

# ANNUAL REPORT | 427H

2006-2007

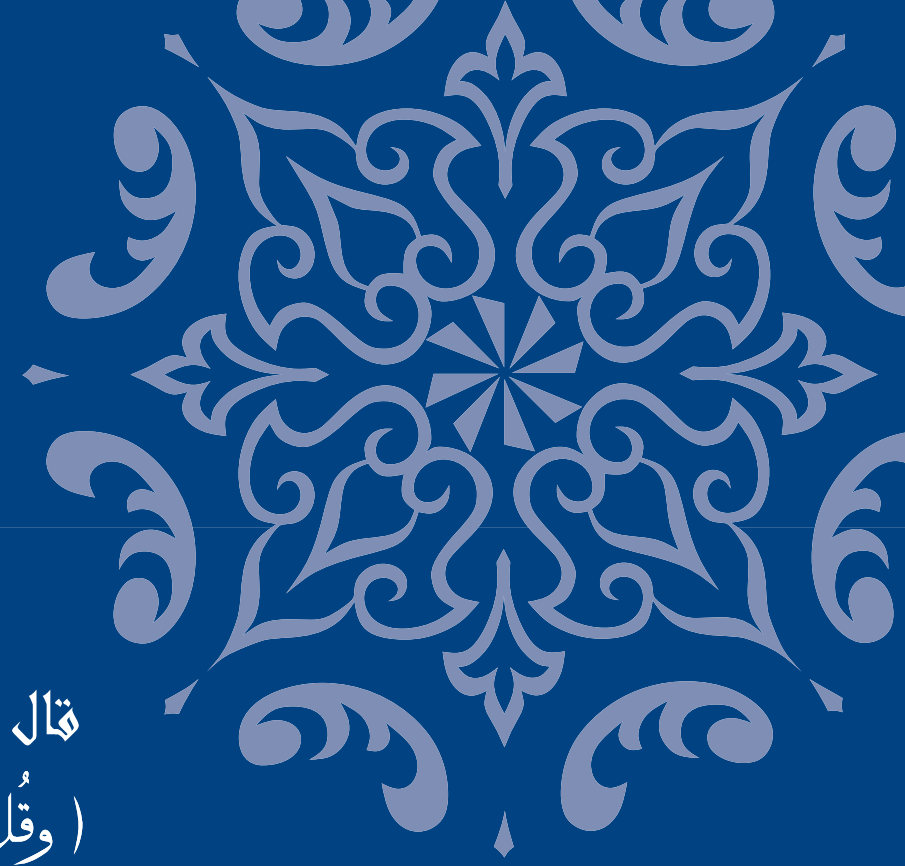


Sécurité Globale



The Islamic Corporation for the Insurance of Investment and Export Credit  
(Member of the Islamic Development Bank Group)





قال الله تعالى  
( وَقُلْ اَعْمَلُوا فَسَيَرَى اللّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ )  
صدق الله العظيم



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## Key Data and Results Summary

<b>OPERATIONS</b> (USD million) <sup>1</sup>	I427H	I426H	Change%
New Commitments	1,399	808	73
Current Commitments	1,467	808	82
Business Insured	859	618	39
Current Exposure	825	447	85
Premium & Fee	6.58	3.95	67
Claims Paid	4.00	1.92	108
Recoveries	1.36	0.45	202
Reinsurance Expenses	0.89	0.15	493
Admin. and General Expenses	4.65	3.87	20
Technical Result	(1.60)	(1.54)	–
<b>FINANCIAL</b>			
<b>Share Capital (ID million)<sup>2</sup> :</b>			
Authorized	100.00	100.00	–
Subscribed	97.24	97.24	–
Paid-up	72.74	72.74	–
<b>Shareholders' Fund (USD million)<sup>3</sup> :</b>			
Net Revenues	5.68	5.17	10
Surplus / (Deficit)	5.44	4.78	14
Accumulated Surplus / (Deficit)	58.02	52.22	11
<b>Policyholders' Fund (USD million)<sup>3</sup> :</b>			
Net Revenues	3.40	3.45	(1)
Surplus / (Deficit)	(3.74)	(1.53)	144
Accumulated Surplus / (Deficit)	(29.53)	(24.98)	18
<b>Corporate Result (USD million) :</b>			
Net Surplus / (Deficit) <sup>3</sup>	1.70	3.25	(48)
Net Reserves <sup>4</sup>	28.49	25.96	10
Investments & Bank Balances <sup>4</sup>	141.08	137.21	3
Total Assets <sup>4</sup>	148.08	141.25	5

<sup>1</sup> Gross cash values prior to accounting adjustment

<sup>2</sup> ID (Islamic Dinar) 1.00=USD 1.444 (I426H), ID 1.00=USD 1.49 (I427H)

<sup>3</sup> Retranslated from ID to USD at the year-end exchange rates

<sup>4</sup> Accumulated amounts in USD are based on the accumulated ID amounts translated at the year end exchange rate for the particular year.



# Transmittal Letter

## Transmittal Letter

In the Name of Allah, the Beneficent, the Merciful



Date: 21/03/1428H  
09/04/2007G

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

Dear Brothers,

Assalamo-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 1427H, including audited financial statements.

Please accept the assurances of my highest consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dr. Ahmad Mohamed Ali'.

Dr. Ahmad Mohamed Ali  
President of ICIEC



# Management Structure



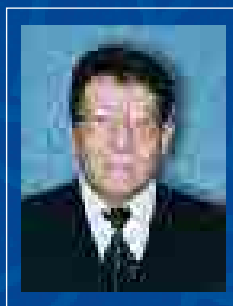
## ICIEC Board of Directors



**H.E. Dr. Ahmad Mohamed Ali**  
President, ICIEC and Chairman Board of Directors



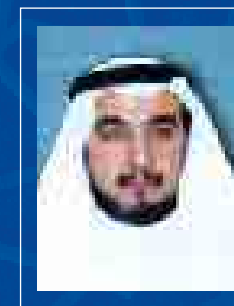
Hon. Agus Muhammad



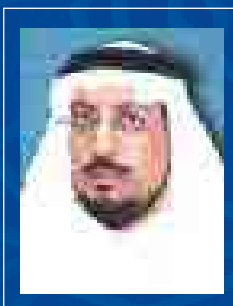
Hon. Aissa Abdellaoui



Hon. Arslan Meredovich Yazyyev



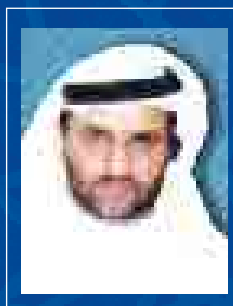
Hon. Faisal Abdul Aziz Al-Zamil



Hon. Ibrahim Mohamed Al-Mofeh



Hon. Issufo Sanha



Hon. Jamal Nasser Rashid Lootah



Hon. Mohammad Azzarog Rajab



Hon. Md. Ismail Zabihullah



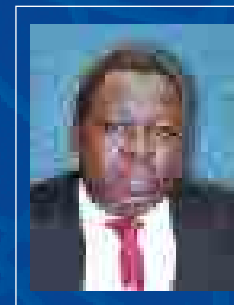
Hon. Dr. Selim C. Karatas



Hon. Somone Mibrathu



Hon. Dr. Tahmaseb Mazaheri



Hon. Yakoubou Mahaman Sani



Hon. Zeinhom Zahran

Members are in alphabetical order

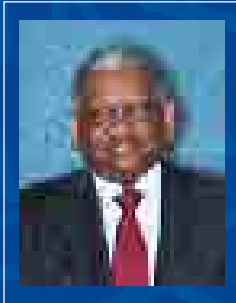
## Consultative Commitee



Dato Mohd. Fadzli Yusof  
Chairman



Dr. Abdel-Rahman Eltayeb Taha  
Member



Dr. Mohammad El Fatih Hamid  
Member



Mr. Mamadou Mansour Cama  
Member



Dr. Salih Malayika  
Member



Mr. Ahmet Kilicoglu  
Member

## Officers of the Corporation



Dr. Ahmad Mohamed Ali  
President, ICIEC



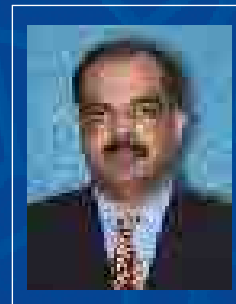
Dr. Abdel-Rahman Eltayeb Taha  
General Manager



Khemais El-Gazzah  
Underwriting Manager



Rahimi Ahmed Rahimi  
Human Resource  
and Service Manager.



Irfan Bukhari  
Marketing Manager



Muhammad Azam Arif  
Accounts & Finance Manager

# Vision

"To be the internationally recognized Leader in Shariah compatible Export Credit and Investment Insurance and Reinsurance in Member Countries."







## 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 Shariah compatible Export Credit and Investment Insurance as Credit and Country Risk mitigation instruments.”



## Message from the President



It gives me great pleasure to report to the stakeholders of ICIEC that the Corporation has again experienced a year of high growth in its credit and country risk insurance business. Thanks to an aggressive direct marketing strategy and a robust market demand for risk mitigation and credit enhancement services, ICIEC's new Insurance Commitments surged by 73% to reach USD 1.40 billion. The actual Business Insured reached USD 859 million, an increase of 39% from the previous year. However, claims paid more than doubled to reach USD 4 million, resulting in a deficit of USD 1.60 million in the technical account which is roughly the same as reported last year. These results brought the cumulative Insurance Commitments and Business Insured since the inception of business in 1995 to USD 3.8 and 2.3 billion respectively.

I must assure the stakeholders and clients of ICIEC that the strong growth of business that ICIEC has experienced for the last four years, did not come at the expense of sound underwriting and proper risk management. Indeed, the risk portfolio of ICIEC witnessed marked improvements in terms of balance and quality, with OECD and other investment grade countries making up more than 70% of total exposure, and short-term transactions contributing 76% of total exposure. Moreover, ICIEC has substantially increased its cession to the reinsurance market from 6% to 18% of its current portfolio.

The financial results of the Policyholders' Fund (the Insurance Operations Account) did not reflect the above performance due to the substantial increase in paid claims and premium income transferred to re-insurers. In addition, a good part of the premium income generated from medium and long-term insurance business was designated as "unearned" and thus did not count for 1427H. Thus the deficit in the Fund reached USD 3.74 million. However, this was more

than offset by a healthy increase in the net surplus in the Shareholders' Fund (the Shareholders Equity Investment Account) of USD 5.44 million, to realize a net profit for the Corporation of USD 1.70 million and bring accumulated net reserves to USD 28.49 million (26% of the Paid-up Capital).

ICIEC's activities were not confined only to its core insurance business, as its developmental mandate dictates that it engages in various endeavors designed to support and help Member Countries expand their exports and attract more foreign investment flows. Toward this end, ICIEC was assigned the management of the IDB Group Investment Promotion Technical Assistance Program (ITAP), designed to help Member Countries improve their capability to attract foreign direct investment. ICIEC also redoubled its efforts to support export credit agencies in Member Countries through providing reinsurance and technical assistance services.

ICIEC's Medium Term Strategy calls for the continuation of the high rate of growth in business turnover coupled with prudent risk management and improved financial results. This strategic objective which, hither-to-fore, was achievable is now hampered by an exhausted insurance capacity. The Corporation has sought and implemented various solutions to ameliorate the capacity problem including the increase of the gearing ratio of capital to insurance commitments and the expansion of reinsurance, but in the end, an injection of more capital resources is imperative, if the Corporation is to be able to realize its mandate of encouraging Member Countries' exports and facilitating the flow of investments into them.

