

Research Update:

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

Primary Credit Analyst:

Kevin Willis, Dubai (971) 4 372 7150;kevin_willis@standardandpoors.com

Secondary Contact:

Luc Marchand, London (44) 20-7176-7111;luc_marchand@standardandpoors.com

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Overview

- We believe that The Arab Investment and Export Credit Guarantee Corporation (Dhaman) continues to demonstrate very strong capitalization relative to its underwriting commitments.
- However, Dhaman is highly exposed to some Arab countries where the current political uncertainties are significantly higher than in the past.
- We are therefore revising our outlook to negative from stable and affirming our 'AA' ratings on the company.
- The negative outlook reflects our view of Dhaman's exposure to current political uncertainties and the potential risk this poses to the company in terms of underwriting loss and recovery.

Rating Action

On April 11, 2011, Standard & Poor's Ratings Services revised its outlook on Kuwait-based Arab Investment and Export Credit Guarantee Corporation (Dhaman) to negative from stable. 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 high exposure, in terms of insurance transactions, to rising political upheavals in some Arab states.

The ratings on Dhaman reflect the company's very strong capitalization and balance-sheet characteristics, which 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 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 2010, insofar as the company, which works to a political and economic development agenda, does not have target profitability as a core performance metric.

On Dec. 31, 2010, Dhaman's liquid assets amounted to 66% of gross outstanding commitments at that date (2009: 68%). Its 2010 capital utilization was 3.77x

(2009: 2.3x) compared with its mandated limit of 7.5x. We view these factors as very strong and key in supporting the ratings. We also assess the investment portfolio as strong, reflecting its diverse mix by geography and industry. 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" that reinforces 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 respective member states. Accordingly, Dhaman effectively acts as funds flow manager, with no theoretical insured loss risk, but a potential credit/timing risk from non-, or delayed, recovery. Commercial risks and inward reinsurance losses are for Dhaman's account and protected in part by appropriate reinsurance.

Outlook

The negative outlook reflects our belief that the current continuing political upheavals in some member states to which Dhaman is heavily exposed in terms of insured transactions, create increased risk of underwriting loss with increasingly uncertain recovery prospects. The ratings could be lowered if this increased risk results in a significant adverse change in the relationship between capital and risk.

The ratings will remain at the current level if no significant adverse change in this relationship results from the current situation.

We expect 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.

Related Criteria And Research

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

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

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

Additional Contact:

Insurance Ratings Europe; InsurancelInteractive_Europe@standardandpoors.com

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) 495-783-4011.

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