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## Dhaman

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### Table Of Contents

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Outlook

Rationale

Environmental, Social, and Governance

Enterprise Risk Profile

Financial Risk Profile

Extraordinary Shareholder Support

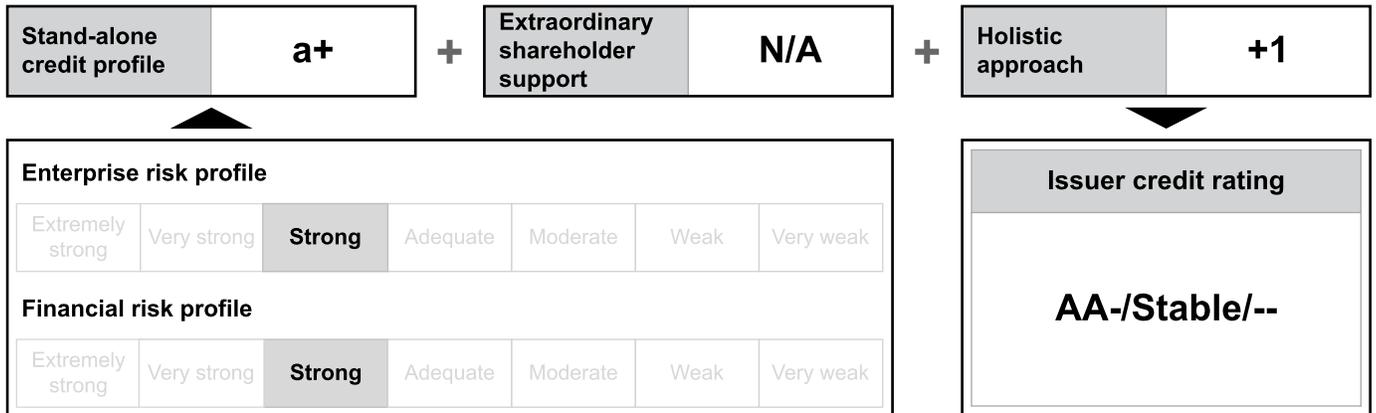
Holistic Approach

Ratings Score Snapshot

Related Criteria

Related Research

# Dhaman



## Outlook

The stable outlook reflects our expectation that Dhaman will continue to expand its business, especially in areas where commercial insurers are not active or have a reduced presence, while maintaining its robust capital and liquidity positions.

Issuer Credit Rating
<i>Foreign Currency</i>
AA-/Stable/--

We could lower the rating in the next two years if Dhaman's insured business contracts or growth comes predominately from markets where private insurers are most active and the development impact is lowest, indicating a weakening role. We could also lower the rating if pressure on Dhaman's capital and liquidity positions materialized.

We do not expect to raise the ratings over the next two years, but very strong shareholder support, demonstrated, for example, by a large capital increase from shareholder states, could provide upward rating pressure.

## Rationale

Dhaman has a long track record of fulfilling its public policy mandate by providing guarantees on investments in member countries and insurance on exports for member countries. Member countries are all eligible for cover, exposing the corporation to agency risk. Overall, we assess Dhaman's enterprise risk profile as strong.

We assess Dhaman's financial risk profile as strong, reflecting its very strong capital position under our insurance criteria. In addition, liquidity metrics are exceptional, representing a relative strength compared with peers.

## Environmental, Social, and Governance

Dhaman's mandate lacks clear environmental or social policies, compared with other supranationals, largely because

of its small size and relatively narrow mandate. In our view, its relatively narrow mandate prevents it from taking on a countercyclical role. About 10%-15% of Dhaman's business is oil-related insurance activity and the indirect impact of this business is likely much larger. This could create a long-term exposure to energy transition dynamics. Although we consider Dhaman's risk management framework to be conservative and appropriate for its needs, it lacks some of the features demonstrated by some of its more-advanced peers. For example, Dhaman's holistic oversight of risks is less well-developed, while its voting shareholders are also all eligible for coverage, exposing it to agency risk. In our view, governance indicators in most member countries are weak.

