ICIEC

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

25 YEARS

PARTNERSHIP FOR DEVELOPMENT

# FINANCIAL STATEMENTS 2018

ANNUAL REPORT
VOLUME 02

مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

# THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

### 31 DECEMBER 2018 (24 RABI' AL-THANI 1440H)

EY
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**Independent Auditor's Report**
**Your Excellencies the Chairman and Members of the Board of Governors**
**The Islamic Corporation for the Insurance of Investment and Export Credit**

## Opinion

We have audited the financial statements of The Islamic Corporation for the Insurance of Investment and Export Credit ("the Corporation"), which comprise the statement of financial position as at 31 December 2018 (24 Rabi' al-Thani 1440H), and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2018 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information included in the Corporation's 2018 Annual Report

Other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and those charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs, and the Corporation's Articles of Agreement and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Corporation's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

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Independent Auditor's Report
Your Excellencies the Chairman and Members of the Board of Governors
The Islamic Corporation for the Insurance of Investment and Export Credit (continued)

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

26 Jumada al-Alkhirah 1440H
3 March 2019

Jeddah

18/29/MNA

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

# STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018 (CORRESPONDING TO 24 RABI' AL-THANI 1440H)

| | Notes | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 3 | **40,394** | 85,698 |
| Accounts receivable, net | 4 | **4,126** | 2,689 |
| Prepaid expenses and other assets | 5 | **4,151** | 2,760 |
| Due from affiliates | 6 | **1,088** | 1,180 |
| Available-for-sale investments | 7 | **24,262** | 45,390 |
| Murabaha financing, net | 8 | **113,348** | 67,232 |
| Held-to-maturity investments | 9 | **34,111** | 13,567 |
| Reinsurance share of outstanding claims | 10 | **29,109** | 34,047 |
| Reinsurance share of unearned premiums | 11 | **20,025** | 9,398 |
| Property and equipment | 12 | **141** | 125 |
| Due from policyholders | 18 | **47,813** | 48,675 |
| **TOTAL ASSETS** | | **318,568** | 310,761 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Accounts payable and accruals | 13 | **22,500** | 29,692 |
| Due to affiliates | 6 | **5,451** | 3,976 |
| Claims payable | 14 | **292** | 251 |
| Pension liability | 15 (f) | **5,102** | 3,720 |
| Outstanding claims | 10 | **40,109** | 49,598 |
| Unearned premiums | 11 | **37,891** | 19,621 |
| **TOTAL LIABILITIES** | | **111,345** | 106,858 |
| **EQUITY** | | | |
| **Shareholders' Fund** | | | |
| Share capital | 16 | **142,905** | 140,468 |
| Reserves | 17 | **67,619** | 66,139 |
| Fair value reserve | | **(181)** | (467) |
| **Total Shareholders' Fund** | | **210,343** | 206,140 |
| Actuarial loss on pension liability related to policyholders | | **(3,120)** | (2,237) |
| **TOTAL EQUITY** | | **207,223** | 203,903 |
| **TOTAL LIABILITIES AND EQUITY** | | **318,568** | 310,761 |

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2019.

The attached notes 1 to 24 form part of these financial statements.

# STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (CORRESPONDING TO 24 RABI' AL-THANI 1440H)

| | Notes | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|---|
| **SHAREHOLDERS' FUND** | | | |
| Investment income | | **2,893** | 2,828 |
| Investment management fees paid to Islamic Development Bank (IDB - OCR) | 6 | **(109)** | (240) |
| General and administrative expenses | | **(139)** | (304) |
| Impairment of murabaha financing | 8 | **-** | (71) |
| Impairment on available-for-sale investment | | **(2,477)** | - |
| Net income from shareholders' fund before exchange results | | **168** | 2,213 |
| Gain/(loss) on foreign exchange translation | | **1,312** | (1,948) |
| Net income from shareholders' fund after exchange results | | **1,480** | 265 |
| **POLICYHOLDERS' FUND** | | | |
| Gross written premiums | 11 | **51,746** | 25,282 |
| Gross premium ceded to reinsurers | 11 | **(30,598)** | (16,502) |
| | | **21,148** | 8,780 |
| Net change in reserves for unearned premiums | | **(7,642)** | 3,446 |
| Net earned premiums | | **13,506** | 12,226 |
| Outward reinsurance commission income | | **2,522** | 3,447 |
| Policy fees earned | | **303** | 132 |
| Income from disposal of assets and others | | **-** | 10 |
| Management fee | | **572** | - |
| **Total revenue** | | **16,903** | 15,815 |
| Gross claims paid | 10 | **(28,969)** | (6,705) |
| Reinsurance share of claims paid | 10 | **20,876** | 2,162 |
| Net claims paid | 10 | **(8,093)** | (4,543) |
| Change in net outstanding claims and other reserve | | **4,551** | 788 |
| Net claims incurred | | **(3,542)** | (3,755) |
| Policy acquisition cost | | **(758)** | (1,364) |
| Employees' related costs | | **(8,058)** | (9,215) |
| Sales and marketing expenses | | **(664)** | (456) |
| General and administrative expenses | | **(2,323)** | (1,726) |
| **Total expenses** | | **(15,345)** | (16,516) |
| Net income/(loss) from policyholder' fund before exchange results | | **1,558** | (701) |
| (Loss)/gain on foreign exchange translation | | **(696)** | 1,664 |
| Net income from policyholders' fund after exchange results | | **862** | 963 |
| **NET CORPORATE GAIN** | | **2,342** | 1,228 |

The attached notes 1 to 24 form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (CORRESPONDING TO 24 RABI' AL-THANI 1440H)

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| **NET CORPORATE GAIN** | **2,342** | 1,228 |
| Less: Net income from policyholders' fund for the year | **(862)** | (963) |
| Net income from shareholders' fund | **1,480** | 265 |
| *Other comprehensive income to be reclassified to statement of income in subsequent periods:* | | |
| Unrealized gain/(loss) on available-for-sale investments | **286** | (1,127) |
| *Other comprehensive income not to be reclassified to statement of income in subsequent periods:* | | |
| Actuarial (loss)/gain on pension liability related to policyholders | **(883)** | 2,528 |
| **TOTAL COMPREHENSIVE INCOME** | **883** | 1,666 |

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (CORRESPONDING TO 24 RABI' AL-THANI 1440H)

| | *Related to shareholders* | | | | *Actuarial loss on pension liability related to policyholders* | |
|---|---|---|---|---|---|---|
| | ***Share capital*** *Islamic Dinars '000* | ***Reserves*** *Islamic Dinars '000* | ***Fair value reserve*** *Islamic Dinars '000* | ***Total shareholders' fund*** ***Islamic Dinars '000*** | *Islamic Dinars '000* | ***Total equity*** ***Islamic Dinars '000*** |
| Balance at 31 December 2016 | 140,343 | 65,874 | 660 | **206,877** | (4,765) | **202,112** |
| Subscriptions received (note 16 (a)) | 125 | - | - | **125** | | **125** |
| Net income for the year | - | 265 | - | **265** | | **265** |
| Other comprehensive (loss)/gain for the year | | | (1,127) | **(1,127)** | 2,528 | **1,401** |
| Total comprehensive income/(loss) | - | 265 | (1,127) | **(862)** | 2,528 | **1,666** |
| Balance at 31 December 2017 | 140,468 | 66,139 | (467) | **206,140** | (2,237) | **203,903** |
| Subscriptions received (note 16 (a)) | 2,437 | - | - | **2,437** | - | **2,437** |
| Net income for the year | - | 1,480 | - | **1,480** | - | **1,480** |
| Other comprehensive income/(loss) for the year | - | - | 286 | **286** | (883) | **(1,789)** |
| Total comprehensive income/(loss) | - | 1,480 | 286 | **1,766** | (883) | **883** |
| **Balance at 31 December 2018** | **142,905** | **67,619** | **(181)** | **210,343** | **(3,120)** | **207,223** |

