

1424H Annual Report (2003-2004)



"Globally Secure"

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIIEC)

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KEY DATA AND RESULTS SUMMARY

	1423H	1424H	Change%
OPERATIONS			
Policies in Force (No.)	67	80	19
Insurance Commitments (USD million)	289	287	(1)
Business Insured (USD million)	129	147	14
Current Exposure (USD million)	130	150	15
Premium & Fee (USD million)*	1.74	2.14	23
Claims Paid (USD million)*	4.72	1.16	(75)
Recoveries (USD million)*	1.02	1.08	6
FINANCIAL			
Share Capital (ID million **):			
Authorized	100.00	100.00	-
Subscribed	95.24	96.99	2
Paid-up	71.87	72.43	1
Shareholders' Fund (USD million***):			
Net Revenues	3.06	2.72	(11)
Surplus / (Deficit)	2.12	3.14	48
Accumulated Surplus/(Deficit)	39.12	44.78	14
Policyholders' Fund (USD million***):			
Net Revenues	1.44	2.06	43
Surplus / (Deficit)	(2.78)	(1.82)	(35)
Accumulated Surplus/(Deficit)	(17.71)	(21.16)	19
Corporate Result (USD million***):			
Net Surplus/(Deficit)	(0.66)	1.32	300
Net Reserves ****	21.41	23.62	10
Investments & Banks Balances	119.64	135.07	13
Total Assets	125.20	139.88	12

* Gross cash values prior to accounting adjustments
** 1423H: ID 1.00= USD 1.37, 1424H: ID 1.00=USD 1.495
*** Retranslated from ID to USD at the year-end exchange rates
**** Accumulated amounts in USD are based on the accumulated ID amounts translated at the year end exchange rate for the particular year



Transmittal Letter

In the Name of Allah, the Beneficent, the Merciful

Date: 03/05/1425H
21/06/2004G

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 1424H, including audited financial statements.

Please accept the assurances of my highest consideration.

Yours sincerely,

Dr. Ahmad Mohamed Ali
President of ICIEC

Mission & Vision



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

Mission

To encourage Exports from Member Countries and to facilitate the flow of Foreign Direct Investments to Member Countries by providing and encouraging the use of Sharia compatible Export Credit and Investment Insurance as Credit and Political risk mitigation instruments.



Vision

To be the Internationally recognized Leader in Sharia compatible Export Credit and Investment Insurance and Reinsurance in Member Countries.



Management

Board of Directors

Chairman:

Dr. Ahmad Mohamed Ali

Members(*):

Hon. Abdulaziz Nur Hersi
Hon. Abu Salihu Hj. Mohammed Shariff
Hon. Faisal Abdul Aziz Al-Zamil
Hon. Ibrahim Bin Mohamed Al-Mofleh
Hon. Jamal Nasser Rashid Lootah
Hon. Ilagar Veysal Oglu Isayev
Hon. Dr. Mehdi Karbasian
Hon. Mohamed Ali Taleb
Hon. Mohammed Azzaroog Rajab
Hon. Ould Samba Achour
Hon. Dr. Selim C. Karatas
Hon. Dr. Waqar Masood Khan
Hon. Zeinhom Zahran
Hon. Dr. Zul-Kifl Salami

(* In Alphabetical Order)

Officers of the Corporation

President:

Dr. Ahmad Mohamed Ali

General Manager:

Dr. Abdel-Rahman Eltayeb Taha

Consultative Committee

Chairman:

Dr. Abdel-Rahman Al-Zamil

Members:

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

Message from the President

During 1424H, the Corporation continued to implement its direct marketing strategy, as a result the business of the Corporation once again showed the robust growth it had experienced during the past few years. Although the insurance commitments remained stagnant at USD 287 million, due to more conservative underwriting, the actual insured business increased by an appreciable 14%, to reach USD 147 million. Similarly, total current insurance exposure increased by 15% to reach USD 150 million and premium income, for the first time, exceeded USD 2 million, registering an increase of 23%.

Claims paid by the Corporation to policyholders witnessed a major decrease from USD 4.72 million last year to only USD 1.16 million, which was almost offset by USD 1.08 million in recoveries. This favorable claims experience is attributable largely to improved underwriting accruing from the implementation of policies and programs designed to improve the quality of credit information and analysis and the overall efficiency of the underwriting process as well as up-grade the technical capabilities of human resources. As a consequence, the Corporation now enjoys a more balanced and better quality portfolio of insured risks covering 63 countries world-wide.

The continuing growth in the size of the insured business and premium income, in addition to the positive claims and recoveries experience for the year, and the reduction in the cost of operations, led to significant improvement in the financial results of the Corporation. Thus, although the Policyholders' Fund (Technical Account) registered a deficit of USD 1.82 million, this was a decrease of 35% from the net deficit of USD 2.78 million incurred in 1423H. The deficit was, anyway, more than offset by a USD 3.14 million surplus in the Shareholders' Fund (the Investment Account) bringing about **an overall corporate financial result of a net surplus of USD 1.32 million**, compared to a deficit of USD 0.66 million for last year. The Corporate surplus was added to Net Reserves which reached USD 23.62 million at year end.

The above results, coupled with the expected conclusion, during the first Quarter of 1425H, of a quota share reinsurance treaty with one of the major international reinsurers of credit and political risk, the development and planned introduction of new insurance products, and the envisaged completion of the testing and implementation of ICIEC's Insurance Management Information System, clearly indicate that the Corporation, on the eve of its tenth anniversary, has succeeded in building the institutional infrastructure and forging the appropriate strategy for sustained business growth and financial stability. This should empower the Corporation to better achieve its mission of becoming the export credit and investment insurer of choice for Member Countries, thereby helping to expand their exports and encourage investment flows among them, as it is mandated to do.



Dr. Ahmad Mohamed Ali
President of ICIEC

*ID 1.00=USD1.495 at 1424H year-end



ICIEC Overview



ICIEC Overview

1. 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), and commenced operations in Safar 1416H (July 1995G) as an international institution with full juridical personality. ICIEC is a member of the IDB Group composed of IDB itself in addition to the Islamic Corporation for the Development of the Private Sector (ICD) and the Islamic Research and Training Institute (IRTI).

2. Membership

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 1424H, there were 35 shareholders of ICIEC, comprising IDB and 34 countries. Several other countries are in the process of completing the membership requirements.

3. Capital Subscription

The authorized capital of ICIEC is ID *100 million (USD 150 million). The Islamic Development Bank and 34 Member Countries subscribed to shares in the capital of the Corporation having a face value of ID 96.99 million (USD 145.00 million). IDB contributed ID 50 million (USD 74.75 million) which makes 50% of authorized capital. Member Countries subscribed ID 46.99 million (USD 70.25 million). The remainder of authorized capital, ID 3.01 million, is available for subscription by new members.

4. Objective

The objective of ICIEC, as defined in its 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.

