

QLM Life & Medical Insurance Co.

Primary Credit Analyst:

Emir Mujkic, Dubai + (971)43727179; emir.mujkic@spglobal.com

Secondary Contact:

Sachin Sahni, Dubai (971) 4-372-7190; sachin.sahni@spglobal.com

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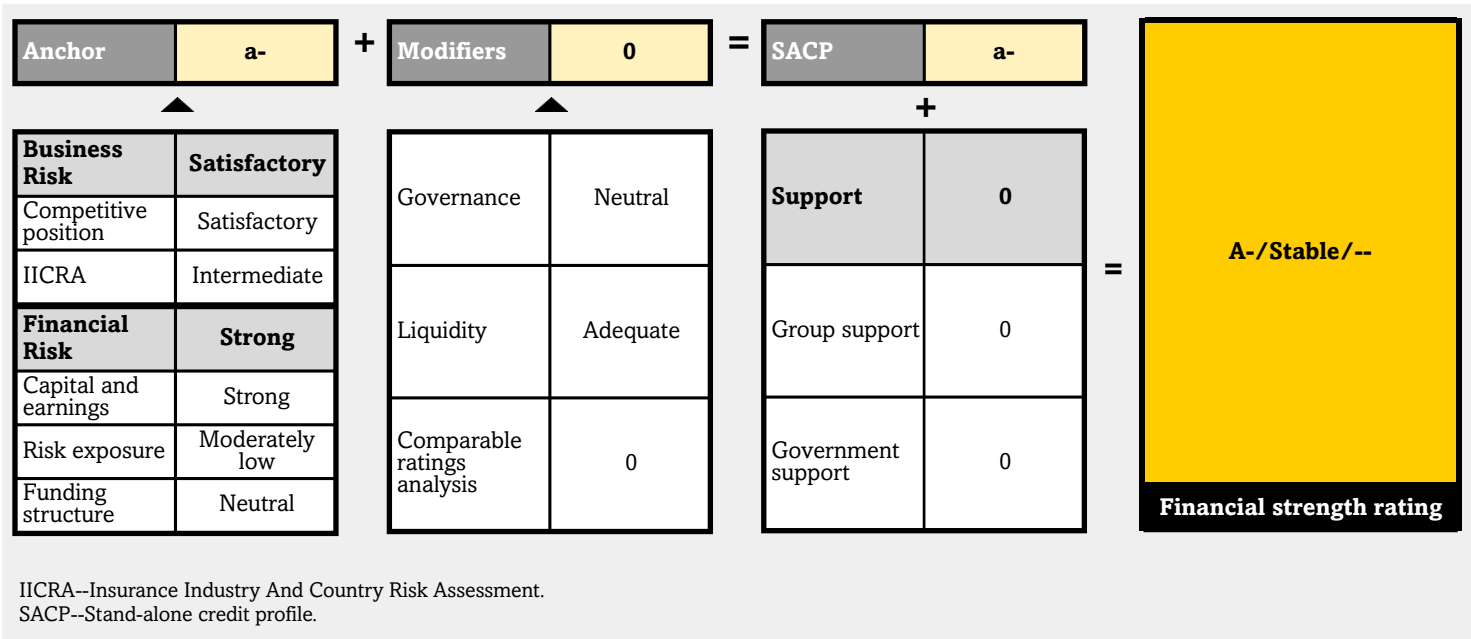
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QLM Life & Medical Insurance Co.



Credit Highlights

| Overview | |
|--|--|
| Strengths | Risks |
| Capital adequacy is excellent, exceeding our 'AAA' benchmark as per our model. | The insurer remains concentrated in the competitive medical insurance sector in Qatar, potentially leading to earnings volatility. |
| Leading market position in the Qatari medical insurance sector. | |

QLM Life & Medical Insurance Co.'s capital adequacy is expected to remain above the 'AAA' benchmark over our two-year outlook horizon. We project that the company's capital position will remain excellent, supported by profitable earnings of which a significant share will be retained.