The attached notes 1 to 24 form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (CORRESPONDING TO 24 RABI' AL-THANI 1440H)

| | *Notes* | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net corporate gain for the year | | **2,342** | 1,228 |
| Adjustments for: | | | |
| Depreciation | 12 | **47** | 67 |
| Unearned premiums | | **18,270** | (4,580) |
| Reinsurers' share of unearned premiums | | **(10,627)** | 1,135 |
| Movement in allowance for doubtful debts, net | 4 | **-** | 128 |
| Movement in allowance for doubtful claims, net | 19 | **287** | (711) |
| Impairment loss on murabaha financing | 8 | **-** | 71 |
| Impairment on available-for-sale investment | | **2,477** | - |
| Service cost on pension liability | | **498** | 729 |
| Accrued income from investments | 9 | **928** | 106 |
| Net foreign exchange differences | | **(1,325)** | 3,963 |
| | | **12,897** | 2,136 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | **(1,437)** | (682) |
| Claims recoverable | | **(287)** | 711 |
| Prepaid expenses and other assets | | **(1,391)** | 570 |
| Accounts payable and accruals | | **(7,192)** | 18,500 |
| Claims payable | | **41** | (215) |
| Reinsurers' share of outstanding claim | | **4,938** | (3,832) |
| Outstanding claim | | **(9,489)** | 3,194 |
| Due from affiliates | | **92** | 228 |
| Due to affiliates | | **1,475** | 1,532 |
| Net cash (used in)/from operating activities | | **(353)** | 22,142 |
| **INVESTING ACTIVITIES** | | | |
| Redemption of available-for-sale investments, net | 7 | **20,027** | 3,969 |
| Purchase of held-to-maturity investments, net | 9 | **(21,236)** | - |
| Murabaha financing | | **(46,116)** | 18,103 |
| Purchase of property and equipment | 12 | **(63)** | (1) |
| Net cash (used in)/from investing activities | | **(47,388)** | 22,071 |
| **FINANCING ACTIVITY** | | | |
| Share subscriptions received | 16 | **2,437** | 125 |
| Net cash from financing activity | | **2,437** | 125 |
| **(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(45,304)** | 44,338 |
| Cash and cash equivalents at beginning of the year | | **85,698** | 41,360 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 3 | **40,394** | 85,698 |
| **NON-CASH TRANSACTION** | | | |
| Fair value adjustment on available-for-sale investments | | **2,190** | 1,127 |

The attached notes 1 to 24 form part of these financial statements.

## 1 ACTIVITIES

The Islamic Corporation for the Insurance of Investment and Export Credit ("the Corporation") was formed as an autonomous affiliate of The Islamic Development Bank (IDB) with full juristic personality under the terms of its Articles of Agreement, signed by IDB and Member countries of IDB (refer note 1(a)). The principal office of the Corporation is located in Jeddah, Saudi Arabia.

The objectives of the Corporation are to expand the scope of trade transactions and the flow of investments among member countries by providing, in accordance with the principles of Shari'ah, export credit insurance and reinsurance as well as insurance and reinsurance of investments.

The Articles of Agreement of the Corporation came into effect on 2 August 1994 (corresponding to 24 Safar 1415H) and the Corporation commenced operations on 1 July 1995 (corresponding to 4 Safar 1416H).

In accordance with the Articles of Agreement, the Corporation is required to maintain and administer two separate funds:

i. A policyholders' fund
ii. A shareholders' fund

All expenses to run the insurance business are charged to the policyholders' fund at cost, without any administration fee levied by the shareholders. The shareholders are not entitled to a share in any surplus accruing to the policyholders' fund; any deficit in the policyholders' fund is covered from the capital by way of a loan to be repaid from future surplus accruing to the policyholders' fund.

The accompanying financial statements are denominated in Islamic Dinars (ID). The value of one Islamic Dinar, which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund, was equal to US $ 1.39079 as at 31 December 2018 (2017: US $ 1.41241).

a) The following are the Member countries of IDB in 2018 (2017: same):

| *S. No.* | *Name of Member Country* | *S. No.* | *Name of Member Country* |
|---|---|---|---|
| 1 | Afghanistan | 30 | Malaysia |
| 2 | Albania | 31 | Maldives |
| 3 | Algeria | 32 | Mali |
| 4 | Azerbaijan | 33 | Mauritania |
| 5 | Bahrain | 34 | Morocco |
| 6 | Bangladesh | 35 | Mozambique |
| 7 | Benin | 36 | Niger |
| 8 | Brunei | 37 | Nigeria |
| 9 | Burkina Faso | 38 | Oman |
| 10 | Cameroon | 39 | Pakistan |
| 11 | Chad | 40 | Palestine |
| 12 | Comoros | 41 | Qatar |
| 13 | Cote dIvoire | 42 | Saudi Arabia |
| 14 | Djibouti | 43 | Senegal |
| 15 | Egypt | 44 | Sierra Leone |
| 16 | Gabon | 45 | Somalia |
| 17 | Gambia | 46 | Sudan |
| 18 | Guinea | 47 | Suriname |
| 19 | Guinea Bissau | 48 | Syria |
| 20 | Guyana | 49 | Tajikistan |
| 21 | Indonesia | 50 | Togo |
| 22 | Iran | 51 | Tunisia |
| 23 | Iraq | 52 | Turkey |
| 24 | Jordan | 53 | Turkmenistan |
| 25 | Kazakhstan | 54 | Uganda |
| 26 | Kuwait | 55 | United Arab Emirates |
| 27 | Kyrgyz | 56 | Uzbekistan |
| 28 | Lebanon | 57 | Yemen |
| 29 | Libya | | |

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *a. Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the Corporation's Articles of Agreement.

### *b. Basis of preparation and reporting and functional currency*

The financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available-for-sale investments. These financial statements have been presented in Islamic Dinars which is the reporting and functional currency of the Corporation.

### *c. Summary of significant accounting policies*

The accounting policies are consistent with those used in the previous period, except for the new standards and interpretations disclosed in note 2(e). The significant accounting policies adopted are as follows:

**Premiums earned**
The Corporation issues insurance contracts relating to export credit insurance and reinsurance as well as insurance and reinsurance of investments. Premiums are taken to income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the statement of income in order that revenue is recognised over the period of risk.

**Reinsurance premiums**
Reinsurance premiums ceded are recognised as an expense when payable.

Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

**Insurance contracts**
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

**Income from Murabaha placements**
Murabaha income is accrued on a time apportionment basis over the period from actual disbursement of funds to the settlement date. Once a payment is overdue, no additional charge is made or income accrued.