Members	Date of Articles Ratification	Number of Shares Subscribed	Value of Shares (ID)
1. ALGERIA	23.04.96	1,000	1,000,000
2. BAHRAIN	06.03.99	250	250,000
3. BANGLADESH	11.05.93	250	250,000
4. BENIN	08.08.01	250	250,000
5. BRUNEI	24.03.98	250	250,000
6. BURKINA FASO	26.03.02	250	250,000
7. CAMEROON	04.07.92	250	250,000
8. CHAD	19.02.93	250	250,000
9. EGYPT	30.12.92	2,500	2,500,000
10. GAMBIA	01.03.96	250	250,000
11. GUINEA	22.07.97	250	250,000
12. INDONESIA	24.04.93	250	250,000
13. IRAN	19.12.96	5,000	5,000,000
14. JORDAN	21.04.93	250	250,000
15. KAZAKHSTAN	02.01.03	250	250,000
16. KUWAIT	13.07.94	2,500	2,500,000
17. LEBANON	17.08.95	250	250,000
18. LIBYA	06.02.93	1,000	1,000,000
19. MALAYSIA	01.08.94	2,740	2,740,000
20. MALI	04.09.93	250	250,000
21. MAURITANIA	18.07.95	250	250,000
22. MOROCCO	08.02.97	5,000	5,000,000
23. NIGER	04.03.03	250	250,000
24. PAKISTAN	08.05.93	2,500	2,500,000
25. QATAR	11.07.00	250	250,000
26. SAUDI ARABIA	03.12.92	13,500	13,500,000
27. SENEGAL	19.09.95	250	250,000
28. SUDAN	10.07.95	250	250,000
29. SYRIA	01.02.98	250	250,000
30. TUNISIA	22.02.93	500	500,000
31. TURKEY	30.07.97	2,500	2,500,000
32. UGANDA	04.02.99	250	250,000
33. UAE	11.07.00	2,500	2,500,000
34. YEMEN	30.12.96	500	500,000
35. ISLAMIC DEVELOPMENT BANK		50,000	50,000,000
TOTAL		96,990	96,990,000

MEMBERSHIP AND CAPITAL SUBSCRIPTIONS STATUS
AS AT END OF 1424H (20th February 2004G)

*One Islamic Dinar is equal to One SDR which equal to USD. 1.495 as the end of 1424H.

*ID 1.00= USD 1.495 at end of 1424H

ICIEC Overview

5. Corporate Mission

The Corporation's mission statement serves as a means of highlighting ICIEC's overriding focus. The mission statement is:

"To encourage Exports from Member Countries and to facilitate the flow of Foreign Direct Investments to Member Countries by providing and encouraging the use of Sharia compatible Export Credit and Investment Insurance as Credit and Political risk mitigation instruments."

6. Management

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. The President of The Islamic Development Bank is ex-officio, the President of ICIEC. The President is the legal representative of ICIEC, and has the power to approve its operations and contracts, and may delegate any of his powers to the General Manager of the Corporation who is responsible for conducting the day-to-day business of the Corporation.

The consultative committee advises the President on the overall management of the Corporation. Members of the committee are prominent personalities from Member Countries who are well-versed in matters relating to export credit and investment insurance, international trade and banking.

7- Insurance Facilities

7.1- 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 (CSTP)
- b- Supplemental Medium Term Policy (SMTP)
- c- Bank Master Policy (BMP)

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

Two new products were approved during 1424H. The first one is the **Documentary Credit Insurance Policy (DCIP)** which is an instrument available to commercial banks. Under DCIP, the policyholder, i.e., the commercial bank is protected against the risk of non-payment of an Import Letter of Credit. The second new instrument is the **Single Transaction Policy (STP)**. The STP is designed to insure single medium-term export transactions, usually associated with project finance. It covers the same risks as the existing **Supplemental Medium Term Policy (SMTP)**.

7.2- Investment Insurance Services

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

7.3- Reinsurance Facility

The Export Credit Facultative Reinsurance Facility (ECFRF) was introduced in 1421H (2001G). ECFRF allows ICIEC to reinsure individual Export Credit insurance Agencies (ECAs) in Member Countries in respect of export credit risks underwritten by the ECAs on a policy by policy basis. Under this facility, the extent of cover provided by the ECAs can not be wider than that covered by ICIEC's corresponding policies and ICIEC's eligibility criteria is also applicable.



Insurance Operations Results



Total amount of business insured increased by 14% on 1423H, to USD 147 million, primarily as a result of ICIEC's closer working relationship with policyholders and the extension of ICIEC market to cover non member countries. Premium and fees income from business insured rose significantly by 23%, to USD 2.14 million, during 1424H.

Insurance Operations Results

1- Marketing Activities

1.1- Introduction

During 1424H, a strategic shift was made in the manner in which ICIEC marketed its services. The existing 'indirect' marketing approach was complemented with an emphasis on a concentrated and selective marketing approach which targets selected customers in specific countries. Based upon this approach, ICIEC increased its marketing missions to Member Countries. As a result, a number of important new customers were introduced to the Corporation who have contributed considerably to the volume of business of the Corporation and improved the quality of transactions being underwritten by the Corporation.

1.2- Local Agents

The Local agents' network is an important part of ICIEC's distribution chain. However, while a number of agency agreements are in place, the relationship is not playing the role ICIEC had envisaged. Therefore, ICIEC continues to review its relationships with local agents and provide them the required training and support, with the intention of developing a strong network of local agents which can be an effective and integral part of ICIEC's distribution chain.

1.3- New Products

In its continuous endeavor to develop and improve the quality of its services, ICIEC is in the process of launching two new products, approved during 1424H. The first is the Documentary Credit Insurance Policy (DCIP) which is an instrument available to commercial banks. The policyholder, i.e., the commercial bank, is protected against the risk of non-payment of an Import Letter of Credit (ILC) issued by an importer's bank and confirmed by the policyholder on behalf of its exporting customer. The DCIP, should, therefore, make it possible for exporters to accept debt instruments issued by banks in Less Developed Member Countries of ICIEC, thereby helping to expand exports to such countries.

The second new instrument is the Specific Transaction Policy (STP). The STP is designed to insure single short-term and export transactions, usually associated with project finance. It covers the same risks as the existing Supplemental Medium Term Policy (SMTP) which caters for medium-term whole turnover business.

1.4- Relationships with Commercial Banks

Export credit insurance is an important facilitator of export financing. ICIEC, therefore, has made the development of close relationship with commercial banks a key element of its marketing strategy, so that exporters covered by ICIEC insurance could obtain export financing from commercial banks. During 1424H, an aggressive marketing campaign targeting banks was implemented, thereby increasing the number of banks in Member Countries which are accepting ICIEC's insurance cover as security for their cross-border financing.

1.5- Relationships with National Export Credit Agencies

ICIEC's mandate makes it incumbent upon it to cooperate with and assist export credit agencies in Member Countries to develop their technical capability and enhance their insurance capacity. During 1424H, ICIEC continued to work closely with some key export credit agencies to workout reinsurance and co-insurance arrangements. These arrangements are designed to help the ECAs expand their capacity to cover national exports world-wide.



Insurance Operations Results

1.6- Promotional Seminars and Conferences

In addition to the above activities, the Corporation organized promotional seminars designed to introduce its services to four Member Countries: Kazakhstan, Niger, Burkina Faso, and Libya. ICIEC also attended various international conferences and seminars related to its business. These functions enabled the Corporation to keep abreast of the latest developments in the industry and

provided opportunities for promoting ICIEC's services and establishing contacts with similar organizations in the industry. The following are examples of such events: "OIC Conference for Privatization and Investment" in Pakistan, the "Private Sector for the Promotion of Trade and Joint Venture Investment amongst Islamic Countries" in Iran, the "Forum for the Promotion of Investment in Africa" organized by Afriexim Bank in Lusaka, the MENA Trade & Export Finance Forum, in Dubai and the COFACE "Credit Alliance Meeting" in New York.

1.7- ICIEC Website, www.iciec.com

The Marketing Strategy of ICIEC includes utilizing the Internet as a marketing medium.

IDB has undertaken an ambitious project for developing a web-based portal for the IDB Group, which would also be used by ICIEC. In the meanwhile, ICIEC has updated its website in order to provide potential customers with information on ICIEC services and products. Customers are now able to download the text of the insurance policies and application forms as well as other documents. A PowerPoint presentation has been included to illustrate the different services provided by the Corporation.

