
A.M. Best Affirms Credit Ratings of Arab Reinsurance Company S.A.L.

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FOR IMMEDIATE RELEASE

LONDON - DECEMBER 18, 2017

A.M. Best has affirmed the Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of “bbb-” of **Arab Reinsurance Company S.A.L.** (Arab Re) (Lebanon). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect Arab Re’s balance sheet strength, which A.M. Best categorises as very strong, as well as its marginal operating performance, neutral business profile and appropriate enterprise risk management.

Arab Re’s risk-adjusted capitalisation, as measured by Best’s Capital Adequacy Ratio (BCAR), remains at the strongest level, reflective of the company’s low underwriting leverage. Risk-adjusted capitalisation strengthened in 2015 and 2016, following the shareholders’ decision to forgo dividend payments. With shareholders’ equity reaching USD 101.9 million at year-end 2016, Arab Re’s capital base is sufficient to absorb the asset and credit risks arising from elevated exposure to Lebanese investments, notably Lebanese sovereign debt, and unrated reinsurance recoverables.

Arab Re has a stable business profile in its core markets in the Middle East and North Africa (MENA) region, which is built upon the company’s original role as a reinsurer for the Arab insurance market and its longstanding strong relationships with cedants. Whilst the company’s profile remains underpinned by its wide coverage and access to business throughout the MENA region, it was impacted by the decision to withdraw from non-core markets in Asia and Europe. Arab Re also has been reducing its

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AMB#	Company Name
089190	Arab Reinsurance Company SAL

share in specific accounts over recent years in an effort to improve on technical profitability. This, combined with a lack of growth opportunities in the company's core markets, has resulted in gross written premium decreasing by approximately 24% to USD 65.5 million between 2013 and 2016. Premium growth is expected to remain limited in the short to medium term, constrained by the challenging market conditions.

Arab Re has a track record of adequate operating profitability, with a five-year (2012-2016) average return on equity of 4.6% and return on premium of 8.4%. Whilst operating profit continues to be supported by robust investment returns, the company has experienced weakening technical performance in recent years, with difficult underwriting conditions resulting in a five-year average combined ratio of 105.2%. Arab Re's net income diminished to USD 4.1 million in 2016 from USD 5.3 million in 2015, when the company benefited from some favourable prior-year claim reserve development. The cancellation of loss making accounts is expected to improve the company's technical results in the longer term; however, combined ratios are likely to remain above 105% in the next couple of years.

This press release relates to Credit Ratings that have been published on A.M. Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see A.M. Best's Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Understanding Best's Credit Ratings. For information on the proper media use of Best's Credit Ratings and A.M. Best press releases, please view Guide for Media - Proper Use of Best's Credit Ratings and A.M. Best Rating Action Press Releases.

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