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THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

SUSTAINABLE HAPPINESS

2019 FINANCIAL STATEMENTS

ANNUAL REPORT
VOLUME 02

مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019 (5 JUMAD AL-AWWAL 1441H)

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

Opinion

We have audited the financial statements of The Islamic Corporation for the Insurance of Investment and Export Credit ("the Corporation"), which comprise the statement of financial position as at 31 December 2019 (5 Jumada I 1441H), and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2019 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information included in the Corporation's 2019 Annual Report

Other information consists of the information included in the Corporation's 2019 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

15 Sha'ban 1441H
8 April 2020

Jeddah

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (CORRESPONDING TO 5 JUMAD AL-AWWAL 1441H)

	Notes	***2019 Islamic Dinars '000***	*2018 Islamic Dinars '000*
ASSETS			
Cash and cash equivalents	4	**125,949**	40,394
Accounts receivable, net	5	**5,168**	4,126
Prepaid expenses and other assets	6	**3,527**	4,151
Due from affiliates	7	**1,067**	1,088
Available-for-sale investments	8	**15,059**	24,262
Murabaha commodity placements, net	9	**34,324**	113,348
Held-to-maturity investments	10	**39,907**	34,111
Reinsurance share of outstanding claims	11	**25,644**	29,109
Reinsurance share of unearned premiums	12	**23,916**	20,025
Property and equipment	13	**818**	141
Due from policyholders	19	**45,756**	47,813
TOTAL ASSETS		**321,135**	318,568
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accruals	14	**16,536**	22,500
Due to affiliates	7	**6,006**	5,451
Claims payable	15	**261**	292
Pension liability	16	**10,341**	5,102
Outstanding claims reserves	11	**37,619**	40,109
Unearned premiums	12	**42,496**	37,891
TOTAL LIABILITIES		**113,259**	111,345
EQUITY			
Shareholders' Fund			
Share capital	17	**145,018**	142,905
Reserves	18	**72,184**	67,619
Fair value reserve		**25**	(181)
Foreign exchange reserve		**(2,001)**	-
Total Shareholders' Fund		**215,226**	210,343
Actuarial loss on pension liability related to Policyholders		**(7,948)**	(3,120)
Foreign exchange reserve related to Policyholders		**598**	-
TOTAL EQUITY		**207,876**	207,223
TOTAL LIABILITIES AND EQUITY		**321,135**	318,568

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2020.

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

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (CORRESPONDING TO 5 JUMAD AL-AWWAL 1441H)

	Notes	***2019 Islamic Dinars '000***	*2018 Islamic Dinars '000*
SHAREHOLDERS' FUND			
Investment income		**4,015**	2,893
Investment management fees	7	**(186)**	(109)
General and administrative expenses		**(128)**	(139)
Impairment on available-for-sale investment		**(3,330)**	(2,477)
Net income from Shareholders' fund before exchange results		**371**	168
Gain on foreign exchange translation		**4,194**	1,312
Net income from Shareholders' fund after exchange results		**4,565**	1,480
POLICYHOLDERS' FUND			
Gross written premiums	12	**43,708**	51,746
Premiums ceded to reinsurers	12	**(34,561)**	(30,598)
		9,147	21,148
Net movement in unearned premiums		**(612)**	(7,642)
Net earned premiums		**8,535**	13,506
Outward reinsurance commission income		**10,219**	2,522
Policy fees earned		**214**	303
Management fee		**-**	572
Total revenue		**18,968**	16,903
Gross claims paid	11	**(2,716)**	(28,969)
Reinsurance share of claims paid	11	**1,474**	20,876
Net claims paid	11	**(1,242)**	(8,093)
Change in net outstanding claims and other reserves		**(690)**	4,551
Net claims incurred		**(1,932)**	(3,542)
Policy acquisition cost		**(496)**	(758)
Employee related costs		**(9,340)**	(8,058)
Sales and marketing expenses		**(825)**	(664)
General and administrative expenses		**(2,233)**	(2,323)
Total expenses		**(14,826)**	(15,345)
Net income from Policyholder' fund before exchange results		**4,142**	1,558
Loss on foreign exchange translation		**(2,085)**	(696)
Net income from Policyholders' fund after exchange results		**2,057**	862
NET CORPORATE GAIN		**6,622**	2,342

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (CORRESPONDING TO 5 JUMAD AL-AWWAL 1441H)