## Enterprise Risk Profile

- Low oil prices will weigh on investment and trade activity in Dhaman's core region, challenging management's growth plans.
- Risk management practices are improving as the corporation works to implement holistic oversight practices.

### Policy importance

Established by convention in 1974, Dhaman was set up to support investments into and trade with Arab states by providing investment guarantee (noncommercial) insurance and export credit guarantee (commercial) insurance. Only investments made in member states are eligible for investment guarantee insurance, which covers risks of expropriation, transfer restrictions, war and civil disturbance, and breach of contract. As per the articles of agreement, the corporation subrogates claims made on this line of business to the sovereign. Export credit guarantee insurance is available as long as one party is a member state and covers both commercial and political risks.

We view Dhaman's mandate as relatively narrow and one that prevents a countercyclical role. Oil-related insurance activity accounts directly for about 15%-20% of Dhaman's business, and we expect the indirect figure to be much larger. In 2019, gross premium written increased by 8% to about Kuwaiti dinar (KWD) 2.2 million (\$7.1 million), compared with 12% growth over 2018. These growth figures represent an improvement over the low and sometimes negative growth reported in 2013-2015.

We expect 2020 to be a challenging year for Dhaman, given the low expected investment and trade activity in the region from the lower oil price environment and COVID-19. However, on a longer horizon, we continue to expect that Dhaman's export credit line of business will expand, particularly in the less economically developed member states and outside of the region, as allowed by the organization's mandate. However, if this translates into sustained lower growth prospects for Dhaman, this could weigh on our view of its enterprise risk profile.

Dhaman expanded business insured in 2019, despite removing Lebanon from cover midway through the year, and removing Sudan from export credit cover after its cash collateral arrangement expired. In 2019, Dhaman's total insured business grew 7% to \$1.8 billion, from \$1.7 billion in 2018. In our opinion, export credit and trade finance drove growth in 2019, with export credit expanding by 11% and trade finance by 28%. The investment guarantee and reinsurance lines contracted over 2019.

Dhaman's investment guarantee line had a total outstanding contract value of \$235 million at year-end 2019, accounting for about 17% of total insured business. Growth in this line has been stagnant in recent years after declining

from a peak of \$540 million in 2009. As of year-end 2019, Dhaman covered five projects in four countries (Egypt, Iraq, Oman, and Sudan), while there is one dormant project in Syria. The corporation plans on increasing marketing efforts, but foreign direct investment remains low because of geopolitical tensions and uncertainty in the region. Lower oil prices will only exacerbate problems Dhaman has faced in expanding this line. In our view, growth in this line of business would support our assessment of Dhaman's role, given the strong developmental impact of greenfield investment.

Although operating risks in several member countries remain high, Dhaman's membership has remained stable and supportive. It currently has 25 shareholders, of which 21 are Arab states and four are pan-Arab regional funds owned by similar shareholders. The funds do not have voting rights. No shareholder has left and we do not expect any departures over the medium term. Member countries exempt Dhaman from all taxes and duties.

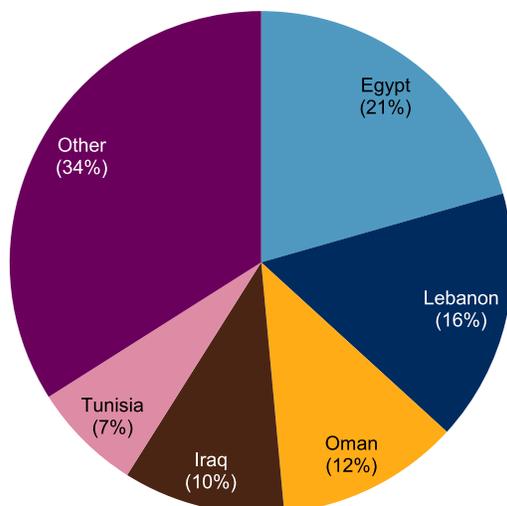
Despite the current boycott of shareholder Qatar by several other shareholders--including Saudi Arabia, the United Arab Emirates, and Egypt--we observe no strain in the relationship between shareholders and Dhaman. If the boycott were to cause operational problems for Dhaman outside of the natural reduction in regional trade, it would weigh on our assessment of shareholder support.