QLM will maintain its market position as a leading medical insurer in Qatar. We expect the insurer will continue to expand its business in and outside of Qatar, supporting its position as one of the three largest insurers in the Qatari market. We also expect QLM to benefit from the introduction of new compulsory medical insurance schemes for visitors and the local population in Qatar over the next year.

Under our criteria, the combination of QLM's satisfactory business risk profile and strong financial risk profile results in an indicative financial strength anchor of 'a-'. This reflects our view of the company's capital strength and favorable competitive position as one of Qatar's largest insurers.

Outlook: Stable

The stable outlook reflects our expectation that, over the next two years, QLM will continue to achieve profitable underwriting results, with combined ratios in the 94%-98% range. We also expect it will maintain capital adequacy at least above the 'A' benchmark in our risk-based model.

Downside scenario

We could consider a negative rating action over the next two years if QLM's:

- Capital, as measured by our capital model, permanently declined, most likely due to rapid growth in premiums;
- Operating performance permanently deteriorated, such that combined ratios rose to above 100%; or
- Investment risk appetite increased, resulting in a material increase in riskier assets as a percentage of the group's investment portfolio.

Upside scenario

We view a positive rating action as unlikely over the next two years. However, we could consider raising our rating on QLM if it materially diversified, either geographically or by product offering, while remaining profitable.

Key Assumptions

- We expect Qatar's GDP growth will slow to 2.3% in 2023 and 2.4% in 2024, from the almost 5.0% in 2022 that had been partly supported by World Cup-related activities.
- We forecast growth in the P/C sector to continue to slightly outpace the overall Qatari economy in 2023, before we see more accelerated growth in 2024, if the new expected medical schemes are implemented.

QLM--Key metrics

| (Mil. QAR) | --Year-end Dec. 31-- | | | | |
|---|----------------------|-----------|-----------|-----------|-----------|
| | 2024f | 2023f | 2022 | 2021 | 2020 |
| S&P Global Ratings capital adequacy | Excellent | Excellent | Excellent | Excellent | Excellent |
| Gross premiums written | 1,000-1,100 | 950-1,030 | 1,049 | 1,027 | 1,001 |
| Net combined ratio (%) | 90-94 | 90-94 | 95.9 | 91.5 | 94.1 |
| Net income (attributable to all shareholders) | 75-95 | 70-90 | 83 | 106 | 98 |
| Reinsurance utilization (%) | 8-15 | 8-15 | 8.6 | 21.42 | 6.8 |
| Return on shareholders' equity (%) | 12-16 | 12-16 | 14.1 | 18.6 | 19.9 |

Data for 2020-2022 is based on IFRS 4. Forecast data is based on IFRS 17. Gross premiums written will be replaced by Insurance Revenue under IFRS 17. QAR--Qatari riyal. f--S&P Global Ratings' forecast.