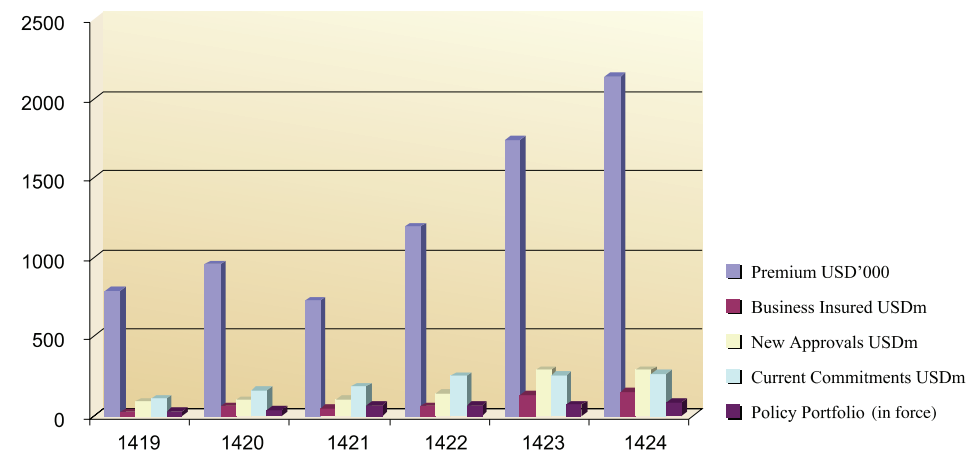


2- Underwriting Activities

2.1- Insurance Operations

During the year under review, the insurance operations continued to show the robust growth experienced during the last few years and achieve some significant milestones. The premium and fees income, for the first time, exceeded USD 2 million. Additionally, with the exception of new approvals-which remained about the same as last year-all major operations indicators increased, most of them appreciably. For instance, premium income, insured business and policy portfolio in force increased by 23%, 14% and 19% respectively. The stagnation of the New Approvals, as is explained below, was the result of the Corporation's adoption of a more rigorous and conservative approach to vetting new applications.

Global Operations 1424H						
	1419	1420	1421	1422	1423	1424
Premium USD'000	790	953	725	1194	1743	2138
Business Insured USDm	21	59	46	58	129	147
New Approvals USDm	86	96	104	139	289	287
Current Commitments USDm	107	158	184	248	254	265
Policy Portfolio (in force)	25	38	66	63	67	80



Insurance Operations Results

2.2 Operations Indicators

a) Policy Portfolio - During 1424H, the number of new policies issued was 21, down from 29 in the previous year. 20 of these newly issued policies were for export credit, while one was for investment. The decline is the direct result of our more selective approach to choosing new policyholders, which is the prevalent approach throughout the industry.

1424H also saw the renewal of 72 export credit policies and 2 investment policies (an increase of over 50% on 1423H). As a result, the total number of policies in force as at end of 1424H reached 80 compared to 67 as at end of 1423H, representing an increase of 19%.

b) Commitments - New insurance business approved by the Corporation during 1424H remained constant at USD 287 million. However, the Corporation's total current commitments increased from USD 254 million in 1423H to USD 265 million in 1424H, representing an increase of 4%.

In the area of export credit, ICIEC approved in 1424H new insurance commitments totaling USD 201 million to cover exports and financing operations, compared to USD 243 million during 1423H, a fall of 17%. The primary reason for this fall was the adoption of a more prudent underwriting procedure necessitated by the increasing high-risk transactions being brought to ICIEC by some policyholders. The total export credit current commitments as at end of 1424H were USD 211 million compared to USD 194 million as at end, of 1423H, a rise of approximately 9%.

Regarding commitments in investment insurance, investors showed more interest in this insurance product during 1424H. The Corporation received nine Preliminary Applications for a total provisional investment coverage amounting to USD 59.10 million, as compared to 6 preliminary applications received in 1423H with a provisional investment amount of USD 37 million. Five Main Applications were received in 1424H, as opposed to one in the previous year.

c) Business Insured - 1424H witnessed a large increase in the insurance commitments utilization rate from 36% in the previous year to 55% in 1424H. This is a result of the effectiveness of our approach to encourage a greater utilization of insurance commitments held by our policyholders. As a consequence, total business insured increased from USD 129 million in 1423H to USD 147 million, a growth of 14%.

Export Credit business insured during 1424H reached USD 118 million, compared to USD 107 million in 1423H, an increase of 10%.

Regarding Investment Insurance, the Corporation covered during 1424H, a total volume of USD 29 million compared to USD 22 million during 1423H an increase of 33%.

d) Insurance Exposure - Total exposure resulting from export credit insurance, reached USD 123.50 million at the end of 1424H, compared to USD 109 million in 1423H constituting a rise of 13%. As regards investment, total exposure increased by 22% in 1424H to USD 26.50 million as compared to USD 21.80 million in 1423H.

The Corporation's total exposure (i.e. the maximum amount the Corporation is liable to pay) reached USD 150 million by the end of 1423H, an increase of 14%.

e) Premium* - This year saw the surpassing of the USD 2 million mark by the Corporation in premium and fees income. The Corporation realized a 23% increase in premium and fee receipts with a total income of USD 2.14 million. Income generated from export credit insurance increased from USD 1.35 million to USD 1.65 million, a growth of 22%. Investment insurance premium and fees income, on the other hand, increased by 24% to USD 0.49 million. Export credit insurance accounted for 77% of the total premium income earned.

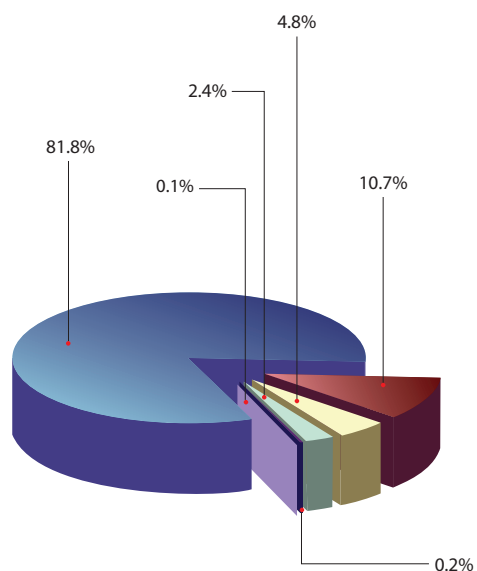
2.3 Geographic Distribution of Export Credit Insurance Operations

a) Distribution by Exporter Country

The distribution of ICIEC's export credit insurance commitments based on the exporters' region shows Western Asia as having the largest proportion of current commitments approximately 82%. Other major commitments (16%) are concentrated in the Eastern & South Central Asian regions, followed by North Africa, which accounts for 2.4% of current commitments. This shows that Western Asia continues to be the most dynamic exporting region among the Corporation's policyholders, with exporters in Turkey, Saudi Arabia, the United Arab Emirates, Kuwait and Bahrain leading the way.

*The figures for premium income reported here may differ from those reported in the accounting statements, as the latter are subject to treatment required by various accounting policies.

Insurance Operations Results



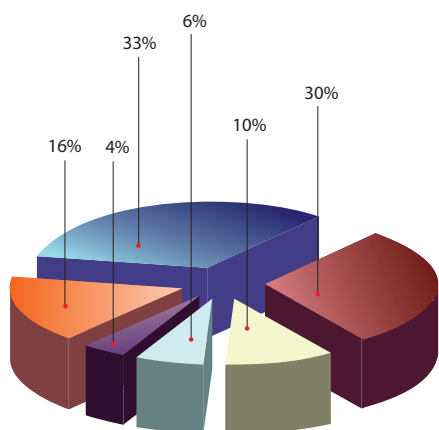
Current Commitments By Exporters Regions for Export Credit	
Exporter Region	Percentage
Western Asia	81.8%
Eastern Asia	10.7%
South-Central Asia	4.8%
North Africa	2.4%
South-Eastern Asia	0.2%
Western Europe	0.1%

The distribution of ICIEC's commitments according to exporter's country reflects the skewed commitments towards three countries, i.e. Saudi Arabia, UAE and Turkey holding a total of 73% of the current commitments. The top five countries account for 83% of the total current commitments (which includes investment insurance). The remaining 17% is accounted for by nine countries.

