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Arab Investment and Export Credit Guarantee Corp. (Dhaman)

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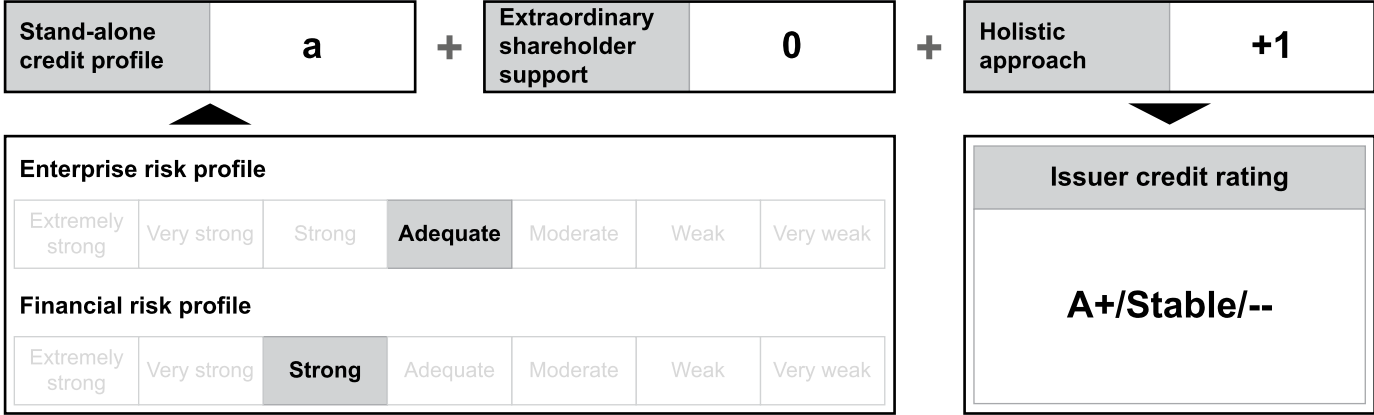
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Arab Investment and Export Credit Guarantee Corp. (Dhaman)



Credit Highlights

Issuer Credit Rating

Foreign Currency

A+ / Stable / --

Overview

Enterprise risk profile	Financial risk profile
Dhaman's gross insured business rebounded 44% in 2022, supported by strong regional activity tied to elevated oil prices.	Dhaman's robust levels of capital adequacy and exceptional liquidity remain key credit strengths.
--Dhaman's shareholder base remains stable and supportive, despite high operating risks in several member countries.	--We expect capital adequacy will continue to show a significant buffer above the 'AAA' level despite plans to scale-up business growth.
--Notwithstanding Dhaman's strong history of recoveries from member states, we do not incorporate preferred creditor treatment because less than 25% of its insured business is non-commercial.	--We view Dhaman's investment portfolio as conservative, evidenced by its primary cash-denomination.
--Structural challenges continue to hamper expansion in the investment guarantee line, including a complex operating environment and stiffening competition from private insurers.	--We incorporate one notch of uplift from our holistic assessment, reflecting our view that Dhaman's liquidity represents a significant rating strength relative to peers.

Dhaman's leadership introduced a new five-year strategic plan to enhance the entity's development role and efforts in the region. Approved by the board, the new strategic plan could amend Dhaman's convention by expanding current nationality and product eligibility criteria, relaxing restrictive articles on obligors of non-Arab origin, and loosening language around non-objection letters. In our view, the new strategy could help boost business volumes and address structural hurdles that have historically undermined growth in the entity's core business line.

Operating risks in several member countries remain high. The geographical scope of Dhaman's operations continues to be affected by ongoing political instability and economic challenges in select member states, with the corporation recently withdrawing coverage from Sri Lanka in addition to Lebanon, Sudan, Somalia, Syria, and Yemen. Our

base-case assumes medium-term operational performance may be affected by slowing global trade and mounting political and economic difficulties in certain member states. That said, we expect this will be partially offset by still-elevated hydrocarbon prices, with oil-related activity accounting for a sizeable share of Dhaman's export credit insurance (ECI) business.