**Dr. Ahmad Mohamed Ali**  
President of ICIEC

# ICIEC - AN OVERVIEW

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established in 1415H. It is a member of the 'AAA' rated Islamic Development Bank (IDB) Group, and has an authorized capital of ID 100 million. Its shareholders are the Islamic Development Bank and 35 OIC Member Countries.



## 1 . Legal Structure

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is a member of the Islamic Development Bank Group (IDB). ICIEC was established on 24 Safar 1415H (1st August 1994G) as an international institution with full juridical personality.

## 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 1427H, there were 36 shareholders of ICIEC, comprising IDB and 35 countries including 16 Arab Countries, 11 African Countries and 8 Asian Countries. Several other countries are in the process of completing the membership requirements.

## 3. Share Capital

The authorized share capital of ICIEC is ID\* 100 million (USD 149 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 is left for subscription by 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). As of 29 Dhul Hijja 1427H, IDB and thirty five Member Countries had subscribed to a total of 97,240 shares, equivalent of ID 97.24 (USD 144.89) million. The called-up installments amounted to ID 73.56 (USD 109.60) million, out of which ID 72.74 (USD 108.39) million has so far been paid-up. The net balance of ID 0.82 (USD 1.21) million is receivable from some Member Countries (list of ICIEC's existing members and their ownership distribution is provided in the table on Page 12).

## 4. Objective

ICIEC's objective is to increase the scope of trade transactions from and to facilitate foreign direct investments into Member Countries, and to provide reinsurance facilities to Export Credit Agencies (ECAs) in Member Countries. ICIEC fulfills these objectives by providing appropriate Islamic Shariah compatible credit and country risk insurance and reinsurance instruments.

## 5. Management

The overall management of ICIEC is organized in a four-tier structure, summarized in the table below:

<b>Board of Governors (BOG)</b>	The BOG is composed of Governors representing the Member Countries of the IDB and ICIEC. All powers of the Corporation are vested in the BOG. However, BOG may delegate its powers to the Board of Directors of the Corporation (BOD).
<b>Board of Directors (BOD)</b>	The BOD is responsible for the general direction of the operations of ICIEC.
<b>The President</b>	The President of The Islamic Development Bank is ex-officio the President and the Chief Executive of the Corporation, responsible for conducting its affairs under the direction of the BOD. 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 ICIEC's General Manager.
<b>The General Manager</b>	The General Manager is responsible for conducting the day-to-day business of the Corporation, in the context of the authority delegated to him by the President.

In addition, there is a **Consultative Committee** for the Corporation which 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.



Members of ICIEC's Consultative Committee

\* 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 1.49 as at the end of 1427H).



## 6- Insurance Facilities

ICIEC's services are tailored to target three market segments; Exporters, Banks and Investors. For each of the segments, ICIEC provides different insurance instruments to address specific customer needs.

### 6.1 - Export Credit Insurance Services

ICIEC offers five Export Credit Insurance products which are summarized in the table below:

Segment	Instrument / Product	Maximum Term	Purpose	Risks Covered
Exporters	Comprehensive Short Term policy (CSTP)	1 year	To protect Exporters and Banks against the risk of non-payment of an export receivable.	Non-payment due to Commercial and Country Risks
	Supplemental Medium Term Policy (SMTP)	7 years		
	Specific Transaction Policy (STP)	7 years		
Banks	Bank Master Policy (BMP)	7 years	To protect the confirming bank of a Letter of Credit against the risk of non-payment by the issuing bank.	
	Documentary Credit Insurance policy (DCIP)	1 year		

### 6.2 - Foreign Investment Insurance Services

ICIEC offers three foreign investment insurance policies :

- (1) Equity Investment Insurance Policy.
- (2) Financing Facility Investment Insurance Policy.
- (3) Loan Guarantees Investment Insurance Policy.

These policies provide long-term insurance cover against country risks for foreign investment flows into Member Countries, irrespective of their country of origin. Such risks include war, civil disturbances, foreign exchange convertibility and transfer restrictions, nationalization and other forms of host country government interference which may deny the investor his rights to control and manage his investments.



ICIEC recently entered into a reinsurance agreement with Coface SA. Under the terms of the agreement, ICIEC will provide insurance to exporters from Member Countries under a new product, the "Globalliance" policy. ICIEC shall share the risks under this policy with Coface, who will be handling the business development and risk management aspects of the policies issued.

ICIEC's considerable experience in Member Country markets combined with the formidable risk management expertise of Coface worldwide will lead to a productive partnership for all stakeholders involved. Coface SA is one of the world's largest credit insurers with over 85,000 clients in 93 countries and 2005 revenues of USD 1.6 billion. It is rated AA by S&P and Aa3 by Moody's.



ICIEC participating in a seminar held in Riyadh, organized by the Chamber of Commerce and Industry - 2006



In keeping with ICIEC's role as a leading ECA among the OIC Member Countries, strong relationships have been formed with other ECAs in Member States. The Corporation signed 2 Reinsurance Facility Agreements (RFAs) with CAGEX (Algeria) and EIC (Iran), in 1427H, bringing the total number of RFAs signed to-date to nine. ICIEC has active business lines with Shiekhan of Sudan, Cotunace of Tunisia, EGFI of Iran and ECGE of Egypt.

During 1427H, 245 Credit Limit Applications (CLAs) were received under the RFAs. Out of these, ICIEC approved 173 CLAs for a total amount of USD 126 million.

ICIEC also organizes a biennial meeting of OIC Member Country ECAs, which serves as a platform for the ECAs to exchange information and experience and to be acquainted with latest developments in the industry and region.

### 6.3 - Reinsurance Services

To fulfill its mandate to assist the development of the export credit insurance agencies in Member Countries and to help realize its long-term strategy of becoming a wholesaler of insurance products, ICIEC successfully developed and launched its Reinsurance Facility Agreement (RFA). This product, which is offered to Export Credit Agencies (ECAs) and commercial insurance companies in Member Countries, is essentially a facultative reinsurance arrangement that could be developed into a quota-share treaty. In addition, the Corporation can directly participate in reinsurance treaties signed between ECAs and international reinsurance providers.

## ICIEC's Credit and Country Risk Environment




















The credit and country risk environment of the countries in which ICIEC operates remained stable, thanks to the healthy world economic growth which was 5.1% in 2006 and is projected at 4.9% for 2007. Despite this good news, there are serious concerns on external imbalances faced by some key economies of the world. The US economy is suffering from external account deficits and a downturn in housing market, while the economic growth of the EU zone and Japan is dogged by weak performance.


















Most of ICIEC's member countries have benefited either from the high oil prices or buoyant non-oil commodity prices that have prevailed in the past few years. Although oil prices fell in early 2007, they still remain high in comparison to historical trends. This has not had serious dampening effect on the world economy, though a number of low income oil-importing countries suffered from this effect.

Overall, member countries performed well in 2006 with a GDP growth of nearly 6%. However, dependence on commodity prices, including oil, and the uncertain political and security climate are the most serious challenges faced by some member countries. Also, the continued real estate boom in the Gulf is a cause for concern, as it might not be sustainable in the medium-long term.

Barring the above-noted factors, mostly exogenous, there are good grounds to expect another good year for the exporters of ICIEC's member countries, and more foreign investment inflow into these countries.

## Membership and Capital Subscriptions Status as at end of 1427H (19<sup>th</sup> January 2007G)

	MEMBERS	DATE OF ARTICLES RATIFICATION	NUMBERS 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. Djibouti	08.08.04	250	250,000
	10. Egypt	30.12.92	2,500	2,500,000
	11. Gambia	01.03.96	250	250,000
	12. Guinea	22.07.97	250	250,000
	13. Indonesia	24.04.93	250	250,000
	14. Iran	19.12.96	5,000	5,000,000
	15. Jordan	21.04.93	250	250,000
	16. Kazakhstan	02.01.03	250	250,000
	17. Kuwait	13.07.94	2,500	2,500,000
	18. Lebanon	17.08.95	250	250,000
	19. Libya	06.02.93	1,000	1,000,000

	MEMBERS	DATE OF ARTICLES RATIFICATION	NUMBERS OF SHARES SUBSCRIBED	VALUE OF SHARES (ID*)
	20. Malaysia	01.08.94	2,740	2,740,000
	21. Mali	04.09.93	250	250,000
	22. Mauritania	18.07.95	250	250,000
	23. Morocco	08.02.97	5,000	5,000,000
	24. Niger	04.03.03	250	250,000
	25. Pakistan	08.05.93	2,500	2,500,000
	26. Qatar	11.07.00	250	250,000
	27. Saudi Arabia	03.12.92	13,500	13,500,000
	28. Senegal	19.09.95	250	250,000
	29. Sudan	10.07.95	250	250,000
	30. Syria	01.02.98	250	250,000
	31. Tunisia	22.02.93	500	500,000
	32. Turkey	30.07.97	2,500	2,500,000
	33. Uganda	04.02.99	250	250,000
	34. UAE	11.07.00	2,500	2,500,000
	35. Yemen	30.12.96	500	500,000
	36. IDB		50,000	50,000,000
	<b>TOTAL</b>		97,240	97,240,000

\* ID 1.00 = USD 1.49 at end of 1427H



# MARKETING ICIEC's SERVICES

The Direct Marketing strategy, close relationship with key exporters and regional banks, introduction of new products coupled with renewed emphasis on investment insurance business generated significant volume of high quality business for the Corporation during 1427H.





## 1. Summary

During 1427H, the Corporation continued to implement its Marketing Strategy which focuses on direct marketing, targeting quality exporters, emphasizing investment insurance and promoting inward reinsurance to Export Credit Agencies (ECAs) in Member Countries. Also, the Corporation focused on enhancing the business relationship with the existing customer base, with the intention of obtaining additional insured business from them, many of whom have a considerable amount of export business that is currently not insured by ICIEC.

The Corporation's combined strategy of direct marketing and enhancing relationship with existing customers proved to be successful as it resulted in a considerable expansion of ICIEC's insurance business.

## 2. Export Credit Insurance

During 1427H, the Corporation undertook a two-pronged strategy to enhance its business volumes. While it continued its direct approach, which is based upon targeting new customers in a select group of Member Countries, it also focused on enhancing the business relationship with its existing key customers. The implementation of this approach resulted in a considerable increase in the insurance commitments, insured business and a corresponding rise in premium income.

During the period under review, the Corporation met with 145 banks and exporters in its Member Countries to sell the Export Credit Insurance services. This resulted in 16 new applications, which increased the total ICIEC customers to 60. ICIEC also met with 13 existing customers to encourage them to utilize ICIEC services more widely.

These meetings with potential and existing customers contributed in enhancing the number of Credit Limit Applications from 575 last year to 1,100 this year and new approvals from USD 431 million to USD 971 million during the same period. Overall, the Export Credit related business insured increased from USD 546 million to USD 796 million, an increase of 46% during the period under review.

## 3. Investment Insurance

The Corporation cooperated with the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, and continued to launch joint investment insurance marketing missions focusing

on the MENA Region. This joint effort aimed at growing the investment insurance applications pipeline to reach almost USD 1 billion. During the year, the efforts in this area of business resulted in the Corporation receiving 11 preliminary applications in support of investments aggregating USD 769 million, and 4 main applications for investment insurance coverage amounting to USD 259 million. These applications are still under process.



ICIEC and the Multilateral Investment Guarantee Agency (MIGA) have enjoyed a close working relationship for quite some time now, working in close coordination on a number of fronts including joint marketing for Political Risk Insurance in the Member Countries, Reinsurance for Political Risk, Technical Support and Training.