Since its inception, shareholders have supported Dhaman with timely capital increases. Most recently, shareholders agreed to a capital increase in 2013, which included a phased 50% increase in capital over 2014-2018 and an additional voluntary \$50 million increase in 2013-2014, paid by the five largest shareholders. At year-end 2019, paid-in capital stood at about \$300 million (KWD91.1 million), up from \$197 million at year-end 2012.

As of year-end 2019, outstanding capital payments due from members remain; accumulated capital contributions due from member countries amount to about \$2.9 million (KWD879,000). This amount is due from Djibouti, Somalia, Syria, and Yemen. Given the state of open conflict in the latter three countries, management does not expect to receive this money until after the conflicts are resolved. Additionally, two members of the Arab financial authorities have outstanding capital contributions amounting to approximately \$19 million (KWD6.4 million). We expect that the overlap of member countries for the three institutions and the strength of Dhaman's relationship with its member countries will help to resolve these overdue amounts in Dhaman's favor.

We exclude preferred creditor treatment from our assessment of Dhaman's enterprise risk profile, because less than 25% of its insured business is noncommercial (the investment guarantee line). Within this line of business, Dhaman has a strong history of recoveries from member states, though recoveries can occur over an extended period of time and Dhaman has granted small waivers in the past. We expect preferential treatment from member countries for Dhaman's commercial exposure, for instance, by exempting them from currency convertibility or transfer restrictions.

Dhaman recently recovered in full on a claim paid out against noncommercial transfer risk in Libya. Dhaman paid the claim in August 2017, and recovered from the government of Libya in June 2019. Previously, Dhaman has recovered paid claims from the governments of Iraq, Syria, and Sudan, though we note that in the case of Iraq interest arrears were waived. There are currently no outstanding claims.

**Chart 1****Five Largest Country Exposures Investment And Export Credit Contracts (Year-End 2019)**

Source: S&P Global, Dhaman.

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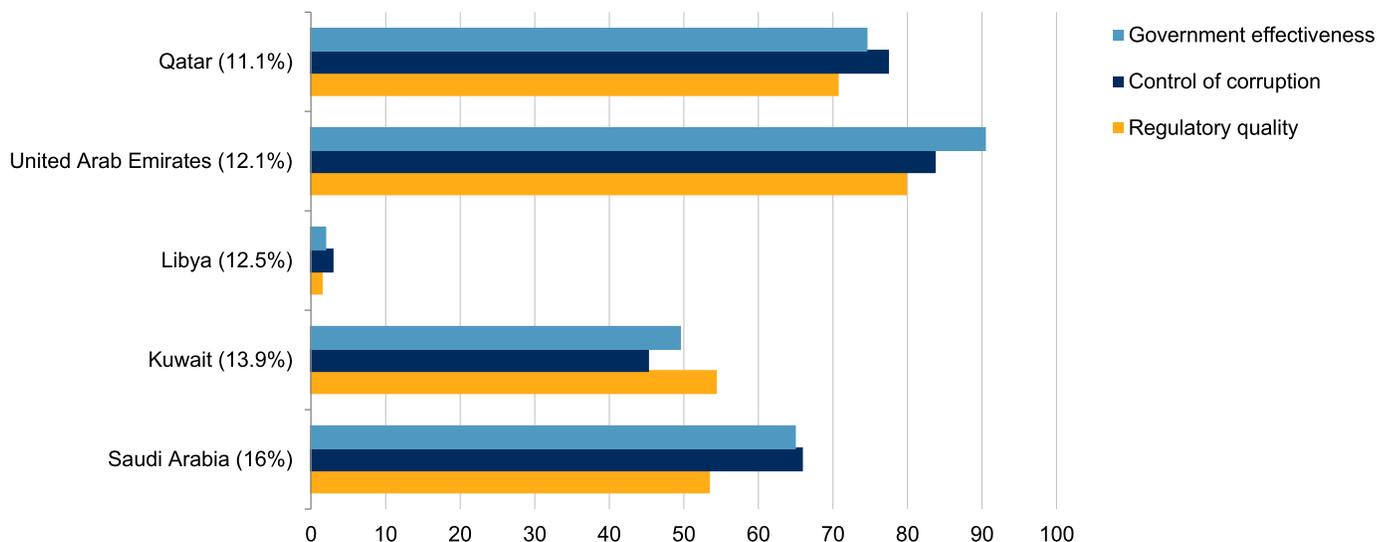
**Governance and management expertise**