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
NET CORPORATE GAIN	**6,622**	2,342
Less: Net income from Policyholders' fund for the year	**(2,057)**	(862)
Net income from Shareholders' fund	**4,565**	1,480
Other comprehensive income to be reclassified to statement of income in subsequent periods:		
Unrealized gain on available-for-sale investments	**206**	286
Other comprehensive income not to be reclassified to statement of income in subsequent periods:		
Actuarial loss on pension liability related to policyholders	**(4,828)**	(883)
Foreign exchange reserves related to:		
- Policyholders	**(2,001)**	-
- Shareholders	**598**	-
TOTAL COMPREHENSIVE (LOSS) / INCOME	**(1,460)**	883

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CORRESPONDING TO 5 JUMAD AL-AWWAL 1441H)

	Related to shareholders							
	Share capital	***Reserves***	***Fair value reserve***	***Foreign exchange translation reserve***	***Total shareholders' fund***	***Actuarial loss on pension liability related to policyholders***	***Foreign exchange translation reserve related to policyholders***	***Total equity***
	Islamic Dinars '000	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*	***Islamic Dinars '000***	*Islamic Dinars '000*	*Islamic Dinars '000*	***Islamic Dinars '000***
Balance at 31 December 2017	140,468	66,139	(467)	-	**206,140**	(2,237)	-	**203,903**
Subscriptions received (note 16 (a))	2,437	-	-	-	**2,437**	-	-	**2,437**
Net income for the year	-	1,480	-	-	**1,480**	-	-	**1,480**
Other comprehensive gain/(loss) for the year	-	-	286	-	**286**	(883)	-	**(597)**
Total comprehensive income/(loss)	-	1,480	286	-	**1,766**	(883)	-	**883**
Balance at 31 December 2018	142,905	67,619	(181)	-	**210,343**	(3,120)	-	**207,223**
Subscriptions received (note 16 (a))	2,113	-	-	-	**2,113**	-	-	**2,113**
Net income for the year	-	4,565	-	-	**4,565**	-	-	**4,565**
Other comprehensive income/(loss) for the year	-	-	206	(2,001)	**(1,795)**	(4,828)	598	**(6,025)**
Total comprehensive income/(loss)	-	4,565	206	(2,001)	**2,770**	(4,828)	598	**(1,460)**
Balance at 31 December 2019	**145,018**	**72,184**	**25**	**(2,001)**	**215,226**	**(7,948)**	**598**	**207,876**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CORRESPONDING TO 5 JUMAD AL-AWWAL 1441H)

	Notes	***2019 Islamic Dinars '000***	*2018 Islamic Dinars '000*
OPERATING ACTIVITIES			
Net corporate gain for the year		**6,622**	2,342
Adjustments for:			
Depreciation	13	**69**	47
Unearned premiums		**4,605**	18,270
Reinsurers' share of unearned premiums		**(3,891)**	(10,627)
Movement in allowance for doubtful claims, net	20	**74**	287
Impairment on available-for-sale investment		**3,330**	2,477
Service cost on pension liability		**1,475**	498
Accrued income from investments	10	**299**	928
Net foreign exchange translation gain		**(1,618)**	(1,325)
		10,965	12,897
Changes in operating assets and liabilities:			
Accounts receivable		**(1,042)**	(1,437)
Claims recoverable		**(74)**	(287)
Prepaid expenses and other assets		**624**	(1,391)
Accounts payable and accruals		**(5,964)**	(7,192)
Claims payable		**(31)**	41
Reinsurers' share of outstanding claim		**3,465**	4,938
Outstanding claims		**(2,490)**	(9,489)
Due from affiliates		**21**	92
Due to affiliates		**555**	1,475
Net cash from/(used in) operating activities		**6,029**	(353)
INVESTING ACTIVITIES			
Redemption of available-for-sale investments, net	8	**5,643**	20,027
Purchase of held-to-maturity investments, net	10	**(6,508)**	(21,236)
Murabaha commodity placements		**79,024**	(46,116)
Purchase of property and equipment-net	13	**(746)**	(63)
Net cash from/(used in) investing activities		**77,413**	(47,388)
FINANCING ACTIVITY			
Share subscriptions received	17	**2,113**	2,437
Net cash from financing activity		**2,113**	2,437
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**85,555**	(45,304)
Cash and cash equivalents at beginning of the year		**40,394**	85,698
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4	**125,949**	40,394
NON-CASH TRANSACTION			
Fair value adjustment on available-for-sale investments		**3,285**	2,190

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

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

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

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

i. A Policyholders' fund
ii. A Shareholders' fund

As an Islamic Insurance entity, the Corporation manages the Policyholders' fund. According to the Islamic model of Wakala, whereby the Corporation acts as an agent for managing the technical insurance accounts on behalf of the Policyholders', and investing the income from the insurance operations according to Mudaraba model. No wakala fee is charged to Policyholders' fund by Shareholders' fund.

