

The Islamic Corporation for the Insurance of Investment and Export Credit  
1422 Annual Report (2001 / 2002)

Globally Secure



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**OPERATIONS**

	1422H	1421H	Change%
Policies in Force (No.)	63	66	(4.55)
Current Commitments (USD million)	248.00	184.00	34.78
Commitment Utilization (USD million)	58.00	46.00	26.09
Premium Income (USD million)	1.11	0.69	60.87
Claims Paid (USD million)	2.32	5.86	(60.41)
Recoveries (USD million)	2.36	2.24	5.36

**FINANCIAL**

Corporate Result (USD million):

Net Surplus / (Deficit)	2.20	3.08	(28.57)
Net Reserves	20.47	18.47	10.83
Share Capital	90.13	90.01	0.13
Investments	107.08	92.31	16.00
Total Assets	117.54	113.34	3.71

Shareholder's Fund (USD million):

Net Revenues	4.42	7.00	(36.86)
Surplus / (Deficit)	4.19	7.00	(40.14)
Accumulated Surplus / (Deficit)	34.15	30.29	12.74

Policyholder's Fund (USD million):

Net Revenues	0.89	0.80	11.25
Surplus / (Deficit)	(1.99)	(3.29)	(49.23)
Accumulated Surplus / (Deficit)	(13.68)	(11.82)	15.74





*In the Name of Allah, the Beneficent, the Merciful*

*Date: 19 / 6 /1423H  
28 / 8 /2002G*

*Honorable Members of the Board of Governors of the Islamic Corporation for the Insurance of Investment and Export Credit.*

*Dear Brothers,*

*Assalam-O-Alaikum Warahmatullah Wabarakatuh*

*In accordance with Articles 27 and 44 (2) of the Articles of Agreement establishing the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), I submit for the kind attention of the esteemed Board of Governors, on behalf of the Board of Directors, the Annual Report on the operations and activities of the Corporation during 1422H, including audited financial statements.*

*Please accept the assurances of my highest consideration.*

*Yours sincerely,*

*Dr. Ahmad Mohamed Ali  
President of ICIEC*



*ICIEC has become a Global Company*

### **THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC)**

*ICIEC is a subsidiary Corporation of the Islamic Development Bank (IDB) established on 1st August 1994G as an international institution with full juridical personality with an authorized capital of 100 million Islamic Dinars (about USD 130 Mn.). ICIEC commenced operations in July 1995G.*

*The objective of ICIEC is to enlarge the scope of trade transactions and the flow of investments among Member States of the Organization of the Islamic Conference (OIC). In fulfillment of this objective, the Corporation provides the following facilities, compatible with Shariah, to exporters and investors from Member States:*

- a) export credit insurance and reinsurance to cover the non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risks; and*
- b) investment insurance against country risks, mainly the risks of exchange transfer restrictions, expropriation, and war and civil disturbance.*



### Board of Directors

**Chairman:**

Dr. Ahmad Mohamed Ali

**Members (\*):**

- Hon. Mutahar Abdul Aziz Al-Abbasi
- Hon. Faisal Abdul Aziz Al-Zamil
- Hon. Zoumana Camara
- Hon. Mamadou Cherif Diallo
- Hon. Dr. Abdullah Bin Ibrahim El-Kuwaiz
- Hon. Dr. Morteza Gharehbaghian (Late)
- Hon. Haji Khalid Bin Haji Ghazali
- Hon. Ilgar Veysal Oglu Isayev
- Hon. Tarik Kivanc
- Hon. Jamal Nasser Rashid Lootah
- Hon. Mohamed Azzaroog Rajab
- Hon. MD Sayef Uddin
- Hon. Saleh Tayeh
- Hon. Zeinhom Zahran

(\* In Alphabetical Order (Arabic))

### Consultative Committee

**Chairman:**

Dr. Abdel-Rahman Al-Zamil

**Members:**

- Dato Mohd Fadzli Yusof
- Mr. Iqbal Ahmed Khan
- Mr. Abdul Haq Al-Kafsi
- Dr. Abdel Rahman Eltayeb Taha
- Dr. Mohammad El Fatih Hamid

### Officers of the Corporation

**President:**

Dr. Ahmad Mohamed Ali

**Manager:**

Dr. Abdel-Rahman Eltayeb Taha

**Legal Adviser:**

Dr. Mohammad El Fatih Hamid





### Message from the President

ICIEC had the opportunity to focus on the consolidation of its operations during 1422H, so as to realize customer and risk portfolios that will provide a sound basis for sustained future business. These operations resulted in a better defined customer group, providing an improved level of policy and insurance commitment utilization and steady growth in business insured and premium, despite the concurrent global slowdown in trade and export transactions particularly in the Member Countries. The Corporation also expanded its market to include exports to non-member countries. It also enhanced its product line through the introduction of its reinsurance facility for the export credit insurance agencies (ECAs) in the Member Countries. When Benin joined ICIEC in 1422H, the membership of the Corporation further increased, bringing the total membership to 30 countries.

The marketing program for 1422H continued its focus on the global export credit insurance services offered by ICIEC. A professionally designed advertising campaign, complemented by seminars and follow-up missions in the Member Countries, fueled the Corporation's intensive marketing program. As a result, a considerable increase was witnessed during 1422H in the business inquiries and insurance proposals. The network of local agents was also expanded to reach 29 agents in 21 Member Countries.

The Corporation followed an enhanced policy management strategy during 1422H. This resulted in a remarkable 35% growth in its outstanding insurance commitments, which rose from US\$ 184 million in 1421H to US\$ 248 million during 1422H. The commitments' utilization also grew substantially from US\$ 46 million for 1421H to US\$ 58 million for 1422H (an increase of 26%). As a result, ICIEC's total exposure reached a record level of US\$ 78 million for 1422H, showing a substantial increase of 37% over the US\$ 58 million achieved for 1421H. Another achievement was witnessed in the insurance operations of 1422H as the Corporation for the first time realized more than U.S. Dollars one (1.19) million in total gross premium and fees, compared to US\$ 0.72 million during 1421H (an increase of 65%).

The Corporation received a total of nine claims during 1422H, amounting to US\$ 9.93 million, all pertaining to commercial risks. Three of these claims were paid, amounting to US\$ 2.32 million, during the year. ICIEC recovered a gross amount of US\$ 2.36 million during 1422H against the paid claims.

On a cumulative basis, the Corporation has been maintaining a recovery ratio of 57% that is in line with the industry average.

The Export Credit Facultative Reinsurance Facility (ECFRF) generated considerable interest among the ECAs in the Member Countries. Steps are being taken to put this facility into operation. The efforts of the Corporation to secure a suitable outward reinsurance treaty for its export credit insurance policies continued during 1422H, through a London based reputable broker.

On the financial front, IDB and 30 Member Countries subscribed ID 95.24 (US\$ 119.54) million to the share capital of ICIEC, as at end of 1422H. Against this subscribed capital, an amount of ID 72.62 (US\$ 91.15) million was called-up by ICIEC and ID 71.80 (US\$ 90.11) million has been paid-up by the shareholders. The 1422H financial statements of ICIEC depict an improvement in the Policyholders' Fund, where the deficit for the year was contained to ID 1.58 (US\$ 1.99) million compared to ID 3.09 (US\$ 3.92) million for 1421H. With declining financial returns in the global market, the Shareholders' Fund still managed to earn a profit of ID 3.33 (US\$ 4.19) million during 1422H compared to ID 5.51 (US\$ 7.00) million for 1421H. On an aggregate basis, the Corporation earned a net profit of ID 1.75 (US\$ 2.20) million during 1422H compared to ID 2.43 (US\$ 3.08) million for 1421H. This brought the total Shareholders' Equity in the Corporation to ID 93.75 million (US\$ 117.66) at the end of 1422H.

The Corporation envisages further increase in its business activity during 1423H, based on (a) its carefully planned policy management strategy to enhance the policy utilization rates, and (b) its indirect marketing strategy to act as a wholesaler (reinsurer) of insurance services. These strategies are expected to enhance the outstanding and utilized commitments on the one hand (resulting in increased premium income), and further diversify the insurance risks on the other (hopefully resulting in reduced claims incidence).