Additionally, ICIEC also partners with MIGA in the Investment Promotion and Technical Assistance (ITAP) Program, an initiative aimed at increasing investment flows and capacity building in IDB Member Countries.

As a member of the World Bank Group, MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives. Since its inception in 1988, MIGA has issued nearly 850 guarantees worth more than \$16 billion for projects in 92 developing countries.

## 4. Relationship with Commercial Banks

During 1427H, the Corporation made special efforts to establish relationships with all the major investment banks in the key regional financial centers, with the intention of increasing ICIEC medium term, project, and letters of credit insurance business. In this regard, ICIEC has succeeded in developing business relationships with major banks involved in project and trade finance. A number of the visited banks, especially those whose core business is related to trade finance, have shown a keen interest to utilize ICIEC's services. Some of these institutions are in the process of obtaining internal credit limits on ICIEC, and others are looking for an appropriate transaction to commence a relationship with ICIEC.



Dubai Islamic Bank

Dubai Islamic Bank is a strategically important partner of ICIEC. The Corporation has been supporting a considerable volume of DIB project financing and trade financing transactions in its Member Countries, thereby enabling the bank to undertake risks which they would not normally underwrite.

Established in 1975, DIB was the first bank to operate in accordance with principles of Sharia. With total assets of over USD 11 billion, the bank enjoys a reputation as a leader and innovator in maintaining the quality, flexibility and accessibility of its products and services.



National Commercial Bank (NCB) holds the Documentary Credit Insurance Policy (DCIP) of ICIEC.

Under the policy, ICIEC has been insuring Letters of Credit (LCs) confirmed by NCB from banks based in various Member Countries. This alliance with ICIEC allows NCB to manage its risk portfolio and increase its business in Member Countries.

With paid-up capital of USD 1.6 billion, NCB is the largest bank in terms of capital both in Saudi Arabia and in the Middle East. NCB operates 255 branches throughout Saudi Arabia, including 234 branches dedicated exclusively to Islamic Banking services.

## 5. Other Marketing Activities

### 5.1 - ICIEC's Website [www.iciec.com](http://www.iciec.com)

The marketing strategy of ICIEC includes utilizing the internet as a marketing medium. IDB has undertaken the design and implementation of a state-of-the-art portal. The launching of ICIEC's new website is expected to take place by the middle of 1428H.

### 5.2 - Marketing Missions, Promotional Seminars and Conferences

During 1427H, ICIEC participated in various regional and international conferences and seminars related to its business and assisted in promoting its services at the regional and international levels. These missions were also used as an opportunity to network with exporters, banks and investors.

To promote ICIEC's export credit and country risk insurance services for its Member Countries in West Africa, ICIEC organized in cooperation with the National Confederation of Employers in Senegal (CNES) a seminar titled **"Insurance and Promotion of Direct Investments and Exports in West Africa"**, held in Dakar, Senegal, on 1<sup>st</sup> Muharram 1427H ( 31<sup>st</sup> January 2006), under the patronage of H.E Mr. Abdoulaye Diop, Minister of State and Minister of Economy and Finance, Governor for Senegal in ICIEC/IDB Board of Governors.

The seminar attracted the private sector from 11 West African countries, the Multilateral Investment Guarantee Agency of the World Bank, United Nations Industrial Development Organization, Malaysian Industrial Development Authority, The African Fund of Guarantee & Economic Cooperation, Société Nationale D'assurance Et De Crédit Sonac (the national ECA of Senegal), Islamic Corporation for the Development of the Private Sector, and Trade Finance and Promotion Department of the IDB, other multilateral and regional institutions such as African Development Bank, Afreximbank, Turk-Exim Bank and many other local and regional organizations.



Opening session of ICIEC's promotional seminar in Dakar - January 2006

### 5.3 - Cooperation with Partners

In September 2006, ICIEC signed a Memorandum of Understanding (MoU) with the Uzbekinvest. The purpose of the agreement is to formalize the planned cooperation between the two organizations. It is expected that by the signing of this MoU there will be enhanced cooperation for the mutual benefit of both organizations and that it will encourage trade activities in ICIEC Member Countries.

During the year, ICIEC also signed an MoU with Export Development Canada (EDC), the official Export Credit Agency of Canada. EDC is one of the leading Export Credit Agencies in the world, and has shown a keen interest not only to support the Canadian investments in IDB Member Countries but also an interest in enhancing their knowledge of Islamic Finance. EDC arranged a very useful Islamic Financing Day during which the executive management of ICIEC and EDC, Canadian banks, law firms, Islamic Academics and scholars made presentations related to the features and growth of Islamic Banking. The audience included Canadian Exporters, Investors, Bankers, Regulators, Islamic Scholars/Academics and Development Agencies.

### 5.4 - New Services

In order to serve the credit information needs within ICIEC constituency, the Corporation has signed a contract with COFACE at their headquarters in Paris which provides it the right to market “@rating” service in ICIEC Member Countries. Thereby, ICIEC customers, including banks, in addition to obtaining credit insurance from ICIEC, will be able to obtain credit information on their buyers. This service is expected to be launched during I428H.

### 5.5 - Representative Office

Over the past few years, ICIEC business activities have witnessed a steady increase that has exceeded the estimations set in its Strategic Five-Year Plan for the period I426-I430H. In order to maintain such growth, ICIEC obtained the approval of the Board of Directors for establishing a representative office in Dubai, United Arab Emirates. The office is expected to assist in expanding and improving the efficiency of ICIEC’s export credit and investment insurance services provided to customers in the Gulf Cooperation Council Countries and neighboring countries. It would also generate new business through interaction with international investment banks and credit reinsurers based in Dubai.

### 5.6 - 5th Member Country ECAs Meeting

ICIEC organized the 5th meeting for the Export Credit Agencies (ECAs) from OIC Member Countries on the 30th and 31st January 2007 in Jeddah.

Thirty four delegates representing 22 institutions from various Member Countries and guests from the Asian Development Bank, COFACE, African Trade Insurance Agency, Afreximbank, MIGA, International Trade Center, ECGC of India, International Financial Consulting, First City, Societe Generale, and the Islamic Development Bank participated in the meeting and discussed different areas of cooperation in the fields of business development, reinsurance facilities, credit information and technical assistance.

A paper on the performance of Member Country ECAs was presented by ICIEC during the meeting. Main trends of the developments in the international export credit insurance industry in the global, regional and sectoral levels were also discussed.

A proposal to establish an association of ECAs in OIC member countries called “Daman Union” was also discussed, following which the delegates adopted the charter of the Daman Union. The final draft will be sent to the delegates for approval, after which it will be forwarded for signature. ICIEC, Malaysia Eximbank, Turk Eximbank, and Cotunace of Tunisia were the ECAs which have developed the idea of the Daman Union.



ICIEC's President delivering his speech during the inauguration of the 5th ECAs meeting held in Jeddah - January 2007



# UNDERWRITING ACTIVITIES AND RESULTS

The Corporation witnessed another successful year of operations' growth. A growth of 73% in new insurance commitments and 39% in business insured resulted in a healthy increase of 67% in premium and fees income during 1427H.





## I- Summary of Main Operations' Indicators

Growth of Main Operations' indicators

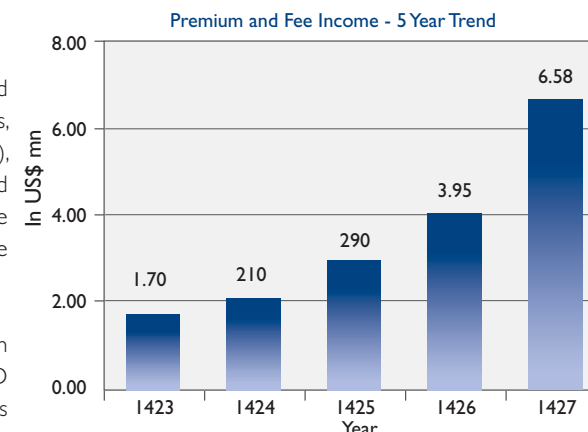
	I423H	I424H	I425H	I426H	I427H
Number of Policies in Force	67	80	72	88	75
New Commitments (USD mn)	289	287	475	808	1,399
Current Commitments (USD mn)	254	265	451	808	1,467
Business Insured (USD mn)	129	147	337	617	859
Current Exposure (USD mn)	130	150	253	447	825
Premium and Fees (USDmn)	1.7	2.1	2.9	3.9	6.6

- ← The year under review witnessed ICIEC continuing to record substantial increases in all major performance indicators.
- ← **New Insurance Commitments** surged by 73% to finish at USD 1.4 billion. This growth topped the 70% increase in New Commitments recorded in I426H. Correspondingly, Current Commitments also increased by 82% in I427H.
- ← **Cumulative New Commitments** since the Corporation commenced operations in I415H have reached USD 3.8 billion.
- ← **Business Insured** by the Corporation rose to USD 859 million, an increase of 39% over the past year.
- ← **Cumulative Business Insured** since the Corporation commenced operations in I415H has reached USD 2.3 billion.
- ← **Current Exposure** increased by 85% in I427H to reach USD 825 million.
- ← **Premium & Fee** Income for the year also rose by a healthy 67% to USD 6.6 million.
- ← **The CSTP and STP** were key drivers toward this much-improved performance for the year.

## 2. Main Operations' Indicators

### 2.1 - Premium and Fee Income

The Corporation recorded a strong increase in its income for I427H, with Gross Premium & Fee Income for the year growing by 67% to USD 6.6 million compared to income for I426H which was USD 3.9 million (36% growth over I425H).



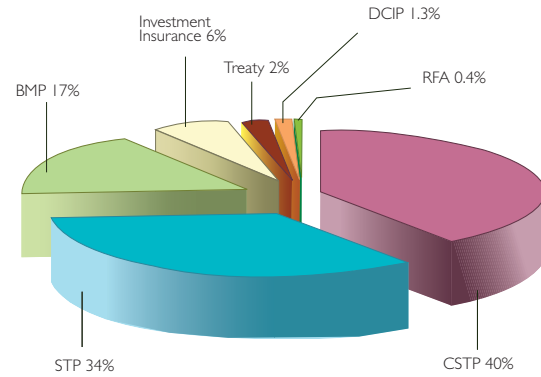
Premium & Fee Income is derived from three lines of business, Export Credit Insurance (ECI), Investment Insurance, and Inward Reinsurance. ECI is the Corporation's primary revenue generator.

For I427H, the income from ECI increased by 79% to USD 6.05 million. This constitutes 92% of the total Premium and Fee Income generated by the Corporation. Export Credit Insurance is offered via policies which include the Comprehensive Short-Term Policy (CSTP), Specific Transaction Policy (STP), Supplemental Medium Term Policy (SMTP), Bank Master Policy (BMP) and the Documentary Credit Insurance Policy (DCIP). The CSTP is ICIEC's flagship ECI policy, and is utilized by exporters to cover short-term (maximum 1 year) non-payment risk of buyers on a recurring basis. This product has traditionally contributed the bulk of ECI revenues generated by the Corporation. The CSTP contributed to 40% of the gross premium & fee income generated for the year. The STP is a relatively new policy designed to offer policyholders one-time customized coverage of their risks for specific transactions (maximum up to 7 years). In spite of being a relatively new product, it has replaced the SMTP as the product of choice for covering large transactions. The STP contributed 34% to gross premium and fee income generated in I427H, up from 8% in I426H.

The income generated from Investment Insurance was USD 0.37 million in I427H, compared to USD 0.50 million in I426H. The main reason for this decline in income is that the no new transactions were finalized in I427H. Most of the cases worked on during the year are expected to be finalized in I428H.

