by larger, national companies.

We view DBAC as strategically important to its parent, Doha Bank, and therefore the rating benefits from three notches of support above its marginal stand-alone credit profile (SACP). Doha Bank has declared an ongoing commitment to its insurance subsidiary both in terms of capitalization and operationally, and DBAC benefits from its parent's name and branding. Close integration of both entities through support for corporate functions; commonality of some senior management roles; and Doha Bank's strategic input further supports this. Prospectively, there are strong cross-sell opportunities for both the bank and insurance company.

In our opinion, DBAC's strong capitalization is a strength for the rating. We view the company's capital adequacy as extremely strong, despite the relatively small size of shareholders' funds of Qatari riyal (QAR) 131 million ($36 million) as of June 30, 2012. In addition, DBAC remains well supported by a panel of highly rated international reinsurers, which we consider important for some of the high risk lines that DBAC writes. Under our base-case scenario, we consider it unlikely that capital adequacy will deteriorate below strong levels, though investment risk will become more prominent as DBAC shifts its strategy to more high-risk assets.

We consider DBAC's liquidity to be strong, given the high proportion of cash on the company's balance sheet. Cash covers net technical reserves by 2.6x as of Dec. 31, 2011. The company's investment portfolio is predominantly readily marketable cash and fixed income securities (95% at June 30, 2012) and reflects its low appetite for investment risk. In our opinion, DBAC's investment strategy is conservative when compared with those of some regional peers.



1016818 | 301667091

We view DBAC's business profile as a weakness for the rating, given its small size and scale compared with more established and significantly larger domestic insurers. We recognize that initiatives taken by the company, such as the acquisition of a retail license to write more personal lines business and empanelment for government related risks, have taken longer than anticipated. However, we believe that these will likely prove beneficial in the longer term. That said, competitive pressure within the local market is likely to intensify over the rating horizon as the government releases more tenders in 2013 relating to the FIFA 2022 world cup, which may hinder growth for smaller companies like DBAC.

Our base-case scenario factors in an increase in gross written premium (GWP) from the retail business of roughly 10%, giving top-line growth in excess of our expectations for the market of about QAR90 million-95 million in 2012. A key test for DBAC's management will be whether it is able to achieve a sustainable market position using its new license, particularly as compulsory medical cover is introduced in Qatar in 2012 and 2013, without affecting its good operating performance. Despite large losses in the first half of 2012, we anticipate DBAC will recover some profitability by year end, to give a combined ratio of 95%–97% and a return on equity (ROE) of less than 5%.

We consider DBAC's modest size as a relative weakness for the rating. In our opinion, DBAC demonstrates the viability of bank-owned insurance companies against a growing number of new entrants into the market.

## Outlook

The stable outlook reflects our expectation that DBAC will be able to maintain its competitive position in 2012 without materially harming the financial strength of its balance sheet.

We may raise the rating if the newly acquired retail license and empanelment for government risks helps DBAC to win more major contracts and develop its market position relative to peers over the rating horizon. Continued growth through its relationship with its parent company could also help achieve this. In our view, the benefits of these initiatives will be relatively modest in 2012, but will facilitate more meaningful growth in 2013.

Conversely, we may lower the rating if DBAC experiences deterioration in its operating performance that is more significant than we assume in our base-case scenario. We would also view negatively deterioration in capital adequacy below strong levels as a result of investment market volatility. Furthermore, a downgrade of Doha Bank, could also have negative consequences on the rating of DBAC.

## Corporate Profile: Relatively Small, Bank-Owned Qatari Insurer

DBAC is a wholly owned subsidiary of Qatar-based Doha Bank and is authorized by the Qatar Financial Centre Regulatory Authority (QFCRA). The company was established in 2007 and its key distribution strategy is to leverage its ownership and build access to Doha Bank's client base, which accounts for roughly 50% of total GWP (QAR83 million) in 2011. DBAC is predominantly a short-tail, non-life writer that targets commercial clients in Qatar. Motor business currently represents 49% of DBAC's portfolio; the remainder is made up of marine, engineering, and group health lines. DBAC also writes some facultative business (6% of 2011 GWP) within the Gulf Cooperation Council

(GCC) as permitted under its reinsurance treaty.