Although no shareholders predominately control Dhaman, all of its voting shareholders are eligible for coverage, which exposes the corporation to agency risk. In addition, governance indicators in most member countries are weak. Counterbalancing this, shareholders have allowed Dhaman to fully retain its profits in recent years, which has helped it strengthen its capital position.

Although we consider Dhaman's risk management framework to be conservative and appropriate for its needs, it lacks some of the features demonstrated by the corporation's more-advanced peers. For example, its holistic oversight of risks is less well developed. That said, Dhaman has recently implemented improvements, such as creating a stand-alone risk management unit. Management has a track record of achieving strategic plans, seen, for instance, in the increase in business after the sharp decline in 2013 and 2014.

**Chart 2****Five Largest Shareholders**

Selected World Bank governance indicators 2018



Source: S&amp;P Global Ratings, World Bank.

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**Financial Risk Profile**

- We expect Dhaman to maintain strong capitalization at 'AAA' levels (in our model) even as insured commitments increase.
- The company maintains a relatively conservative and highly liquid investment portfolio.

We view Dhaman's financial risk profile as strong, an assessment which maps from very strong under our insurance criteria. Dhaman generated a net profit of KWD5.6 million in 2019, which compares with a net loss of KWD942,000 in 2018. This improvement was driven by stronger investment results. Consequently, Dhaman's shareholders' equity increased to KWD148.1 million, from about KWD142.5 million in 2018, as the company fully retained its earnings.

Dhaman maintains a highly liquid investment portfolio. At year-end 2019, more than 70% of its invested assets were placed as cash deposits with banks in Kuwait. We understand that all of the cash deposits are guaranteed by the Kuwaiti government. The remainder of investments are placed in highly diversified real estate funds and mainly investment-grade rated bonds. Dhaman disposed all of its investments in equities in 2019, and is therefore not exposed to fluctuations in local and global equity markets.

We anticipate that Dhaman's underwriting results could be affected by a number of COVID-19 related claims in 2020, since the pandemic could trigger a number of claims under the corporation's trade credit and reinsurance business.

However, we expect Dhaman to maintain capitalization at the 'AAA' level (in our model), supported by overall profitable earnings, and a relatively conservative investment portfolio.

## Extraordinary Shareholder Support

We give no credit for extraordinary shareholder support as all capital is paid in.

## Holistic Approach

Dhaman's liquidity is exceptional and supported by the corporation's investment policy, which focuses on securely rated deposit-holding banks and fixed-income instruments, mostly held in U.S. dollars; and an internationally diverse mix of equity-type funds. In our view, liquidity will continue to be excellent, representing a significant rating strength relative to that of peers. We capture this by incorporating a notch of uplift from our holistic assessment.