Outlook

The stable outlook reflects our expectation that Dhaman will work toward implementing its new strategic plan and expand in areas where commercial insurers have a reduced presence, while maintaining its robust capital and liquidity positions.

Downside Scenario

We could lower the rating in the next two years if we observe weakening shareholder support or risks to the execution of the entity's public policy mandate, demonstrated, for example, by the withdrawal of a major shareholder or continued challenges related to expanding the core investment guarantee business line. A material deterioration of Dhaman's capital or liquidity position could also place pressure on the rating, although we currently view this as unlikely.

Upside Scenario

A track record of strong business expansion or a significant capital increase accompanied by timely member subscriptions could lead to a positive rating action. This would have to be supported by still-robust capital and liquidity levels.

Enterprise Risk Profile

Dhaman's gross insured business expanded 44% in 2022, compared with 47% in 2021, on the back of a robust regional economic recovery tied to the high oil price environment. Total insured business in the ECI business outperformed targets on strong demand from a few oil-related policyholders, while business in the trade finance line grew thanks to Dhaman's penetration into new markets such as Iraq and Turkey. The latter comes despite Dhaman registering lower premiums earned in its trade finance insurance business, owing to lower pricing from banks (whose pricing remains correlated with Dhaman's fees) and the loss of one of the entity's most lucrative markets, Sri Lanka.

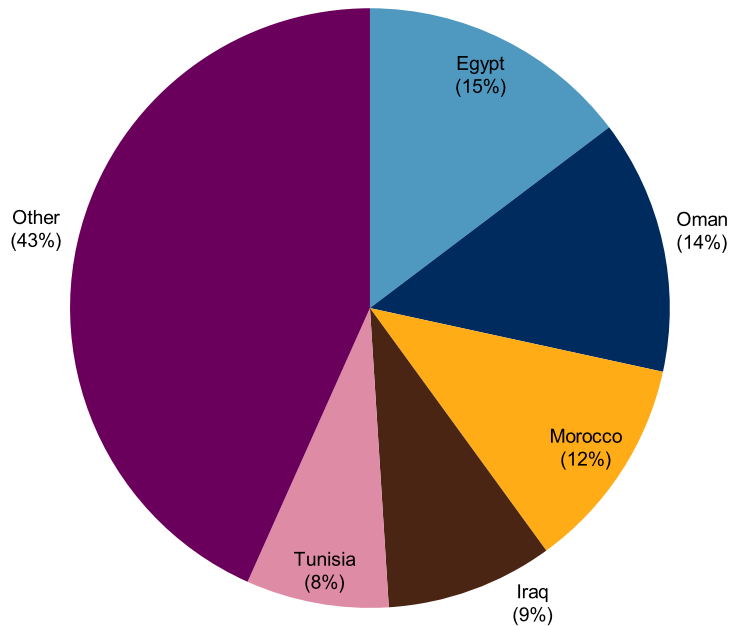
Dhaman's leadership team recently approved a new five-year strategic plan for 2022-2026 to enhance the corporation's development role and regional efforts. The new strategy aims to repurpose Dhaman's vision and mission, redefine its risk appetite, outline plans for growth including new markets and products, and specify new requirements for systems and risk management. We understand that, to revive its business operations, Dhaman plans to increase marketing efforts and expand its geographic reach to new non-Arab markets, including Asia and Sub-Saharan Africa, as allowed under its mandate. The new strategy and a broader regional recovery of investment and trade activity, fuelled by still-elevated oil prices, could translate into increased business volumes over the medium term, in our view.

Nevertheless, several structural challenges continue to undermine Dhaman's ability to expand its core business line.

The investment guarantee line, where Dhaman's development impact could be highest, remains low by historical standards, with the portfolio totaling about \$162 million in 2022 from a peak of \$540 million in 2009. A lack of investor interest in high-income member countries (such as the GCC), coupled with broader regional geopolitical uncertainty, could continue to complicate Dhaman's expansion plans in this line of business. At the same time, Dhaman faces steep competition from private insurers and other development agencies in the remaining countries under cover, with some players entering the market with new products and covering a wider range of risks. Lack of awareness of Dhaman in non-member countries, eligibility criteria for its business, and its limited range of risk coverage could undermine the company's competitive position relative to peers'.