## Competitive Position: Developing In An Already Competitive Market

**Table 1**

| Doha Bank Assurance Co. LLC Competitive Position | | | | | |
|---|---|---|---|---|---|
| | --Year-ended Dec. 31-- | | | | |
| (000s QAR) | 2011 | 2010 | 2009 | 2008 | 2007 |
| Total revenue | 57,332 | 63,780 | 59,842 | 22,735 | 446 |
| Net premium earned | 53,586 | 56,816 | 52,725 | 16,718 | 0 |
| Annual change in net premium earned (%) | (5.7) | 7.8 | 215.4 | 83,589,265.0 | N.M. |
| Total assets under management | 164,834 | 154,797 | 138,764 | 114,092 | 99,653 |
| Growth in assets under management (%) | 6.5 | 11.6 | 21.6 | 14.5 | N.M. |

QAR--Qatari riyal. N.M.--Not meaningful.

We consider DBAC's competitive position to be marginal and a weakness for the rating, given its small size and scale compared with existing, more established domestic insurers. Relative to the five national companies, we calculate that DBAC had a market share of about 2% in 2011. We anticipate that this will improve as DBAC becomes more established in the market, particularly with the benefits of its newly acquired retail license, though volumes are expected to remain small over the rating horizon. Partially offsetting this is DBAC's strong brand equity thanks to its parent, Doha Bank, the third-largest bank in Qatar.

The company's small premium base reflects its early stage of development and relatively low estimated market share. On a net basis, the book is dominated by DBAC's sizable motor portfolio (70%) and medical lines (5%). We expect DBAC to move away from large group medical schemes, that have historically been very unprofitable and move to smaller, niche schemes.

DBAC does not have "national" status, although it is now able to write some government-related tenders. That said, with continued delays in the release of large government tenders and a lack of business from Qatar Petroleum, empanelment is unlikely in our view to yield a material benefit until early 2013.

DBAC is also now able to write retail lines, which will likely improve DBAC's competitive position and add approximately 10% to GWP in 2012. Furthermore, DBAC opened its first retail branch in Qatar in August 2012, creating a controlled distribution channel and enhancing its local presence by leveraging on the Doha Bank name.

DBAC benefits from the strong brand equity and name, as well as the client base, of Doha Bank, which has a good market position in Qatar. Through this, DBAC is able to exploit opportunities for cross-selling and can offer multiple insurance policies to existing bank clients. Synergies have also been realized across product lines for both the bank and insurance operations.

Strength in DBAC's competitive position is evident through its good record of client retention, using its claims servicing ability as a means to source and keep business. Sustained strategic relationships with its reinsurers through coinsurance give DBAC access to business it may not have written otherwise (such as short-term life insurance products that require a separate license). The company also uses reinsurer relationships to gain technical knowledge and some pricing assistance for larger risks. DBAC has revised its product focus and has pulled out of some high risk lines including its participation in aviation and catastrophe pools.

### Prospective

In our opinion, DBAC is in a position to grow its business, but currently suffers from price competition in a market dominated by larger companies. That said, acquisition of a retail license should help improve the company's competitive position in the personal lines space, especially with the introduction of compulsory medical insurance in Qatar. Under our base-case scenario, retail lines should account for roughly 10% in 2012. However, we do not anticipate that empanelment for government tenders will provide any benefit until 2013 as government spending remains low. An increase in insurable activity in the non-hydrocarbon-related government sector should provide additional opportunities. We believe DBAC demonstrates that there is strong potential for successful bancassurance, and that bank-owned insurance companies could be a sustainable business model, rather than the traditional model of insurance companies writing on a direct basis.

## Management And Corporate Strategy: Improving, But Lacks A Historically Stable Track Record

We consider the company's management and corporate strategy as a moderate constraint on the rating. Given its nascent stage of development and early turnover in senior management, we have a limited track record against which to measure the success of management in executing its strategy.

### Strategic management

The company's business planning process, conducted with participation from both DBAC and Doha Bank senior management, includes financial projections for each major business unit and an overview of broader strategic initiatives, but does not detail how these initiatives will be achieved. The company's strategy has previously been very aggressive in terms of growth but the focus has shifted toward underwriting profitability, making forecasts more realistic in our opinion. We consider budgeted growth of GWP of 20% in 2012 as ambitious but achievable if new initiatives can attract anticipated business volumes. Management's ability to convert its strategy into constructive action has been fairly successful in terms of leveraging its relationship with Doha Bank. However, the acquisition of a retail license and empanelment for government-related risks took significantly longer than anticipated. Given the company's limited track record, successful deployment of the retail license will, in our view, attest to the ability of the management team in delivering on its goals, albeit over a longer time frame.