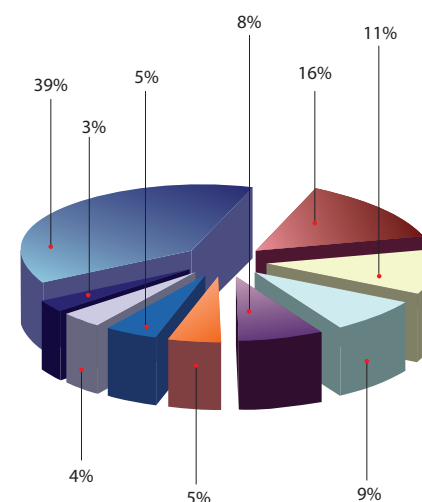
b) Distribution by Importer Country

In terms of regional distribution of the buyers, Western Asia again topped the list, accounting for 39% of commitments. Europe accounted for 22% of total current commitments, closely followed by buyers from North Africa, which make up 16% of the total.

On the basis of individual countries, the top ten importing countries in terms of current export credit commitments accounted for 71% of the total. The remaining 29% comprises of 53 countries.

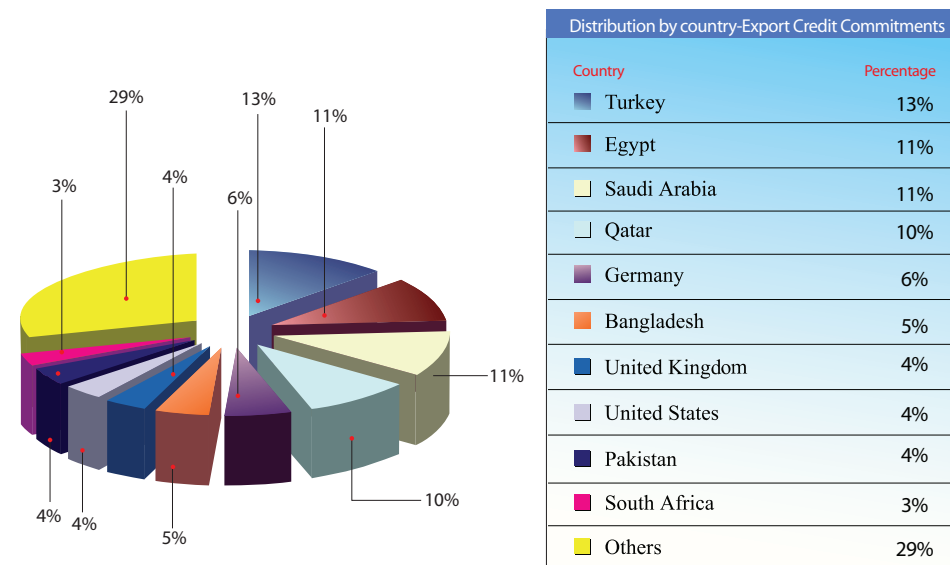


Current Commitments Per Exporter Country		
Country	USD Million	Percentage
Saudi Arabia	88.3	33%
UAE	78.3	30%
Turkey	27.3	10%
Sudan	16.6	6%
Bahrain	11.4	4%
Others	43.2	16%



Current Commitments By Buyer Region	
Buyer Region	Percentage
Western Asia	39%
North Africa	16%
South-Central Asia	11%
Northern Europe	9%
Western Europe	8%
Southern Europe	5%
Other	5%
North America	4%
Southern Africa	3%

Insurance Operations Results



3- Claims and Recovery

3.1- Claims Activities' Summary

In 1424H, ICIEC received only one claim for a total amount of USD 0.26 million. This claim represents a significant decrease from a year earlier when ICIEC received 3 claims for a total of USD 2.77 million. During 1424H, the Corporation paid one claim under a Bank Master Policy (BMP) for the amount of USD 1.16 million, representing 90% of the loss incurred by the policyholder. This is a major decrease compared to 1423H, when ICIEC paid a total of USD 4.38 million in compensation to policyholders. Recoveries effected during that period amount to USD 1.08 million. This amount is about the same as realized last year.

3.2- Claims Received

One claim was lodged with the Corporation during 1424H, under the Comprehensive Short Term Policy (CSTP) for USD 0.26 million. However, due to loss minimization efforts, the claim was eventually withdrawn as the buyer paid, albeit with some delays.

3.3- Paid Claims

During 1424H, ICIEC paid one claim to a policyholder under the BMP for a medium-term financing operation for the amount of USD 1.16 million. ICIEC accepted liability for this claim during 1423H. This loss of USD 1.28 million was sustained by a policyholder (a financial institution) involving a Murabaha financing of raw materials imported by a textile manufacturer in a Member Country. The beneficiary defaulted as a result of the fall-out of a banking crisis in his country.

3.4- Recoveries

Recoveries effected for 1424H amount to USD 1.08 million. These recoveries were received from defaulted parties located in several Member Countries. Included in this amount are the policyholder's shares of the recoveries, thus the net recoveries amount to USD 0.98 million. This brings total gross recoveries which have been realized since the commencement of operations to USD 7.58 million representing a gross recovery rate of 45%.

In its relentless pursuit to recover claims paid, ICIEC has always searched for amicable solutions that take into account the situation of the debtor. However, where the debtor does not fulfill his contractual obligations, the Corporation takes recourse to legal action. Currently, four legal cases are in different stages of the legal process in one Member Country. The Corporation negotiated and reached an amicable agreement with the defaulted party on the one claim paid during 1424H.

3.5- Loss Minimization

ICIEC works closely with its policyholders in minimizing potential losses that they could sustain. A claim which was filed this year for approximately quarter of a million dollars was withdrawn as the buyer eventually settled his debt. ICIEC also collaborated with another policyholder in loss minimization efforts concerning a financing operation involving a multi million dollar operation secured by a sovereign guarantee from a Member Country. These efforts succeeded in securing the repayment of 73% of the debt.



H.E. the President, with the General Manager of the Corporation participating in the farewell of a senior member of the IDB group management.

