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Research Update:

Qatar-Based Doha Bank Assurance Upgraded To 'BBB+' On Improved Earnings And Enterprise Risk Management; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

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Overview

- During 2014, management at Qatar-based Doha Bank Assurance Co. (DBAC) implemented a more robust risk controls framework to reduce potential earnings volatility, which has been present in previous years.
- As a result, DBAC's net profit improved significantly in 2014, supported by positive underwriting results.
- We believe that past control issues, which resulted in excessive risk exposures, are now resolved, and we have revised upward our assessment of DBAC's enterprise risk management to adequate.
- As a result, we are raising the long-term ratings on DBAC to 'BBB+' from 'BBB'.
- The stable outlook reflects our view that DBAC will maintain its current capital level to support its moderate growth ambitions over the next three years, and that it will remain strategically important to its 100% owner, Doha Bank.

Rating Action

On May 18, 2015, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on Qatar-based insurer Doha Bank Assurance Co. (DBAC) to 'BBB+' from 'BBB'. The outlook is stable.

Rationale

The upgrade reflects our view of DBAC's progress in improving its risk management framework. We now assess enterprise risk management (ERM) as adequate, as we consider that the company has successfully embedded sufficient underwriting controls. Historical control failings, which led to excessive risk exposures and underwriting losses outside of the approved risk appetite, have now been resolved. We anticipate that DBAC's risk management will continue to evolve as the company grows. This will be particularly key if the insurer starts to write larger and more complex risks.

We assess DBAC's business risk profile as fair, constrained by its modest size and market share within the Qatari market. With a gross written premium income of Qatari riyal (QAR) 107.1 million in 2014, DBAC's market share was below 2%. Although the company benefits from its parent, Doha Bank, through which it

sources roughly half of its gross premiums, we believe that the company could further develop this relationship. We expect that premium income sourced through Doha Bank will increase in the medium term, but that overall premium growth will remain modest, at around 2% in 2015.

We continue to assess DBAC's financial risk profile as lower adequate, with its moderately strong capital and earnings and adequate financial flexibility constrained by its high risk position. DBAC's extremely strong capital adequacy is a key strength to the rating, and we expect it to remain at this level through 2017. More robust risk management and underwriting procedures have, in our view, contributed to DBAC's significant improvement in technical results. The combined ratio (a measure of losses plus expenses; below 100% signifies an underwriting profit) improved to 94% in 2014 from 103% in 2013, leading to a net profit after tax of QAR10.2 million for the year (2013: QAR3.8 million).

On the investment side, our assessment of DBAC's risk position remains high due to its significant concentration in the banking sector, which holds 70% of DBAC's invested assets. We expect that the company will improve its investment portfolio diversification over time.

Our assessments of DBAC's management and governance (fair) and liquidity position (exceptional) remain unchanged.

Our rating on DBAC benefits from three notches of support above the stand-alone credit profile (SACP), as we view the insurer as a strategically important subsidiary of Doha Bank. However, we apply a holistic adjustment to DBAC's SACP due to DBAC's small size and market share, its significant dependence on Doha Bank to generate premium income, and flat premium growth in 2014.

Outlook

The stable outlook reflects our opinion that DBAC's extremely strong capital adequacy (as measured by our model) will support the company's moderate and profitable growth ambitions over the next two years. We also expect DBAC to utilize the Doha Bank branding to improve its market position through profitable growth.

Downside scenario

We could lower the rating on DBAC if capital adequacy deteriorates against our expectations, caused by uncontrolled risk exposures leading to underwriting losses, significant growth, or negative investment results.

Upside scenario

We see little likelihood of an upgrade currently. We could consider revising the SACP upward if we see significant improvement to DBAC's competitive

position through profitable premium growth and underwriting results, without compromising its strong capital position.

Ratings Score Snapshot

	To	From
Financial Strength Rating	BBB+/Stable	BBB/Stable
Anchor	bbb-	bbb-
Business Risk Profile	Fair	Fair
IICRA	Intermediate risk	Intermediate risk
Competitive Position	Less than adequate	Less than adequate
Financial Risk Profile	Lower adequate	Lower adequate
Capital and Earnings	Moderately strong	Moderately strong
Risk Position	High risk	High risk
Financial Flexibility	Adequate	Adequate
Modifiers		
Holistic analysis	-1	-1
ERM and Management	0	-1
ERM	Adequate	Weak
Management and Governance	Fair	Fair
Liquidity	Exceptional	Exceptional
Support	+3	+3
Group Support	+3	+3
Government Support	0	0

Related Criteria And Research

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment, Jan. 7, 2015

Ratings List

Upgraded

	To	From
Doha Bank Assurance Co. LLC		
Counterparty Credit Rating	BBB+/Stable/--	BBB/Stable/--
Financial Strength Rating	BBB+/Stable/--	BBB/Stable/--

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