### Operational management

The management team at DBAC is suitably experienced in the insurance industry both within the GCC, but also in other international markets. Senior management has seen some turnover though we believe DBAC is taking steps to retain key staff and put in place a succession plan for all senior positions to appropriately mitigate against key man risk.

**Financial management**

Given DBAC's small size, its financial targets are appropriate, if fairly simplistic, considering a target combined ratio of below 90% and technical profitability as measured by incurred loss ratios per book of business, not pure operating performance measures such as return on equity and return on revenue. We view financial targets set by the company as ambitious when compared with our expectations for the market, although we still consider them attainable and appropriate as the size and scale of DBAC's business model evolves. The company has no leverage or apparent appetite to increase leverage in view of its strong capital base.

## ERM: Developing Risk-Management Capabilities

We believe DBAC's enterprise risk management has improved as the company has grown, and controls are slowly being embedded across the company. Chinese walls and additional risk controls have been put in place to prevent the quotation of rates or terms and conditions by bank employees on behalf of DBAC to group clients. DBAC also has the ultimate right of refusal on all risks referred from banking clients to enforce risk-based pricing. Risks are monitored through a risk committee comprising members of both DBAC and Doha Bank management, with additional guidance from the company regulator, QFCRA. We anticipate that DBAC's risk management will evolve further and keep pace with the company's growth, particularly as it starts to write more retail business and, potentially, life insurance. Emerging risk management will also need to evolve, as the company develops its risk register and then monitors progress against it.

Underwriting risk controls are sound. Insurance risk is monitored through underwriting guidelines and an underwriting committee with periodic reporting to the executive manager. DBAC's strong panel of reinsurers provide technical pricing capability on larger, high value risks, while smaller risks are priced on a historic loss ratio basis. New controls require underwriters to sign off on risk and rate and additional escalation procedures have been implemented to prevent risks being written above tolerance or outside of authority levels.

In our opinion, investment risk controls, though not previously important, will need to be developed and fully embedded as DBAC moves into other asset classes, albeit tentatively. Investment risk appetite and controls to maintain adherence to these limits will need to develop as the company's tolerances evolves.

## Accounting: Prepared In Accordance With International Financial Reporting Standards

DBAC's financial statements conform to International Financial Reporting Standards (IFRS) and form the basis of our assessment of capital adequacy. No material adjustments are made to the reported figures, which have been audited by Deloitte & Touche.

## Operating Performance: Focused On Improved Profitability And Sustainable Growth

Operating performance is good, but has deteriorated in the first half of 2012 as the tough market competition and higher-than-anticipated losses hit both top line and profitability. Premium income fell 15% to QAR83 million in 2011 (2010: 20% growth to QAR97 million), which compares unfavorably with most peers in the market. Until July 31, 2012, DBAC has written close to QAR62 million, and is on track to meet our base-case forecast of roughly 10% growth by year-end 2012. We also note that DBAC has produced an underwriting loss in the first half of 2012 for the first time since inception, following large property-related losses.

**Table 2**

| Doha Bank Assurance Co. LLC Operating Performance | | | | | |
|---|---|---|---|---|---|
| | --Year-ended Dec. 31-- | | | | |
| **(000s QAR)** | **2011** | **2010** | **2009** | **2008** | **2007** |
| Return on revenue (%) | 7.9 | 14.1 | 19.3 | 28.4 | 70.4 |
| Return on equity (%) | 3.2 | 6.6 | 10.7 | 5.8 | 0.3 |
| EBIT adjusted to Total equity adjusted (%) | 3.5 | 7.4 | 10.3 | 6.3 | 0.3 |
| EBITDA adjusted to Capital (%) | 4.9 | 8.9 | 11.1 | 6.3 | N/A |
| EBIT | 4,507 | 9,008 | 11,520 | 6,461 | 314 |
| EBIT adjusted | 4,507 | 9,008 | 11,520 | 6,461 | 314 |
| EBITDA | 6,300 | 10,769 | 12,398 | 6,520 | 314 |
| EBITDA adjusted | 6,300 | 10,769 | 12,398 | 6,520 | 314 |
| Net loss ratio (%) | 55.9 | 60.1 | 60.4 | 59.8 | N/A |
| Net investment yield (%) | 2.3 | 4.7 | 5.6 | 5.6 | N/A |

QAR--Qatari riyal. N/A--Not applicable.