Business Risk Profile: Satisfactory

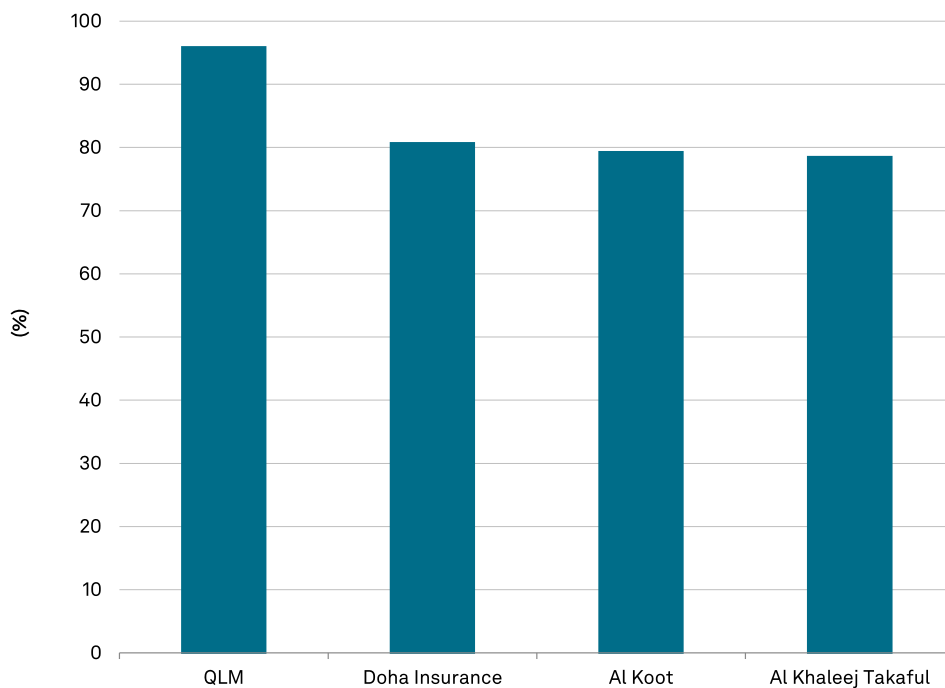
QLM is one of the country's largest listed insurers and the largest medical insurance provider in Qatar. The insurer's shares have been listed on the Qatar Stock Exchange since the IPO in January 2021. Qatar Insurance Co. Q.P.S.C. (QIC) is QLM's largest shareholder, with a 25% stake. In 2022, the insurer generated about 86% of its total gross written premiums (GWP) from its medical business and 14% from the group and credit life insurance portfolio. More than 80% of GWP was generated in Qatar, with the remainder from the United Arab Emirates and Oman.

QLM recorded relatively modest growth in GWP of about 2% to QAR1.05 billion in 2022 from QAR1.03 billion, absent any new covers.

In 2022, QLM recorded an increase in medical claims leading to a decline in the combined ratio to about 95.9%, from 91.5% in 2021. Although the company's net combined ratio was weaker than that of some more diversified local peers, who benefited from fewer claims in other lines in 2021, QLM's operating performance was broadly in line with the market average for the medical line, but weaker than more diversified peers who also write other lines of business.

Chart 1

Net combined ratios of selected listed insurers in Qatar in 2022



Source: S&P Global Ratings.

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At mid-year 2023, QLM published its financials under the new International Financial Reporting Standards 17 (IFRS

17). The company's revenue declined by about 9% to QAR527.1 million from QAR579.8 million during the same period in 2022, as the company ceased to write reinsurance business in the UAE. Its net profit increased to QAR46.7 million from QAR37.3 million during the first two quarters in 2023, mainly due to a stronger insurance service result. We expect the combined ratio to settle between 90% and 94% in 2023. The expected introduction of a compulsory medical insurance scheme in Qatar, in early 2024, could result in significant growth opportunities for QLM and the country's insurance sector.

We expect QLM's reinsurance utilization to be about 10.0% in 2022, from 21.4% in 2021 when the company purchased additional reinsurance cover to reduce volatility arising from pandemic-related claims.