All expenses to run the Islamic insurance business are charged to the Policyholders' fund at cost, without any administration fee levied by the Shareholders' fund. The Shareholders' fund is not entitled to a share in any surplus accruing to the Policyholders' fund; any deficit in the Policyholders' fund is covered from the Shareholders' fund capital by way of a qard (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 USD 1.3828 as at 31 December 2019 (2018: USD 1.3908).

a) The following are the Shareholders of the Corporation at end 2019 (2018: 46 member countries):

S. No.	*Name of Member Country*	*S. No.*	*Name of Member Country*
1	Albania	25	Malaysia
2	Algeria	26	Mali
3	Bahrain	27	Mauritania
4	Bangladesh	28	Morocco
5	Benin	29	Mozambique
6	Brunei	30	Niger
7	Burkina Faso	31	Nigeria
8	Cameroon	32	Oman
9	Chad	33	Pakistan
10	Comoros	34	Palestine
11	Cote d'Ivoire	35	Qatar
12	Djibouti	36	Saudi Arabia
13	Egypt	37	Senegal
14	Gabon	38	Sudan
15	Gambia	39	Suriname
16	Guinea	40	Syria
17	Indonesia	41	Tunisia
18	Iran	42	Turkey
19	Iraq	43	Turkmenistan
20	Jordan	44	Uganda
21	Kazakhstan	45	United Arab Emirates
22	Kuwait	46	Uzbekistan
23	Lebanon	47	Yemen
24	Libya	48	IsDB

2 IsDB GROUP SHARI'AH BOARD

The Corporation's business activities are subject to the supervision of the IsDB Group Shari'ah Board consisting of members appointed by the Chairman of the IsDB Group in consultation with the Board of Executive Directors of IsDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IsDB. The members of the Board are appointed for 3 years and may be reappointed.

The functions of the Board include the following:

i. To consider all that are referred to it of transactions and products introduced by the Corporation for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents.
ii. To give its opinion on the Shari'ah alternatives to conventional products which the Corporation intends to use, and to lay down the basic principles for the drafting of related contracts and other documents, and to contribute to its development with a view to enhancing the Corporation's experience in this regard.
iii. To respond to the questions, enquiries and explications referred to it by the Board of Directors or the Management of the Corporation.
iv. To contribute to the Corporation's program for enhancing the awareness of its Staff Members of Islamic Banking and to deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions.
v. To submit to the Board of Directors a comprehensive report showing the measure of the Corporation's commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed.

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation and reporting and functional currency

The financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available-for-sale investments. While these financial statements are presented in Islamic Dinars.

Functional currency

Effective 1 October 2019, (Transition Date) the Corporation changed its functional currency from Islamic Dinar (ID) to United States Dollars (USD). Prior to the change, the Corporation's investments (which comprise of 67% of the total assets) were in Euro, JPY, GBP, USD and CNY. Following management's decision to hold investments primarily in USD from the Transition Date, the change in functional currency to USD better reflects the Corporation's business activities through alignment with the currency of the majority of the Corporation's cash flows.

In making this change in functional currency, the Corporation followed the recommendations set out in IAS 21, the Effects of Change in Foreign Exchange Rates. The Corporation translated all items into the new functional currency using the exchange rate of USD 1: ID 1.36331 as at the Transition Date.

Presentation currency

There is no change to the presentation currency and it continues to be the Islamic Dinar.

The results and financial position of the Corporation are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rate at the reporting date;
(ii) Equity items are translated at historical rates transaction date;
(iii) Income and expenses are translated at actual rates at transactions date; and
(iv) All resulting exchange differences are recognized in other comprehensive income

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Summary of significant accounting policies

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

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

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

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

Islamic Insurance contracts
Islamic Insurance contracts are those contracts where the Corporation (the insurer) has indemnified another party (the policyholder) from credit default or Islamic insurance risk by agreeing to compensate the policyholder if a specified future event (the insured event) adversely affects the policyholder. As a general guideline, the Corporation determines whether it has significant Islamic insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Summary of significant accounting policies (continued)

Derecognition and recognition of financial instrument

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Summary of significant accounting policies (continued)

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

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

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

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

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

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

Impairment is determined as follows:

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

Lease
The Corporation assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Corporation as a lessee
The Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognises lease liabilities representing obligations to make lease payments and right-of-use assets representing the right to use the underlying assets.

Currently the Corporation exposed only to short-term and leases of low-value assets.