## Historic

A reduction in premium income in 2011 below both ours and management's forecasts demonstrated the impact of high price competition in the local market, the loss of some large accounts, and a lack of new business opportunities after highly-anticipated government tenders were not released. While the loss ratio improved to 56% (2010: 60%), higher commission rates increased the net combined ratio to 95% (2010: 93%). DBAC's three-year average, at 93%, is considered relatively high in comparison to the market average. Investment income of QAR4 million (2010: QAR7 million) was less than one-half of what the company had estimated for 2011, reflecting the current low interest rate environment in Qatar for fixed deposits.

Results for the first half of 2012 show a 13% year-on-year increase in GWP as DBAC was able to capitalize on its retail license and win its first major contracts, adding 4% to first-half GWP. It has also started fronting aviation risks again, although this is expected to remain at less than 1% of the portfolio. The company's engineering portfolio was materially below what was planned due to intensive competition resulting in inadequate pricing of risks and a lack of new business opportunities. Profitability suffered as DBAC recorded an underwriting loss of QAR1 million (first half of 2011: QAR 3.9 million) and a combined ratio of 102%, of which 11 percentage points result from two large losses and includes a 4 percentage point load for bad debt.

## Prospective

Portfolio cleansing of particularly loss-prone accounts during early 2012 and realignment of its reinsurance program should allow DBAC to recover to a combined ratio that is more commensurate with its historic average. Under our base-case scenario, we expect a loss ratio of about 52%-55% for 2012, and 50% for 2013. In addition, we expect DBAC to remain profitable as volatility in local investment markets will continue to suppress investment returns. With no material shifts in the composition of the business DBAC is currently writing, we anticipate a net combined ratio of less than 95% as some cost efficiencies are realized and premium volumes increase.

## Investments And Liquidity; Increasing Diversification And Reduced Concentration Risk

**Table 3**

| Doha Bank Assurance Co. LLC Liquidity And Investments | | | | | |
|---|---|---|---|---|---|
| | --Year-ended Dec. 31-- | | | | |
| **(000s QAR)** | **2011** | **2010** | **2009** | **2008** | **2007** |
| Invested assets to total assets (%) | 82.7 | 81.6 | 82.8 | 79.6 | 99.1 |
| Invested assets to loss and unearned premium reserve (%) | 369.3 | 382.0 | 397.2 | 518.7 | 759,262.8 |
| Total invested assets adjusted | 164,834 | 154,797 | 138,764 | 114,092 | 99,653 |
| General account invested assets | 164,834 | 154,797 | 138,764 | 114,092 | 99,653 |
| **Investment portfolio composition** | | | | | |
| Cash and cash equivalents (%) | 69.4 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total bonds (%) | 26.8 | N/A | N/A | N/A | N/A |
| Common stock (%) | 3.7 | N/A | N/A | N/A | N/A |
| Total portfolio composition (%) | 100 | 100 | 100 | 100 | 100 |

QAR--Qatari riyal. N/A--Not applicable.

The company's investment profile is considered strong. Its strategy has fundamentally changed through early 2012 away from cash and toward fixed income products and equities. Nonetheless, we consider its strategy as prudent given low investment risk appetites and allocation limits (these have yet to be embedded and actively monitored against). Cash and short-term deposits (68% of invested assets at June 30, 2012) typically have a maturity of less than 12 months and are held with two Qatari institutions, presenting material concentration risk. We anticipate, however, that this risk will fall as DBAC diversifies its portfolio further. Equities were introduced into the portfolio in 2011, but this reallocation should remain below DBAC's stated tolerance of 15% of invested assets (currently 5% at June 30, 2012). Market risk will therefore have a greater importance in DBAC's risk profile. Subsequent diversification into property is also expected, though this will be limited to 5%-10% of invested assets.

### Investment strategy

The company has developed its investment guidelines and, through its risk committee and guidance from Doha Bank, is looking at alternative investment strategies. The company is more aware of concentration risk in its portfolios and as a result, we believe DBAC's exposure to Doha Bank has been managed down.

### Market risk

With the introduction of QAR8 million in domestic equities, market risk has increased, though this diversification does not constrain our view of the company's investments. With only 43 listed companies, the Qatari stock market represents a relatively illiquid and shallow market with a relatively elevated sensitivity to high volume trades.

### Credit risk

A significant proportion of DBAC's current assets are held with two banks--Doha Bank (the parent) and Ahli Bank (not rated). Concerns about risk exposure are mitigated by the systemic importance of the banking system to the State of Qatar, meaning both banks benefit from an implicit government guarantee.