Inward Reinsurance, by way of which the Corporation provides reinsurance to other ECAs through participation in Treaties and Reinsurance Facility Agreements (RFAs), had a good year. Income contributed by this segment increased by a healthy 163% to USD 0.15 million. ICIEC signed 2 new RFAs in 1427H with Cagex of Algeria and EIIIC of Iran.

Premium and Fee Income Distribution among Products



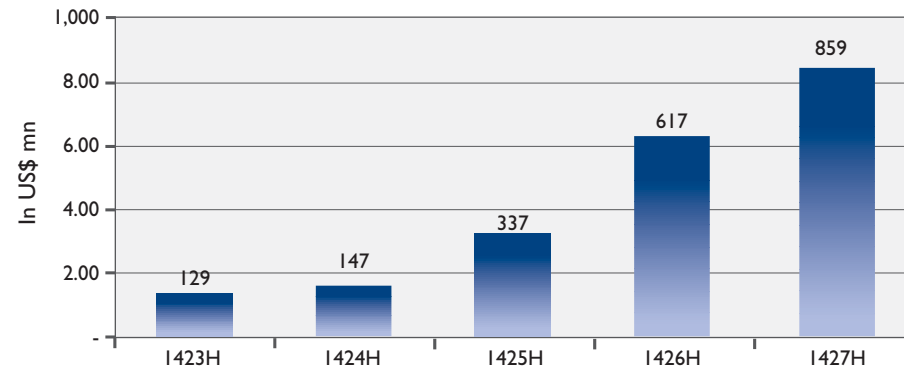
## 2.2 - Business Insured

Business Insured numbers, which represent the utilization of insurance commitments, also exhibited good growth over the previous year. In 1427H, the Corporation insured new business worth USD 859 million, compared to USD 617 million in 1426H, an increase of 39%.

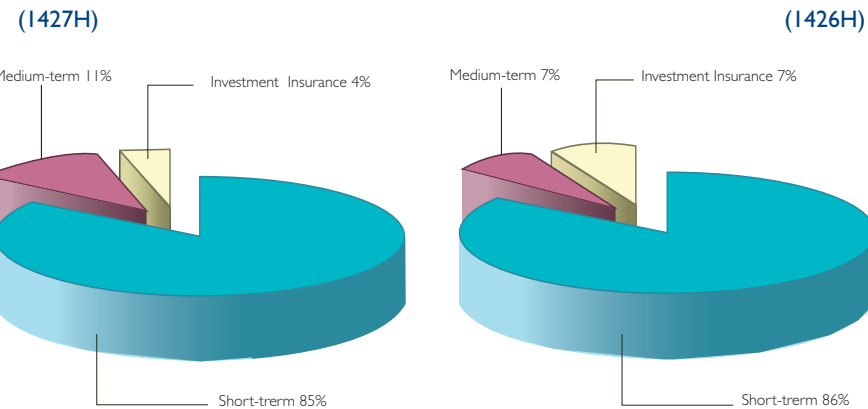
Since the Corporation commenced operations in 1415H, Cumulative Business Insured has reached USD 2.3 billion. This indicates that out of the entire Business Insured by the Corporation to date, 38% was insured in 1427H itself. This indicates the success that the Corporation has had in increasing the scale of its operations in 1427H.

It is important to note the distribution of Business Insured according to the Insurance Type i.e. among Short-Term, Medium-Term and Investment Insurance business segments. Short-Term business dominated the portfolio, and comprised 85% of the total Business Insured in the year. This is a little change from 1426H, where the Short-Term business contributed to 86% of the total Business Insured for that year. Medium-Term business contributed 11% to the total Business Insured in 1427H. This is better performance compared to 1426H, where Medium-Term business contributed only 7% to the Business Insured. Investment Insurance saw its share of Insured Business fall from only 7% in 1426H to 4% in 1427H.

Business Insured - 5 Year Trend



Business Insured Distribution - Type of Insurance



With regard to Country of Exports/Investor Countries, Saudi Arabia led the Business Insured numbers, followed by Turkey, Egypt and Bahrain. Major clients like SABIC, CCH, El-Sewedy and Midal Cables have all contributed toward increased business volumes from their respective countries.

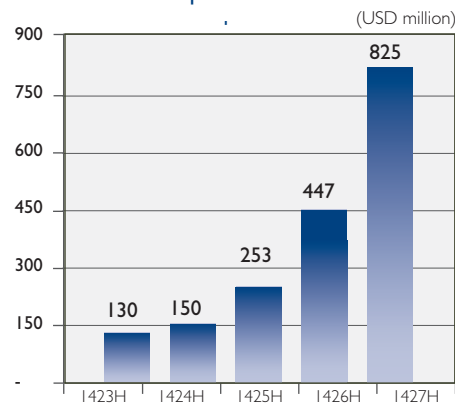
Business Insured by Exporter/Investor Country - 1427H		
Exporter Country	Business Insured (USD mn)	Total %
Saudi Arabia	361.8	42.1
Turkey	256.7	29.9
Egypt	73.1	8.5
Bahrain	70.0	8.1
Tunisia	22.8	2.7
Pakistan	21.0	2.4
Jordan	19.0	2.2
UAE	16.0	1.9
Syria	10.0	1.2
Sudan	4.1	0.5
Malaysia	2.0	0.2
Lebanon	1.0	0.1
Iran	0.7	0.1
Others	1.0	0.1
<b>Total</b>	<b>859.2</b>	<b>100</b>

### 2.3 - Exposure

Total Exposure is defined as the maximum amount the Corporation is liable to pay at any given time. Exposure for 1427H increased by 85% to USD 825 million as a direct result of the increased Business Insured for the year.

The Corporation's Exposure is centered mainly in Sudan, South Africa, Turkey, and the US. It should be noted that many international credit insurers are hesitant to operate in some ICIEC's Member Countries which are perceived to be high risk. However, given ICIEC's unique perspective of the market in Member Countries, along with the high levels of access enjoyed by the Corporation on account of its multilateral status, it is able to underwrite risks which would normally be difficult to insure. This is one of the many ways ICIEC is able to leverage its strength to the benefit of Member Country exporters as well as buyer/host countries.

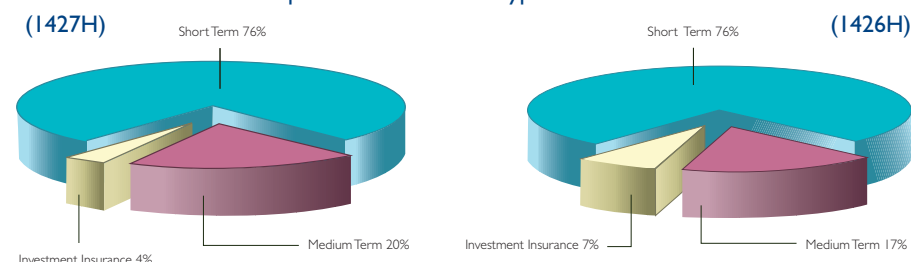
Total Exposure - 5 Year Trend



It is important to understand as well the sectors where the Corporations' exposure is based. Since buyers covered are from a wide range of industries, there is no single sector where risk is concentrated. General Manufacturing, which itself covers a diverse range of products had the largest share of exposure at 30%, while Electrical Equipment at 19% and Pharmaceuticals at 16% were the other prominent sectors.

Exposure by Sector - 1427H		
Sector	Exposure (USD mn)	Total %
General Manufacturing	248	30
Electrical Equipment	154	19
Pharmaceuticals	132	16
Transportation	86	10
Machinery	44	5
Plastics & Rubber	38	5
Building Materials	35	4
Textiles & Leather	33	4
Oil & Gas	18	2
General Chemicals	12	1
Agriculture	7	1
Food Products	5	1
Wood Products	4	1
Other Products	8	1
<b>Total</b>	<b>825</b>	<b>100</b>

Exposure Distribution - Type of Insurance



Exposure distribution according to the type of insurance is an important indicator of the Corporations' risk portfolio. It also has ramifications for the Corporation's capital requirements for the future, since an increasing amount of Medium-Term & Investment Insurance exposure could lead to capacity constraints for underwriting all types of business. Mirroring the Business Insured, Short-Term Insurance comprised 76% of the Exposure for 1427H, unchanged from 1426H. Medium-Term business contributed to 20% of the total Exposure, as opposed to 17% in 1426H. Exposure on account of Investment Insurance was 4% of the total, lower than 1426H (7%). This is because no new Investment Insurance deals were closed in 1427H, although there are many transactions currently under process.

Exposure Buyer/Host Country - 1427H		
Country	Exposure (USD mn)	Total %
Sudan	103.8	13
South Africa	80.1	10
Turkey	80.1	10
USA	74.7	9
Australia	57.3	7
Egypt	54.5	7
UK	35.4	4
UAE	28.5	3
Saudi Arabia	26.4	3
Indonesia	25.0	3
Germany	22.1	3
Canada	21.6	3
France	20.1	2
Spain	19.3	2
Algeria	18.5	2
New Zealand	17.7	2
Japan	14.2	2
Italy	12.3	1
Others	113.7	14
<b>Total</b>	<b>825.4</b>	<b>100</b>

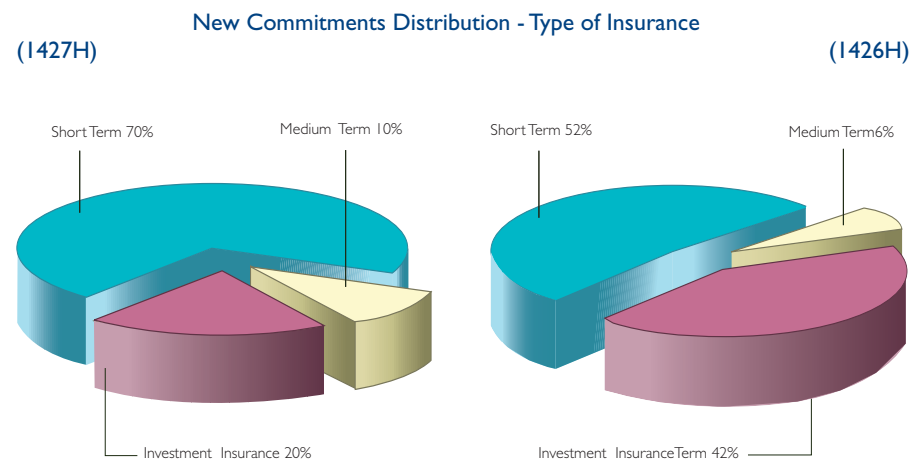
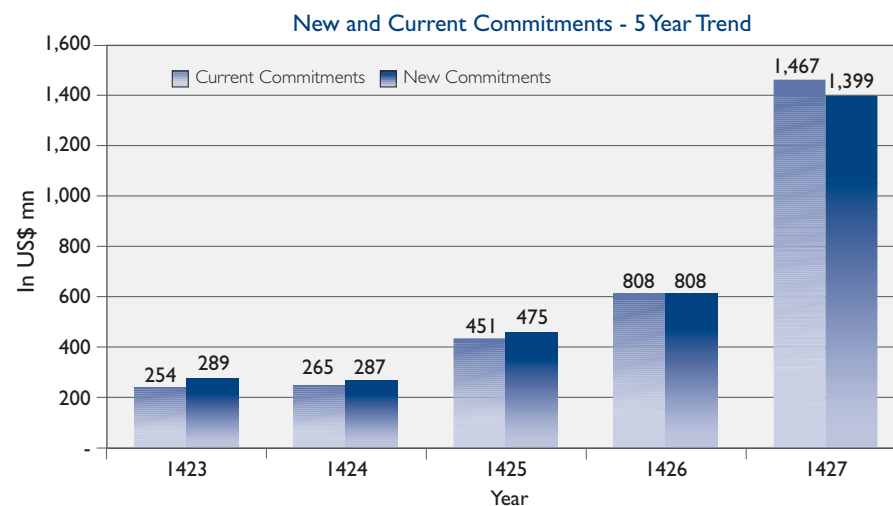
#### 2.4 - Commitments

Commitments are an important indicator, since they give a fair idea of the future trend of business for the Corporation, and the consequent impact on the Corporation's capital, business insured, revenues and profitability.