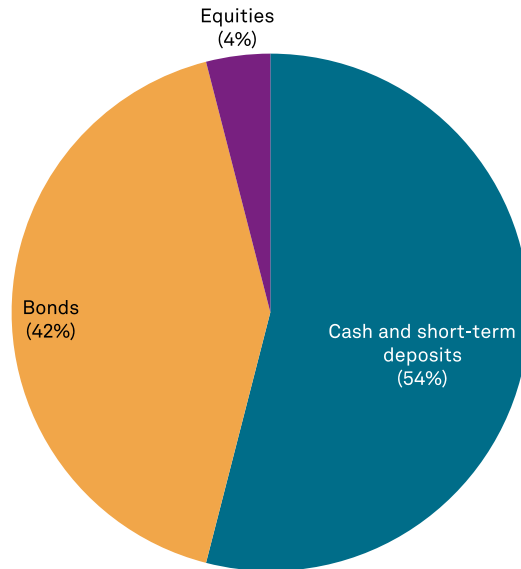
Financial Risk Profile: Strong

In 2022, QLM's total shareholders' equity declined to QAR563.3 million from QAR618.2 million in 2021, mainly due to fair value investment losses on its bond portfolio. At mid-year 2023, shareholders' equity increased slightly to QAR573.3 million from the position at year-end 2022, as a result of profitable earnings and better investment returns. We expect QLM's capital adequacy to remain above the 'AAA' benchmark in our model over our forecast period, as the company continues to grow moderately, and if it retains at least 40% of its earnings.

QLM's investment portfolio consists mainly of highly rated bank deposits and fixed-income securities and is therefore relatively conservative, in our view. Most of these securities are denominated in Qatari riyal or U.S. dollars, two pegged currencies. The insurer has therefore minimal exposure to foreign exchange risk.

Chart 2

QLM's investment portfolio allocation at year-end 2022



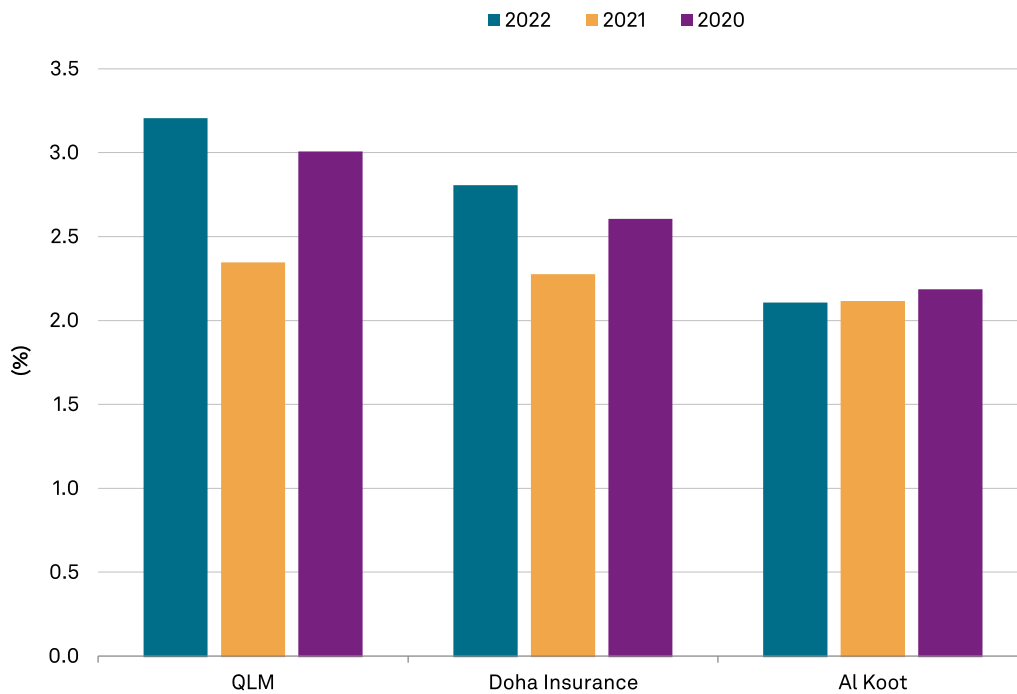
Source: QLM's annual report 2022.
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The company also borrows U.S. dollars and invests at local banks at higher interest rates in the local currency, which slightly increases its investment yield. QLM pledges its fixed-income instruments as collateral and the amount borrowed does not exceed a predetermined limit of its fixed-income holdings (these are shown as short-term borrowings in the report and accounts). At mid-year 2023, the short-term debt stood at QAR312.6 million compared with QAR396.2 million during the same period in 2022.

