

Research Update:

Kuwait-Based Arab Investment and Export Credit Guarantee Corp. Outlook Revised To Stable; 'AA' Ratings Affirmed

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Overview

- The Arab Investment and Export Credit Guarantee Corp. (Dhaman) continues to demonstrate very strong capitalization and very strong liquidity, relative to its underwriting commitments.
- Dhaman's exposure to certain Arab countries, where political uncertainties have risen significantly, has not caused any financial strain and is not now expected to do so.
- We are therefore revising our outlook to stable from negative and affirming our 'AA' ratings on the company.

Rating Action

On April 2, 2012, Standard & Poor's Ratings Services revised its outlook to stable from negative on Kuwait-based Arab Investment and Export Credit Guarantee Corp. (Dhaman). At the same time, we affirmed our 'AA' counterparty credit and insurer financial strength ratings on the company.

Rationale

The outlook revision reflects Dhaman's demonstrable control of its exposures, resulting in the absence of significant losses from the recent and continuing political upheavals in some of its key Arab markets and member states.

The ratings on Dhaman reflect the company's very strong capitalization, which fully supports the company's business as an export credit and investment risk insurer. In our opinion, company also benefits from its organization as a multilateral institution, owned by governments of the Arab region, and its overtly political and economic development role for this region. Dhaman benefits from strong financial flexibility afforded through its membership convention, particularly for recoveries for investment risk losses from relevant governments. In our view, earnings were satisfactory in 2011; the company works to a political and economic development agenda and does not target profitability as a core performance metric.

Dhaman's liquidity is also very strong. On Dec. 31, 2011, its liquid assets amounted to 58% of gross outstanding commitments at that date (2010: 66%). Its 2011 capital utilization (gross annual commitments divided by shareholder funds) was 4.54x (2010: 3.77x), compared with its mandated limit of 7.5x. We expect Dhaman's current mandated limits to be consistent with very strong

capitalization. Insured commitment volumes will increase as it meets its primary goal of servicing economic growth across the Arab region.

Dhaman benefits from strong financial flexibility, reflecting in particular the proportion of the company owned by Gulf Cooperation Council states (22%). However, unlike many other multilateral institutions, there is no equivalent to "callable AAA capital" to reinforce the company's capital strength.

Dhaman was created in 1974 as a supranational political (investment) risk insurer and export credit guarantee provider. Its membership comprises all Arab states and certain international Arab organizations, themselves backed by Arab governments. Dhaman offers protection for Arab international trade and investment flows into its Arab nation members. Under its convention, claims deriving from noncommercial (investment) risks are fully recoverable from the respective member states.

Outlook

The stable outlook reflects our belief that the ongoing political upheavals in some member states, to which Dhaman has been heavily exposed in terms of insured transactions, no longer represent material risks of increased underwriting loss with uncertain recovery prospects.

At the current stage of operational development, we consider positive rating action to be remote. The ratings could be lowered if we observe a significant weakening in the relationship between capital and risk beyond mandated levels, and any lack of cohesion between corporate strategy and among its members.

Related Criteria And Research

- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria For Multilateral Lending Institutions, Oct. 19, 2007

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
The Arab Investment and Export Credit Guarantee Corp. Counterparty Credit Rating		
Foreign Currency	AA/Stable/--	AA/Negative/--
Financial Strength Rating		
Local Currency	AA/Stable/--	AA/Negative/--

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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