New Insurance Commitments for 1427H increased by a substantial 73% to USD 1,399 million from USD 808 million in 1426H. Consequently, Current Commitments also increased by 82% in 1427H to USD 1,467 million. This is a good sign, and has encouraging implications for future business growth of the Corporation. Since 1424H, growth in New Commitments and Current Commitments has been very impressive, averaging 70% for New Commitments and 77% for Current Commitments. Cumulative New Commitments since ICIEC's operations

began in 1415H stand at USD 3.8 billion. 37% of these Cumulative New Commitments are constituted by the New Commitments of 1427H alone.

New Commitments' distribution according to type of insurance provides an idea of the products/segments of business where insurance uptake is expected to improve in the near future. New Commitments on account of Short-Term business were at 70%, significantly higher than last year (52%). This can be attributed chiefly to existing policyholders utilizing ICIEC services at an increased rate. Medium-Term insurance comprised 10% of the New Commitments for 1427H, again better than 1426H where Medium-Term business contributed 6% of the New Commitments. Investment Insurance New Commitments were at 20% of the total, lower than the 42% in 1426H. This is as a result of a conscious decision by the Corporation to slow down on the marketing efforts for Investment Insurance, since existing projects in the pipeline were exhausting the available capacity of the Corporation.



New Commitments according to Buyer Country distribution indicates that Sudan had the maximum New Commitments in 1427H at 15% of the total. Australia and Iran came in second and third with 10% and 8% respectively.



New Commitments by Buyer Country - 1427H		
Country	New Com. (USD mn)	Total %
Sudan	211	15
Australia	141	10
Iran	116	8
Djibouti	80	6
India	75	5
Turkey	67	5
Germany	62	4
Bangladesh	60	4
United Kingdom	48	3
United States of America	48	3
Egypt	42	3
Pakistan	32	2
South Africa	32	2
Canada	31	2
Saudi Arabia	29	2
Spain	26	2
United Arab Emirates	23	2
Jordan	21	1
France	19	1
Japan	16	1
Indonesia	16	1
Yemen	16	1
Switzerland	15	1
Others	172	12
<b>Total</b>	<b>1,399</b>	<b>100</b>

### 2.5 - Buyer Database

Over the past 10 years, ICIEC has been able to develop a reliable database of over 1,400 buyers. This database is constantly monitored and updated by ICIEC with the assistance of Coface, ICIEC's main credit information supplier. Additionally, buyer files are maintained electronically, allowing for quick and easy access to buyer credit information through the Integrated Insurance Management System (IIMS). This enables speedier turn-around times and greater operational efficiencies, and also reduces the amount of paperwork involved in setting credit limits.

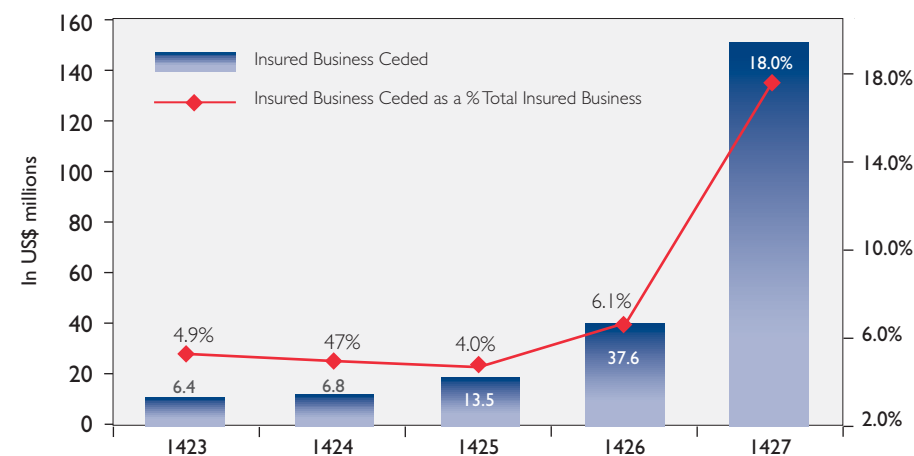
### 2.6 - Outward Reinsurance

Outward Reinsurance is an essential tool used by the

Corporation for risk sharing and capacity augmentation. It helps diversify the risk portfolio and allows for better utilization of the Corporation's capital.

During 1427H, the Corporation renewed its outward reinsurance treaty with Atradius. In addition, the support of major reinsurers like ACE, Catlin, Beazley and Zurich Emerging Markets was enlisted in order to underwrite significant medium-term transactions on a facultative basis. 1427H saw USD 154 million Insured Business being ceded to reinsurers under the treaty as well as on a facultative basis. This is more than 300% in excess of the amount reinsured last year (USD 38 million). Out of the USD 154 million ceded, USD 115 million was under the treaty while the balance amount was ceded on a facultative basis. In percentage terms, the Corporation ceded 18% of the total Business Insured in 1427H, almost triple the amount ceded in 1426H (6%). This increased amount of outward reinsurance was essential for allowing the Corporation to underwrite the amount of business it did in 1427H.

Insured Business Ceded - 5 Year Trend



1427H also saw ICIEC sign a Memorandum of Understanding (MoU) with Zurich Emerging Markets Solutions, a leading provider of political risk and trade credit insurance worldwide. The MoU is expected to increase ICIEC's underwriting capacity, by ceding to Zurich political and trade-credit risk on a case by case basis, another example of the relationships ICIEC is developing with world-class insurers globally.



ICIEC ceded USD 115 million insured business to Atradius under the Quota Share Reinsurance Treaty in 1427H. This is an increase of 238% over the amount ceded in 1426H.

This strategic partnership with Atradius enables ICIEC to utilize its capital efficiently, and serves as an excellent risk management and mitigation tool.

Atradius is one of the largest credit insurers in the world with approximately 25% of the world market share in 2005 and revenues of over USD 1.6 billion. It is rated A by S&P and A2 by Moody's.

### 3. Claims and Recovery

#### 3.1 - Claims Activities' Summary

During 1427H ICIEC received four claims for a total amount of USD 4.45 million. This represents a substantial increase from the previous year, when seven claims for a total of USD 1.63 million were received. In 1427H the Corporation indemnified four Policyholders for claims amounting to USD 4.00 million which represents a marked increase compared to 1426H, when ICIEC paid USD 1.92 million in compensation to policyholders. Recoveries effected during 1427H amount to USD 1.36 million. This amount indicates a substantial increase compared to 1426H when the Corporation's recoveries amounted to USD 0.45 million.

#### 3.2 - Claims Received

Four claims with a total loss of USD 4.45 million were lodged with the Corporation during 1427H, under the CSTP & SMTP.

#### 3.3 - Paid Claims

During 1427H, ICIEC paid four claims for a total of USD 4.00 million, as the Corporation indemnifies 90% of losses incurred. Three claims for a total of USD 0.54 million were paid under the CSTP and one major claim for USD 3.46 million under the SMTP.

On a cumulative basis, ICIEC has compensated 23 policyholders for a total of USD 21.31 million since its inception, of which USD 15.04 million were paid under the Bank Master Policy (BMP), USD 3.46 million under the SMTP, and USD 2.81 million under the CSTP.

#### 3.4 - Recoveries

Recoveries effected for 1427H amounted to USD 1.36 million. These recoveries were received from defaulted parties located in Member Countries. Included in this amount are the policyholder's shares (10%) of the recoveries. Net recoveries would amount to USD 1.22 million. Total gross recoveries which have been realized since the commencement of operations amount to USD 9.82 million, representing a gross recovery rate of 46.1%. When the portion to be remitted to policyholders is factored in, the figure stands at 41.5%.



Signing of MoU between ICIEC and COTUNACE (ECA of Tunisia) during the 5th ECAs meeting - January 2007



Attendees of the 5th ECAs meeting in Jeddah - January 2007

### 3.5 - Loss Minimization Efforts

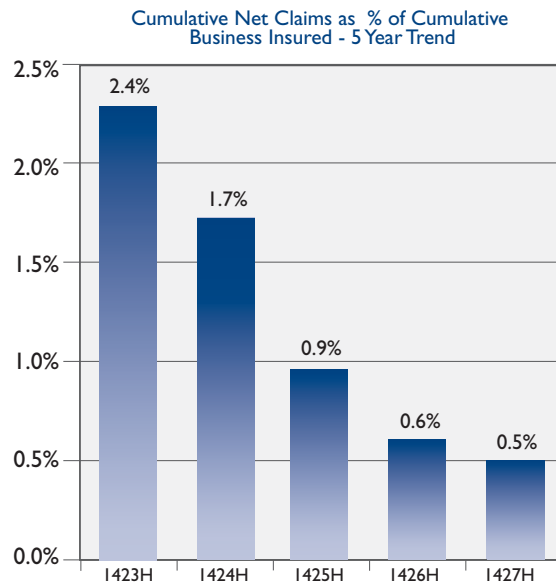
ICIEC pursued its loss minimization and recovery strategy of forging amicable settlements with debtors after settlement of claims with policyholders. The Corporation has a fairly good track record of successful implementation of this cost effective strategy with various debtors. Through this mechanism, ICIEC was able to recover an amount of USD 6.90 million at minimum costs since the beginning of operations. In a recent case it was possible to conclude an agreement relating to a USD 1.70 million debt with letters of guarantee issued by a bank in a Member Country, payable to the debtor and endorsed to ICIEC. 66% of the debt has already been recovered and the balance is to be paid through the same mechanism.

In another instance, ICIEC was able to postpone the lodgment of a claim for USD 3.80 million as loss minimization efforts were intensified. The efforts included negotiations with the policyholder, the buyer, and a contractor in a third county. Unfortunately, the matter could not be resolved and the claim eventually materialized.

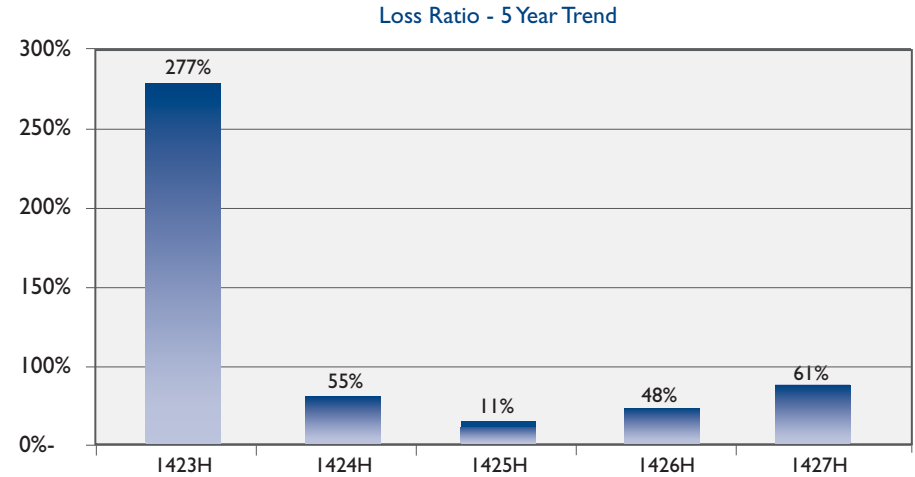
The Corporation has also been resorting to legal action as a last resort. Thus an amount of USD 11.80 million is currently in the courts in various Member Countries.