**Investments income**
Income from shares is recognized when the right to receive the dividend is established. Income from investments in sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities. Income from investment in fund is recognized when fund declares its income.

**Bank commission income**
As the Corporation is operating under Shari'ah law, bank commission income is not recognized in the statement of income. It is recorded in a liability account to be disposed of later on in accordance with Shari'ah principles.

**Reinsurance premiums**
Reinsurance premiums ceded are recognised as an expense when payable.

**Cash and cash equivalents**
Cash and cash equivalents comprise of bank balances and murabaha commodity placements having an original maturity of three months or less at the date of acquisition.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***c. Summary of significant accounting policies (continued)***

**Murabaha financing**
Murabaha financing, with original maturity of more than three months, are stated at total amounts due including mark-up at maturity date less provision for impairment, if any. The portion of mark-up which has not been accrued to income is considered as deferred income and deducted from the total amounts due including mark-up at maturity date.

**Available-for-sale investments**
Available-for-sale investments include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised in statement of comprehensive income and credited in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the statement of income in finance costs. Profit earned whilst holding available-for-sale investments, if any, is reported as investment income using the effective profit rate method.

For AFS financial investments, the Corporation assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. For investments classified as AFS, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. For further impairments assessment, refer 'impairment for financial assets' accounting policy.

**Held-to-maturity investments**
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Corporation has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using effective interest rate, less impairment.

Interest income from held-to-maturity investments are recognised on an accruals basis, using the effective yield method and included under investment income in the statement of income.

**Property and equipment**
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

| | |
|---|---|
| Vehicles | 5 years |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Computer equipment | 4 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditures are recognized in the statement of income as the expense is incurred.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***c. Summary of significant accounting policies (continued)***

**Derecognition and recognition of financial instrument**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Corporation's continuing involvement in the asset. In that case, the Corporation also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

**Accounts payable and accruals**
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Outstanding claims**
Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date, are made on the basis of individual case estimates. In addition, a provision for unreported claims based on management's judgement and the Corporation's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Any difference between the provisions at the reporting date and settlements of provisions in the following year is included in the underwriting account for that year.

**Provisions**
Provisions are recognised when the Corporation has an obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Pension liability**
The Corporation has two defined post-employment benefit plans, shared with all IDB group entities pension fund, which consists of the Staff Retirement Pension Plan and the Post-Employment Medical Scheme, both of which require contributions to be made to separately administered funds.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *c. Summary of significant accounting policies (continued)*

**Pension liability (continued)**
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and percentage of final gross salary. Independent actuaries calculate the defined benefit obligation on an annual basis by using the projected unit credit method to determine the present value of the defined benefit plan and the related service costs. The underlying actuarial assumptions are used to determine the projected benefit obligations. The present value of the defined benefit obligation due till the retirement date is determined by discounting the estimated future cash outflows (relating to service accrued to the reporting date) using the yields available on high-quality corporate bonds. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions. Actuarial gains or losses, if material, are recognized immediately in the reserves under members' equity in the year they occur. The pension liability is recognized as part of other liabilities in the statement of financial position. The liability represents the present value of the Corporate's defined benefit obligations, net of the fair value of plan assets. The Corporate's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the IDB's actuaries, and the contributions are transferred to the scheme's independent custodians

**Fair values**
For investments traded in active markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the investee's latest available financial statements, or is based on the assessment by the Corporation of the value of future cash flows from the investment.

**Translation of foreign currencies**
The accompanying financial statements are denominated in Islamic Dinars (ID). Appropriate exchange rates are used to translate transactions or balances denominated in foreign currencies. The resulting gains or losses are included in the statement of income.

**Offsetting**
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. No offsetting has been made in these financial statements.

**Impairment of financial assets**
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised for assets in the statement of income.

Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *c. Summary of significant accounting policies (continued)*

**Impairment of non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of income in expense categories consistent with the function of the impaired asset, except for a property, if any, previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**Liability adequacy test**

At each reporting date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income and an unexpired risk provision created.

### *d. Summary accounting judgements, estimates and assumptions*

The preparation of the Corporation's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

*The ultimate liability arising from claims made under insurance contracts*

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Corporation estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income for that period. The provision for outstanding claims, as at 31 December, is also verified by an independent actuary.

*Impairment of receivables*

An estimate of the collectible amounts of accounts receivable and claims recoverable are made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***d. Summary accounting judgements, estimates and assumptions (continued)***

*Fair value of financial instruments*
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

*Useful lives of property and equipment*
The Corporation's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

*Impairment losses on available-for-sale financial assets*
The Corporation determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment. The Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

*Going concern*
The Corporation's management has made an assessment of the Corporation's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

***e. New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Corporation***

The Corporation has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

| ***Standard/ Amendments*** | ***Description*** |
|---|---|
| IFRS 15 | IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited expectations, to all revenue arising from customers with its customer. IFRS 15 establish a 5 step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in the exchange for transferring goods and services to customers. |
| Amendments to IFRS 2 - Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions | The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. |

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *e. New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Corporation (continued)*

| | |
|---|---|
| IFRIC 22 - Foreign Currency Transactions and Advance Considerations | The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. |
| Amendments to IAS 40 - Transfers of Investment Property | The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. |

The adoption of the above standards did not have any impact on the accounting policies, financial position or performance of the Corporation.

### *f. New IFRS, IFRIC and amendments thereof, issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Company financial statements are listed below. The listing is of standards issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards, where applicable, when they become effective.

| *Standard/ Interpretation* | *Description* | *Effective from periods beginning on or after the following date* |
|---|---|---|
| IFRS 17 | Insurance Contracts | 1 January 2021 |
| IFRS 9 | Financial Instruments | See (a) below |
| IAS 28 | Long-term interests in associates and joint ventures | 1 January 2019 |
| IFRS 16 | Leases | 1 January 2019 |
| IFRS 3, IAS 12 and IAS 23 | Annual Improvements to IFRS 2015-2017 cycle | 1 January 2019 |
| IFRIC 23 | Uncertainty over income tax treatment | 1 January 2019 |
| IFRS 10 IAS 28 | Amendments to sale or contribution of assets between an investor and its associate or joint venture | Deferred indefinitely |
| IAS 19 | Amendments to plan amendment, curtailment or settlement | 1 January 2019 |

The Corporation is currently assessing the implications of the above mentioned standards, amendments or interpretations on the Corporation's financial statements on adoption.

(a) The implementation of IFRS 9 is expected to result in a significant portion of a Corporation's financial assets classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of IFRS 17 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. IFRS 17 also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance.

The Corporation has assessed and concluded that its activities are predominantly connected with insurance and accordingly deferred the implementation of IFRS 9 until a later date which will not be later than 1 January 2021.

## 3 CASH AND CASH EQUIVALENTS

| | **2018 Islamic Dinars '000** | 2017 Islamic Dinars '000 |
|---|---|---|
| ***Shareholders' fund*** | | |
| Cash at banks | **38,603** | 63,957 |
| ***Policyholders' fund*** | | |
| Cash at banks | **1,791** | 21,741 |
| | **40,394** | 85,698 |

a) Murabaha commodity placements are held with Islamic banks and have an original maturity not exceeding three months.

b) All cash and cash equivalents are held in the name of IDB for and on behalf of the Corporation. The Corporation is the beneficial owner of these cash and cash equivalents.