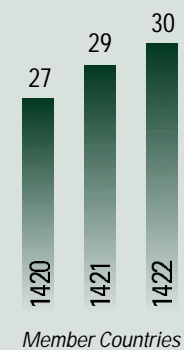
Dr. Ahmad Mohamed Ali  
President of ICIEC

## Corporate Structure and Facilities Offered



*The objective of the Corporation shall be to enlarge the scope of trade transactions and the flow of investments among Member States. To serve its objectives the Corporation shall provide, in accordance with the principles of Shariah, export credit insurance or reinsurance in respect of the goods by paying the policyholder a reasonable indemnity in respect of losses resulting from the risks.*

*(Article 5 of the Corporation's Articles of Agreement)*



### **Legal Structure**

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established on 24 Safar 1415H (1st August 1994G) as a subsidiary Corporation of the Islamic Development Bank (IDB). Its Articles of Agreement stipulated that the Corporation shall be an international institution with full juridical personality, to be situated at Jeddah, in the Kingdom of Saudi Arabia. ICIEC commenced operations in Safar 1416H (July 1995G).

### **Objective**

The objective of ICIEC, as defined in the Articles of Agreement, is to enlarge the scope of trade transactions and the flow of investments among Member States. In fulfillment of this objective, ICIEC provides, in accordance with the principles of Shariah;

- (a) Export credit insurance and reinsurance to cover the non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risks; and
- (b) Investment insurance and reinsurance against country risks, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government.

### **Membership and Capital Subscription**

In accordance with the Articles of Agreement, membership in ICIEC is open to the Islamic Development Bank and countries which are members of the Organization of the Islamic Conference (OIC). At the end of 1422H, there were 31 shareholders of ICIEC, comprising IDB and 30 countries. Several other countries are in the process of completing the membership requirements. The authorized capital of ICIEC is ID 100 million. The Islamic Development Bank and 30 Member Countries subscribed to shares in the capital of the Corporation having a face value of ID 95.24 million. IDB contributed ID 50 million which makes 50% of authorized capital. Member Countries subscribed ID 45.24 million. The remainder of authorized capital, ID 4.76 million, is available for subscription by new members.



Consultative Committee, including the ICIEC staff members, during a meeting at the Corporation.

### **Management**

In accordance with the Articles of Agreement, the ultimate responsibility for the management of ICIEC rests with the Board of Governors (BOG), which is composed of Governors representing the Member Countries of the IDB. All powers of the Corporation are vested in the BOG, however, it may delegate any or all of its powers to the Board of Directors of the Corporation (BOD). The BOD is responsible for the direction of the general operations of ICIEC. The President is the Chief Executive of the Corporation, responsible for conducting its affairs under the direction of the BOD. He is also the legal representative of ICIEC and has the power to approve its operations and the conclusion of contracts pertaining thereto. This position is held, ex-officio, by the President of the IDB. The President may delegate any of his powers to the Manager of the Corporation who is responsible for conducting the day-to-day business of the Corporation. In order to advise the President on the overall management of the Corporation, a Consultative Committee was established. The members of the Consultative Committee are prominent personalities from Member Countries who are well-versed in matters relating to export credit and investment insurance, international trade and banking. The committee meets periodically to discuss business and advise the President on relevant issues. The Corporation is organized into three main Departments reporting to the Manager of the Corporation: Underwriting, Marketing, Finance and Accounting. Three ancillary units; Administrative Affairs, Information Technology and Country Risk Analysis to provide technical and administrative support to the main Departments. Legal, Internal Audit, Investment services and some administrative services are currently provided by the IDB for a fee in accordance with a memorandum of understanding signed between IDB and ICIEC.

### **Corporate Mission**

The Corporation's existing mission statement, adjusted to reflect the expansion in the mandate, serves as a means of highlighting ICIEC's overriding focus. The mission statement is provided below:

"To be the insurance provider/partner of choice for exporters and investors, and export credit / investment insurance agencies in member countries, offering competitively priced, comprehensive, and innovative Shariah-compatible export credit and investment insurance and reinsurance products to beneficiaries".

### **Strategy and Objectives for 1423H**

The Corporation expects to accomplish its stated objective for 1423H through a multi-pronged strategy, based on the principles outlined below:

1. Adoption of an indirect marketing strategy, whereby the Corporation will endeavor to act as a wholesaler of insurance services leaving the direct selling to the local agents and export credit insurance agencies in the respective member countries.
2. Introduction of new products tailored to the needs of the market, and in line with the changes in ICIEC's Articles of Agreement.



3. *Introduction of limited investment promotion services for the member countries in collaboration with IDB and other relevant international agencies.*
4. *Continuation of the development of technical and information systems, and human resources of the Corporation, to keep abreast of the latest developments in the relevant fields.*
5. *Formation of an alliance with an experienced international institution to obtain technical assistance, training and reinsurance to benefit from the best practices in the industry.*
6. *Introduction of a periodic review of departmental performance, based on the performance criteria, operational targets, and action plan for the year.*

### **Insurance Facilities**

#### **• Export Credit Insurance Services**

*Since ICIEC commenced business in 1416H (1995G), it has been offering three types of insurance policies:*

- (a) Comprehensive Short Term Policy*
- (b) Supplemental Medium Term Policy*
- (c) Bank Master Policy*

*These policies provide insurance cover for up to 90% of exporters'/banks' loss due to the non-payment of export credits resulting from commercial risks such as buyer's insolvency or non-commercial risks including restrictions on the transfer of foreign exchange, the imposition of import restrictions, and war and civil disturbances.*

#### **• Investment Insurance Services**

*In the beginning of 1419H (May 1998G), ICIEC introduced the Investment Insurance Policy which provides insurance cover against country risks to investors from Member Countries who intend to invest in other Member Countries against country risks. Such risks included, civil disturbance, foreign exchange transfer restrictions, nationalization and other forms of host country government interference which may deny the investor his right to control his investment.*

### **Reinsurance Facility**

*The introduction of the Export Credit Facultative Reinsurance Facility (ECFRF) was approved by ICIEC's Board of Directors on 11/10/1421H. Under the ECFRF, ICIEC will reinsure individual Export Credit Agencies (ECAs) in Member Countries in respect of export credit risks underwritten by the ECAs on a policy per policy basis.*

*Under this facility, the extent of cover provided by the ECAs should not be wider than that covered by ICIEC's corresponding policies and criteria. For each and every policy reinsured, credit limits exceeding a specified amount must receive ICIEC's prior approval.*

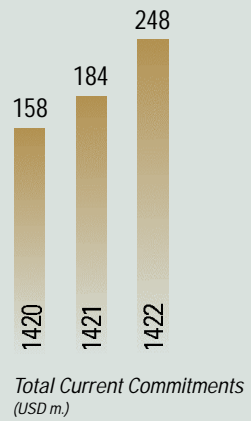
### **MEMBERSHIP AND CAPITAL SUBSCRIPTIONS STATUS**

AS AT END OF 1422H (MARCH 2002)

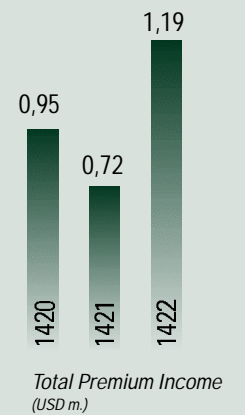
Members	Number of Shares Subscribed	Value of Shares (ID)
1. Algeria	1,000	1,000,000
2. Bahrain	250	250,000
3. Bangladesh	250	250,000
4. Benin	250	250,000
5. Brunei	250	250,000
6. Cameroon	250	250,000
7. Chad	250	250,000
8. Egypt	2,500	2,500,000
9. Gambia	250	250,000
10. Guinea	250	250,000
11. Indonesia	250	250,000
12. Iran	5,000	5,000,000
13. Jordan	250	250,000
14. Kuwait	2,500	2,500,000
15. Lebanon	250	250,000
16. Malaysia	2,740	2,740,000
17. Mali	250	250,000
18. Mauritania	250	250,000
19. Morocco	5,000	5,000,000
20. Pakistan	2,500	2,500,000
21. Qatar	250	250,000
22. Saudi Arabia	13,500	13,500,000
23. Senegal	250	250,000
24. Sudan	250	250,000
25. Syria	250	250,000
26. Tunisia	500	500,000
27. Turkey	2,500	2,500,000
28. Uganda	250	250,000
29. UAE	2,500	2,500,000
30. Yemen	500	500,000
31. Islamic Development Bank	50,000	50,000,000
<b>TOTAL</b>	<b>95,240</b>	<b>95,240,000</b>

\*1D 1.00 = USD 1.255

## Operations Results



The number of policyholders who benefited from ICIEC's services, increased by more than 200 percent during the last five years. ICIEC had 63 policyholders from 13 countries by the end of 1422H, with a total coverage in the amount of USD 248 million. During the forthcoming years, the Corporation's volume of operations is expected to increase following the amendment of its Articles of Agreement approved by the Board of Governors which allows ICIEC to expand its services to cover exports from Member Countries to non-Member Countries.