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Summary of significant accounting policies (continued)

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

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

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

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

d. Summary accounting judgements, estimates and assumptions

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

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

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

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Standard/ Amendments	***Description***
IAS 28 - Long-term interests in associates and joint ventures	The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
IFRS 16 - Leases	It supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IAS 12 and IAS 23 - Annual Improvements to IFRS 2015-2017 cycle	<u>IAS 12 – Income taxes</u> The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. <u>IAS 23 – Borrowing cost</u> The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
IFRIC 23 - Uncertainty over income tax treatment	The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
IAS 19 - Amendments to plan amendment, curtailment or settlement	The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

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

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

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

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date***
IFRS 17	Insurance Contracts	1 January 2022
IFRS 9	Financial Instruments	See (a) below
Amendments to IFRS 3	Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8:	Definition of Material	1 January 2020
IFRS 10 IAS 28	Amendments to sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely

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

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

The Corporation has assessed and concluded that its activities are predominantly connected with Islamic insurance and accordingly deferred the implementation of IFRS 9 until a later date which will not be later than 1 January 2022.

4 CASH AND CASH EQUIVALENTS

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Shareholders' fund		
Cash at banks	**3,534**	38,603
Murabaha commodity placements (see note (a) and 8 below)	**97,581**	-
Policyholders' fund		
Cash at banks	**24,834**	1,791
	125,949	40,394

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

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

5 ACCOUNTS RECEIVABLE RELATED TO POLICYHOLDERS' FUND, NET

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Policyholders' fund		
Accounts receivable from policyholders' fund	**5,419**	4,380
Allowance for doubtful debts	**(251)**	(254)
	5,168	4,126

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Balance at beginning of the reporting year	**254**	397
Written-off during the year	**-**	(146)
Foreign currency translation adjustment	**(3)**	3
Balance at end of the reporting year	**251**	254

The aging analysis of unimpaired accounts receivables was as follows:

		Past due but not impaired				
	Neither past due nor impaired Islamic Dinars '000	*Above 1 and up to 3 months Islamic Dinars '000*	*Above 3 and up to 6 months Islamic Dinars '000*	*Above 6 and up to 12 months Islamic Dinars '000*	*Above 12 months Islamic Dinars '000*	*Total Islamic Dinars '000*
2019	**4,248**	**610**	**136**	**1**	**162**	**5,176**
2018	2,764	524	696	134	-	4,118

The gross amount of impaired receivables amounted to ID 262 thousand (2018: ID 262 thousand) against which an impairment allowance of ID 251 thousand has been provided (2018: ID 254 thousand).

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

6 PREPAID EXPENSES AND OTHER ASSETS

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Shareholders' fund		
Accrued income	**448**	401
	448	401
Policyholders' fund		
Staff advances	**2,918**	3,159
Other receivables	**161**	591
	3,079	3,750
	3,527	4,151

7 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Investment management fees paid to IsDB – OCR	**186**	109
Charges for office space paid to IsDB – OCR	**995**	925
Expenses paid by IsDB on behalf of the Corporation	**820**	1,154
Pensions paid to IsDB – Staff Retirement Medical and Pension Plans	**917**	825

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Due from:		
Islamic Corporation for the Development of the Private Sectors (ICD)	**182**	181
Islamic Solidarity Fund for Development (ISFD)	**58**	58
IsDB – Special Account Resources Waqf Fund	**827**	835
IsDB - Staff Retirement Medical Plan and Staff Retirement Pension Plan	**-**	14
	1,067	1,088
Due to:		
Islamic Development Bank Ordinary Capital Resources – (IsDB – OCR)	**5,828**	5,342
IsDB – Pension Fund	**170**	93
IsDB – Medical Fund	**7**	4
The Saudi Project for Utilization of Sacrificial Animals (ADAHI)	**1**	12
	6,006	5,451

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Salaries and other short-term benefits	**445**	412
Post-employment benefits	**247**	175

8 AVAILABLE-FOR-SALE INVESTMENTS RELATED TO SHAREHOLDERS' FUND

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Shareholders' fund		
Quoted investments (carried at fair value through other comprehensive income):		
Sukuks	**11,832**	13,953
Unquoted investments		
Units in ICD – Unit Investments Fund cost	**12,418**	12,418
Redemption	**(3,561)**	-
Less: Impairment allowance	**(5,807)**	(2,477)
	3,050	9,941
Shares in Takaful Re (carried at cost)	**1,213**	1,404
Less: Impairment allowance (see note (a) below):	**(1,036)**	(1,036)
	177	368
Carrying value of unquoted investments	**3,227**	10,309
	15,059	24,262