## 4 ACCOUNTS RECEIVABLE, NET

| | **2018 Islamic Dinars '000** | 2017 Islamic Dinars '000 |
|---|---|---|
| ***Policyholders' fund*** | | |
| Trade accounts receivable | **4,380** | 3,086 |
| Allowance for doubtful debts | **(254)** | (397) |
| | **4,126** | 2,689 |

Movement in the allowance for doubtful debts during the year was as follows:

| | **2018 Islamic Dinars '000** | 2017 Islamic Dinars '000 |
|---|---|---|
| Balance at beginning of the reporting year | **397** | 269 |
| Charge for the year | **-** | 136 |
| Written-off during the year | **(146)** | - |
| Foreign currency translation adjustment | **3** | (8) |
| Balance at end of the reporting year | **254** | 397 |

The aging analysis of unimpaired accounts receivables was as follows:

| | | *Past due but not impaired* | | | | |
|---|---|---|---|---|---|---|
| | *Neither past due nor impaired Islamic Dinars '000* | *Above 1 and up to 3 months Islamic Dinars '000* | *Above 3 and up to 6 months Islamic Dinars '000* | *Above 6 and up to 12 months Islamic Dinars '000* | *Above 12 months Islamic Dinars '000* | *Total Islamic Dinars '000* |
| **2018** | **2,764** | **524** | **696** | **134** | - | **4,118** |
| 2017 | 1,164 | 990 | 179 | 202 | - | 2,535 |

The gross amount of impaired receivables amounted to ID 262 thousand (2017: ID 551 thousand) against which an impairment allowance of ID 254 thousand has been provided (2017: ID 397 thousand).

The Corporation's credit period is 30 days after which receivables are considered to be past due. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

## 5 PREPAID EXPENSES AND OTHER ASSETS

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| ***Shareholders' fund*** | | |
| Accrued income | **401** | 270 |
| Other receivables | **-** | (21) |
| | **401** | 249 |
| ***Policyholders' fund*** | | |
| Staff advances | **3,159** | 2,425 |
| Other receivables | **591** | 86 |
| | **3,750** | 2,511 |
| | **4,151** | 2,760 |

## 6 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent Board of Governors, directors and key management personnel of the Corporation, and affiliate entities of IDB Group. In the ordinary course of its activities, the Corporation transacts business with related parties. The terms of these transactions are approved by the Corporation's management.

Transactions with related parties included in the statement of income are as follows:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Investment management fees paid to IDB – OCR | **109** | 240 |
| Charges for office space paid to IDB – OCR | **925** | 502 |
| Expenses paid by IDB on behalf of the Corporation | **1,154** | 564 |
| Pensions paid to IDB – pension and medical fund | **825** | 805 |

Related parties balances included in the statement of financial position are as follows:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Due from: | | |
| Islamic Corporation for the Development of the Private Sectors (ICD) | **181** | 177 |
| Islamic Solidarity Fund for Development (ISFD) | **58** | 131 |
| IDB – Special Account Resources WAQF Fund | **835** | 858 |
| IDB - Staff Retirement Medical Plan and Staff Retirement Pension Plan | **14** | 14 |
| The Saudi Project for Utilization of Sacrificial Animals (ADAHI) | **-** | - |
| | **1,088** | 1,180 |
| Due to: | | |
| Islamic Development Bank Ordinary Capital Resources – (IDB – OCR) | **5,342** | 3,798 |
| Islamic Trade Finance Corporation (ITFC) | **-** | - |
| IDB – Pension Fund | **93** | 170 |
| IDB – Medical Fund | **4** | 4 |
| The Saudi Project for Utilization of Sacrificial Animals (ADAHI) | **12** | 4 |
| | **5,451** | 3,976 |

## 6 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The compensation paid or payable to key management personnel is shown below:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Salaries and other short term benefits | **412** | 379 |
| Post-employment benefits | **175** | 134 |

## 7 AVAILABLE-FOR-SALE INVESTMENTS

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| ***Shareholders' fund*** | | |
| Quoted investments (carried at fair value through other comprehensive income): | | |
| Islamic Sukuks | **13,953** | 33,689 |
| Unquoted investments | | |
| Units in ICD – Unit Investments Fund cost | **12,418** | 12,418 |
| Less: Impairment allowance | **(2,477)** | (1,085) |
| | **9,941** | 11,333 |
| Shares in Takaful Re (carried at cost) (see note (a) below): | **1,404** | 1,404 |
| Less: Impairment allowance | **(1,036)** | (1,036) |
| | **368** | 368 |
| Carrying value of unquoted investments | **10,309** | 11,701 |
| | **24,262** | 45,390 |

a) The fair value of the unquoted investments is not readily available; however, the management believes that the carrying value is not significantly different compared to the fair value based on the audited financial statements of the investee.

b) All available-for-sale investments are held in the name of IDB for and on behalf of the Corporation. The Corporation is the beneficial owner of these available-for-sale investments.

**7 AVAILABLE-FOR-SALE INVESTMENTS (continued)**

The movement in available-for-sale investments is as follows:

| | ***Quoted Islamic Dinars '000*** | ***Unquoted Islamic Dinars '000*** | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|---|---|
| Cost: | | | | |
| At beginning of the year | **33,394** | **12,463** | **45,857** | 53,013 |
| Redemption | **(20,027)** | **-** | **(20,027)** | (3,969) |
| Foreign currency translation adjustment | **766** | **323** | **1,089** | (3,187) |
| At end of the year | **14,133** | **12,786** | **26,919** | 45,857 |
| Unrealised gains/(loss) on available-for-sale investments: | | | | |
| At beginning of the year | **295** | **(762)** | **(467)** | 660 |
| Net movement during the year | **(475)** | **(1,715)** | **(2,190)** | (1,127) |
| At end of the year | **(180)** | **(2,477)** | **(2,657)** | (467) |
| Net carrying value | **13,953** | **10,309** | **24,262** | 45,390 |

**8 MURAHABA FINANCING, NET**

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Gross Murabaha commodity placements | **109,104** | 58,421 |
| Other Murahaba financing | **4,315** | 8,882 |
| Less: Impairment allowance (see note (b)) | **(71)** | (71) |
| | **113,348** | 67,232 |

a) All Murabaha financing are held in the name of IDB for and on behalf of the Corporation. The Corporation is the beneficial owner of these Murabaha financing.

b) The movement in the provision for impairment on trade Murabaha financing is as follows:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Balance at beginning of the year | **71** | - |
| Charge for the year | **-** | 71 |
| Balance at end of the year | **71** | 71 |

## 9 HELD-TO-MATURITY INVESTMENTS

| | ***2018*** ***Islamic Dinars*** ***'000*** | *2017* *Islamic Dinars* *'000* |
|---|---|---|
| Islamic Sukuk | **34,111** | 13,567 |
| The movement in held to maturity investments is as follows: | | |
| Cost: | | |
| At beginning of the year | **13,567** | 14,449 |
| Additions | **21,236** | - |
| Foreign currency translation adjustment | **236** | (775) |
| Accrued income, net | **(288)** | (5) |
| (Amortization)/premium paid | **(640)** | (102) |
| At end of the year | **34,111** | 13,567 |

All held-to-maturity investments are held in the name of IDB for and on behalf of the Corporation. The Corporation is the beneficial owner of these held-to-maturity investments.