Chart 1

Commitment Concentrations By Host Country (Year-End 2022)



Source: S&P Global Ratings; Dhaman.
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Dhaman's concentration in oil- and other petrochemical-related insurance activity (around 30% of total insured business) prevents it from performing a countercyclical role, in our view. In our base-case scenario, we assume the ongoing oil price rally will have a favorable impact on Dhaman's ECI and trade finance volumes. However, we expect the structural volatility of hydrocarbon prices will constrain long-term business expansion. In 2020, the oil price slump and reduced global demand for energy depressed investment and trade activity in Dhaman's core regions, limiting its ability to perform a countercyclical role. Conversely, Dhaman's gross premiums written rebounded almost 50% during 2021 on the back of higher ECI activity from hydrocarbon-related policyholders benefitting from more supportive oil

prices.

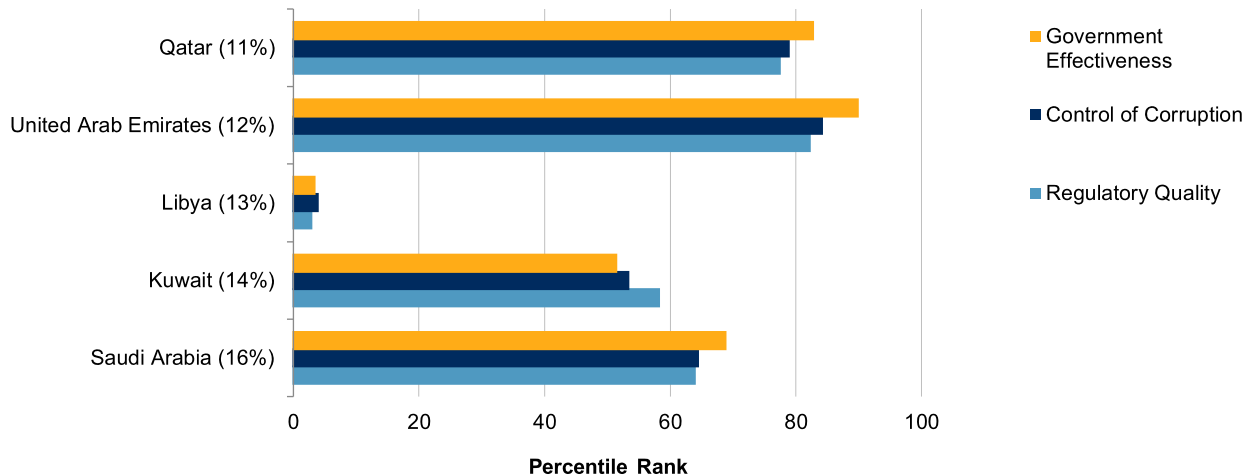
Dhaman recently withdrew operations from Sri Lanka, narrowing its geographic coverage and the scope of its business operations. Six-to-seven member countries out of 21, including Lebanon, Syria, Somalia, Sudan, and Yemen (alongside Iraq and Libya on a selective basis) are regularly placed off cover for geopolitical and economic reasons. Although this reflects ongoing 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.

Despite high operating risks in several member countries, Dhaman's shareholder base has remained stable and supportive. It currently has 25 shareholders: 21 are Arab states and four are pan-Arab regional funds owned by similar shareholders (the funds do not have voting rights). Positively, no shareholder has left, and we do not expect any departures over the medium term. Dhaman's most recent capital increase was in 2013, which entailed a 50% augmentation of capital from all shareholders to be repaid over a five-year period. This was followed by a voluntary additional contribution from its five largest shareholders in 2014. We understand there are still overdue payments from four member states and three institutional shareholders from the first capital-raising exercise, and that one state shareholder recently paid 50% of their outstanding share in early 2023.

Chart 2

Five Largest State Shareholders

Selected World Bank Governance Indicators 2021



Source: S&P Global Ratings; World Bank.

