

Research Update:

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

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Overview

- We believe that Arab Investment and Export Credit Guarantee Corp. (Dhaman) has improved its liquidity and quality of capital. It continues to demonstrate very strong capitalization relative to its underwriting commitments by reference to its peer trade credit insurers in the private sector and multilateral lending institutions.
- As a result, we are raising the ratings on the company to 'AA' from 'AA-'.
- The outlook remains stable, reflecting our opinion that capitalization and liquidity will be key rating supports, and that the multilateral government ownership continues.

Rating Action

On March 25, 2010, Standard & Poor's Ratings Services raised to 'AA' from 'AA-' its counterparty credit and insurer financial strength ratings on Kuwait-domiciled The Arab Investment and Export Credit Guarantee Corp. (Dhaman). The outlook remains stable.

Rationale

The upgrade reflects the company's improved liquidity following recovery of long-outstanding debts during 2009. This action has also improved the quality of capital, and Dhaman retains very strong capitalization. Its balance sheet characteristics fully support the company's business as an export credit and investment risk insurer.

In our opinion, these strengths are accompanied by the benefits of its multilateral status, reflecting its ownership by governments of the Arab region and its overtly political/economic development role for this region. It also benefits from strong financial flexibility afforded through its membership convention, particularly for recoveries for investment risk losses from relevant governments. Earnings are satisfactory, insofar as the company, which works to a political/economic development agenda, does not have target profitability as a core performance metric.

At Dec. 31, 2009, Dhaman had readily liquid assets equivalent to 76% of gross outstanding commitments at that date (2008: 68%). Its 2009 capital utilization was 2.3x (2008: 3.3x) compared with its mandated limit of 7.5x. We view these factors as very strong and key rating supports. We also assess the investment

portfolio as strong, reflecting its diverse mix by both geography and industry. Dhaman benefits from strong financial flexibility, reflecting in particular the proportion of the company owned by highly rated Gulf Cooperation Council states (22%), but unlike many other multilateral lending institutions there is no equivalent to "callable AAA capital" that reinforces 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 trade and investment flows among its Arab nation members. Claims deriving from noncommercial (investment) risks are fully recoverable from respective member states, with Dhaman in effect acting as funds flow manager, with no theoretical insured loss risk, but a potential credit/timing risk from non-, or delayed, recovery. Commercial risks and inwards reinsurance losses are for Dhaman's account and protected in part by appropriate reinsurance.

Outlook

The stable outlook reflects our expectation that Dhaman will continue to be very strongly capitalized in a controlled environment as insured commitment volumes increase, and as it meets its primary goal of servicing economic growth across the Arab region. It will continue to benefit fully from its supranational shareholder support. Although not a key factor in the rating, the company will use its adequate profitability to support its expansion. Liquidity will continue to be very strong, but will diminish in absolute terms as transaction volumes rise.

While negative rating action is unlikely, this would be prompted by any wavering of shareholder support in terms of either capital raising, provision of liquidity, or loss recoveries, resulting in material weakening of capital adequacy or liquidity. Further positive rating action is unlikely in the medium term and is constrained by the relative lack of diversity in the exposures covered.

Related Criteria And Research

- Analysis Of Insurer Capital Adequacy, Dec. 18, 2009
- Criteria for Multilateral Lending Institutions, Oct. 19, 2007

Ratings List

Upgraded

	To	From
Arab Investment and Export Credit Guarantee Corporation (The) Counterparty Credit Rating	AA/Stable/--	AA-/Stable/--

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Financial Strength Rating

AA/Stable/--

AA-/Stable/--

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