## 10 OUTSTANDING CLAIMS

| | ***2018*** | | | *2017* | | |
|---|---|---|---|---|---|---|
| | ***Gross Islamic Dinars '000*** | ***Reinsurance share Islamic Dinars '000*** | ***Net Islamic Dinars '000*** | *Gross Islamic Dinars '000* | *Reinsurance share Islamic Dinars '000* | *Net Islamic Dinars '000* |
| Outstanding at beginning of the reporting year | **49,598** | **(34,047)** | **15,551** | 46,405 | (30,214) | 16,191 |
| Claims paid during the year | **(28,969)** | **20,876** | **(8,093)** | (6,705) | 2,162 | (4,543) |
| Charge for during the year | **19,480** | **(15,938)** | **3,542** | 9,898 | (5,995) | 3,903 |
| Outstanding at end the of reporting year | **40,109** | **(29,109)** | **11,000** | 49,598 | (34,047) | 15,551 |
| Comprise of: | | | | | | |
| - IBNR (Note 10.1) | **32,347** | **(22,567)** | **9,780** | 19,429 | (12,742) | 6,687 |
| - Reported | **7,762** | **(6,542)** | **1,220** | 30,169 | (21,305) | 8,864 |
| | **40,109** | **(29,109)** | **11,000** | 49,598 | (34,047) | 15,551 |

10.1 The IBNR provision represents unreported general estimated amount of probable claims, which may arise in future out of the exposure that ICIEC holds at the end of the period, this provision is calculated based on a model developed to align the risk with the probable loss on a transaction level. Whereas for the reported claims ICIEC assigns a separate provision as covered below.

10.2 ICIEC has not disclosed the claims development table as uncertainty about the amount and timing of claims payments is typically resolved within one year.

**11 UNEARNED PREMIUMS, NET**

| | ***2018*** | | | *2017* | | |
|---|---|---|---|---|---|---|
| | ***Gross Islamic Dinars '000*** | ***Reinsurance share Islamic Dinars '000*** | ***Net Islamic Dinars '000*** | *Gross Islamic Dinars '000* | *Reinsurance share Islamic Dinars '000* | *Net Islamic Dinars '000* |
| At beginning of the reporting year | **19,621** | **(9,397)** | **10,224** | 24,201 | (10,533) | 13,669 |
| Gross written/(ceded) premiums during the year | **51,746** | **(30,598)** | **21,148** | 25,282 | (16,502) | 8,780 |
| Premiums earned during the year | **(33,476)** | **19,970** | **(13,506)** | (29,862) | 17,637 | (12,225) |
| At end of the reporting year | **37,891** | **(20,025)** | **17,866** | 19,621 | (9,398) | 10,224 |

**12 PROPERTY AND EQUIPMENT**

| | ***Vehicles*** *Islamic Dinars '000* | ***Furniture and fixtures*** *Islamic Dinars '000* | ***Office equipment*** *Islamic Dinars '000* | ***Computer equipment*** *Islamic Dinars '000* | ***Total*** *Islamic Dinars '000* |
|---|---|---|---|---|---|
| ***Policyholders' fund*** | | | | | |
| **Cost:** | | | | | |
| At 1 January 2017 | 116 | 156 | 161 | 567 | 1,000 |
| Additions | - | - | 1 | - | 1 |
| At 1 January 2018 | 116 | 156 | 162 | 567 | 1,001 |
| Additions | | 17 | 3 | 43 | 63 |
| **At 31 December 2018** | **116** | **173** | **165** | **610** | **1,064** |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2017 | 51 | 156 | 116 | 486 | 809 |
| Charge for the year | 17 | - | 18 | 32 | 67 |
| At 1 January 2018 | 68 | 156 | 134 | 518 | 876 |
| Charge for the year | 16 | 2 | 8 | 21 | 47 |
| **At 31 December 2018** | **84** | **158** | **142** | **539** | **923** |
| **Net book value:** | | | | | |
| **At 31 December 2018** | **32** | **15** | **23** | **71** | **141** |
| At 31 December 2017 | 48 | - | 28 | 49 | 125 |

a) During the year, the Corporation conducted an operational efficiency review of its furniture and fixtures. Based on this, the Corporation revised the expected useful lives of its furniture and fixtures from 10 years to 5 years. However, as a result of the revision in useful lives, the overall impact on depreciation expense in current year was not material.

## 13 ACCOUNTS PAYABLE AND ACCRUALS

| | ***2018* Islamic Dinars '000** | *2017 Islamic Dinars '000* |
|---|---|---|
| ***Shareholders' liabilities*** | | |
| Bank commission (see note (a) below) | **343** | 274 |
| Subscriptions received in advance, net (see note (b) below) | **247** | 309 |
| Other payables | **529** | 651 |
| | **1,119** | 1,234 |
| ***Policyholders' liabilities*** | | |
| Accrued payables | **21,194** | 25,973 |
| Advance from customers | **106** | 1,413 |
| Other payables | **81** | 1,072 |
| | **21,381** | 28,458 |
| | **22,500** | 29,692 |

a) This represents net accumulated income up to 31 December 2018 generated from placements with certain conventional banks and financial institutions which were not considered operating in compliance with Sharia principles. This amount will be used for donation or charitable purposes.

b) This represents subscriptions received in advance from the Member countries.

## 14 CLAIMS PAYABLE

Claims payable are related to the policyholders' fund where settlement procedures were not completed at the reporting date.

| | ***2018* Islamic Dinars '000** | *2017 Islamic Dinars '000* |
|---|---|---|
| Balance at beginning of the year | **251** | 466 |
| Additions during the year | **29,010** | 6,490 |
| Payments made during the year | **(28,969)** | (6,705) |
| Balance at end of the year | **292** | 251 |

## 15 PENSION LIABILITY

(a) The movements in the plan assets and liability are as follows:

| | ***2018*** | | | *2017* |
|---|---|---|---|---|
| | **Staff retirement pension plan** ***Islamic Dinars '000*** | **Staff retirement medical plan** ***Islamic Dinars '000*** | **Total** ***Islamic Dinars '000*** | Total *Islamic Dinars '000* |
| **ALLOCATION OF PENSION ASSETS FROM IDB** | **14,874** | **727** | **15,601** | 15,410 |
| Adjustment on post close amendments | **(261)** | **-** | **(261)** | 94 |
| Income on Plan Assets | **527** | **25** | **552** | 631 |
| Return on Plan Assets less than discount rate | **(2,265)** | **1** | **(2,264)** | 278 |
| Plan participations contributions | **297** | **16** | **313** | 319 |
| Employer contribution | **692** | **33** | **725** | 695 |
| Disbursements from Plan Assets | **(784)** | **(29)** | **(813)** | (930) |
| Currency translation gain | **330** | **20** | **350** | (896) |
| **Fair value of plan assets at 31 December 2018** | **13,410** | **793** | **14,203** | 15,601 |

| | ***2018*** | | | *2017* |
|---|---|---|---|---|
| | **Staff retirement pension plan** ***Islamic Dinars '000*** | **Staff retirement medical plan** ***Islamic Dinars '000*** | **Total** ***Islamic Dinars '000*** | Total *Islamic Dinars '000* |
| **ALLOCATION OF PENSION LIABILITY FROM IDB** | **17,847** | **1,474** | **19,321** | 20,929 |
| Current Service costs | **911** | **88** | **999** | 1,244 |
| Cost on Defined Benefit Obligation(DBO) | **738** | **61** | **799** | 875 |
| Plan participations contributions | **297** | **16** | **313** | 319 |
| Disbursements from Plan Assets | **(784)** | **(29)** | **(813)** | (930) |
| Net actuarial gain | **(1,470)** | **(279)** | **(1,749)** | (1,976) |
| Currency translation loss | **423** | **34** | **457** | (1,140) |
| Other adjustments related to prior year | **(3)** | **(19)** | **(22)** | - |
| **Benefit obligation at 31 December 2018** | **17,959** | **1,346** | **19,305** | 19,321 |
| Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets | **(4,549)** | **(553)** | **(5,102)** | (3,720) |