## 1- MARKETING ACTIVITIES

### Promotional Seminars and Conferences

The Corporation's business strategy during 1422H focused on marketing its newly launched global export credit insurance. The Corporation participated in and/or co-sponsored seven major events related to investment and trade promotion in member countries namely:

- Halal Food Production seminar and exhibition, (Riyadh, Saudi Arabia), organized by the Saudi Exports Development Centre.
- The first preparatory meeting for the fourth Symposium on Promoting Gulf Council Countries' Exports (Oman), organized by the General Secretariat of the Gulf Council Countries.
- The Arab Capital Markets and Investment Forum (Beirut, Lebanon), organized by the Lebanese Group Al Iktissad Wal Aamal.
- The International Forum on Investment in Sudan (Khartoum, Sudan), organized by the Government of Sudan and the Lebanese Group Al Iktissad Wal Aamal.
- The 8th Private Sector Meeting in OIC Member States (Conakry, Guinea), organized by the Islamic Chamber of Commerce and Industry.
- The North Africa Investment Forum (Casablanca, Morocco), organized by the North Africa Sub-Regional Centre of United Nations Commission for Africa.
- The Arab Businessmen Conference (Dubai, United Arab Emirates), organized by the Union of Arab Chambers of Commerce.

ICIEC delivered presentations and participated in the following high level meetings and conferences:

- \* The Coface Annual Conference of Political Risk (Paris, France).
- \* The Berne Union-Prague Club Meeting (Zagreb).

In addition, ICIEC organized four country promotional seminars for exporters, banks and investors. ICIEC also participated in two joint seminars with IDB in Egypt.

### Direct Selling

Thirteen follow-up missions were mounted directly by ICIEC staff to meet the business community in Bangladesh, Cameroon, Egypt, Gabon, Gambia, Indonesia, Iran, Jordan, Malaysia, Saudi Arabia (Riyadh-Dammam), Sudan, Turkey and United Arab Emirates. ICIEC staff conducted a total of 373 meetings with exporters and financial institutions and 75% of these meetings were conducted in the Member Countries.

### ICIEC Media Campaign

In its efforts to promote its products and build a Corporate image, ICIEC launched in September 2001 its third media campaign with a special focus on its global export credit insurance service. This offer was based on the amendments in the Corporation's Articles of Agreement enabling ICIEC to cover exports from its Member Countries to non-Member Countries.



**Let ICIEC carry the responsibility of protecting your exports around the world.**

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) implemented its 4th aggressive campaign to promote its global export credit insurance service.

### ICIEC Website ([www.iciec.org](http://www.iciec.org))

The Corporation is in the final stage of upgrading the design of its website, with the technical assistance of the Information Technology Department of the IDB Group. The upgraded website is meant to be an interactive website which would allow users to send enquiries and applications directly through the Net.

### Local Agents' Network

As part of its indirect marketing strategy, ICIEC accorded a particular importance to the strengthening of its local agents' network in Member Countries. During the year 1422H, ICIEC signed fifteen (15) local agency agreements with agents in Benin, Cameroon, Egypt, Guinea, Mali, Mauritania, Morocco, Pakistan, Saudi Arabia, Senegal and United Arab Emirates. Such agency agreements are meant to widen the marketing efforts of the Corporation in Member Countries and to ensure its presence in key markets at a low cost. A training program has been prepared for the newly appointed local agents and is being implemented. Already, local agents from Egypt, Guinea, Morocco, Pakistan, Senegal, Uganda, United Arab Emirates and Yemen have taken part in the said training program.

**MARKETING ACTIVITIES AND RESULTS**

	1421H	1422H
<b>1. MARKETING ACTIVITIES</b>		
a. Visits and Meetings	327	373
b. Country Promotional Seminars	4	4
c. Other Presentations	12	8
d. Follow up Visits	3	13
e. Trade Fairs	1	0
<b>2. MARKETING RESULTS</b>		
a. Enquiries	752	784
b. Policy Applications		
- Export Credit	45	35
- Investment		
Preliminary Applications	12	5
Main Applications	2	1
c. Memoranda of Understanding (cumulative)	15	15
d. Local Agents (cumulative)	14	29

**Enquiries and Policy Applications**

As a result of the above activities, the Corporation received 784 enquiries from prospective customers. 89% of these enquiries came from Member Countries, 2% from potential Member Countries and the balance (9%) from Non-Member Countries. These enquiries generated 35 export credit insurance policy applications from 32 exporters and 3 banks, 5 preliminary applications from investors and 1 main application for investment insurance policy.



Kenena Sugar Factory expansion project, Sudan - covered by ICIEC

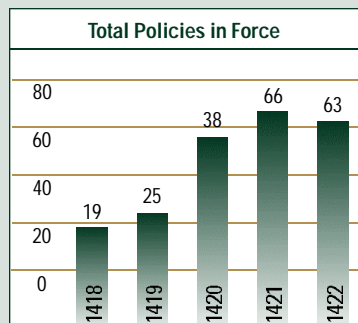
**GLOBAL OPERATIONS DURING 1422H**

	1421H	1422H	% Change
<b>A- Policies</b>			
1. Total Policies issued (Cumulative)	97	120	24%
2. New Policies issued	41	23	-44%
3. Policies renewed	25	56	124%
4. Policies under renewal	24	50	108%
5. Total Policies closed	7	7	0%
6. Policies in force	66	63	-5%
7. Policy limit (in USD Mn.)	1,777	973	-45%
<b>B- Commitments</b>			
1. New Commitments (USD Mn.)	104	139	33%
2. Current Commitments (USD Mn.)	184	248	35%
<b>C- Declarations</b>			
Global Operations (USD Mn.)	46.0	58.4	27%
<b>D- Exposure</b>			
Global Operations (USD Mn.)	57	78	37%
<b>E- Premium income</b>			
1. Premium (USD 000)	688	1,112	62%
2. Fees (USD 000)	37	82	122%
3. Total (USD 000)	725	1,194	65%

## 2-UNDERWRITING ACTIVITIES

### Overall Performance

During 1422H, new policies issued were 23 compared to 41 during the year 1421H. As a result of this, the Corporation's total number of policies in force reached 63 as at end of 1422H, compared to 66 as at end of 1421H, representing a decrease of 5%, resulting from stricter scrutiny in the processing of policy applications.



The new insurance commitments approved by the Corporation during 1422H were USD 139 million compared to USD 104 million in 1421H. As a result of this, the Corporation's total current commitments stood at USD 248 million compared to USD 184 million as at the end of 1421H, representing an increase of 35%.

The total utilization of the commitments in 1422H was USD 58 million, compared to USD 46 million for 1421H, while premium and fees income was USD 1.19 million and USD 0.72 million respectively for these periods, representing an increase of 26% and 65% respectively.

The total exposure of the Corporation as at end of 1422H reached USD 78 million compared to USD 57 million as at end of 1421H, an increase of 37%.

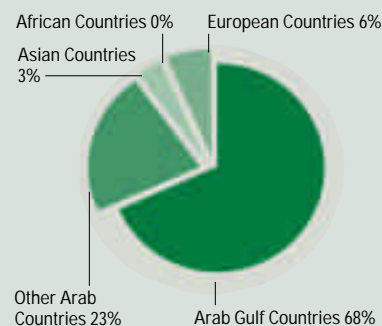
### Export Credit Insurance

#### Policies

During 1422H, the Corporation issued 23 new export credit policies and renewed 55 policies compared to 40 new policies issued and 25 renewed in the year 1421H. As a result of this, the total number of policies in force as at end of 1422H reached 62 as compared to 65 policies as at end of 1421H, a decrease of 5%.

Policies were issued to exporters and banks located in different geographical regions. Of these, 68% were from Arab Gulf Countries, 23% from other Arab Countries, 6% from European Countries and 3% from Asian Countries.

Year	Number	Change%
1418	19	
1419	25	32%
1420	38	52%
1421	65	71%
1422	62	-5%

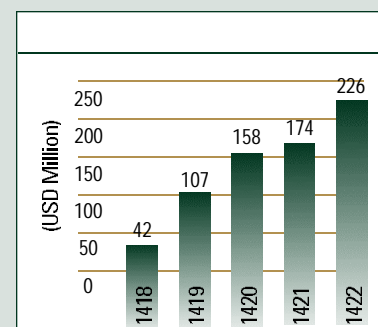


Region	Number	%
Arab Gulf countries	42	68%
Other Arab countries	14	23%
European countries	4	6%
Asian countries	2	3%
African countries	0	0%
<b>Total</b>	<b>62</b>	<b>100%</b>

### Commitments

During the year under review ICIEC approved new limits totaling USD 117 million to cover exports and financing operations on individual buyers, compared to USD 94 million during 1421H. As a result of this, the total current commitments as at end of 1422H were USD 226 million compared to USD 174 million as at end of 1421H, an increase of 30%.