QLM does not take on 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. This investment strategy helped QLM record an average net investment yield of 2.8% per year from 2020-2022 (excluding realized and unrealized gains), which is higher than that of some similar sized local peers. We expect that the company will repay some of the outstanding borrowings, as higher interest rates are resulting in lower profit margins.

Chart 3

Net investment yield of selected listed insurers in Qatar in 2020-2022



Source: S&P Global Ratings.
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QLM maintains adequate reserves, in our view. Given its robust capital buffer and adequate reserving, we do not foresee the need for additional external capital and liquidity over the next two years.

Other Key Credit Considerations

Governance

In our view, governance arrangements at QLM appear effective and are comparable to local and regional peers. The insurer has historically benefited from an effectively embedded risk-management culture and framework within the QIC Group and is developing a more independent risk management function following the spinoff from its former parent.

Liquidity

QLM's stressed assets comfortably exceeded stressed liabilities by about 2x in 2022, based on our calculations. We expect that the company's liquidity position will remain adequate in 2023, as sufficient liquid assets are held to pay claims.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Insurance Industry And Country Risk Assessment: Qatar Property/Casualty, July 6, 2023

Appendix

| QLM--Credit metrics history | | |
|---|-----------|-----------|
| Ratio/Metric | 2022 | 2021 |
| S&P Global Ratings capital adequacy* | Excellent | Excellent |
| Total invested assets (in mil. QAR) | 1350 | 1,366 |
| Total shareholder equity (in mil. QAR) | 563 | 618 |
| Gross premiums written (in mil. QAR) | 1049 | 1,027 |
| Net premiums written (in mil. QAR) | 959 | 807 |
| Reinsurance utilization (%) | 8.6 | 21.4 |
| EBIT | 91 | 109 |
| Net income (in mil. QAR) | 83 | 106 |
| Return on shareholders' equity (reported) (%) | 14.1 | 18.6 |
| Return on revenue (%) | 7.9 | 11.7 |
| Net combined ratio (%) | 95.9 | 91.5 |
| Net loss ratio (%) | 88.9 | 82.0 |
| EBITDA fixed-charge coverage (x) | 9.8 | 42.1 |
| Financial leverage incl. pension/end of service liabilities | 41.1 | 33.8 |
| Financial obligations/EBITDA (x) | 4.4 | 3.17 |
| Net investment yield (%) | 3.2 | 2.34 |
| Net investment yield incl. investment gains (%) | 3.4 | 3.14 |

QAR--Qatari riyal.

Business And Financial Risk Matrix

| Business risk profile | Financial risk profile | | | | | | | |
|-----------------------|------------------------|-------------|----------------|--------------|----------|----------|--------|------------|
| | Excellent | Very Strong | Strong | Satisfactory | Fair | Marginal | Weak | Vulnerable |
| Excellent | aa+ | aa | aa- | a+ | a- | bbb | bb+ | b+ |
| Very Strong | aa | aa/aa- | aa-/a+ | a+/a | a-/bbb+ | bbb/bbb- | bb+/bb | b+ |
| Strong | aa-/a+ | a+/a | a/a- | a-/bbb+ | bbb+/bbb | bbb-/bb+ | bb/bb- | b+/b |
| Satisfactory | a | a/a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bb+/bb | bb-/b+ | b/b- |
| Fair | a- | a-/bbb+ | bbb+/bbb | bbb/bbb- | bbb-/bb+ | bb/bb- | b+/b | b- |
| Weak | bbb+/bbb | bbb/bbb- | bbb-/bb+ | bb+/bb | bb/bb- | bb-/b+ | b/b- | b- |
| Vulnerable | bbb-/bb+ | bb+/bb | bb/bb- | bb-/b+ | b+/b | b/b- | b- | b- |

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 20, 2023)*

QLM Life & Medical Insurance Co.

Financial Strength Rating

Local Currency

A-/Stable/--

Holding Company

None

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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