**15 PENSION LIABILITY (continued)**

The above net liability represents the cumulative actuarial losses resulting from the difference between the actual experience and the assumptions used in estimating the liability, which is recognized by the Corporation in the members' equity immediately in the year, it arises, if material.

(b) Based on the actuarial valuations, the pension and medical benefit expenses for the period 2018 comprised the following:

| | ***2018*** | | | *2017* |
|---|---|---|---|---|
| | **Staff retirement pension plan** ***Islamic Dinars '000*** | **Staff retirement medical plan** ***Islamic Dinars '000*** | **Total** ***Islamic Dinars '000*** | Total *Islamic Dinars '000* |
| Gross current service costs | **911** | **88** | **999** | 1,244 |
| Cost on DBO | **738** | **61** | **799** | 875 |
| Income on assets | **(527)** | **(25)** | **(552)** | (631) |
| **Cost recognized in statement of income** | **1,122** | **124** | **1,246** | 1,488 |
| Actuarial gain due to assumptions | **(1,470)** | **(279)** | **(1,749)** | 1,976 |
| Return on plan assets greater than discount rate | **2,265** | **(1)** | **2,264** | 278 |
| Adjustment on post close amendments | **261** | **-** | **261** | - |
| Currency translation loss | **93** | **14** | **107** | - |
| **Cost recognized in statement of changes of equity** | **1,149** | **(266)** | **883** | 2,254 |

(c) Principal assumptions used in the actuarial valuations dated 31 December 2018 and extended as at end of the reporting period as follows:

| | ***2018*** | | *2017* | |
|---|---|---|---|---|
| | **Staff retirement pension plan** | **Staff retirement medical plan** | Staff retirement pension plan | Staff retirement medical plan |
| Discount rate | **4.50%** | **4.50%** | **4.00%** | **4.00%** |
| Rate of expected salary increase | **4.50%** | **4.50%** | **4.50%** | **4.50%** |

The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AA Corporate Bonds.

The following table presents the plan assets by major category:

| | ***2018*** | | | *2017* |
|---|---|---|---|---|
| | **Staff retirement pension plan** ***Islamic Dinars '000*** | **Staff retirement medical plan** ***Islamic Dinars '000*** | **Total** ***Islamic Dinars '000*** | Total *Islamic Dinars '000* |
| Cash and Cash Equivalent and Commodity placements | **4,488** | **350** | **4,838** | 1,099 |
| Syndicated Murabaha | **-** | **-** | **-** | 529 |
| Managed funds and Instalment sales | **2,301** | **-** | **2,301** | 3,711 |
| Investments in sukuk | **5,117** | **439** | **5,556** | 8,275 |
| Land | **1,574** | **-** | **1,574** | 1,683 |
| Other (net) | **(70)** | **4** | **(66)** | 304 |
| **Fair value of plan assets at 31 December 2018** | **13,410** | **793** | **14,203** | 15,601 |

1.2% of staff retirement plan assets (2017: 1.2%) are invested as of 31 December 2018.

**15 PENSION LIABILITY (continued)**

(d) The following table summarizes the funding status of the staff retirement pension plan at end of reporting periods:

| | *31 December 2019 Islamic Dinars '000* | *31 December 2018 Islamic Dinars '000* | *31 December 2017 Islamic Dinars '000* |
|---|---|---|---|
| Present value of defined benefit obligation | (19,147) | (17,959) | (17,846) |
| Fair value of plan assets | 14,225 | 13,410 | 14,874 |
| **Plan deficit** | **(4,922)** | **(4,549)** | **(2,972)** |

(e) The following table summarizes the funding status of the staff retirement medical plan at end of reporting periods:

| | *31 December 2019 Islamic Dinars '000* | *31 December 2018 Islamic Dinars '000* | *31 December 2017 Islamic Dinars '000* |
|---|---|---|---|
| Present value of defined benefit obligation | (1,463) | (1,346) | (1,475) |
| Fair value of plan assets | 852 | 793 | 727 |
| **Plan deficit** | **(611)** | **(553)** | **(748)** |

(f) Total pension liability

| | ***31 December 2018*** | | |
|---|---|---|---|
| | **Staff retirement pension plan** ***Islamic Dinars '000*** | **Staff retirement medical plan** ***Islamic Dinars '000*** | **Total** ***Islamic Dinars '000*** |
| **Balance at 1 January 2018** | **(2,972)** | **(748)** | **(3,720)** |
| Transfer of Actuarial Deficit from IDB-OCR | (1,577) | 195 | (1,382) |
| **Balance at 31 December 2018** | **(4,549)** | **(553)** | **(5,102)** |

| | *31 December 2017* | | |
|---|---|---|---|
| | Staff retirement pension plan *Islamic Dinars '000* | Staff retirement medical plan *Islamic Dinars '000* | Total *Islamic Dinars '000* |
| Balance at 1 January 2017 | (4,926) | (593) | (5,519) |
| Transfer of Actuarial Deficit from IDB-OCR | 1,954 | (155) | 1,799 |
| Balance at 31 December 2017 | (2,972) | (748) | (3,720) |

## 16 SHARE CAPITAL

| | ***2018*** | *2017* |
|---|---|---|
| | ***Islamic Dinars*** | *Islamic Dinars* |
| | ***'000*** | *'000* |
| **Authorized capital** | | |
| 400,000 shares (2017 H: 400,000) of ID 1,000 each | **400,000** | 400,000 |
| **IDB ("Special Account Resources Waqf Fund")** | | |
| Issued and subscribed capital | | |
| 150,000 shares of ID 1,000 each: | | |
| 50,000 shares of ID 1,000 each fully paid | **50,000** | 50,000 |
| 50,000 shares of ID 1,000 each, of which ID 500 has been called | **25,000** | 25,000 |
| **Member countries** | | |
| 138,435 shares (2017: 137,935) of ID 1,000 each, of which ID 500 has been called | **69,218** | 68,968 |
| Less: Subscriptions receivable - Overdue | **(1,313)** | (3,500) |
| | **142,905** | 140,468 |

The uncalled subscriptions on issued capital are subject to call by the Corporation as and when required to meet its obligations and may be refunded in whole or in part in which event the amounts refunded shall become part of the callable capital obligation of the shareholders.