Year	Amount (USD Mn.)	Change%
1418	42	
1419	107	155%
1420	158	48%
1421	174	10%
1422	226	30%

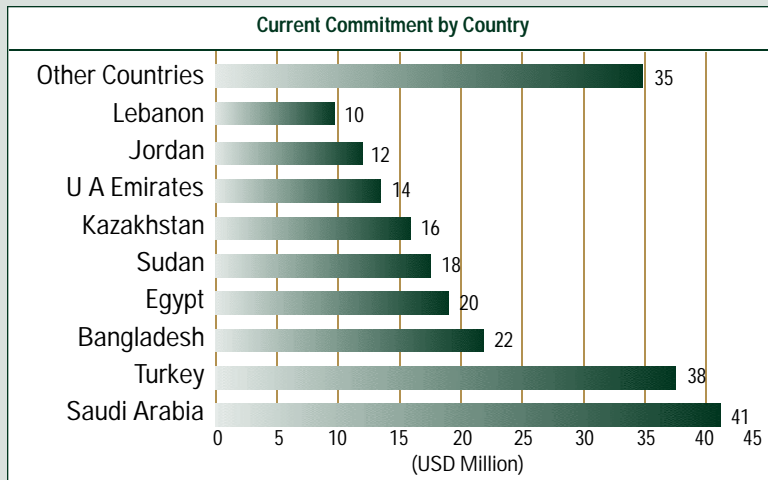


The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) offers a new service based on the extension in the scope of its service enabling it to cover exports from its Member Countries to non-Member Countries.



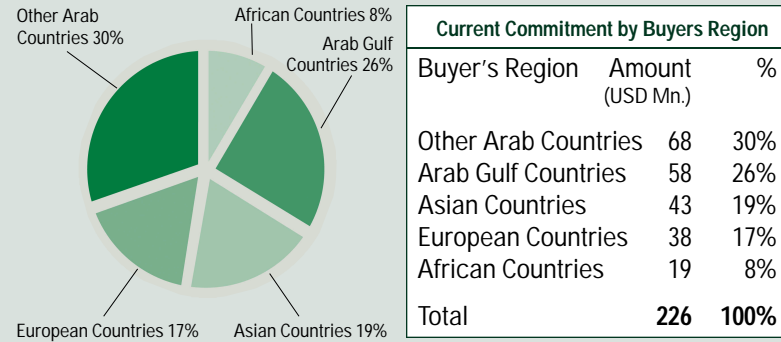
Current Commitment by Country		
Buyer's Country	Amount (USD Mn.)	%
Saudi Arabia	41	18%
Turkey	38	17%
Bangladesh	22	10%
Egypt	20	9%
Sudan	18	8%
Kazakhstan	16	7%
U A Emirates	14	6%
Jordan	12	5%
Lebanon	10	4%
Other Countries	35	16%
<b>Total</b>	<b>226</b>	<b>100%</b>

Our commitments were to cover the payment risk of buyers located in 21 Member Countries and 2 non-Member Countries. 84% of these commitments were approved on buyers in Saudi Arabia, Turkey, Bangladesh, Egypt, Sudan, Kazakhstan, UAE, Jordan, and Lebanon.

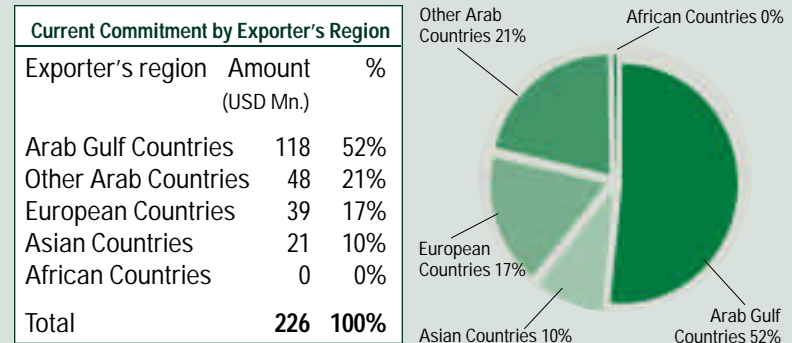


SABIC - An ICIEC policyholder since 1998

In terms of the regional distribution according to buyers, 30% of the commitments went to buyers in Other Arab Countries, 26% went to buyers in Arab Gulf Countries, 19% went to Asian Countries, 17% went to European Countries and 8% went to African Countries.

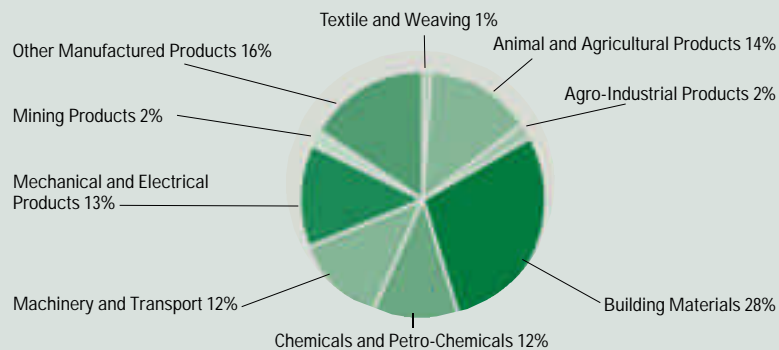


The distribution of ICIEC's commitments according to exporter's region shows Arab Gulf Countries with 52%, other Arab Countries with 21%, European Countries with 17% and Asian Countries with 10%.



ICIEC's 95% commitments were concentrated in 6 sectors: Building Materials with 28%, other Manufactured Products with 16%, Animal and Agricultural Products with 14%, Mechanical and Electrical Products with 13%, Chemicals, Petro-chemicals, Machinery and Transport, with 12% each. Other sectors such as Mining Products, Agro-Industrial Products, Textile and Weaving represent only 5%.

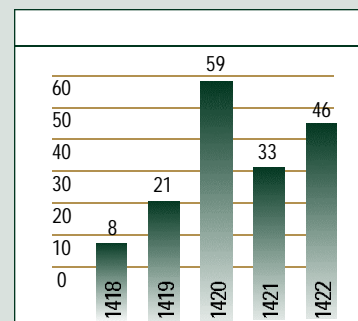
Current Commitment by Sector		
Exporter's region	Amount (USD Mn.)	%
Building Materials	64	28%
Other Manufactured Products	36	16%
Animal and Agricultural Products	32	14%
Mechanical and Electrical Products	28	13%
Chemicals and Petro-Chemicals	27	12%
Machinery and Transport	27	12%
Agro-Industrial Products	5	2%
Mining Products	5	2%
Textile and Weaving	2	1%
<b>Total</b>	<b>226</b>	<b>100%</b>



**Declarations**

The total amount declared by policyholders for the exports made and the financing disbursed was USD 46 million up to the end of 1422H, compared to USD 33 million in 1421H, for an increase of 39%.

Declarations		
Year	Amount (USD Million)	Change%
1418	8	
1419	21	163%
1420	59	181%
1421	33	-44%
1422	46	39%



**EXPORT CREDIT INSURANCE DURING 1422H**

	1421H	1422H	% Change
<b>A- Policies</b>			
1. Total Policies issued (Cumulative)	96	119	24%
2. New Policies issued	40	23	-43%
3. Policies renewed	25	55	120%
4. Policies under renewal	24	50	108%
5. Total Policies closed (Cumulative)	7	7	0%
6. Policies in force	65	62	-5%
7. Current GICA (in USD Mn.)	1,764	960	-46%
<b>B- Commitments</b>			
1. Number of applications received	212	202	-5%
2. Amount applied (USD Mn.)	329	505	54%
3. Number of applications approved	149	131	-12%
4. Amount approved (USD Mn.)	94	117	25%
5. Approvals cancelled and expired (USD Mn.)	78	65	-17%
6. Current commitments (USD Mn.)	174	226	30%
<b>C- Declarations</b>			
Export credit insurance (USD Mn.)	32.6	45.5	40%
<b>D- Exposure</b>			
Export credit insurance (USD Mn.)	50	65	30%
<b>E- Premium income</b>			
1. Premium (USD 000)	525	871	66%
2. Fees (USD 000)	26	75	189%
3. Total (USD 000)	551	946	72%