**Table 1**

Dhaman Selected Indicators					
	2018	2017	2016	2015	2014
<b>Summary balance sheet (USD, unless stated otherwise)</b>					
<b>Assets</b>					
Real estate	3,429	3,611	3,817	4,123	4,543
Equities and managed funds	310,969	210,289	204,125	193,485	207,715
Bonds	18,572	109,344	136,657	111,793	69,140
Cash deposits	156,600	170,344	103,661	117,103	124,290
Other investments		4,407	4,841	5,089	6,831
Total invested assets	489,570	497,995	453,101	431,593	412,519
Other assets	4,694	6,273	4,091	6,507	12,092
Total assets	494,264	504,268	457,192	438,100	424,611
<b>Liabilities</b>					
Technical reserves	5,152	7,393	5,334	4,772	4,732
Other liabilities	19,386	21,279	20,482	20,510	21,674
Total liabilities	24,538	28,672	25,816	25,282	26,406
<b>Shareholder equity (USD)</b>					
Common equity	300,203	299,387	282,557	270,956	257,027
Revaluation reserves	-	5,921	(2,562)	(3,959)	2,524
Other capital	169,524	170,286	151,380	145,818	138,653
Total shareholder equity	469,727	475,594	431,375	412,815	398,204
<b>Selected indicators (USD, unless stated otherwise)</b>					
Gross exposure	1,713,000	1,390,000	1,325,000	1,127,000	1,087,000
Total assets	494,264	504,268	457,192	438,100	424,611
Total shareholder equity	469,727	475,594	431,375	412,815	398,204
Gross premiums written	7,905	7,027	5,338	4,628	4,800
Net premiums written	5,614	4,662	3,849	3,472	3,717

Table 1

Dhaman Selected Indicators (cont.)					
	2018	2017	2016	2015	2014
Net premiums earned	6,236	4,457	3,712	3,534	4,002
Reinsurance utilization (%)	28.98	33.66	27.9	24.97	22.56
EBIT	(3,116.00)	17,523.00	7,104.00	12,257.00	6,547.00
Net income (attributable to all shareholders)	(3,116.00)	17,523.00	7,104.00	12,257.00	6,547.00
Return on revenue (%)	46.50	35.98	25.30	24.42	14.78
Return on shareholders' equity (reported) (%)	(0.66)	3.86	1.67	3.05	1.67
P/C: net combined ratio (%)	176.09	276.04	340.71	334.05	270.48
P/C: net expense ratio (%)	173.47	227.37	290.55	324.47	262.89
Net investment yield (%)	3	3.19	3.04	2.98	2.23
Net investment yield including investment gains/(losses) (%)	0.39	5.38	3.65	4.98	3.37
Commercial exposures (%)	88%	87%	86%	86%	82%
Non-commercial exposure (%)	12%	13%	14%	14%	18%

## Ratings Score Snapshot

<b>Enterprise risk profile</b>	Extremely strong	Very strong	<b>Strong</b>	Adequate	Moderate	Weak	Very weak
Policy importance	Very strong	<b>Strong</b>	Adequate	Moderate	Weak		
Governance and management	Strong		<b>Adequate</b>		Weak		
<b>Financial risk profile</b>	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and liquidity	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy

Using The Risk-Based Insurance Capital Model, June 7, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

ESG Industry Report Card: Supranationals, Feb. 11, 2020

Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019

Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 16, 2019

Introduction To Supranationals Special Edition 2019, Oct. 16, 2019

### Ratings Detail (As Of March 31, 2020)\*

#### The Arab Investment and Export Credit Guarantee Corp.

Financial Strength Rating

*Local Currency* AA-/Stable/--

Issuer Credit Rating

*Foreign Currency* AA-/Stable/--

#### Issuer Credit Ratings History

28-Mar-2019 *Foreign Currency* AA-/Stable/--

16-Mar-2016 AA/Stable/--

13-Apr-2015 AA/Negative/--

\*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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