### Liquidity

We consider DBAC's liquidity to be strong, given the high proportion of cash on the company's balance sheet. With cash covering gross and net technical reserves by 1.1x and 2.3x respectively as at June 30, 2012 (1.5x and 2.6x, respectively, at Dec. 31, 2011), we do not anticipate that diversification of the investment portfolio into other asset classes will have a material impact on liquidity.

## Capitalization; Strong And Supported By Internationally Diverse Reinsurers

Capitalization continues to be supportive of the current rating, based on extremely strong capital adequacy according to Standard & Poor's risk-based capital adequacy model, excellent quality of capital and a strong panel of international reinsurers. We anticipate that DBAC will remain capitalized at a strong level, sustained by incremental retained earnings, even as its investment profile changes.

### Capital adequacy

According to our risk-based model, DBAC's capital adequacy is extremely strong with excellent quality of capital (100% of capital is represented by core shareholders' funds). Despite the relatively small size of shareholders' funds at QAR131 million at June 30, 2012 ($36 million), we consider this sufficient to support the company's medium-term ambitions without the need for additional capital injections. In our assessment of capital adequacy, concentration charges were applied to DBAC's cash holdings across a limited number of institutions, the most significant risk being exposure to Doha Bank (almost one-third of the target capital requirement). DBAC maintains capital at 170% of the regulatory minimum capital requirement, which we consider prudent. We expect no change in DBAC's capital management strategy and believe it is unlikely that capital adequacy will fall below its historic strong levels over the next two years.

### Reserves

As a writer of predominantly short-tail commercial risks and group health risks, we consider DBAC's reserves as adequate given the business it writes. Reserves are held at a margin over the company's best estimate and average claims run-off is between one to three years for its liability business. Net technical reserve coverage of net premium, reported at 79% in 2011, which is slightly below peers, continues to show upward trends, but we anticipate that coverage will improve (see table below). The company conducts regular internal reviews and periodic external actuarial reviews of reserves, as a result of which it strengthened reserves by QAR6.5 million for potential losses on some legacy lines. We do not expect any surplus to be released in 2012.

### Reinsurance

DBAC's use of reinsurance is considered prudent and it has one of the highest risk retention rates when compared to regional peers. The company retained 68% of premiums in 2011 (2010: 62%), particularly in motor and medical lines, where the loss experience is relatively predictable. Its low frequency, high severity lines (engineering and property) are almost wholly reinsured. Though this creates some reliance on the availability of reinsurance capacity, we take comfort from the financial strength and international diversity of DBAC's reinsurance panel, led by Hannover Rueckversicherung AG (AA-/Stable/--). We anticipate that DBAC will continue to reshape its reinsurance protection to be more efficient and cost-effective, in line with its risk appetite.

### Financial Flexibility; Strong and supported by parent bank

We consider DBAC's financial flexibility to be strong, though relatively unproven, and sufficient to support the company as it continues to grow in size and scale. As a strategically important subsidiary of Doha Bank, we expect DBAC to benefit from the financial support of its parent. However, we consider it unlikely that DBAC will require additional short-term liquidity or long-term capital over the rating horizon given its modest risk profile. DBAC has recourse to additional sources of financial flexibility such as increased reinsurance utilization, a flexible dividend policy and external financing operations.

**Table 4**

| Doha Bank Assurance Co. LLC Financial Flexibility | | | | | |
|---|---|---|---|---|---|
| | --Year-ended Dec. 31-- | | | | |
| **(Mil. QAR)** | **2011** | **2010** | **2009** | **2008** | **2007** |
| Debt leverage including additional pension deficit as debt (%) | N/A | 1.2 | 0.8 | 0.3 | 0.0 |
| Financial leverage including additional pension deficit as debt (%) | 1.6 | 1.2 | 0.8 | 0.3 | 0.0 |

QAR--Qatari riyal. N/A--Not applicable.

## Related Criteria and Research

All ratings listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Interactive Ratings Methodology, April 22, 2009

| Ratings Detail (As Of September 28, 2012) | |
|---|---|
| **Operating Company Covered By This Report** | |
| **Doha Bank Assurance Co. LLC** | |
| Financial Strength Rating | |
| *Local Currency* | BBB/Stable/-- |
| Counterparty Credit Rating | |
| *Local Currency* | BBB/Stable/-- |
| **Domicile** | Qatar |

*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.

**Additional Contact:**
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com