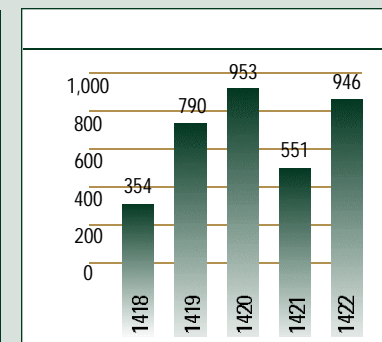
INVESTMENT INSURANCE DURING 1422H

	1421H	1422H	%Change Year 22/21
<b>A- Preliminary Applications (Registered)</b>			
1. Number cumulative	5	9	80%
2. During the period	2	4	100%
3. Amount during the period (in USD Mn.)	39	47	21%
<b>B- Main Applications</b>			
1. Number cumulative	4	5	25%
2. During the period	2	1	-50%
3. Amount during the period (in USD Mn.)	39	8	-79%
<b>C- Policies</b>			
1. Total Policies issued (Cumulative)	1	1	0%
2. New Policies issued during the period	1	0	-100%
3. Policies renewed during the period	0	1	-
4. Policies under renewal	0	0	-
5. Total Policies closed	0	0	-
6. Policies in force	1	1	0%
7. Insured amount (USD Mn.)	7.1	12.9	82%
8. Stand-by amount (USD Mn.)	6.3	0.0	-100%
9. Policy limit (USD Mn.)	13.4	12.9	-4%
<b>D- Commitments</b>			
1. New Commitments (USD Mn.)	10	22	120%
2. Current Commitments (USD Mn.)	10	22	120%
<b>E- Declarations</b>			
1. Investment Insurance (USD Mn.)	13.4	12.9	-4%
<b>F- Exposure</b>			
1. Investment Insurance (USD Mn.)	7	13	86%
<b>G- Premium income</b>			
1. Insured amount (USD 000)	133	241	81%
2. Stand-by amount (USD 000)	30	0	-100%
3. Fees (USD 000)	11	7	-36%
4. Total (USD 000)	174	248	43%

**Premium Income**

Premium and fees income generated from the declarations received during 1422H, was USD 0.95 million compared to USD 0.55 million in 1421H, an increase of 72%.

Premium & Fees		
Year	Amount (USD Million)	Change%
1418	0.354	
1419	0.790	123%
1420	0.953	21%
1421	0.551	-42%
1422	0.946	72%



**Investment Insurance**

During 1422H, the Corporation received 4 preliminary applications for a total provisional investment amount of USD 47 million compared to 2 preliminary applications with total amount of USD 39 million during 1421H. A main application was received with investment cover of USD 8 million compared to 2 main applications with total amount of USD 39 million during 1421H. No new policies were issued during the year.

The Policy issued during 1421H was renewed in 1422 with total insured amount of USD 12.9 million, compared to 13.4 million during 1421H. The total premium and fees income generated during the year from the renewal of this Policy and the registration of new investment applications was USD 248,000.

**3-CLAIMS AND RECOVERY**

**Claims Activities Summary**

During 1422H, ICIEC received 9 claims for a total loss of USD 9.93 million, compared to 3 claims in 1421H for an amount of USD 3.85 million, an increase of 158%. However, the amount of claims paid during 1422H decreased by 60% as the Corporation paid out a total indemnity of USD 2.32 million compared to USD 5.86 million for the previous year. The gross amount of recoveries effected by ICIEC during 1422H amounted to USD 2.36 million, an increase of 5.4 % compared to the previous year when recoveries amounted to USD 2.24 million. This brings the cumulative gross claims recovery rate since commencement of business in 1416H (1995) to 57%.

**Claims Received**

The Corporation received 9 claims during the year for a total value of USD 9.93 million. Almost all of these claims (93.8%) arose as a result of commercial risks. Most of the claims incurred were under the Bank Master Policy (BMP), which the Corporation issues to financial institutions.

**Claims Paid**

During 1422H, the Corporation paid three claims for a total of USD 2.32 million. All claims were paid under the BMP and were effected under coverage provided for commercial risks. The losses incurred involved livestock and raw materials imported from member countries.

**Recoveries**

During 1422H ICIEC was engaged in intensive recovery efforts which resulted in several recovery settlements for a total amount of USD 2.36 million, representing an increase of 5.4 % over previous year. Thus the gross recovery ratio for the year was 101.7 %. That brings the cumulative gross recovery ratio since the inception of the Corporation to 57%.

**Loss Minimisation**

During 1422H, the Corporation devoted considerable effort to assist policyholders to avert impending losses which might have developed into claims. ICIEC successfully helped to negotiate agreements with several beneficiaries to resolve protracted default of covered business, thereby avoiding potential claims which might develop into loss.

**4-REINSURANCE ACTIVITIES****Outward Reinsurance**

During the year under review, the Corporation continued its efforts to secure a suitable outward reinsurance treaty to cede a proportion of the export credit insurance risks to international reinsurers. The services of a reputable broker have been obtained in this endeavour. In the meantime, the Corporation maintained the approach of seeking reinsurance protection for individual high value contracts on a facultative basis, whenever deemed necessary. The facultative reinsurance cover in respect of the Investment Insurance Policy issued to Islamic Banks' Portfolio (IBP) relating to IBP's investment loan to Kenana Sugar Company of Sudan was successfully renewed during the year.

**Inward Reinsurance**

The Export Credit Facultative Reinsurance Facility (ECFRF), introduced last year by the Corporation, has generated considerable interest among export credit agencies in Member Countries (ECAs). Six ECAs have submitted formal enquiries.

**5- INSTITUTIONAL DEVELOPMENT****Introduction**

Since its inception, being a unique multilateral organization providing export credit and investment insurance and reinsurance services according to Islamic Shariah, ICIEC has had a daunting task of building from scratch an institution to meet the needs of its Member Countries. At the same time, it had to undertake the mission of creating awareness about such insurance services in the commercial circles of its Member Countries.

ICIEC has been able to acquire and effectively use the required human, financial, organizational and technical resources to develop a world class institution which could meet the aspirations of its Member Countries. The year 1422H witnessed substantial achievement of these goals, whereby ICIEC is now positioned to benefit from its developed infrastructure to meet its medium term objective of achieving break-even in its technical results.



The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) increased its focus on the investment insurance activities, to promote investment flows among its Member Countries. In this regard, one of the events sponsored by the Corporation was the Annual Arab Investment and Capital Markets Conference in Beirut, Lebanon.



**Human Resources**

The Corporation recognizes that the quality of human resources is the most important factor affecting its efficiency and ultimately its ability to achieve its objectives. Therefore, it exerts continuous efforts to recruit high caliber staff

Description	1422H	1421H
Approved Positions	40	35
Filled Positions	31	29
Utilization	78%	83%
Nationalities	13	13

from around the world and to provide them with the best available training facilities. The professional and support staff of ICIEC is drawn from 13 countries (including 11 Member Countries of ICIEC).

	1416H	1417H	1418H	1419H	1420H	1421H	1422H
Staff Strength	7	11	14	18	23	29	31

The period from 1416H to 1421H witnessed rapid growth in the staff strength of ICIEC from 7 to 29 as it put together an organizational setup to effectively manage the Corporation's business as desired by its Member Countries. The year under review, 1422H, saw a consolidation of such efforts. With an increased volume of business, the staff strength increased to 31 by the end of 1422H. Efforts are underway to fill the remaining posts in the Corporation.

ICIEC made use of 31 training opportunities to train and develop 21 of its staff members, during 1422H. These training opportunities consisted of technical, computer and language development areas.

Number of Staff	Training Courses Attended				Total
	Local & in-house	Familiarization Visits	Abroad	COFACE	
21	18	2	10	1	31

**Technical Systems**

ICIEC utilizes various systems, including accounting and human resources, available with the Islamic Development Bank. The recent introduction of Oracle Financials, and other ancillary systems, is expected to improve the operational efficiency of the IDB Group. ICIEC, as a member of the IDB Group, is keeping abreast with further development of these systems in order to benefit from them.

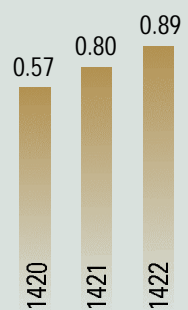
Besides the IDB Group systems, the Corporation has developed in-house an electronic insurance management system to deal with its unique operational requirements. This system is being tested at present, and is expected to be operational during the second quarter of 1423H.



Social monthly gathering of the ICIEC staff in the presence of the Vice President of IDB and the advisor of the bank.

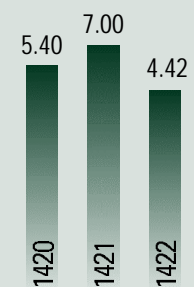


## Finance and Investment Summary



Net revenues:  
Policyholders' fund  
(USD m.)

*In conformity with its Articles of Agreement, which require ICIEC to maintain a sound financial position, ICIEC is pursuing a medium-term strategy aiming at achieving financial balance in the Policyholder's Fund.*



Net revenues:  
Shareholders' fund  
(USD m.)