### 3.6 - Efficiency Indicators

Given the increased amount of business being insured by the Corporation, it is important to examine Cumulative Net Claims at the end of each year as a percentage of Cumulative Business Insured at the end of that year. This is arrived at by taking the cumulative number for both Net Claims and Business Insured, from the time the Corporation began operations up to the end of each year. This figure is showing a distinct downward trajectory over the past 5 years. It currently stands at 0.5%, against a high of 2.4% in 1423H.



The Loss Ratio of the Corporation stood at 61% in 1427H. This is primarily because of one large claim of over USD 3.46 million paid under the SMTP policy during the year.



ICIEC delegation during their visit to the leading reinsurer Atradius Re to renew the Reinsurance Treaty - May 2006

# IDB GROUP'S INVESTMENT PROMOTION TECHNICAL ASSISTANCE PROGRAM (ITAP)

The ITAP was established in 2005, funded by IDB, ICD and ICIEC. Its focus areas include institutional development, sharing best practices, and information dissemination on investment opportunities in Member Countries.



## 1. Background

Fuelled by a growing realization that a vibrant private sector is a crucial aspect of any drive towards eradicating poverty, the role of Foreign Direct Investment (FDI) flows has now become an important factor in the overall development of nations. However, FDI flows into IDB Member Countries are still relatively low when compared to other developing countries. These flows also remain limited to a few Member Countries.

IDB Group Member Countries are endowed with a rich spectrum of natural resources and a growing youthful population that can act as a source of both labour and market for Multinational Companies (MNCs). In addition, a number of Member Country governments are successfully liberalizing their economies and reforming the business environment to provide investors with a favourable investment climate. These factors show that the foundation for an increase in the flow of FDI to our Member Countries is certainly present today. However, most of these countries lack the institutional capacity to develop and promote investment opportunities.

## 2. Enabling the Environment for doing Business

Good infrastructure, access to finance for SMEs, predictable governance and transparency are at the top of any potential investor's agenda. Investors compare those metrics between several candidate destinations for their investments and make their final decision based on a comfort level they reach on these items. The message that a country's government gives to potential investors and the way they are helped by national Investment Promotion Agencies (IPAs) with useful and actionable information contributes to making a strong impression from the start.

## 3. Program Details

Established in 2005, ITAP is funded by the IDB, the Islamic Corporation for the Development of the Private Sector (ICD), and ICIEC. The program is managed by a steering committee composed of all relevant IDB Departments under the supervision of ICIEC.

The main components of the Program aim to address the three inter-related challenges of **institutional development**, **sharing best practices** and **arenas for information dissemination** on investment opportunities in Member Countries.



The President of IDB Group delivering his speech during the inauguration of the Familiarisation Programme organized by MIDA in cooperation with ICIEC - Malaysia 2006

### 3.1 - Institutional Development

With a membership of fifty six countries, the institutional capacity and the organizational assets of IDB Member Countries vary greatly when it comes to attracting investment. Mindful of local requirements and environment, ITAP will tailor the required policy interventions and transfer to other Member Countries the lessons learned from those successful institutions which have effectively promoted their countries to investors.

### 3.2 - Sharing Best Practices

In addition to specific assistance interventions in individual Member Countries, ITAP will also be conducting training programs for IPAs on specific aspects of Investment Promotion, often teaming up with Member Countries who have achieved considerable successes in their FDI promotion activities. In September 2006, the first such training program was held in Malaysia in collaboration with the Malaysian Industrial Development Authority (MIDA), and ITAP is currently in discussions to hold similar programs in countries such as Turkey and Egypt. ITAP will conduct these training programs on an annual basis.



### 3.3 - Information Dissemination

Another obstacle to FDI flows into Member Countries is a lack of a one stop shop information clearinghouse regarding projects and opportunities in Member Countries. ITAP aims to address this through establishing a web-portal, as well as through specific investment conferences that bring together investors and Investment Promotion Agencies.

One of the most important areas of activity is a collaborative effort with MIGA on their web-portal [www.fdi.net](http://www.fdi.net). A specific area of the portal will be dedicated to the IDB Member Countries, where viewers can get details on not just actual projects that are to attract investment in Member Countries, but also information on investment guidelines, economic studies, tax laws, investment laws, other possible projects under consideration as well as information regarding ease of doing business in a country. ITAP will work closely with Investment Promotion Agencies to provide a link between national economies and this portal, so as to upload credible and up-to-date information to the site.

As IDB Group's Technical Assistance facility to foster FDI growth in Member Countries, ITAP is in a unique position to link Member Countries across continents and become a platform for information and knowledge sharing, easing the linking and matching of potential investors for candidate projects. ITAP will also bring the strength of IDB Group's different resources to bear by coordinating its activities with all those units, identifying and encouraging implementation of profitable private sector investments.

## 4. Strategic Directives of ITAP

- 4.1 - The program will follow closely IDB Group's overall Vision 1440H to encourage *intra*-Member Country flows of investment to contribute to economic development and poverty alleviation, and to forge closer bonds between Member Countries.
- 4.2 - The program will stress the lessons and experiences of successful Member Countries of the IDB Group, dissemination of successful practices and how investment promotion institutions within Member Countries can increase and standardize their capacities as well as set up mechanisms for collaboration in their activities. ITAP's [www.FDI.net](http://www.FDI.net) joint initiative with the Multilateral Investment Guarantee Agency (MIGA), will be a virtual forum for MCs to upload information about their investment environment. It would include links to national tax laws, investment laws, possible projects under bid or consideration as well as other useful information regarding the ease of doing business in Member Countries.

- 4.3 - ITAP activities will be closely aligned with that of the entire IDB Group, and be part of the overall Group's efforts towards private sector development in the Member Countries.



Participants of the Familiarisation Programme from Investment Promotion Agencies with the IDB Group President



## INSTITUTIONAL DEVELOPMENTS

Since its inception in 1415H, the Corporation has been successful in attracting and retaining well qualified and experienced staff from around the world. At the same time, it has been able to acquire necessary IT resources to embark on developing an integrated IT system to support its operations.



## 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 has the challenging task of building an institution that could support its Member Countries in expanding exports and attracting investment flows. 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. Following are some of the activities undertaken during 1427H in the human resources management and support services areas.

## 2. Human Resources Management and Services

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 and to avail them of the best available training facilities in a very supportive and professional work environment. At the same time, ICIEC continues to develop its information technology capacity in the human management area to improve the efficiency of personnel and services management.

### 2.1 - Staffing

During 1427H, a total of 7 new staff joined the Corporation while 6 staff members left. This brought the total number of staff in ICIEC to 47, thus achieving a utilization of 80% of the approved positions. The remaining unfilled positions are expected to be filled during 1428H.

Summary Staff Positions - 5 Year Trend

Description	1423H	1424H	1425H	1426H	1427H
Approved Positions	41	43	48	52	59
Filled Positions	36	35	41	46	47
Utilization	88%	81%	86%	88%	80%

The professional and support staff of ICIEC are drawn from 13 different countries.

### 2.2 - Training

During the year under review, the Corporation utilized its annual training budget to maximize the number of staff benefiting from training opportunities. The training covered these broad areas: technical (relating to the specialization of the staff member), management, financial, information technology skills, and languages. A total of 28 staff members attended 41 in-house and local courses, and 12 training courses abroad.

Training Courses (by Subject area)

Technical	Financial	Language	Management	Total
16	10	13	14	53

## 3. ICIEC's Integrated Insurance Management System (IIMS)

The customized Integrated Insurance Management System (IIMS) is being developed and deployed in a phased manner by the Corporation. The main objective behind the IIMS is to integrate all aspects of the Corporation's business in order to streamline the operations and gain greater efficiencies. The IIMS is currently being used to support underwriting activities on a product-wise basis. Customized modules have been developed to meet each product's specific requirement. The CSTP, which is the most important Export Credit product offered by the Corporation, requires the maximum amount of back-office administrative work. All CSTPs are now being administered and managed entirely using the IIMS. All activities related to the policies including Policy issuance, renewals, credit information, risk analysis, decision making and approvals, etc are done online. Similarly, the IIMS is also being used for the BMP, DCIP and SMTP. Modules for Investment Insurance, STP and the Globaliance Policy are at an advanced stage of development and testing, and are expected to be put into production soon. The Receivables module which is in use allows the Corporation to keep track of its receivables, and helps follow-up with clients on a regular basis regarding the same. Additionally, the IIMS is also used as a reporting tool, providing up-to-date information on the Corporation's exposure, commitments, etc at a moment's notice. It also allows for individual performance benchmarks to be set, measured and monitored and has an impact on individual response times to client queries. This is a significant achievement and is expected to assume further importance given the growth of the Corporation's business. Paperless documentation has been an objective of the Corporation for this year. This has been achieved to a great extent by electronically archiving files related to buyers, banks, and policyholders and making them available on the IIMS for quick and easy reference. Currently, over 80% of all buyer files have been scanned. As the business of the Corporation increases, the IIMS is expected to become an indispensable tool for gaining maximum operational efficiencies and reducing response times to client queries and applications.



## FINANCIAL AND INVESTMENT RESULTS

The Corporation posted a net profit of USD 1.70 million for the year 1427H. This resulted in an increase of 10% in the net reserves, while the total assets increased by 5% during the year ( in USD terms).



## 1. Summary\*

The overall results of the Corporation reflect a net profit of ID\*\* 1.14 (USD 1.70) million for the year 1427H. This was the result of a net profit of ID 3.65 (USD 5.44) million in the Shareholders' Fund and a net loss of ID 2.51 (USD 3.74) million in the Policyholders' Fund. At the end of 1427H, net reserves reached ID 19.12 (USD 28.49) million, and total assets of the Corporation stood at ID 99.38 (USD 148.08) million. These assets primarily relate to the Shareholders' Fund.

The gross income from invested funds showed a healthy increase of 9% over the level achieved last year. The Corporation follows prudent investment approach and attempts to minimize risk and maximize return on its investments. The net profit in the investment operations accounts, after payment of investment management fees and other expenses for the year, showed an increase of 10% over what was achieved last year. The summary of financial statements and the highlights of financial performance and investment analysis are provided in the following pages. The details are available in the attached financial statements and accompanying notes.

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 is left for subscription of the Member Countries of the Organization of the Islamic Conference (OIC). As of 29 Dhul Hijja 1427H, IDB and thirty five Member Countries had subscribed to a total of 97,240 shares, equivalent of ID 97.24 (USD 144.89) million. The called-up installments amounted to ID 73.56 (USD 109.60) million, out of which ID 72.74 (USD 108.39) million has so far been paid-up. The net balance of ID 0.82 (USD 1.21) million is receivable from some Member Countries.

## 2. Takaful Model

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.

## 3. Policyholders' Fund

The 1427H gross premium amounted to ID 4.31 (USD 6.42) million, compared to 1426H amount of ID 2.43 million. The net premium and fees earned during the year amounted to ID 2.88 (USD 4.29) million, while the operating expenses were ID 3.12 (USD 4.65) million and net claims incurred were ID 1.68 (USD 2.50) million. This resulted in a net loss of ID 2.51 (USD 3.74) million, during 1427H, more than double the net loss of ID 1.06 million incurred during 1426H. This was contributed mainly by reduction in net premiums, due to increased reliance on reinsurance, and higher claims for the year.