4- Reinsurance Activities

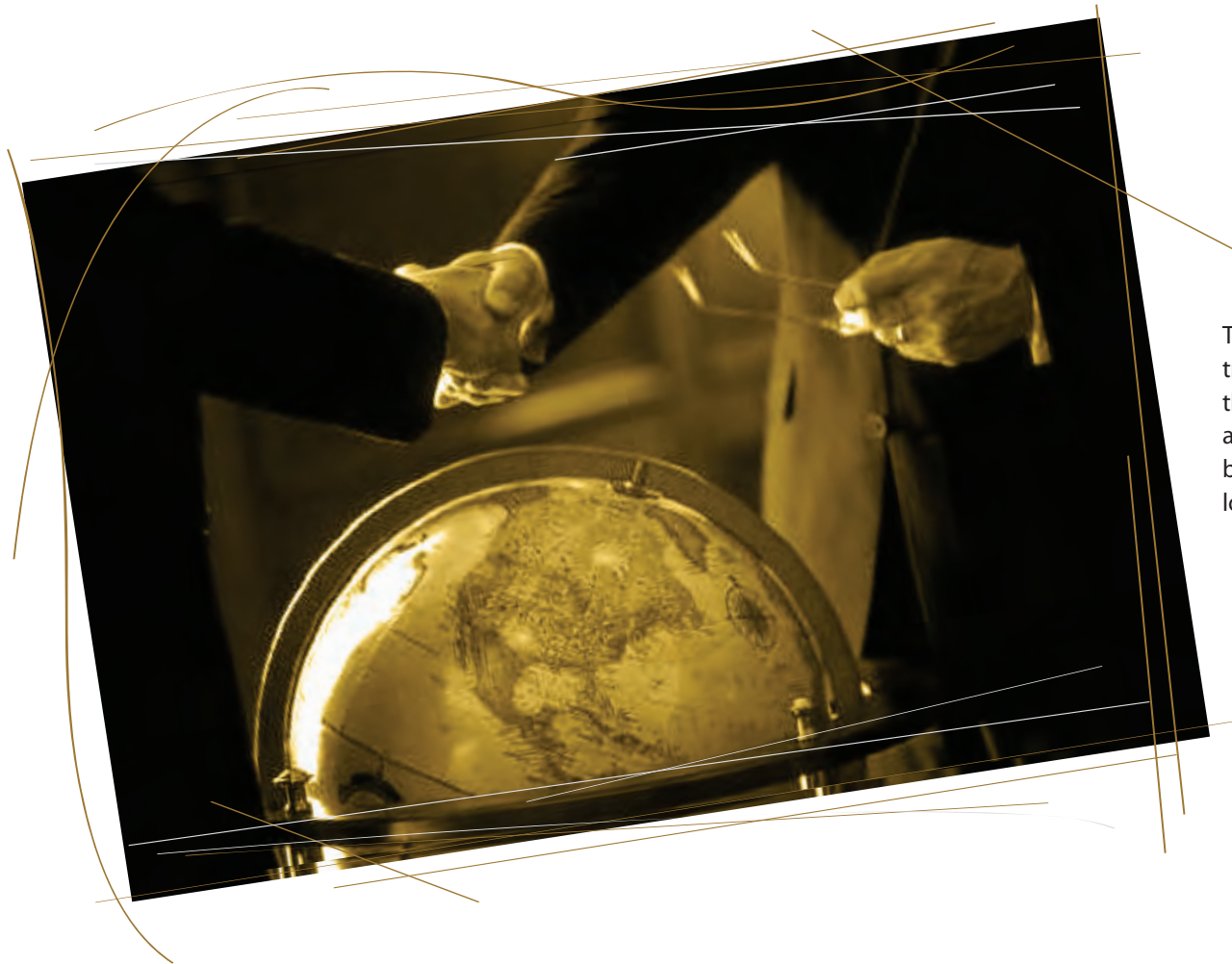
4.1- Outward Reinsurance

During this year, the Corporation continued its negotiations with Atradius Re, one of the leading reinsurers specialized in export credit and political risks. The negotiations aimed to sign a reinsurance treaty to cover the Corporation's short term portfolio. By the end of the year, Atradius Re agreed, in principle, to reinsure the Corporation's short term portfolio under a Quota Share reinsurance treaty, and it was agreed that the treaty will be operative during the first Quarter 1425H. The treaty covers the direct business underwritten by the Corporation as well as the inward reinsurance business (facultative / treaty) acceptable from Member Countries' ECAs. The list of covered countries under the treaty includes all of the Member Countries in addition to 60 non-Member countries.

4.2- Inward Reinsurance

To enhance the underwriting capacities of the ECAs in Member Countries and to enable them to expand their insurance portfolio, the Corporation introduced the Export Credit Facultative Reinsurance Facility (ECFRF) in 1421H. During the year 1424H, the Corporation received 5 facultative reinsurance enquiries from the Export Credit Guarantee of Egypt and the Export Guarantee Fund of Iran to cover exports to Sudan, Libya, Mali, Equatorial Guinea and Saudi Arabia. As the Corporation's marketing strategy assigns an important part to accepting business from national ECAs through reinsurance, the Corporation will continue its dialogue with the national ECAs to develop the inward reinsurance facility to better serve the ECAs.

Institutional Developments



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

Institutional Developments

1- Introduction

ICIEC is a unique multilateral organization, providing export credit and investment insurance and reinsurance services according to Islamic Shariah. To meet the aspirations of its Member Countries, the Corporation had the challenging task of building from scratch an institution that could support its Member Countries in expanding exports and investment flows among themselves. Since its inception in 1415H, ICIEC has been able to acquire, develop, and effectively use the required human and technical resources to develop an institution capable of achieving the mission of the Corporation and meeting the expectations of its Member Countries. During 1424H, the Corporation continued to build on its institutional development achievements realized during past years. We believe, the Corporation is now positioned to benefit from its technical and human infrastructure to meet its objectives.

2- 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 from around the world and to provide them with the best available training facilities in a supportive and professional work environment. The period from 1419H to 1424H witnessed rapid growth in the staff strength of ICIEC from 18 to 35 as it put together an organizational set up

to effectively manage the Corporation's business. The year under review, saw a consolidation of such efforts, with an increased volume of business, the staff will continue to increase to cope with the expanding business of the Corporation.

ICIEC made use of 44 training opportunities locally and abroad to train and develop 22 of its staff members, during 1424H comprehensive training plan. These training opportunities consisted of technical, computer and language development areas. Specialized technical training was arranged with COFACE (the French Export Credit Agency), as part of the benefits of joining the Coface Credit Alliance.

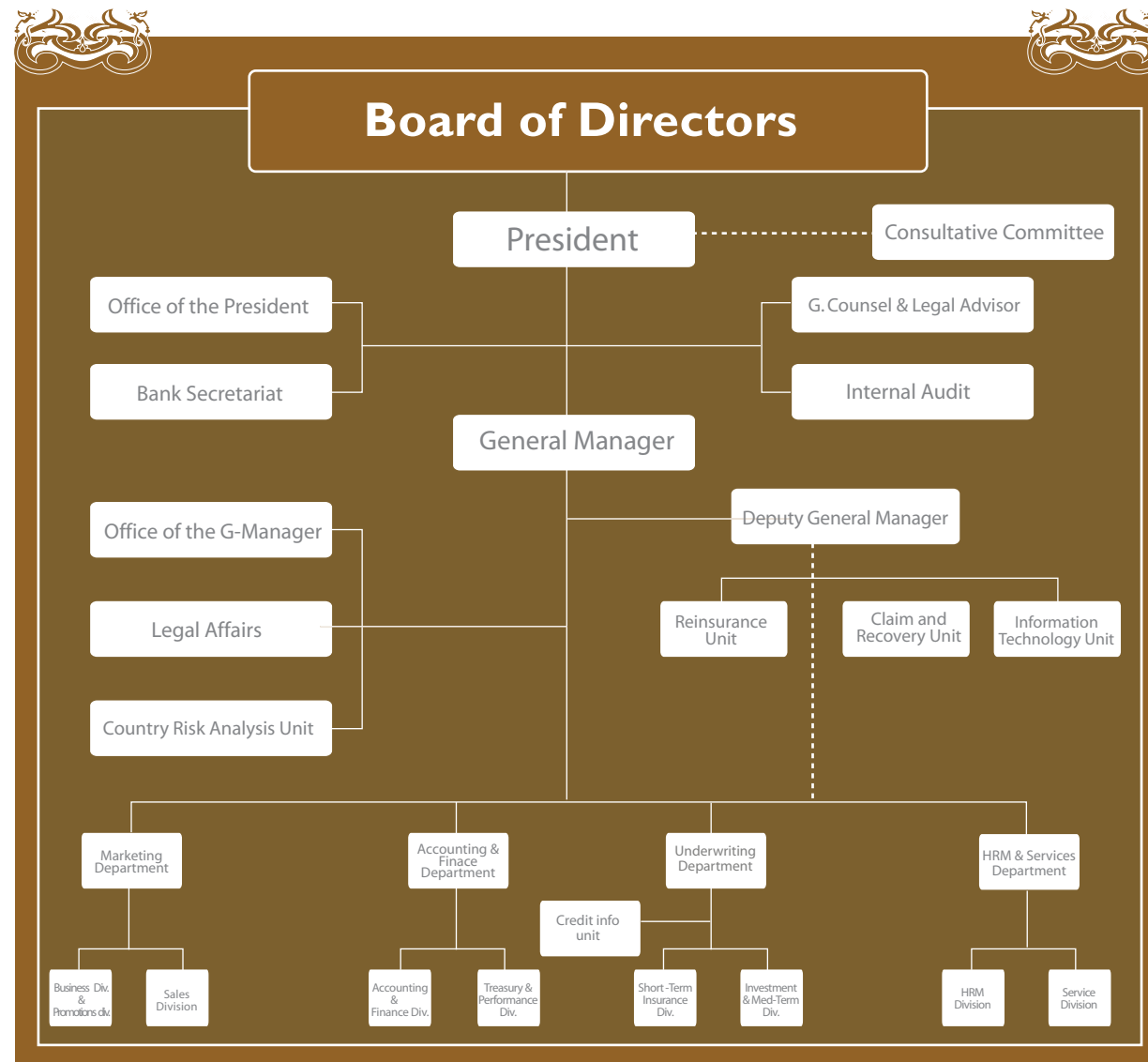
3- Technical Systems

ICIEC utilizes various operating systems, including accounting and human resources management, available from the Islamic Development Bank. The proposed introduction of Oracle Financials, an electronic document management system, and other ancillary systems, is expected to improve the operational efficiency of the IDB Group. ICIEC, as a member of the IDB Group and a contributor to the cost of developing these systems, stands to benefit from the same.