### **Introduction**

During 1422H, one more OIC Member Country (Benin) joined the ICIEC membership. The premium income showed a healthy growth over the last year's level, while the claims reduced significantly during the year. Return on invested funds remained lower than that achieved the previous year. The following paragraphs provide a summary of the accounts, and highlights of the performance and structure of invested funds. The details are provided in the attached financial statements.

### **Unit of Account**

The Islamic Dinar (ID) is the unit of account of the Corporation. It is equivalent to the Special Drawing Right (SDR) of the International Monetary Fund (ID 1.00 = USD 1.255 as at end of 1422H).

### **Share Capital**

The authorized share capital of the Corporation is ID 100 million, made up of 100,000 shares of ID 1,000 each. IDB has subscribed to half of the authorized capital, while the other half was left for the subscription of the Member Countries of the Organization of the Islamic Conference (OIC). Each Member Country may subscribe to a minimum of 250 shares in the Corporation.



The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) conducted a promotional seminar in Gambia, in cooperation with the Gambian Ministry of Commerce.

As of 30 Dhul Hijja 1422H, IDB and thirty Member Countries had subscribed to a total of 95,240 shares for a nominal value of ID 1,000 per share; equivalent of ID 95.24 million. The called-up installments amounted to ID 72.62 million, out of which ID 71.80 million has so far been paid-up. The balance of ID 0.81 million is receivable from some subscribing Member Countries.

### **Separation of Shareholders' and Policyholders' Funds**

In conformity with Shariah rules governing Takaful (cooperative) insurance, the Articles of Agreement of the Corporation (Article 28) require that the Corporation maintain two separate funds:

- a) Policyholders' Fund which contains mainly the insurance contributions and fees.
- b) Shareholders' Fund which contains the paid-up capital and the reserves.

This requirement is reflected in the structure of financial statements of the Corporation.

### **Policyholders' Fund**

ICIEC aims at providing timely information on its underwriting operations to both the shareholders and the policyholders of the Corporation. Hence, it has adopted the "annual accounting" basis as opposed to the "underwriting year basis" to report the results of the underwriting operations at the financial year-end. In arriving at reasonable estimates of the underwriting operations, the following accounting policies are used:

- a) Unearned premiums are calculated on the basis of 50% of the premiums recorded during the year.
- b) Claims incurred but not reported are calculated at 1.0% of the outstanding exposure.

The 1422H gross premium amounted to ID 0.88 million, compared to 1421H amount of ID 0.53 million.

The net premium and fees earned during the year amounted to ID 0.71 million, while the operating expenses were ID 2.19 million and net claims incurred were ID 0.10 million. A net deficit of ID 1.58 million during 1422H brought the accumulated losses in the Fund to ID 10.90 million at the year-end. The relatively smaller net deficit reported for the year is mainly attributable to reduced claims, ID 3.46 million, which were incurred during 1422H. However, the recovery process was immediately started and an amount of ID 3.36 million was considered recoverable at the year-end, based on rescheduling agreements concluded and legal actions taken against the defaulting buyers.

### Shareholders' Fund

The capital contributed by the Member Countries of the Corporation is mainly invested in various Shariah compatible investment instruments through the IDB Treasury Department which acts as the Corporation's Fund Manager. One long-term investment has been carried out directly by the Corporation, in the shares of IDB's Unit Investment Fund. The Shareholders' Fund generated a net surplus of ID 3.33 million for the year 1422H. An income of ID 3.56 million was generated from the investments, while ID 0.04 million was reported as loss on exchange. The only operating expenses, associated with the investment activity in the Shareholders' Fund, include investment management fees payable to the IDB Treasury Department amounting to ID 0.19 million. The net surplus has been transferred to the statutory reserve, as mandated under the Articles of Agreement.

The Corporation's paid-up share capital increased from ID 70.94 million in the previous year, to ID 71.81 million at the end of 1422H. During the year, one new Member Country was admitted to ICIEC. The balance of subscriptions receivable decreased from ID 1.56 million in the previous year to ID 0.81 million at the end of 1422H.

### Net Corporate Financial Result

The overall results of the Corporation reflect a net surplus of ID 1.75 million for the year 1422H. This was achieved with a net surplus of ID 3.33 million in the Shareholders' Fund and a net deficit of ID 1.58 million in the Policyholders' Fund. At the end of 1422H, the total assets of the Corporation were ID 93.64 million compared to ID 89.31 million in the previous year. These assets primarily relate to the Shareholders' Fund.

### Liquid Funds' Investment Portfolio

Historically, all the liquid funds of ICIEC have been placed with Islamic banks or Islamic windows of conventional banks, in Shariah compatible short-term commodity placements. The IDB Treasury Department is responsible for managing these funds, as the Corporation's Fund Manager. Due to relatively low yields provided by these investments, steps have been undertaken to diversify this portfolio to include medium-term and long-term investments. These include participation in a syndicated Murabaha transaction with IDB, and provision of specific investment guidelines to the IDB Treasury Department with appropriate fees and incentive plans, in the context of a fund management agreement signed between ICIEC and IDB.

The total amount of the liquid funds' portfolio, managed by the IDB Treasury Department, increased from ID 58.62 million in the previous year to ID 70.12 million at the end of 1422H. The portfolio income declined from ID 3.29 million in the previous year to ID 2.75 million in 1422H.\*

The major portion of these investments (ID 37.28 million) is put in commodity placements due to mature in less than three months from the date of acquisition. The balance (ID 32.84 million) reflects commodity placements due to mature between three months to one year.

Another amount of ID 1.56 million was invested in a syndicated Murabaha deal with IDB, maturing within six months. The income generated from this investment was ID 0.05 million during 1422H.

### Investment in IDB's Unit Investment Fund (UIF)

The Islamic Development Bank manages the IDB Unit Investment Fund, a Trust Fund in accordance with the Islamic concept of Mudarabah. The Fund invests in public and private sector ventures, primarily in the member countries of the IDB, in line with the principles of Shariah. The value of the Corporation's investment in this Fund was ID 13.94 million as at the end of 1422H. An amount of ID 0.76 million was received as dividend from UIF, during 1422H.

The investment portfolio of the Fund is guaranteed by IDB. The portfolio predominantly consists of leases and installment sales, followed by commodity financed deposits and Murabaha syndications. Units of the Fund are traded on the Bahrain Stock Exchange.

\* The major reason of decline in investment income has been the reduced returns in the commodity Murabaha market, in response to the declining LIBOR rates.



The promotional seminar of The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) in Uganda received full support from the Ugandan Private Sector Foundation.

**FINANCIAL STATEMENTS**  
AS OF 30 DHUL HIJJAH 1422H AND 1421H  
TOGETHER WITH AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors  
The Islamic Corporation for the Insurance of Investment and Export Credit


We have audited the accompanying balance sheet of THE ISLAMIC CORPORATION FOR INSURANCE OF INVESTMENT AND EXPORT CREDIT as of 30 Dhul Hijjah 1422H and the related statements of income, changes in shareholders' and policyholders' funds and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, taken as a whole:

1. Present fairly, in all material respects, the financial position of The Islamic Corporation for Insurance of Investment and Export Credit as of 30 Dhul Hijjah 1422H and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.
2. Comply with the financial statement preparation and presentation requirements of the Corporation's Article of Agreement.

ARTHUR ANDERSEN & CO.



SAMI FARAH  
LICENCE NO. 168

15 Safar 1423H 28 April 2002  
Jeddah, Kingdom of Saudi Arabia.

**BALANCE SHEETS**  
AS OF 30 DHUL HIJJAH 1422H AND 1421H  
(Islamic Dinars)

	1422H	1421H
<b>ASSETS</b>		
Bank Balances (Notes 3 and 19)	271,798	797,084
Accounts Receivable (Note 4)	439,643	106,649
Claims Recoverable (Note 5)	4,039,758	2,545,311
Prepayments and Other Debit Balances (Note 6)	181,518	173,777
Due from Islamic Development Bank, net (Note 7)	3,316,812	12,849,782
Investments (Notes 2a, 8 and 19)	85,306,773	72,741,799
Fixed Assets, net (Notes 7 and 9)	84,298	97,855
Total assets	<u>93,640,600</u>	<u>89,312,257</u>
<b>LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUND</b>		
Liabilities:		
Accounts payable and accruals (Note 10)	756,162	513,410
Claims payable (Notes 2c and 11)	3,297,978	2,207,098
Unearned revenues (Notes 2b and 12)	308,843	333,578
Advance billings	532,245	326,186
Provision for unreported claims (Notes 13, 18 and 21d)	632,043	447,000
Total liabilities	<u>5,527,271</u>	<u>3,827,272</u>
Shareholders' Fund:		
Share capital (Note 14)	71,807,500	70,932,500
Statutory reserve (Note 15)	27,207,159	23,870,763
Loan to policyholders' fund (Notes 1e and 16)	(5,267,120)	(7,209,258)
Total shareholders' fund	<u>93,747,539</u>	<u>87,594,005</u>
Policyholders' Fund:		
Accumulated losses (Note 15)	(10,901,330)	9,318,278)
Loan from shareholders' fund (Notes 1e and 16)	5,267,120	7,209,258
Total policyholders' fund	<u>(5,634,210)</u>	<u>(2,109,020)</u>
Total liabilities, shareholders' and policyholders' funds	<u>93,640,600</u>	<u>89,312,257</u>



