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FOR IMMEDIATE RELEASE

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AM Best Affirms Credit Ratings of Arab Reinsurance Company SAL

LONDON, 1 September 2022—AM Best has affirmed the Financial Strength Rating of B- (Fair) and the Long-Term Issuer Credit Rating of “bb-” (Fair) of Arab Reinsurance Company SAL (Arab Re) (Lebanon). The outlook of these Credit Ratings (ratings) is negative.

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

The negative outlooks reflect ongoing country risk pressures, which could lead to a deterioration in the company’s creditworthiness. The negative outlooks also reflect pressures on Arab Re’s business profile assessment due to concerns over its strategic positioning.

In AM Best’s view, economic, political and financial system risk in Lebanon is extremely elevated. Political uncertainty in the country has continued to increase following the May 2022 elections that failed to produce a parliamentary majority, and economic and financial conditions continue to deteriorate, with the country having to contend with hyperinflation and a significantly devalued currency. The weakening of the local banking sector has amplified capital flow constraints in the economy. Arab Re has significant exposure to Lebanon, where the company is headquartered and has its sole operations, and holds a significant part of its investments (almost half at the end of 2021).

Arab Re’s balance sheet strength is underpinned by its risk-adjusted capitalisation, as measured by Best’s

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Capital Adequacy Ratio (BCAR), which was at the very strong level at year-end 2021. Capital consumption in the company's BCAR remains driven by investment risk, as Lebanese assets attract significant capital charges to reflect heightened risks stemming from the deteriorating political and economic situation in the country. The balance sheet strength assessment also factors in the company's thin liquidity, evidenced by a ratio of liquid assets to net technical provisions of 114% at the end of 2021, down from a high of 153% in 2016. Furthermore, claims-paying ability is constrained by capital controls imposed in Lebanon, which makes it difficult for Arab Re to service foreign liabilities with assets held in Lebanon.

Arab Re has a track record of marginal operating performance, with the company consistently reporting underwriting losses in all but one of the past nine years (2013-2021). Despite the long-term negative track record, Arab Re reported an underwriting profit in 2021, with a 98% combined ratio. Performance was supported historically by stable investment income primarily from interest yielding securities. However, since the company re-invested a material portion of its cash and deposits into a single equity security and non-yielding real estate in 2020, future investment income is expected to be limited and subject to potential volatility. Furthermore, over 2019, 2020 and 2021, net income was impacted by a cumulative USD 27.5 million of impairments relating to holdings of Lebanese Government bonds and deposits.

Arab Re has a niche position in its core markets in the Middle East and North Africa region, built upon its original role as a reinsurer for Arab insurance markets and longstanding relationships with cedants. Despite the company's geographical scope, its growth potential is limited, as reinsurance markets in the region remain highly competitive, whilst AM Best expects the Lebanese insurance segment to remain impacted by significant economic difficulties and political uncertainty.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office

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