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Research Update:

**Kuwait-Based Arab Investment and
Export Credit Guarantee Corp.
Rated 'AA-'; Outlook Stable**

Primary Credit Analyst:

Kevin Willis, London (44) 20-7176-7085; kevin_willis@standardandpoors.com

Secondary Credit Analyst:

Larry Hays, Ph.D., New York (1) 212-438-7347; larry_hays@standardandpoors.com

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Rationale

On March 27, 2008, Standard & Poor's Ratings Services assigned its long-term 'AA-' counterparty credit and insurer financial strength ratings to Kuwait-based The Arab Investment and Export Credit Guarantee Corporation (AIECGC). The outlook is stable.

The ratings on AIECGC reflect its very strong capitalization, strong financial flexibility derived from its status as a supranational entity, and strong liquidity. A constraint on the rating is the undeveloped nature of the credit insurance markets in the region. AIECGC's key objective is to promote the flow of Arab investments among member countries and Arab exports worldwide.

Major rating factors:

- Very strong capitalization. As is typical of highly rated supranationals, AIECGC is very strongly capitalized, with very high quality of capital, which excludes any debt finance. Current capital adequacy is extremely strong, with net worth at Dec. 31, 2007, equivalent to 70% of total annual gross insured exposure. Although capitalization will weaken as transaction volume grows, it will remain very strong.
- Strong financial flexibility. As a supranational institution, AIECGC has strong financial flexibility, with the ultimate beneficiaries of its core business activities of political (investment) risk insurance and export credit guarantees being its member government states. The six Gulf Cooperation Council countries (with sovereign ratings ranging from 'A/Stable' to 'AA-/Stable') hold 23% of the company's shares directly, and sovereign-owned pan-Arab funds held 52% at year-end 2007. Its members are expected to respond to future capital and liquidity needs. AIECGC is able to demonstrate favorable creditor status in its shareholder relationships, aiding recoveries of claims from some of AIECGC's less creditworthy clients and member states.
- Strong liquidity. At year-end 2007, available liquid assets covered almost 90% gross outstanding insured exposures, which is an extremely strong level of cover. However, we expect this to decline as business volume increases, but to remain strong.
- The rating is to some extent constrained by the immaturity of Arab region trade markets for the company's services as a political and export credit risk insurer. The potential for adverse economic conditions in some of the target (shareholder) markets is balanced by the structures within AIECGC's convention that provide supranational support and loss recovery.

Outlook

The stable outlook reflects Standard & Poor's expectation that AIECGC will continue to be very strongly capitalized as business volume increases, as it meets its primary goal of servicing regional economic growth. It will continue to benefit from shareholder support. Although not a key rating driver, adequate profitability will be used to support the expansion. Liquidity will continue to be strong, but will diminish in absolute terms as volume rises. A negative rating action could follow any wavering of shareholder support in terms of either capital raising, provision of liquidity, or loss recoveries, resulting in a material weakening of capital adequacy or liquidity.

A positive rating action is unlikely in the medium term.

Ratings List

Counterparty credit rating	AA-/Stable/--
Insurer financial strength rating	AA-/Stable

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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