**STATEMENTS OF INCOME**  
FOR THE YEARS ENDED 30 DHUL HIJJAH 1422H AND 1421H  
(Islamic Dinars)

	1422H	1421H
<b>SHAREHOLDERS' FUND</b>		
Investment income (Note 2a)	3,561,045	3,780,025
Investment management fees	(183,197)	-
(Loss) gains on exchange (Note 2d)	(41,452)	1,734,666
Net income	<u>3,336,396</u>	<u>5,514,691</u>
<b>POLICYHOLDERS' FUND</b>		
Revenues:		
Premiums earned, net (Notes 2b and 17)	637,586	606,040
Fees earned	72,093	24,023
Total revenues	<u>709,679</u>	<u>630,063</u>
Costs and Expenses:		
Claims incurred, net (Notes 2c and 18)	97,313	1,685,619
Employees' cost	1,654,628	1,322,727
General and administrative expenses	494,641	645,424
Fees paid to IDB (Note 7)	46,149	62,445
Total costs and expenses	<u>2,292,731</u>	<u>3,716,215</u>
Net loss	<u>(1,583,052)</u>	<u>(3,086,152)</u>
Net Corporate Income	<u>1,753,344</u>	<u>2,428,539</u>

## STATEMENTS OF CHANGES IN SHAREHOLDERS' AND POLICYHOLDERS' FUNDS

FOR THE YEARS ENDED 30 DHUL HIJJAH 1422H AND 1421H  
(Islamic Dinars)

	1422H	1421H
<b>SHAREHOLDERS' FUND</b>		
Share Capital (Note 14):		
Beginning balance	70,932,500	70,245,000
Subscriptions paid	875,000	687,500
Ending balance	<u>71,807,500</u>	<u>70,932,500</u>
Statutory Reserve (Note 15):		
Beginning balance	23,870,763	18,356,072
Net income for the year	3,336,396	5,514,691
Ending balance	<u>27,207,159</u>	<u>23,870,763</u>
Loan to Policyholders' Fund (Notes 1e and 16):		
Beginning balance	(7,209,258)	(4,613,239)
Net movement during the year	1,942,138	(2,596,019)
Ending balance	<u>(5,267,120)</u>	<u>(7,209,258)</u>
Total Shareholders' Fund	<u>93,747,539</u>	<u>87,594,005</u>
<b>POLICYHOLDERS' FUND</b>		
Accumulated Losses:		
Beginning balance	(9,318,278)	(6,232,126)
Net loss for the year	(1,583,052)	(3,086,152)
Ending balance	<u>(10,901,330)</u>	<u>(9,318,278)</u>
Loan from Shareholders' Fund (Notes 1e and 16):		
Beginning balance	7,209,258	4,613,239
Net movement during the year	(1,942,138)	2,596,019
Ending balance	<u>5,267,120</u>	<u>7,209,258</u>
Total Policyholders' Fund	<u>(5,634,210)</u>	<u>(2,109,020)</u>

**STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED 30 DHUL HIJJAH 1422H AND 1421H  
(Islamic Dinars)

	1422H	1421H
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income for the year	1,753,344	2,428,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Unearned income	(1,522,269)	1,549,919
Change in assets and liabilities:		
Accounts receivables	(332,994)	(577)
Claims recoverable	(1,494,447)	(1,172,063)
Prepayments and other debit balances	(7,741)	393,266
Due from Islamic Development Bank	9,532,970	2,655,283
Accounts payable and accruals	242,752	155,381
Claims payable	1,090,880	431,567
Unearned revenues	(24,735)	61,116
Advance billings	206,059	(138,216)
Provision for unreported claims	185,043	(503,207)
Net cash provided by operating activities	<u>9,628,862</u>	<u>5,861,008</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease (increase) in investments, net	26,241,144	(48,018,834)
Net change in fixed assets	<u>13,557</u>	<u>(19,208)</u>
Net cash provided by (used in) investing activities	<u>26,254,701</u>	<u>(48,038,042)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issue of capital	<u>875,000</u>	<u>687,500</u>
Net cash provided by financing activities	<u>875,000</u>	<u>687,500</u>
Net Change in Cash and Cash Equivalents	36,758,563	(41,489,534)
Cash and Cash Equivalents - beginning of the year	<u>797,084</u>	<u>42,286,618</u>
Cash and Cash Equivalents - end of the year (Note 19)	<u>37,555,647</u>	<u>797,084</u>

## NOTES TO FINANCIAL STATEMENTS

### 30 DHUL HIJAH 1422H AND 1421H

(Islamic Dinars)

#### 1. GENERAL

- a) The Islamic Corporation for the Insurance of Investment and Export Credit was established on 24 Safar 1416H (corresponding to July 1, 1995). The Corporation's Head Office is located in Jeddah, Kingdom of Saudi Arabia.
- b) The Corporation is a subsidiary of the Islamic Development Bank (IDB) with full juristic personality as per its Articles of Agreement signed by members of the Organization of Islamic Conference and IDB.
- c) The objectives of the Corporation are to enlarge the scope of trade transactions and the flow of investments among member states by providing, in accordance with the principles of Shariah, export credit insurance and reinsurance as well as insurance and reinsurance of investments.
- d) As per the Corporations' Articles of Agreement, the Corporation is required to maintain and administer two separate funds being the policyholders' fund and the shareholders' fund.
- e) As per Article 13 of Chapter II of the Articles of Agreement, the Corporation's Establishment expenses are paid out of the capital by way of a loan to be repaid from the surplus accruing to the policyholders' fund. The shareholders shall not be entitled to a share in any surplus accruing to the policyholders' fund. Any deficit in the policyholders' fund shall be covered from the capital by way of a loan to be repaid from the surplus accruing to the policyholders' fund.
- f) The accompanying financial statements are denominated in Islamic Dinar (ID). The value of one Islamic Dinar, which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund, is equal to US \$ 1.255 as of 30 Dhul Hijja 1422H (US\$ 1.269 in 1421H).

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Accounting Standards. The following is a summary of the Corporation's significant accounting policies:

- a) Investments:  
Amounts advanced for financing trade on a Murabaha basis are stated at total amounts due including mark-up at maturity date. The mark-up

portion is considered as unearned income and deducted from the investment balance. Income from Murabaha investments and short-term commodity transactions is accrued evenly over the period from actual disbursement of funds to the repayment date. Once a payment is overdue, no additional charge is made or income is accrued.

The investment in IDB's Unit Investment Fund is recorded at cost with provision for any permanent decline in value when deemed necessary. Income from the IDB Unit Investment Fund is recognized when dividend is declared.

- b) Premiums:  
Premiums income (net of reinsurers' share) is recognized in the period in which the policies are issued.

Unearned premiums represent premiums that belong to period subsequent to the balance sheet date. It is computed as a percentage of direct net premiums (net of reinsurers' share) at a rate of 50%.

- c) Outstanding claims:  
The liability for outstanding claims is based on an estimate of total claims reported up to the close of the accounting period. Estimated amounts considered recoverable are recognized as assets. These estimates are based on a case by case evaluation.

In addition, a provision based on management's judgement and the Corporation's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) at the balance sheet date. These estimates are subject to the impact of changes in such factors as claims severity and frequency.

- d) Translation of foreign currencies:  
The accompanying financial statements are denominated in Islamic Dinars. The value of the Islamic Dinar is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. Appropriate exchange rates are used to translate transactions or balances denominated in foreign currencies. The resulting gains or losses are reflected in the statement of income.

#### 3. BANK BALANCES

Bank balances are related to the following as on 30 Dhul Hijjah:

	1422H	1421H
Shareholders' fund	3,770	62,302
Policyholders' fund	268,028	734,782
	<u>271,798</u>	<u>797,084</u>

**4. ACCOUNTS RECEIVABLE**

Accounts receivable represent fees receivable related to policyholders' fund as on 30 Dhul Hijjah 1422H and 1421H.

**5. CLAIMS RECOVERABLE**

Claims recoverable are related to the policyholders' fund as on 30 Dhul Hijjah 1422H and 1421H.