## 4. Shareholders' Fund

The capital contributed by the Member Countries of the Corporation is mainly invested in various Shariah compatible investments through the IDB Treasury, acting as the Corporation's Fund Manager. A gross income of ID 3.60 (USD 5.36) million was generated from the investments. Additionally, an amount of ID 0.21 (USD 0.31) million, was reported as gain on exchange for the year. This resulted in a gross income of ID 3.81 (USD 5.67) million for the year. After deducting investment management fees paid to the IDB Treasury amounting to ID 0.12 (USD 0.18) million and other expenses of ID 0.04 (USD 0.06) million relating to the Shareholders' Fund, the net profit was ID 3.65 (USD 5.44) million. This shows an increase of 10% from ID 3.31 million reported last year. The net profit has been transferred to the statutory reserve, as mandated under the Corporation's Articles of Agreement.

## 5. Investment Portfolio Analysis

### 5.1 Investment Portfolio

During 1427H, ICIEC's financial performance in terms of growth in assets and investments was stable. The capital preservation principle guides the investment process at ICIEC, with an objective to grow the reserves so as to expand its insurance capacity. The net reserves grew by 8.7% during the year under review.

The accompanying table summarizes the assets, investments and investment return for the most recent five-year period. As can be seen from the table, the assets together with investments and investment return have grown consistently.

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

\*\* 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 1.49 as at the end of 1427H)

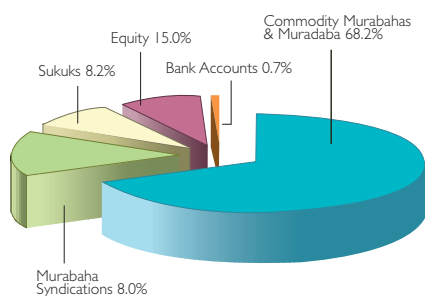


### Investment Portfolio - 5 Year Trend

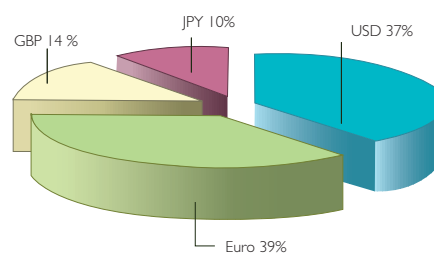
	1423H	1424H	1425H	1426H	1427H
<i>1 Islamic Dinar (ID) Equals USD</i>	1.37	1.49	1.51	1.44	1.49
<i>All figures in Million ID</i>					
Total Assets	91.39	93.57	94.22	97.82	99.38
Total Investments	54.98	84.86	91.50	94.57	94.06
Investment Return	2.23	1.82	2.31	3.30	3.60
Growth Rate of Assets	-2.4%	2.4%	0.7%	3.8%	1.6%
SDR LIBOR Moving Average	2.6%	1.9%	1.8%	2.5%	3.5%
Investment Return	3.5%	4.0%	3.8%	3.6%	3.8%
Spread LIBOR & Investment Return	0.89%	2.14%	1.98%	1.06%	0.34%

The following graph shows the current mix of asset classes in ICIEC's investment portfolio. As can be seen from the graph, 68% of the investments are in the form of highly liquid Commodity Murabaha and Mudaraba placements, investment in Equity of UIF and Takaful Re is 15%, Sukuk investment is 8% and Murabaha syndications total to around 8%. Currency mix of investments indicates a 37% exposure in USD, 39% in Euro, 14% in GBP and 10% in JPY.

#### Asset Mix 1427H



#### Currency Mix 1427H

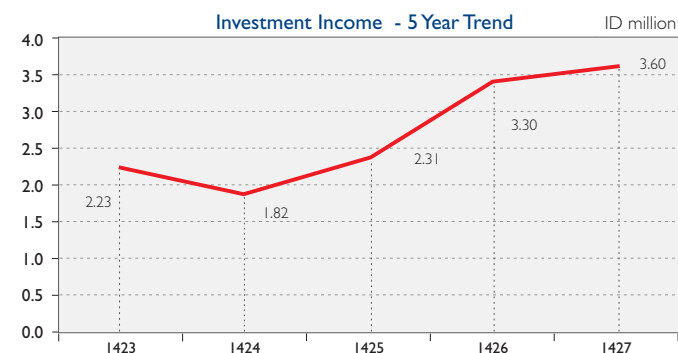


### 5.2 - Investment Returns

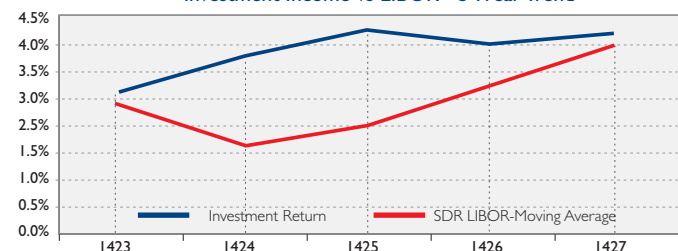
ICIEC's investments in 1427H returned ID 4.07 million against an investment return of ID 3.30 million last year at a rate of 4.3% against the benchmark return of 3.5%. The investments outperformed the benchmark (SDR LIBOR), by 79 basis points.

The investment income continued an upward trend and reached ID 3.60 million against ID 3.30 million in 1426H, an increase of 26%. This trend will likely follow, however this will depend on LIBOR rates remaining at favorable levels and also the higher percentage of placements in asset classes other than the commodity Murabahas.

### Investment Income - 5 Year Trend

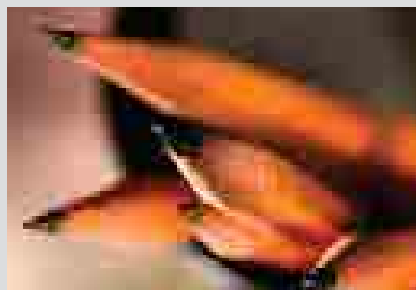


### Investment Income vs LIBOR - 5 Year Trend



The President of ICIEC signing a contract policy with CEO of Sewedy Group

# 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 financial statements of THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT ("the Corporation"), which comprise the balance sheet as at 29 Dhul Hijjah 1427H (corresponding to 19 January 2007) and the income statement, statement of changes in shareholders' and policyholders' funds and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement; whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Islamic Corporation for the Insurance of Investment and Export Credit as at 29 Dhul Hijjah 1427H (corresponding to 19 January 2007) and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Regulatory Matters

We confirm that, in our opinion, the accompanying financial statements comply with the financial statement preparation and presentation requirements of the Corporation's Articles of Agreement.



9 April 2007, Jeddah, Kingdom of Saudi Arabia



Sami E. Farah, Abdulhamid M. Bushnaq & Partner

Sami Farah  
Licence No. 168



**Sami E. Farah, Abdulhamid M. Bushnaq & Partner**

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Fax : +966 2 653 3355



(Islamic Dinars)

<b>ASSETS</b>	<b>Note</b>	<b>1427H</b>	<b>1426H</b>
Bank balances	4	621,641	451,089
Murabaha receivables	5	73,651,778	73,457,263
Accounts receivable, net	6	1,193,736	857,590
Claims recoverable, net	7	2,626,277	1,236,670
Prepaid expenses and other receivables	8	750,000	570,573
Available for sale investments	10	20,410,666	21,112,367
Fixed assets, net	11	<u>122,376</u>	<u>135,157</u>
<b>TOTAL ASSETS</b>		<b><u>99,376,474</u></b>	<b><u>97,820,709</u></b>
<b>LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS</b>			
<b>LIABILITIES</b>			
Accounts payable and accruals	12	1,140,482	1,072,846
Claims payable	13	281,517	225,605
Amounts due to Islamic Development Bank	9	811,256	3,280,290
Unearned premiums	14	2,516,185	965,137
Provision for unreported claims	15	<u>2,759,101</u>	<u>1,548,202</u>
<b>Total liabilities</b>		<b><u>7,508,541</u></b>	<b><u>7,092,080</u></b>
<b>SHAREHOLDERS' FUND</b>			
Share capital	16	72,745,000	72,745,000
Reserve	17	39,915,374	36,264,297
Fair value reserve		(977,434)	(977,434)
Loan to policyholders' fund	18	<u>(17,346,440)</u>	<u>(13,802,463)</u>
<b>Total shareholders' fund</b>		<b><u>94,336,500</u></b>	<b><u>94,229,400</u></b>
<b>POLICYHOLDERS' FUND</b>			
Accumulated losses	17	(19,815,007)	(17,303,234)
Loan from shareholders' fund	18	<u>17,346,440</u>	<u>13,802,463</u>
<b>Total policyholders' fund</b>		<b><u>(2,468,567)</u></b>	<b><u>(3,500,771)</u></b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS FUNDS</b>		<b><u>99,376,474</u></b>	<b><u>97,820,709</u></b>

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 9 April 2007

The attached notes 1 to 25 form part of these financial statements



(Islamic Dinars)

SHAREHOLDERS' FUND	Note	1427H	1426H
Investment income		3,596,248	3,300,989
Gain on exchange		<u>211,785</u>	<u>282,467</u>
		3,808,033	3,583,456
Investment management fees paid to Islamic Development Bank	9	(116,300)	(102,963)
General and administration expenses		<u>(40,656)</u>	<u>(173,947)</u>
		(156,956)	(276,910)
<b>NET INCOME</b>		<b><u>3,651,077</u></b>	<b><u>3,306,546</u></b>
<b>POLICYHOLDERS' FUND</b>			
Premiums earned	19	2,174,789	2,251,182
Policy fees earned		<u>107,826</u>	<u>138,668</u>
		2,282,615	2,389,850
Local agent commission		–	(2,393)
Claims incurred	20	(1,675,672)	(774,999)
Employees' cost		(2,474,311)	(2,188,244)
General and administration expenses		(590,384)	(453,654)
Fees paid to Islamic Development Bank	9	<u>(54,021)</u>	<u>(35,618)</u>
		(4,794,388)	3,454,908
<b>NET LOSS</b>		<b><u>(2,511,773)</u></b>	<b><u>(1,065,058)</u></b>
<b>NET CORPORATE INCOME</b>		<b><u>1,139,304</u></b>	<b><u>2,241,488</u></b>

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 9 April 2007.

The attached notes 1 to 25 form part of these financial statements.



**STATEMENT OF CHANGE IN SHAREHOLDERS' AND POLICYHOLDERS' FUNDS**

Year ended 29 Dhul Hijjah 1427H (19 January 2007)

(Islamic Dinars)

<b>SHAREHOLDERS' FUND</b>	<b>Notes</b>	<b>Capital</b>	<b>Reserve</b>	<b>Fair value reserve</b>	<b>Loan to policyholders' fund</b>	<b>Total</b>
Balance at 29 Dhul-hijjah 1425H		72,432,500	32,957,751	(977,434)	(13,103,702)	91,309,115
Subscription paid		312,500	–	–	–	312,500
Net income for the year	17	–	3,306,546	–	–	3,306,546
Net movement during the year	18	–	–	–	(698,761)	(698,761)
Balance at 30 Dhul-hijjah 1426H		72,745,000	36,264,297	(977,434)	(13,802,463)	94,229,400
Net income for the year	17	–	3,651,077	–	–	3,651,077
Net movement during the year	18	–	–	–	(3,543,977)	(3,543,977)
<b>Balance at 29 Dhul-Hijjah 1427</b>		<b>72,745,000</b>	<b>39,915,374</b>	<b>(977,434)</b>	<b>(17,346,440)</b>	<b>94,336,500</b>

<b>POLICYHOLDERS' FUND</b>	<b>Notes</b>	<b>Accumulated losses</b>	<b>Loan from shareholders' fund</b>	<b>Total</b>
Balance at 29 Dhul-hijjah 1425H		(16,238,176)	13,103,072	(3,134,474)
Net loss for the year		(1,065,058)	–	(1,065,058)
Net movement during the year	18	–	698,761	698,761
Balance at 30 Dhul-hijjah 1426H		(17,303,234)	(13,802,463)	(3,500,771)
Net loss for the year		(2,511,773)	–	(2,511,773)
Net movement during the year	18	–	3,543,977	3,543,977
<b>Balance at 29 Dhul-Hijjah 1427H</b>		<b>(19,815,007)</b>	<b>17,346,440</b>	<b>(2,468,567)</b>

The attached notes 1 to 25 form part of these financial statements.