Besides the IDB Group infrastructure, the Corporation has indigenously developed an electronic insurance management information system to improve the management of its unique operational requirements. This system is undergoing extensive testing and debugging at present.

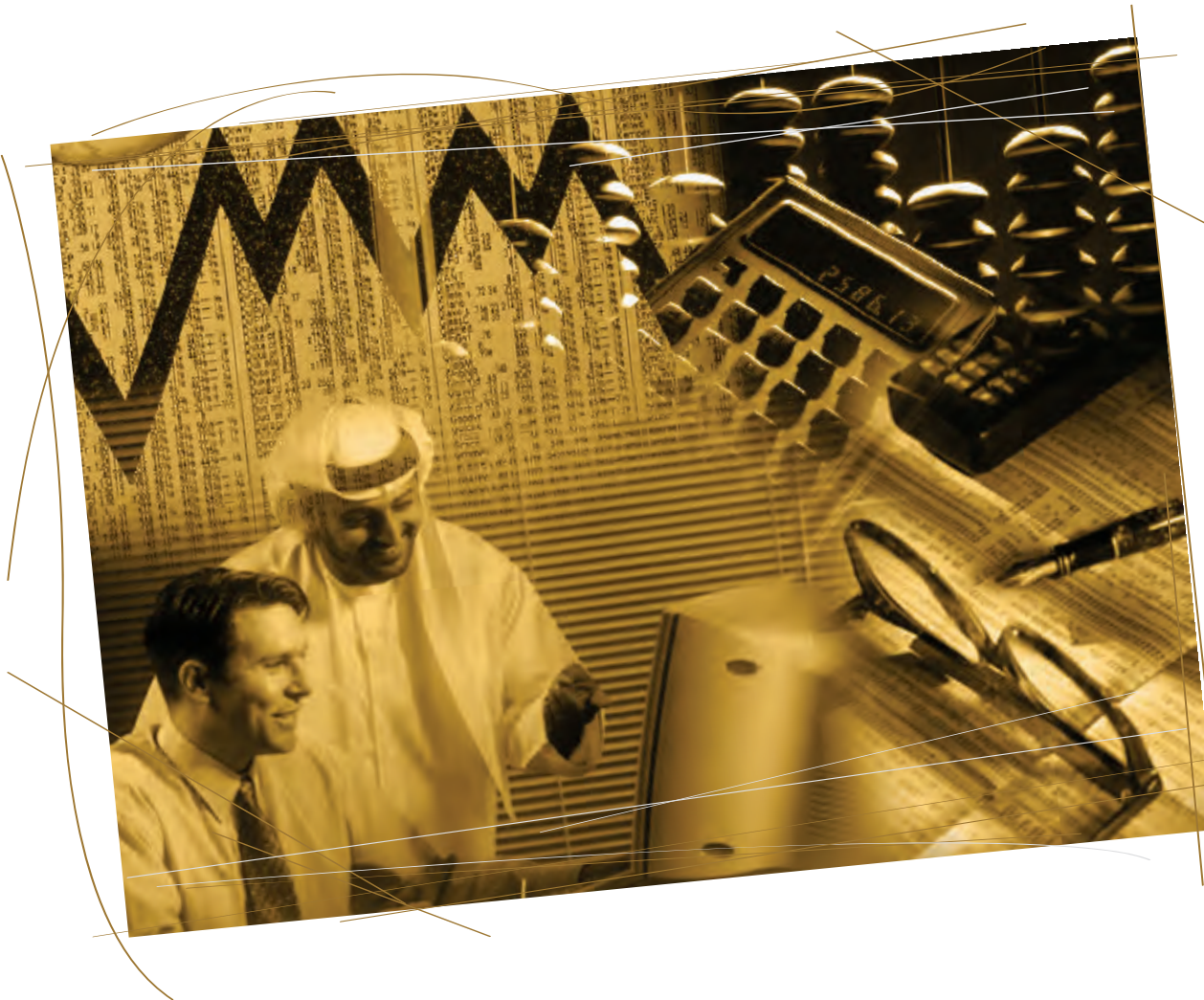


ICIEC ORGANIZATION CHART



The Corporation revised its organization structure during 1423H, to utilize its human resources in an efficient and effective manner while responding to the demands of increased business activity.

Finance and Investment Summary



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 Policyholders' Fund.

Finance and Investment Summary

1- Introduction*

The year 1424H showed a healthy recovery in the financial results of the Corporation, which were back to positive after experiencing a small deficit during 1423H due to poor investment returns and exchange losses. For the year 1424H, the Corporation experienced a 31% leap in its net insurance revenues. The total expenditure (including claims) remained 16% below last year's level. This helped bring down the deficit in insurance operations account by 40%, compared to that of 1423H. However, the gross income from invested funds continued its decline. It declined by 18% from the level achieved last year, owing to the poor performance of the international financial markets. However, due to exchange gains for the year, the overall results of the invested funds showed an increase of 35% over those achieved last year. A summary of the financial statements, highlights of the financial performance and structure of the Corporation's invested funds is provided in the following paragraphs. The details are available in the attached financial statements and accompanying notes.

2- Unit of Account

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 1.495 as at the end of 1424H).

3- 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 worth ID 250,000. During the year, four more countries joined the membership of ICIEC. As of 29 Dhul Hijja 1424H, IDB and thirty four Member Countries had subscribed to a total of 96,990 shares, equivalent of ID 96.99 (USD 145.00) million. The called-up installments amounted to ID 73.50 (USD 109.88) million, out of which ID 72.43 (USD 108.28) million has so far been paid-up. The net balance of ID 1.07 (USD 1.60) million is receivable from some subscribing Member Countries.

*The percentages calculated here are based on the attached financial statements, which are in Islamic Dinar (ID). Hence there may vary from the percentages calculated elsewhere in US Dollars.

4- 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 maintains two separate funds:

- a) Policyholders' Fund which contains mainly the insurance contributions and fees, and from which the insurance operations expenses are disbursed.
- b) Shareholders' Fund which contains the paid-up capital and the associated reserves.

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

5- Policyholders' Fund

The 1424H gross premium amounted to ID 1.29 (USD 1.93) million, compared to 1423H amount of ID 1.15 million.

The net premium and fees earned during the year amounted to ID 1.38 (USD 2.06) million, while the operating expenses were ID 2.24 (USD 3.35) million and net claims incurred were ID 0.37 (USD 0.55) million. This resulted in a net deficit of ID 1.22 (USD 1.82) million, during 1424H, showing a healthy improvement from the net deficit of ID 2.03 (USD 2.78) million incurred during 1423H.

6- 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, acting as the Corporation's Fund Manager. One long-term investment has been carried out directly by the Corporation, in the shares of IDB Unit Investment Fund. A gross income of ID 1.82 (USD 2.72) million was generated from the investments. After deducting investment management fees amounting to ID 0.12 (USD 0.18) million the net investment income was ID 1.70 (USD 2.54) million. An amount of ID 0.40 (USD 0.60) million, was reported as gain on exchange for the year, resulting in a total of ID 2.10 (USD 3.14) million of income earned from investment. The net surplus has been transferred to the statutory reserve, as mandated under the Articles of Agreement.