**6. PREPAYMENTS AND OTHER DEBIT BALANCES**

Prepayments and other debit balances are related to the following as at 30 Dhul Hijjah:

	1422H	1421H
Shareholders' fund	112,441	167,569
Policyholders' fund	69,077	6,208
	<u>181,518</u>	<u>173,777</u>

**7. DUE FROM ISLAMIC DEVELOPMENT BANK, NET**

Due from Islamic Development Bank represents the net balance and comprises the following as on 30 Dhul Hijjah:

	1422H	1421H
Shareholders' fund - due from IDB	8,672,595	14,779,107
Policyholders' fund - due to IDB	(5,355,783)	(1,929,325)
	<u>3,316,812</u>	<u>12,849,782</u>

IDB offers a number of services related to, among other things, fixed assets, investment, finance and provides administrative, legal and other services on behalf of the Corporation are charged to the intercompany account.

**8. INVESTMENTS**

Investments are comprised of the following as on 30 Dhul Hijjah:

	1422H	1421H
Shareholders' fund:		
Murabaha in commodity investments	70,119,774	58,617,609
Unit Investment Fund - IDB	13,941,208	13,789,602
Murabaha - other investment	1,557,611	2,168,677
	<u>85,618,593</u>	<u>74,575,888</u>
Less: Unearned income	(311,820)	(1,834,089)
	<u>85,306,773</u>	<u>72,741,799</u>

**9. FIXED ASSETS, NET**

The Corporation's fixed assets are related to the policyholders' fund as at 30 Dhul Hijjah 1422H and 1421H.

**10. ACCOUNTS PAYABLE AND ACCRUALS**

Accounts payable and accruals are related to the following as on 30 Dhul Hijjah:

	1422H	1421H
Shareholders' fund:		
Bank commission (*)	164,736	156,772
Other payable	53,587	-
Accrued expenses	129,717	-
	<u>348,040</u>	<u>156,772</u>
Policyholders' fund:		
Other payable	183,714	149,353
Accrued expenses	224,408	207,285
	<u>408,122</u>	<u>356,638</u>
	<u>756,162</u>	<u>513,410</u>

(\*) As the Corporation is operating under Shariah law, bank commission income is not recognized in the statement of income but recorded in a liability account to be disposed of later in accordance with Shariah law.

**11. CLAIMS PAYABLE**

Claims payable are related to the policyholders' fund as on 30 Dhul Hijjah 1422H and 1421H.

**12. UNEARNED REVENUES**

Unearned revenues are comprised of the following as on 30 Dhul Hijjah:

	1422H	1421H
Policyholders' fund:		
Unearned premiums (Note 17)	304,008	333,578
Unearned fees	4,835	-
	<u>308,843</u>	<u>333,578</u>

**13. PROVISION FOR UNREPORTED CLAIMS**

Provision for claims incurred but not reported (IBNR) relates to the policyholders' fund and represents 1% of the total exposure as on 30 Dhul Hijjah 1422H and 1421H.



**14. SHARE CAPITAL**

Share capital is comprised of 100,000 authorized shares with a nominal value of ID 1,000 per share. Issued and subscribed capital is comprised of the following as of 30 Dhul Hijjah:

1422H					
	Subscribed and Issued	Value per Share (ID)	Amount	Called up %	Amount
IDB	50,000	1,000	50,000,000	100%	50,000,000
Member states	45,240	1,000	45,240,000	50%	22,620,000
	<u>95,240</u>		<u>95,240,000</u>		<u>72,620,000</u>
Less: Subscriptions receivable					(812,500)
					<u>71,807,500</u>

1421H					
	Subscribed and Issued	Value per Share (ID)	Amount	Called up %	Amount
IDB	50,000	1,000	50,000,000	100%	50,000,000
Member states	44,990	1,000	44,990,000	50%	22,495,000
	<u>94,990</u>		<u>94,990,000</u>		<u>72,495,000</u>
Less: Subscriptions receivable					(1,562,500)
					<u>70,932,500</u>

The remainder of the uncalled subscriptions on issued capital is subject to call by the Corporation as and when required to meet its obligations.

Member states have the right to withdraw from the Corporation only after a period of five years from the date of their membership. In such an event, the Corporation shall arrange to repurchase the shares of the withdrawing state at a price equal to the book value of such shares on the date the state ceases to be a member.

**15. STATUTORY RESERVE**

In accordance with Article 29 of Chapter IV of the Article of Agreement, all profits accruing to the shareholders' fund and all surplus accruing to the policyholders' fund shall be allocated to the statutory reserve until they reach five times the subscribed capital. In year 1422H, an amount of ID 3,336,396 was transferred to the statutory reserve (ID 5,514,691 in 1421H).

After this reserve reaches such level, the Corporation's Board of Governors shall decide on whether and to what extent the surplus accruing to the

shareholders' fund may be allocated to this fund and shall decide as well on whether and to what extent the surplus accruing to the policyholders' fund may be allocated to reserves or distributed to policyholders.

**16. LOAN FROM SHAREHOLDERS' FUND**

Loan from shareholders' fund is comprised of the following as of 30 Dhul Hijjah (Note 1e):

	1422H	1421H
Policyholders' fund:		
Total assets	4,900,804	3,490,805
Total liabilities	(10,535,014)	(5,599,825)
Accumulated losses	10,901,330	9,318,278
Net deficit in policyholders' fund	<u>5,267,120</u>	<u>7,209,258</u>

**17. PREMIUMS EARNED, NET**

Premiums earned for the years ended 30 Dhul Hijjah are comprised of the following:

	1422H	1421H
Inward insurance premiums, gross	883,618	528,940
Less: Advance billing at the end of the year	(532,245)	(326,186)
Add: Advance billing at the beginning of the year	326,186	464,402
	<u>677,559</u>	<u>667,156</u>
Outward reinsurance premiums	(69,543)	-
Net premiums	608,016	667,156
Add: Unearned premiums at the beginning of the year	333,578	272,462
Less: Unearned premiums at the end of the year	(304,008)	(333,578)
	<u>637,586</u>	<u>606,040</u>

**18. CLAIMS INCURRED, NET**

Claims incurred for the years ended 30 Dhul Hijja are comprised of the following:

	1422H	1421H
Inward insurance claims	3,530,777	4,813,359
Outward reinsurance claims	<u>(256,966)</u>	<u>-</u>
Net claims	3,273,811	4,813,359
Recoveries, net (*)	<u>(3,361,541)</u>	<u>(2,624,533)</u>
Net	(87,730)	2,188,826
Less: IBNR at the beginning of the year	(447,000)	(950,207)
Add: IBNR at the end of the year	632,043	447,000
	<u>97,313</u>	<u>1,685,619</u>

(\*) Represents recoveries from customers less the corresponding reinsured share amounting to ID 145,212 (Nil in 1421H).

**19. CASH AND CASH EQUIVALENTS**

For the purpose of cash flows, cash and cash equivalents comprises bank balances and investments having a maturity of three months or less at the date of acquisitions and is comprised of the following as of 30 Dhul Hijjah:

	1422H	1421H
Bank balances	271,798	797,084
Murabaha investments, net	37,283,849	-
	<u>37,555,647</u>	<u>797,084</u>

**20. CONTINGENCIES**

An amount of ID 1,647,290 representing claims submitted by certain policyholders but still under review by the Corporation.

**21. FINANCIAL INSTRUMENTS**

The nature of activities and management policies with respect to financial instruments are:

## a) Credit risk:

The financial instruments which subject the Corporation to credit risk principally consist of bank balances and investments.

The Corporation's investment portfolio is managed by IDB and comprises Murabaha deals with reputable banks. The Corporation is, therefore, of the opinion that no credit loss is likely to occur. All of the Corporations' Murabaha deals will mature within one year of the balance sheet date.

## b) Fair value of financial assets and liabilities:

The book values of all classes of financial assets and financial liabilities, as recorded in the balance sheet, approximate the fair value of those assets and liabilities.

## c) Currency risk:

The Corporation's investment portfolio is denominated in Islamic Dinars and is held in major stable currencies, which match the composition of the Islamic Dinars basket, namely U. S. Dollars, Sterling Pounds, Euro and Japanese Yen. As such, the Corporation is not exposed to any material currency risk.

## d) 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 declarations made by exporters during 1422H amounted to ID 63.2 million (ID 44.7 million in 1421H). The Corporation minimizes any detrimental impact on its assets, due to the realization of such risks, by maintaining reserves (Notes 13 and 18), and resorting to re-insurance.

**22. RECLASSIFICATIONS**

Certain reclassifications have been made to 1421H financial statements to conform to the classification used in 1422H.

**The Islamic Corporation  
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