

Research Update:

Arab Investment and Export Credit Guarantee Corp. (Dhaman) Outlook Revised To Negative; 'AA-' Ratings Affirmed

March 30, 2021

Overview

- The Arab Investment and Export Credit Guarantee Corp.'s (Dhaman's) gross insured business declined by about 20% over 2020, amid the weak business environment in member countries from the global pandemic, and due to what we view as conservative underwriting policy.
- We consider it could be difficult for Dhaman to play a countercyclical role and achieve sustainable growth in its core business lines that underpin its policy mandate.
- At the same time, Dhaman's financial profile remains strong, supported notably by its capital adequacy and excellent liquidity.
- We are therefore revising our outlook on Dhaman to negative from stable and affirming our 'AA-' ratings.
- The negative outlook indicates that we could lower the ratings over the next two years if Dhaman's business fails to rebound significantly, especially where the development impact could be highest, counter to our current view of its strong public-policy role fulfillment.

Rating Action

On March 30, 2021, S&P Global Ratings revised its outlook on the Arab Investment and Export Credit Guarantee Corp. (Dhaman) to negative from stable. At the same time, we affirmed our 'AA-' long-term issuer credit and financial strength ratings on Dhaman.

Rationale

In our view, downside pressure is building on our strong assessment of Dhaman's policy importance. Dhaman's low growth trend over 2013-2019 was exacerbated by the COVID-19 pandemic. Global supply chain and demand disruptions adversely affected policyholders' business activity, making it difficult for Dhaman to expand its activities. In 2020, Dhaman's grand

PRIMARY CREDIT ANALYST

Shokhrukh Temurov, CFA

Dubai

+ 97143727167

shokhrukh.temurov
@spglobal.com

SECONDARY CONTACTS

Sachin Sahni

Dubai

(971) 4-372-7190

sachin.sahni
@spglobal.com

Max M McGraw

Dubai

+ 97143727168

maximillian.mcgraw
@spglobal.com

ADDITIONAL CONTACT

EMEA Sovereign and IPF

SovereignIPF
@spglobal.com

total insured business and gross premiums written contracted about 23% and 20% respectively compared with 2019. Lebanon was removed from cover in October 2019, which significantly affected the volume of the agency's trade finance insured business last year.

Beyond the pandemic-induced economic shocks, several structural challenges could further undermine Dhaman's ability to implement its public-policy mandate in the longer term. Despite a 9% expansion last year, growth in the investment guarantee line, where Dhaman's development impact could be highest, has been stagnant in recent years after declining from a peak of \$540 million in 2009. A lack of investor interest and geopolitical uncertainty in the region could complicate Dhaman's expansion plans in this line of business.

In addition, removing Lebanon from cover in late 2019 has further narrowed Dhaman's geographical coverage and the scope of business operations. Five to six member countries out of 21, including Libya, Syria, Somalia, and Yemen (alongside Iraq and Sudan on a selective basis) are regularly placed off cover for geopolitical and economic reasons. Although this reflects the continued difficult operating conditions, we believe it to be an output of Dhaman's prudent risk settings that, ultimately, could limit the agency's development impact.

At the same time, Dhaman faces competition from private insurers in the remaining list of countries under cover, with some players entering the market with new products and a wider range of risks to cover. A lack of awareness of the agency in nonmember countries, eligibility criteria for its business, and its limited range of risks covered could undermine Dhaman's comparative advantage vis-a-vis its peers.

Amid the global pandemic and potentially slow vaccination in emerging economies, 2021 remains a challenging year for Dhaman, in our view. We expect GDP in most of the agency's member countries, including the Gulf Cooperation Council (GCC) to recover modestly, by about 2%-3% in 2021 on average. The business cycle is likely to take several quarters at least to fully recover. Low investment and trade activity in the region could weigh on Dhaman's operations, especially in investment guarantee and export credit business lines. In our view, this could slow the return to 2019 levels of total insured business. We understand that to revive its business operations, Dhaman plans to increase marketing efforts and expand its geographical reach to new non-Arab markets, including Asia and Sub-Saharan Africa, as allowed by the organization's mandate.

Our issuer credit ratings on Dhaman are based on our assessments of the agency's strong business profile and strong financial profile. Dhaman's stand-alone credit profile (SACP) is 'a+'. We incorporate one notch of uplift from our holistic assessment into our 'AA-' long-term issuer credit ratings on Dhaman. This reflects our view that the agency's liquidity will remain excellent, representing a significant rating strength relative to that of peers.

Despite high operating risks in several member countries, 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.

We do not incorporate preferred creditor treatment in 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, although recoveries can occur over an extended period 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.

We view Dhaman's financial risk profile as strong, an assessment which maps from the very strong

financial risk profile assessment under our insurance criteria. Our assessment of the financial risk profile is underpinned by Dhaman's 'AAA' capital adequacy under our insurance criteria, and further supported by the company's low tolerance to investment risk.

Dhaman's capital adequacy continues to show a significant buffer above the 'AAA' level. Based on the scale of operations and business growth projections for the next two years, we expect Dhaman will maintain its robust level of capital adequacy over the same period, supported by profitable earnings.

We view Dhaman's investment portfolio as conservative. The relatively low tolerance to investment risk is evidenced by the portfolio's primary cash-denomination, which also contributes to its exceptional liquidity. The investment portfolio mainly includes bank deposits (about 55%) followed by fixed-income instruments (about 35%) with only small exposure to high-risk assets like equities and real estate (about 10%).

Outlook

The negative outlook reflects our view that Dhaman's policy importance could weaken over the next two years.

Downside scenario

We could lower the ratings if we conclude that the entity's role and public-policy mandate for its shareholders is no longer strong. This could be because sustainable growth in Dhaman's business is difficult to achieve, or if this growth comes predominately from markets where private insurers are active and the development impact is low.

Upside scenario

We could revise the outlook to stable if Dhaman demonstrates its continued policy importance. This could be through significantly expanding its business, especially where the developmental impact may evidence Dhaman's public-policy mandate and role for its shareholders.

Ratings Score Snapshot

Issuer credit rating: AA-/Negative/--

SACP: a+

Holistic approach: +1

Enterprise risk profile: Strong

- Policy importance: Strong
- Governance and management expertise: Adequate

Financial risk profile: Strong

- Capital adequacy: N/A
- Funding and liquidity: N/A

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
- 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

- S&P Global Ratings Definitions, Jan. 5, 2021
- Supranationals Special Edition 2020, Oct. 20, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020

Ratings List

Ratings Affirmed; Outlook Action

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.