Finance and Investment Summary

7- Net Corporate Financial Result

The overall results of the Corporation reflect a net surplus of ID 0.88 (USD 1.32) million for the year 1424H. This was the result of a net surplus of ID 2.10 (USD 3.14) million in the Shareholders' Fund and a net deficit of ID 1.22 (USD 1.82) million in the Policyholders' Fund. At the end of 1424H, net reserves were ID 15.80 (USD 23.62) million, and total assets of the Corporation stood at ID 93.57 (USD 139.89) million. These assets primarily relate to Shareholders' Fund.

8- Liquid Funds' Investment Portfolio

The liquid funds of ICIEC have been placed primarily 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. The total amount of the liquid funds' portfolio, managed by the IDB Treasury Department, stood at ID 63.71 (USD 95.25) million at the end of 1424H. The portfolio income for the year was ID 1.33 (USD 1.99) million. The major portion of these investments (ID 56.12 (USD 83.90) million) is put in commodity placements due to mature in about 3 months from the date of acquisition. Another ID 7.59 (USD 11.35) million is placed in commodity investment for 12 months. These placements were done with reputable banks in Bahrain, Kuwait, Saudi Arabia, Turkey and United Kingdom. Another ID 4.94 (USD 7.39) million represents bank balances (JPY) kept in a United Kingdom Bank due to a lack of good investment opportunities.

An amount of ID 6.68 (USD 10.00) million remained invested in Qatar and Malaysian Sukuk (Islamic bonds) during the year, as part of the IDB Group participation in these Sukuk. The returns on these Sukuk come from lease rentals, and are paid to the holders of Sukuk on a six-monthly basis. During 1424H, an income of ID 0.11 (USD 0.16) million, was recorded from these investments. The disbursement on a syndicated Murabaha deal with IDB amounted to ID 2.94 (USD 4.40) million during the year. The income generated from this investment was negligible during 1424H, as the disbursement took place towards the end of year.

9- 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 11.52 (USD 17.22) million as at the end of 1424H. An amount of ID 0.37 (USD 0.55) million, was received as dividend from UIF, during 1424H.



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

We have audited the accompanying balance sheet of The Islamic Corporation for the Insurance of Investment and Export Credit as of 29 Dhul Hijjah 1424H (20 February 2004) and the related statements of income, cash flows and changes in shareholders' and policyholders' funds for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an 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 taken as a whole:

- i) present fairly, in all material respects, the financial position of the Corporation as of 29 Dhul Hijjah 1424H (20 February 2004), and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Corporation's Articles of Agreement in relation to the preparation and presentation of the financial statements.

For Ernst & Young



Dr. Abdullah A. Baeshen
Registration No. 66

1425H/2004 Jeddah



BALANCE SHEET

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

ASSETS	NOTES	1424	1423
Bank balances	3	5,489,648	32,346,393
Murabaha commodity placements with banks	4	66,648,470	38,757,204
Accounts receivable	5	473,167	397,314
Claims recoverable	6	2,434,029	3,403,345
Prepaid expenses and other receivables	7	209,788	171,004
Non-trading investments	9	18,211,495	16,224,180
Fixed assets	10	99,477	89,446
Total assets		93,566,074	91,388,886
LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS			
LIABILITIES			
Accounts payable and accruals	11	818,324	469,731
Claims payable	12	354,494	881,807
Amounts due to Islamic Development Bank	8	2,111,835	570,937
Unearned premiums	13	607,022	574,636
Advance billings	14	437,506	445,913
Provision for unreported claims	15	1,003,425	950,000
Total liabilities		5,332,606	3,893,024
SHAREHOLDERS' FUND			
Share capital	16	72,432,500	71,870,000
Reserve	17	30,858,463	28,757,750
Fair value reserve		(907,947)	(200,609)
Loan to policyholders' fund	18	(12,891,302)	(13,633,559)
Total shareholders' fund		89,491,714	86,793,582
POLICYHOLDERS' FUND			
Accumulated losses	17	(14,149,548)	(12,931,279)
Loan from shareholders' fund	18	12,891,302	13,633,559
Total policyholders' fund		(1,258,246)	702,280
Total liabilities, shareholders' and policyholders' fund		93,566,074	91,388,886

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on June 21, 2004

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

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT
INCOME STATEMENT

FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

	NOTES	1424	1423
SHAREHOLDERS' FUND			
Investment income		1,822,942	2,232,074
Investment management fees paid to Islamic Development Bank	8	(118,305)	(121,652)
Gain/(loss) on exchange		1,704,637	2,110,422
		396,076	(559,831)
Net income for the year		2,100,713	1,550,591
POLICYHOLDERS' FUND			
Premiums earned	19	1,181,658	878,644
Policy fees earned		202,873	179,072
		1,384,531	1,057,716
Claims incurred	20	366,560	954,339
Employees' cost		1,714,058	1,727,431
General and administration expenses		486,432	373,702
Fees paid to Islamic Development Bank	8	35,750	32,193
		2,602,800	3,087,665
Net loss for the year		(1,218,269)	(2,029,949)
NET CORPORATE INCOME/(LOSS) FOR THE YEAR		882,444	(479,358)

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

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT
STATEMENT OF CASH FLOWS

FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

	NOTES	1424	1423
OPERATING ACTIVITIES			
Net corporate income/(loss) for the year		882,444	(479,358)
Adjustments for:			
(Gain)/loss on exchange		(396,076)	559,831
Depreciation		36,343	42,031
		522,711	122,504
Changes in operating assets and liabilities:			
Amounts due to Islamic Development Bank		1,540,898	3,887,749
Other assets		854,679	689,256
Liabilities		(187,127)	(2,788,934)
Unearned premium		32,386	265,793
Provision for unreported claims		53,425	317,957
Net cash from operating activities		2,816,972	2,494,325
INVESTING ACTIVITIES			
Non-trading investments		(2,298,577)	(3,043,412)
Murabaha commodity placements with banks		(9,796,921)	33,351,693
Purchase of fixed assets		(46,374)	(47,179)
Net cash (used in)/from investing activities		(12,141,872)	(30,261,102)
FINANCING ACTIVITY			
Proceeds from issue of share capital		562,500	62,500
Net cash from financing activity		562,500	62,500
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
	21	(8,762,400)	32,817,927
Cash and cash equivalents at the beginning of the year		70,373,574	37,555,647
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	21	61,611,174	70,373,574

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

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT
STATEMENT OF CHANGES IN SHAREHOLDERS AND POLICYHOLDERS' FUNDS

FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

	Notes	Capital	Reserve	Fair value reserve	Loan to policyholders' fund	Total
SHAREHOLDERS' FUND						
Balance at 30 Dhul-Hijjah 1422H		71,807,500	27,207,159	—	(5,267,120)	93,747,539
Subscriptions paid	16	62,500	—	—	—	62,500
Net income for the year	17	—	1,550,591	—	—	1,550,591
Net movement during the year	18	—	—	—	(8,366,439)	(8,366,439)
Net fair value loss from investment in IDB-Unit Investment Fund		—	—	(200,609)	—	(200,609)
Balance at 30 Dhul Hijjah 1423H		71,870,000	28,757,750	(200,609)	(13,633,559)	86,793,582
Subscriptions paid	16	562,500	—	—	—	562,500
Net income for the year	17	—	2,100,713	—	—	2,100,713
Net movement during the year	18	—	—	—	742,257	742,257
Net fair value loss from investment in IDB-Unit Investment Fund		—	—	(707,338)	—	(707,338)
Balance at 29 Dhul Hijjah 1424H		72,432,500	30,858,463	(907,947)	(12,891,302)	89,491,714
POLICYHOLDERS' FUND						
				Accumulated losses	Loan from shareholders' fund	Total
Balance at 30 DhulHijjah 1422H				(10,901,330)	5,267,120	(5,634,210)
Net loss for the year	18			(2,029,949)	—	(2,029,949)
Net movement during the year				—	8,366,439	8,366,439
Balance at 30 Dhul Hijjah 1423H				(12,931,279)	13,633,559	702,280
Net loss for the year	18			(1,218,269)	—	(1,218,269)
Net movement during the year				—	(742,257)	(742,257)
Balance at 29 Dhul Hijjah 1424H				(14,149,548)	12,891,302	(1,258,246)

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

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

1. GENERAL

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

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 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 24 Safar 1415H and the Corporation commenced operations on 4 Safar 1416H (corresponding to 1 July 1995).