The shareholders (Member countries) may withdraw from the Corporation after the expiry of a period of 5 years from the date of their membership. In such an event, the Corporation shall arrange for the repurchase of the shares of a withdrawing shareholder at a price equal to the book value of such shares on the date shareholder ceases to be a member. The management believes that likelihood of member states withdrawing their capital is remote.

a) The subscriptions received during the year from the Member countries are as follows:

| | ***2018*** | *2017* |
|---|---|---|
| | ***Islamic Dinars*** | *Islamic Dinars* |
| ***Shareholder*** | | |
| Qatar | **2,250,000** | 62,500 |
| Iraq | **125,000** | - |
| Suriname | **62,500** | - |
| Comoros | **-** | 62,500 |
| | **2,437,500** | 125,000 |

## 17 RESERVE

In accordance with Article 29 of Chapter IV of the Corporation's Articles of Agreement, all profits accruing to the shareholders' fund as well as the surplus accruing to the policyholders' fund shall be allocated to reserve, until such reserve equals five times the subscribed capital of the Corporation.

After the reserve of the Corporation have reached this level, the Board of Governors will decide to what extent the surplus accruing to the policyholders' fund and the net income accruing to the shareholders' fund may be distributed or allocated to reserve.

## 18 LOAN TO POLICYHOLDRS' FUND FROM SHAREHOLDERS' FUND

In accordance with clause 13(3) of the Articles of Agreement, the net deficit in the policyholders' fund should be covered by a loan from the shareholders' fund. The loan is recoverable only from the future surplus accruing to the policyholders' fund. The net deficit is interpreted as the shortfall of assets to meet any liabilities of the policyholders' fund.

Loan from shareholders' fund is comprised of the following:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| ***Policyholders' fund*** | | |
| Total assets | **59,635** | 71,574 |
| Total liabilities | **(106,273)** | (103,045) |
| Accumulated deficits | **47,813** | 48,675 |
| Net deficit in policyholders' fund | **1,175** | 17,204 |
| Loan to policyholders' fund from shareholders' fund * | **(1,175)** | (17,204) |
| | **-** | - |

| | | |
|---|---|---|
| * For presentational purposes, following has been eliminated from the statement of financial position: | | |
| Loan to policyholders' fund from shareholders' fund | | |
| Loan from shareholders' fund to policyholders' fund | **1,175** | 17,204 |
| | **(1,175)** | (17,204) |

## 19 CLAIMS RECOVERABLE, NET

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| ***Policyholders' fund*** | | |
| Claims recoverable | **12,018** | 11,731 |
| Allowance for doubtful claims | **(12,018)** | (11,731) |
| | **-** | - |

Claims recoverable represents amounts recoverable from defaulted parties in respect of claims settled by the Corporation.
Movement in the allowance for doubtful claims during the year:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Balance at beginning of the year | **11,731** | 12,442 |
| Allowance for impairment during the year | **-** | - |
| Foreign currency translation adjustment | **287** | (711) |
| Balance at end of the year | **12,018** | 11,731 |

## 20 FAIR VALUES OF FINANCIAL INSTRUMENTS

a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Corporation. The Corporation's financial assets include cash and cash equivalents, Murabaha financing, available-for-sale investments, accounts receivable, due from affiliates and certain other assets. The Corporation's financial liabilities consist of claims payable, accounts payable, due to affiliates and certain other liabilities.

**20 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

The fair values of financial instruments are not materially different from their carrying values. At 31 December 2018, apart from the available-for-sale investments which are carried at fair value, there were no other financial instruments held by the Corporation that were measured at fair value.

b) The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table provides an analysis of available-for-sale financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on degree to which the fair value is observable:

| | *Level 1 Islamic Dinars '000* | *Level 2 Islamic Dinars '000* | *Level 3 Islamic Dinars '000* |
|---|---|---|---|
| **For the year ended 31 December 2018** | | | |
| Islamic Sukuk | **13,953** | - | - |
| Unit in IDB - Unit Investment Fund | **9,941** | - | - |
| Shares in Takaful Re. | - | - | **1,404** |
| For the year ended 31 December 2017 | | | |
| Islamic Sukuk | 33,689 | - | - |
| Unit in IDB - Unit Investment Fund | 11,332 | - | - |
| Shares in Takaful Re. | - | - | 1,404 |

There were no transfers between levels during the years ended 31 December 2018 and 31 December 2017.

**21 RISK MANAGEMENT**

Risk management lies at the heart of the Corporation's operations. Insuring political and credit risk requires a sound risk management infrastructure and an effective risk culture. The Corporation considers the importance of risk management at all levels of its operations; from the Corporation's Board of Directors to the underwriting officer level. The Corporation manages its risk in line with the guidelines and policies which have been approved by the Board of Directors. The Corporation shares the same Board of Directors and Audit Committee as that of IDB. Moreover, the Corporation is also represented in the IDB Group Risk Management Committee and coordinates with the Group Risk Management Department on risk issues pertaining to the Group.

The nature of activities and management policies with respect to risk management are provided under the various categories of risks faced by the Corporation:

***Insurance Risk***

As a multilateral institution, the Corporation provides two distinct services; credit insurance and political risk insurance to its policyholders. Both of these products require the Corporation to carry out buyer/project and country risk assessment in a way to minimize the payment of claims as the Corporation's net earnings would depend upon the incidence of claims payment. The risk of paying out claims to its policyholders, though contingent in nature, is the major risk which the Corporation faces. The management of insurance risk is done effectively by employing various risk management techniques including risk diversification, risk transfer (reinsurance) and monitoring of technical provisions. The Corporation closely monitors its claim and recovery activities and provisions for outstanding claims. Cognizant of the importance of risk diversification the Corporation sets exposure limits per country, per buyer and per transaction. The Corporation has established well-functioning reinsurance programs which include treaty and facultative reinsurance that are helpful in managing its portfolio risk profile.

**21 RISK MANAGEMENT (continued)**

***Reinsurance risk***
In order to minimize its financial exposure arising from large claims, whether in its overall Short-Term portfolio, or in large Medium-Term transactions, and as per the industry practice, the Corporation enters into exposure ceding agreements (Quota Share Treaty or Facultative Agreement) with internationally operating and reputable reinsurance companies. Accordingly, the Corporation carefully evaluates the financial strength of the reinsurers, and monitors their concentration risk in geographic regions, economic sectors or in specific activities, in order to minimize its exposure to significant losses which may be due to reinsurers' insolvency.

Reinsurers are selected using stringent parameters and guidelines set by the management of the Corporation, focusing mainly on the following criteria:

- Minimum acceptable credit rating by recognized rating agencies (S&P, Moody's, A.M. Best, or Fitch)
- Financial strength, managerial and technical expertise, and historical performance
- Market reputation; and
- Existing or past business relationship/experience with the reinsurer.

Although the Corporation has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

***Credit risk***
Credit risk is a risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

For all classes of financial assets held by the Corporation, other than those relating to reinsurance contracts as described in reinsurance risk above, the maximum credit risk exposure to the Corporation is the carrying value as disclosed in the financial statements at the statement of financial position date.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowances for impairment.