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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 (related to interest on late recoveries). We expect preferential treatment from member countries for Dhaman's commercial exposure, for instance, by exempting them

from currency convertibility or transfer restrictions.

Financial Risk Profile

We view Dhaman's financial risk profile as strong, based on its very strong financial risk profile under our insurance criteria. Dhaman's financial risk profile is underpinned by the company's 'AAA' capital adequacy, as measured by our risk-based capital model, and its low tolerance to investment risk. Moreover, Dhaman's capital adequacy continues to show a significant buffer above the 'AAA' level. Based on the scale of operations and business growth projections, we expect Dhaman will maintain robust capital adequacy over the next two years, supported by profitable earnings.

We view Dhaman's investment portfolio as conservative. The company's relatively low tolerance for investment risk is demonstrated by the portfolio being denominated primarily in cash, which also contributes to its exceptional liquidity. The investment portfolio as at Dec. 31, 2022, mainly includes bank deposits and fixed-income instruments (about 78%), with only small exposure to high-risk assets like equities and real estate (about 22%).

We incorporate one notch of uplift in our 'A+' long-term issuer credit rating on Dhaman. This reflects our view that the company's liquidity will remain excellent, and a significant rating strength relative to peers.

Table 1

Dhaman Selected Indicators					
	2022	2021	2020	2019	2018
Summary Balance Sheet (KWD 000s)					
Assets					
Real estate	26,112	19,900	13,383	10,800	7,300
Equities and managed funds	9,059	7,289	3,686	2,900	50,500
Bonds	95,262	72,600	54,396	55,800	40,800
Cash deposits	31,918	59,759	86,932	85,500	47,000
Other investments	0	0	0	0	0
Total invested assets	162,350	159,548	158,396	155,000	145,600
Other assets	2,158	2,498	2,306	2,119	1,425
Total assets	164,508	162,047	160,703	157,119	147,025
Liabilities					
Technical reserves	2,281	2,199	2,049	2,062	1,563
Other liabilities	6,205	5,537	6,745	6,958	5,782
Total liabilities	8,486	7,736	8,793	9,021	7,346
Shareholder Equity					
Common equity	91,103	91,103	91,103	91,103	91,103
Revaluation reserves	0	0	0	0	0
Other capital	64,919	63,088	59,703	57,011	51,445
Total shareholder equity	156,022	154,191	150,805	148,114	142,548
Selected Indicators					
Total shareholder equity	156,022	154,191	150,805	148,114	142,548

Table 1

Dhaman Selected Indicators (cont.)					
	2022	2021	2020	2019	2018
Gross premiums written	2,338	2,138	1,746	2,172	2,392
Net premiums written	1,676	1,461	1,333	1,539	1,699
Net premiums earned	1,594	1,406	1,455	1,435	1,887
Reinsurance utilization (%)	28.33	31.69	23.69	29.11	28.98
EBIT	1831	3386	2692	5566	-943
Net income (attributable to all shareholders)	1831	3386	2692	5566	-943
Return on revenue (%)	56.31	64.65	45.89	51.30	46.50
Return on shareholders' equity (reported) (%)	1.18	2.22	1.80	3.83	-0.66
P/C: net combined ratio (%)	206.20	210.62	252.12	249.58	176.09
P/C: net expense ratio (%)	206.20	203.06	243.82	214.17	173.47

Enterprise Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	Strong	Adequate		Moderate	Weak	
Governance and Management	Strong		Adequate			Weak	
Financial Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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

- Supranationals Special Edition 2022, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- Arab Investment and Export Credit Guarantee Corp. (Dhamaan) Downgraded To 'A+' On Weaker Policy Role; Outlook Stable, Mar. 30, 2022

Ratings Detail (As Of April 25, 2023)*

Arab Investment and Export Credit Guarantee Corp. (The)

Financial Strength Rating

Local Currency A+/Stable/--

Issuer Credit Rating

Foreign Currency A+/Stable/--

Issuer Credit Ratings History

30-Mar-2022 *Foreign Currency* A+/Stable/--

30-Mar-2021 AA-/Negative/--

28-Mar-2019 AA-/Stable/--

*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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