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

- (a) a policyholders' fund
- (b) a shareholders' fund

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 share-holders 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 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 \$ 1.495 as of 29 Dhul Hijjah 1424 (1423: US\$ 1.370).

At 29 Dhul Hijjah 1424H the Corporation had 35 employees (1423H: 36 employees).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year.

Premiums earned

Net premiums, after deducting policy acquisition costs, are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent premiums that belong to a period subsequent to the balance sheet date. It is computed as a percentage of direct net premiums at a rate of 50%.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

Murabaha commodity placements income

Income from murabaha commodity placements with banks 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.

Non-trading investments income

Income is recognized when the right to receive payment is established.

Bank commission income

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

Outstanding claims

Outstanding claims comprise the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates. 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 at the balance sheet date.

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

Murabaha commodity placements with banks

Murabaha commodity placements with banks are stated at total amounts due including mark-up at maturity date less any provision for impairment. The portion of mark-up which has not been accrued to income is considered as unearned income and deducted from the total amounts due including mark-up at maturity date.

Non-trading investments

Non-trading investments are classified as "held to maturity" or "available for sale".

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on investments designated as held to maturity or available for sale are amortised on a systematic basis and taken to the income statement.

Held to maturity

Investments which yield fixed or determinable payments which are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Unrealised gains and losses are reported as a separate component of the statement of changes in shareholders' fund until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in the statement of changes in shareholders' fund is included in the income statement for the period.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and any impairment loss is recognized in the income statement.

Foreign currencies

The records of the Corporation are maintained in Islamic Dinars (ID). Transactions in other currencies are recorded in Islamic Dinars at the approximate rates of exchange prevailing at the time of transactions. Monetary assets and liabilities in other currencies at the balance sheet date are retranslated at the year end rates of exchange. Exchange differences are reported as part of the results for the year.

Cash and cash equivalents

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

Employees' retirement benefits

The Corporation subscribes to the staff retirement benefit plans of IDB group. The contributions under these plans are paid to IDB, and in return, IDB assumes the obligation for payment of employees' retirement benefits.

3. BANK BALANCES

	1424	1423
Shareholders' fund:		
Current accounts	116,564	5,413,217
Time deposits	4,943,051	26,501,007
Policyholders' fund	430,033	432,169
Total	5,489,648	32,346,393

4. MURABAHA COMMODITY PLACEMENTS WITH BANKS

	1424	1423
Shareholders' fund:		
Murabaha Commodity placements net:		
With original maturity period of three months or less.	56,121,526	38,027,181
With original maturity period of more than three months.	10,526,944	730,023
Total	66,648,470	38,757,204

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

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

5.ACCOUNTS RECEIVABLE

Accounts receivable are related to the policyholders' fund.

6.CLAIMS RECOVERABLE

Claims recoverable are related to the policyholders' fund.

7.PREPAID EXPENSES AND OTHER RECEIVABLES

	1424	1423
Shareholders' fund	146,817	117,336
Policyholders' fund	62,971	53,668
Total	209,788	171,004

8.AMOUNTS DUE TO ISLAMIC DEVELOPMENT BANK

	1424	1423
Policyholders' fund	2,111,835	570,937
Total	2,111,835	570,937

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

9.NON TRADING INVESTMENTS

	Held to maturity	Available for sale	1424	1423
Shareholders' fund:				
Quoted investments				
Units in IDB-Unit Investment Fund	–	11,521,995	11,521,995	12,574,065
Sukuk	6,689,500	–	6,689,500	3,650,115
Total	6,689,500	11,521,995	18,211,495	16,224,180

10.FIXED ASSETS

The Corporation's fixed assets are related to the policyholders' fund.

11.ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals are related to the following:

	1424	1423
Shareholders' liabilities:		
Bank commission	574,680	219,362
	574,680	219,362
Policyholders' Liabilities:		
Other payable	125,723	86,403
Accrued expenses	117,921	163,966
	243,644	250,369
Total	818,324	469,731

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

12. CLAIMS PAYABLE

Claims payable are related to the policyholders' fund.

13. UNEARNED PREMIUMS

Unearned premiums are related to the policyholders' fund

14. ADVANCE BILLINGS

Advance billings are related to the policyholders' fund

15. PROVISION FOR UNREPORTED CLAIMS

Provision for claims estimated as incurred but not reported relates to the policyholders' fund and represents 1% of the total exposure of the Corporation.

16. SHARE CAPITAL

	1424	1423
Authorized capital		
100,000 shares of ID 1,000 each	100,000,000	100,000,000
Issued and subscribed capital		
50,000 shares of ID 1,000 each fully paid	50,000,000	50,000,000
46,990 (1423 H:45,240) shares of ID 1,000 each, of which ID 500 has been called up	23,495,000	22,620,000
Less: subscriptions receivable	(1,062,500)	(750,000)
Total	72,432,500	71,870,000

The remainder of the uncalled subscriptions on issued capital is 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 states) 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 the shareholder ceases to be a member.

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 reserves, until such reserves equal five times the subscribed capital of the Corporation.

After the reserves 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 reserves.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

18. LOAN TO POLICYHOLDERS' FUND FROM SHAREHOLDERS' FUND

In accordance with clause 13 (3) of the Articles of Agreement, the deficit in the policyholders' fund has been covered by a loan from the shareholders' fund. The loan is recoverable only from the future surplus accruing to the policyholders' fund.

Loan from shareholders' fund is comprised of the following:

	1424	1423
Policyholders' fund:		
Total assets	3,499,680	4,629,533
Total liabilities	(4,757,926)	(3,665,616)
Accumulated loss	14,149,548	12,669,642
Net deficit in policyholders' fund	12,891,302	13,633,559

19. PREMIUMS EARNED

	1424	1423
Gross premiums	1,289,728	1,151,968
Advance billings at the end of the year	(437,506)	(445,913)
Advance billings at the beginning of the year	445,913	532,245
Reinsurance premiums	1,298,135	1,238,300
	(84,091)	(89,028)
Net premiums	1,214,044	1,149,272
Unearned premiums at the beginning of the year	574,636	304,008
Unearned premiums at the end of the year	(607,022)	(574,636)
Premiums earned	1,181,658	878,644

20. CLAIMS INCURRED

	1424	1423
Gross claims paid	805,959	3,525,436
Recoveries, net (see note below)	34,489	(474,883)
Net claims	840,448	3,052,553
Outstanding claims:		
Movement in provision for unreported claims	53,425	317,957
Movement in claims payable	(527,313)	(2,416,171)
Claims incurred	366,560	954,339

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

NOTES TO FINANCIAL STATEMENTS

Year ended 29 Dhul Hijjah 1424H (20 February 2004) (Islamic Dinars)

Recoveries represent amounts collected or collectible by the Corporation in respect of debts which were the subject of insurance claims during the year, net of the corresponding reinsurers' share (1424H: Nil, 1423H: Nil). Any revisions to previous estimates of amounts considered to be collectible are adjusted in the year in which such estimates are revised.

21. CASH AND EQUIVALENTS

	1424	1423
Bank balances	5,489,648	32,346,393
Murabaha commodity placements with banks	56,121,526	38,027,181
	61,611,174	70,373,574

22. 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.

23. RISK MANAGEMENT

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

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Corporation the maximum credit risk exposure to the Corporation is the carrying value as disclosed in the balance sheet. The financial instruments which subject the Corporation to credit risk principally consist of bank balances and murabaha commodity placements with banks.

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

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

b) 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 denominated in Islamic Dinars and is held in major stable currencies, in line with 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.

c) 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.

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 1424H amounts to ID 100.3 million (ID 94.9 million in 1423H). 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 (Notes 15 and 20).

24. ZAKAT AND TAX TREATMENT

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

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