The Corporation seeks to limit its credit risk with respect to customers by following its credit control policy and monitoring outstanding receivables on an on-going basis in order to reduce the Corporation's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Corporation also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premium receivables. The Corporation seeks to limit its credit risk with respect to other counterparties by placing murabaha financing with reputable banks. The Corporation's investment portfolio is primarily managed by IDB and therefore, it is of the opinion that no credit loss is likely to occur.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

| | ***2018 Islamic Dinars '000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Cash at banks | **40,394** | 82,698 |
| Murabaha receivables | **113,348** | 67,303 |
| Accounts receivable | **4,126** | 3,086 |
| Islamic Sukuks | **47,028** | 47,257 |
| | **204,896** | 200,344 |

**21 RISK MANAGEMENT (continued)**

***Market risk***
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Corporation is exposed to market risk with respect to its investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and by continuous monitoring of developments in equity and bond markets. In addition, the key factors that affect stock and bond market movements are monitored, including analysis of the operational and financial performance of investees.

Majority of the Corporation's investments are managed by the IDB Treasury, which follows the IDB Group risk policies on market risk management.

***Currency risk***
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Corporation's investment portfolio is held in major currencies in line with the composition of the Islamic Dinar basket, namely US Dollars, Sterling Pound, Euro and Japanese Yen. The Corporation has a conservative policy whereby the  currency composition of the portfolio is monitored and adjusted regularly.

The 5% movement in the exchange rate for the following currencies against Islamic Dinar would impact the statement of income as follows:

| | ***2018*** | | *2017* | |
|---|---|---|---|---|
| | ***+5% Islamic Dinar '000*** | ***-5% Islamic Dinar '000*** | *+5% Islamic Dinar '000* | *-5% Islamic Dinar '000* |
| US Dollar | **(4,508)** | **4,982** | (4,962) | 5,484 |
| Sterling Pound | **960** | **(690)** | (597) | 660 |
| Euro | **(2,220)** | **2,453** | 919 | (919) |
| Japanese Yen | **(624)** | **690** | (3,549) | 3,923 |
| Chinees Yuan | **(789)** | **872** | - | - |

However, as the insurance exposure is primarily in USD, the Corporation faces currency risk in terms of settling any claim payments which exceed the USD amount on its asset side. This risk is minimized to a certain extent, as the corresponding reinsurance receivables will also be in USD.

***Liquidity risk***
Liquidity risk is the risk that the Corporation will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The following table summarizes the maturities of the Corporation's undiscounted financial assets and financial liabilities at the end of reporting period:

| | ***Less than 3 months Islamic Dinars*** **'000** | ***3 to 12 months Islamic Dinars*** **'000** | ***1 to 5 years Islamic Dinars*** **'000** | ***Total Islamic Dinars*** '000 |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Financial assets | **67,252** | **63,106** | **83,795** | **214,153** |
| Financial liabilities | **(6,372)** | **-** | **-** | **(6,372)** |
| 31 December 2017 | | | | |
| Financial assets | 98,692 | 54,973 | 62,212 | 215,877 |
| Financial liabilities | (6,223) | - | - | (6,223) |

## 21 RISK MANAGEMENT (continued)

***Mark-up risk***

Mark-up risk arises from the possibility that changes in mark-up rates will affect the value of the financial instruments. The Corporation is exposed to mark-up risk on its investments in cash and cash equivalents, Murabaha financing and investments in Sukuk. In respect of the financial assets, the Corporation's returns are based on a benchmark and hence vary according to the market conditions.

The sensitivity analysis have been determined based on the exposure to markup rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point change is used when reporting mark-up rate risk internally to key management personnel and represents management's assessment of the possible change in mark-up rates.

At reporting date, if mark-up rates had been 50 basis points higher/lower and all other variables were held constant, the Corporation's net income would not be changed significantly.

***Operational risk***

The operational risk is defined as the risk of loss faced by a financial institution arising from failed processes, people and/or systems.

The Corporation has a full-fledged Risk Management function in place, which regularly monitors all operational risk aspects related to insurance as well as investment operations. In addition, it works very closely with the IDB Group Risk Management Department (GRMD) to ensure presence of an effective internal control system through which it attempts to manage its operational risk. Furthermore, the IDB Group Internal Audit Department (GIAD) regularly audits the Corporation's internal controls and recommends improvements under the risk based internal audit approach.

The Corporation continues to follow IDB Group 'Best Practices and Customer Due Diligence Standards' and internal operational regulations when dealing with clients.

***Geographical risk***

The Corporation carries on business mainly with Member countries in Africa and Asia. Due to the relatively high country risk of some of the countries in these continents, the Corporation is exposed to potential losses arising from large insurance claims. The maximum theoretical geographical risk based on the outstanding net exposure at the year-end amounts to ID 1,109 million (2017: ID 1,165 million). The Corporation minimizes any detrimental impact on its assets, due to the realization of such risks, by setting exposure limits for each country and monitoring outstanding exposures in addition to maintaining reserves.

The following table summarizes the Corporation's gross exposure country wise:

| **Country** | ***2018* *Islamic Dinars* *'000*** | *2017 Islamic Dinars '000* |
|---|---|---|
| Turkey | **600,924** | 380,312 |
| Algeria | **437,297** | 97,019 |
| Egypt | **334,629** | 253,247 |
| Sudan | **240,485** | 156,896 |
| Senegal | **180,630** | 44,597 |
| United Arab Emirates | **176,669** | 299,806 |
| Saudi Arabia | **174,060** | 536,783 |
| Oman | **121,819** | 18,840 |
| Cameroon | **112,819** | 133,671 |
| Bangladesh | **106,923** | 121,432 |
| Pakistan | **92,236** | 63,396 |
| Niger | **56,514** | 39,683 |
| Jordan | **50,287** | 32,588 |
| Cote D'Ivoire | **47,977** | 23,388 |
| Italy | **45,752** | 26,213 |
| Other | **1,533,047** | 1,047,931 |
| Gross exposure | **4,312,068** | 3,275,802 |
| Ceded exposure to Reinsurers | **(3,203,470)** | (2,110,600) |
| Net exposure | **1,108,598** | 1,165,202 |

## 22 CAPITAL MANAGEMENT

The capital structure of the Corporation consists of equity of the corporation (comprising issued capital and reserve).

As the Corporation is a multilateral organization, the capital of the corporation is not subject to external regulations. However, the Corporation intends to follow best industry practices in terms of prudent capital management policies. In this regard, the Corporation will be following Article of Agreement.

## 23 ZAKAT AND TAX TREATMENT

Since the Corporation is part of Baitul Mal (public money), it is not subject to Zakat or tax.

## 24 COMPARATIVE INFORMATION

During the year, the shareholders have enhanced the presentation of the financial position and reclassified certain balances. Accordingly, following balances have been restated:

| **Statement of financial position** | Currently reported *Islamic Dinars ‘000* | Previously reported *Islamic Dinars ‘000* |
|---|---|---|
| ASSETS | | |
| Due from policyholders | 48,675 | - |
| POLICYHOLDERS’ FUND | | |
| Accumulated deficit | - | (48,675) |
| Loan from shareholders’ fund | - | 17,204 |
| SHAREHOLDERS’ FUND | | |
| Loan to policyholders’ fund | - | (17,204) |

*Actuarial loss on pension liability*

No changes were made to actuarial loss on pension liability’s comparative amount of ID 2,237 thousand, however the caption was modified from *“Actuarial loss on pension liability”* to *“Actuarial loss on pension liability related to policyholders”*.