(Islamic Dinars)

<b>OPERATING ACTIVITIES</b>	<b>Note</b>	<b>1427H</b>	<b>1426H</b>
Net corporate income for the year			
Adjustment to reconcile net income to net cash (used in) provided by operating activities		1,139,304	2,241,488
Depreciation		46,700	44,713
Provisions		423,954	1,157,337
Gain on exchange		(211,785)	(282,467)
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable		(331,998)	(324,080)
Claims receivable		(1,817,709)	(1,186,760)
Prepaid expenses and other receivables		(179,427)	(322,483)
Accounts payable and accrual		67,636	58,374
Claims payable		55,912	16,863
Amounts due to Islamic Development Bank		(2,469,034)	999,258
Unearned premium		1,551,048	143,522
Provisions for unreported claims		(1,210,899)	(183,239)
<b>Net cash (used in) provided by operating activities</b>		<b>(514,500)</b>	<b>2,362,526</b>
<b>INVESTING ACTIVITIES</b>			
Available for sale investments		701,701	(4,340,553)
Murabaha receivables		(7,821,949)	37,003,811
Purchase of fixed assets		12,036	(3,309)
<b>Net cash provided by (used in) investing activities</b>		<b>(7,108,212)</b>	<b>32,696,587</b>
<b>FINANCING ACTIVITY</b>			
Proceeds from issue of share capital		—	312,500
<b>Net cash provided by financing activity</b>		<b>—</b>	<b>312,500</b>
<b>Net Change in Cash and Cash Equivalents</b>		<b>(7,622,712)</b>	<b>35,371,613</b>
Cash and cash equivalents - beginning of the year		68,487,106	33,115,493
<b>Cash and Cash Equivalents - End of the Year</b>	<b>21</b>	<b>60,864,394</b>	<b>68,487,106</b>

The attached notes 1 to 25 form part of these financial statements.



## 1. ACTIVITIES

The Islamic Corporation for the Insurance of Investment and Export Credit was formed as an autonomous affiliate of the Islamic Development Bank Group 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 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 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 \$ 1.493 as of 29 Dhul Hijjah 1427 (1426: US\$ 1.444).

At 29 Dhul Hijjah 1427H the Corporation had 47 employees (1426H: 46 employees).

## 2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with standards issued by the International Accounting Standards Board and Interpretation issued by International Financial Reporting Interpretations Committee.

The financial statements have been presented in Islamic Dinars (ID).

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Corporation's significant accounting policies:

### **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 related policies, on a pro-rata basis. Unearned premiums represent premiums that belong to a period subsequent to the balance sheet date. These are taken to income over the unexpired period of coverage on a pro-rata basis.

### **Murabaha income**

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

### **Investments income**

Investments income is recognised when dividends are declared.

### **Bank commission income**

As the Corporation is operating under Shari'ah law, bank commission income is not recognised 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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Murabaha receivables

Murabaha receivables 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.

#### Available for sale investments

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

After initial recognition, investments are remeasured at fair value. Unrealized 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.

#### Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and any impairment in value. Depreciation is computed using the straight line method over the estimated useful lives of the assets as follows:

Vehicles	5 years
Office equipment	5 years
Computers	4 years
Furniture and fixtures	10 years

#### 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.

#### 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 recognised in the income statement.

#### Translation of foreign currencies

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

#### 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 charged to the income statement, and in return, IDB assumes the obligation for payment of employees' retirement benefits. Consequently no provision for employees' retirement benefits is recorded in these financial statements.

### 4. BANK BALANCES

Bank balances are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Shareholders' Fund	333,425	2,400
Policyholders' Fund	<u>288,216</u>	<u>448,689</u>
	<u>621,641</u>	<u>451,089</u>

### 5. MURABAHA RECEIVABLES

Murabaha receivables are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Shareholders' Fund:		
Murabaha commodity placements, net	60,242,753	68,036,017
Other murabaha receivables	<u>13,409,025</u>	<u>5,421,246</u>
	<u>73,651,778</u>	<u>73,457,263</u>
Murabaha commodity placements;		
With original maturity period of three months or less (note 21)	<u>60,242,753</u>	<u>68,036,017</u>



### 6. ACCOUNTS RECEIVABLE, NET

Accounts receivable are comprised of the following as at 29 Dhul-Hijjah:

	(Islamic Dinars)	
	1427H	1426H
Trade accounts receivable	1,314,415	982,417
Provision for bad debts	<u>(120,679)</u>	<u>(124,827)</u>
	<u>1,193,736</u>	<u>857,590</u>

Accounts receivable are related to policyholders' fund

### 7. CLAIMS RECOVERABLE, NET

Claims recoverable are comprised of the following as at 29 Dhul Hijjah:

	(Islamic Dinars)	
	1427H	1426H
Claims recoverable	9,207,224	7,389,515
Provision for doubtful claims	<u>(6,580,947)</u>	<u>(6,152,845)</u>
	<u>2,626,277</u>	<u>1,236,670</u>

Claims recoverable are related to the policyholders' fund and represent amounts recoverable from defaulted parties in respect of claims settled by the corporation.

### 8. PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and other receivables are comprised of the following as at 29 Dhul-Hijjah:

	(Islamic Dinars)	
	1427H	1426H
Shareholders' Fund	676,598	409,265
Policyholders' Fund	<u>73,402</u>	<u>161,308</u>
	<u>750,000</u>	<u>570,573</u>

### 9. AMOUNTS DUE TO ISLAMIC DEVELOPMENT BANK

	(Islamic Dinars)	
	1427H	1426H
Policyholders' Fund	<u>811,256</u>	<u>3,280,290</u>

IDB provides a number of services including investment, finance, administration, legal, etc. to the Corporation for a fee. In addition, a significant proportion of the Corporation's expenses are paid by IDB and re-charged to the Corporation.

### 10. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments are comprised of the following as at 29 Dhul Hijjah:

	(Islamic Dinars)	
	1427H	1426H
<b>Shareholders' Fund:</b>		
Quoted Investments:		
Units in IDB-Unit Investment Fund	11,534,649	11,931,200
Islamic Sukuk	<u>7,201,805</u>	<u>7,449,397</u>
	<u>18,736,454</u>	<u>19,380,597</u>
Unquoted Investments:		
Shares in Takaful Re.	<u>1,674,212</u>	<u>1,731,770</u>
	<u>20,410,666</u>	<u>21,112,367</u>



## 11. FIXED ASSETS

The Corporation's fixed assets are related to the policyholder's fund

## 12. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)		
Shareholders' Liabilities	1427H	1426H
Bank commission	504,883	600,166
Other expenses	<u>118,471</u>	<u>151,776</u>
	<u>623,354</u>	<u>751,942</u>
<b>Policyholders' Liabilities</b>		
Other payables	302,065	167,776
Accrued expenses	<u>215,063</u>	<u>153,188</u>
	<u>517,128</u>	<u>320,904</u>
	<u>1,140,482</u>	<u>1,072,846</u>

## 13. CLAIMS PAYABLE

Claims payable are related to the policyholders' fund where settlement procedures were not completed until the date of the financial statements.

## 14. UNEARNED PREMIUMS

Unearned premiums are related to the policyholders' fund.

## 15. PROVISION FOR UNREPORTED CLAIMS

Provision for claims estimated as incurred but not reported (IBNR) relates to the policyholders' fund and represents 0.5% of the outstanding exposures at year end.

## 16. SHARE CAPITAL

(Islamic Dinars)

	1427H	1426H
Authorised capital 100,000 shares of ID 1,000 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and subscribed capital 50,000 shares of ID 1,000 each fully paid	50,000,000	50,000,000
47,240 shares of ID 1,000 each, of which ID 500 has been called up	<u>23,620,000</u>	<u>23,620,000</u>
Less: subscription receivable	<u>(875,000)</u>	<u>(875,000)</u>
	<u>72,745,000</u>	<u>72,745,000</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 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.



### 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 should be covered by a loan from the shareholders' fund. The loan is recoverable only from the future surplus accruing to the policyholders' funds.

Loan from shareholders' fund is comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

Policyholders' Fund	1427H	1426H
Total assets	4,416,616	2,839,367
Total liabilities	(6,885,183)	(6,340,138)
Accumulated losses	19,815,007	17,303,234
Net deficit in policyholders' fund	17,346,440	13,802,463

### 19. PREMIUMS EARNED

Premiums earned are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Gross premiums	4,204,216	2,495,815
Unearned premiums at the beginning of the year	965,137	821,615
Unearned premiums at the end of the year	(2,516,185)	(965,137)
	2,653,168	2,352,393
Reinsurance Premiums	(478,379)	(101,111)
Net Premiums	2,174,789	2,251,182

### 20. CLAIMS INCURRED

Claims incurred are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Gross claims paid	2,709,720	1,284,216
Recoveries, net (see note below)	(2,768,579)	(777,292)
Net claims	(58,859)	506,924
Claims related expenses	39,618	26,798
<b>Outstanding Claims:</b>		
Movement in provision for unreported claims	1,210,899	(183,239)
Movement in provision for doubtful claims	428,102	407,653
Movement in claims payable	55,912	16,863
	1,675,672	774,999

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 which is Nil in 1427H (1426H: 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 CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Bank balances	621,641	451,089
Murabaha commodity placements having a maturity of three months or less at the date of acquisition (note 5)	60,242,753	68,036,017
	60,864,394	68,487,106

### 22. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Corporation transacts business with related parties. The terms of these transactions are approved by the Corporation's management.

Transactions with related parties included in the income statement are as follows as at 29 Dhul Hijjah:





**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 29 Dhul Hijjah 1427H (19 January 2007)

**22. RELATED PARTY TRANSACTIONS (continued)**

(Islamic Dinars)

	1427H	1426H
Premium and policy fees earned	100,342	180,394
Investment management fees paid to Islamic Development Bank	116,300	102,962
Administration fee paid to Islamic Development Bank	54,021	35,617
Expenses paid by Islamic Development Bank on behalf of the Corporation	2,682,068	2,718,431

Related party balances included in the balance sheet are comprised of the following as at 29 Dhul Hijjah:

(Islamic Dinars)

	1427H	1426H
Amounts due to Islamic Development Bank	<u>811,256</u>	<u>3,280,292</u>
Claims payable	<u>78,935</u>	<u>95,991</u>

**23. 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.

**24. 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, murabaha receivables, accounts receivable and claims recoverable.

The Corporation seeks to limit its credit risk with respect to customers by setting credit limit for individual customers and monitoring outstanding receivables.

The Corporation's investment portfolio is primarily 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' murabaha deals will mature within eighteen months 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 held in major currencies in line with the composition of the Islamic Dinar basket, namely US Dollars, Pound Sterling, Euro and Japanese Yen. The Corporation has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly. 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 outstanding exposure at the year end amounts to ID 551.8 million (ID 309.1 million in 1426H). 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).

**25. ZAKAT AND TAX TREATMENT**

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





Globally Secure

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