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

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

8 AVAILABLE-FOR-SALE INVESTMENTS RELAED TO SHAREHOLDERS' FUND (continued)

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

	Quoted Islamic Dinars '000	***Unquoted Islamic Dinars '000***	***2019 Islamic Dinars '000***	*2018 Islamic Dinars '000*
Cost:				
At beginning of the year	**14,133**	**12,786**	**26,919**	45,857
Redemption	**(1,720)**	**(3,923)**	**(5,643)**	(20,027)
Foreign currency translation adjustment	**(446)**	**171**	**(275)**	1,089
At end of the year	**11,967**	**9,034**	**21,001**	26,919
Unrealized gains/(loss) on available-for-sale investments:				
At beginning of the year	**(180)**	**(2,477)**	**(2,657)**	(467)
Net movement during the year	**45**	**(3,330)**	**(3,285)**	(2,190)
At end of the year	**(135)**	**(5,807)**	**(5,942)**	(2,657)
Net carrying value	**11,832**	**3,227**	**15,059**	24,262

9 MURAHABA FINANCING RELATED TO SHAREHOLDERS' FUND, NET

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Gross Murabaha commodity placements	**131,205**	109,104
Less: Murabaha commodity placements with an original maturity of three months or less (see note 3)	**(97,581)**	-
Other Murabaha financing	**770**	4,315
Less: Impairment allowance (see note (b))	**(70)**	(71)
	34,324	113,348

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

b) The movement in the provision for impairment on Murabaha commodity placements is as follows:

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Balance at beginning of the year	**71**	71
Reversal during the year	**(1)**	-
Balance at end of the year	**70**	71

10 HELD-TO-MATURITY INVESTMENTS RELATED TO SHAREHOLDERS' FUND

	2019	*2018*
	Islamic Dinars '000	*Islamic Dinars '000*
Sukuk	**39,907**	34,111

	2019	*2018*
	Islamic Dinars '000	*Islamic Dinars '000*
The movement in held to maturity investments is as follows:		
Cost:		
At beginning of the year	**34,111**	13,567
Additions	**6,508**	21,236
Redemption	**(1,789)**	-
Foreign currency translation adjustment	**1,376**	236
Accrued income, net	**(246)**	(288)
Amortization	**(53)**	(640)
At end of the year	**39,907**	34,111

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

11 OUTSTANDING CLAIMS RELATED TO POLICYHOLDERS' FUND

	2019			*2018*		
	Gross	***Islamic Reinsurance share***	***Net***	*Gross*	*Islamic Reinsurance share*	*Net*
	Islamic Dinars '000	***Islamic Dinars '000***	***Islamic Dinars '000***	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*
Outstanding at beginning of the year	**40,109**	**(29,109)**	**11,000**	49,598	(34,047)	15,551
Claims paid during the year	**(2,716)**	**1,474**	**(1,242)**	(28,969)	20,876	(8,093)
Charge during the year	**3,077**	**(1,145)**	**1,932**	19,480	(15,938)	3,542
Foreign exchange adjustment	**(2,851)**	**3,136**	**285**	-	-	-
Outstanding at the end of the year	**37,619**	**(25,644)**	**11,975**	40,109	(29,109)	11,000
Comprise of:						
- Incurred but not reported (IBHR) (Note 11.1)	**29,971**	**(20,215)**	**9,756**	32,347	(22,567)	9,780
- Reported	**7,648**	**(5,429)**	**2,219**	7,762	(6,542)	1,220
	37,619	**(25,644)**	**11,975**	40,109	(29,109)	11,000

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

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

12 UNEARNED PREMIUMS NOT RELATED TO POLICYHOLDERS' FUND, NET

	2019			*2018*		
	Gross	***Islamic Reinsurance share***	***Net***	*Gross*	*Reinsurance share*	*Net*
	Islamic Dinars '000	***Islamic Dinars '000***	***Islamic Dinars '000***	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*
At beginning of the year	**37,891**	**(20,025)**	**17,866**	19,621	(9,397)	10,224
Gross written/(ceded) premiums during the year	**43,708**	**(34,561)**	**9,147**	51,746	(30,598)	21,148
Premiums earned during the year	**(39,450)**	**30,915**	**(8,535)**	(33,476)	19,970	(13,506)
Foreign exchange adjustment	**347**	**(245)**	**102**			
At end of the year	**42,496**	**(23,916)**	**18,580**	37,891	(20,025)	17,866

13 PROPERTY AND EQUIPMENT RELATED TO POLICYHOLDERS' FUND

	Vehicles	***Furniture and fixtures***	***Office equipment***	***Computer equipment***	***Capital work in progress***	***Total***
	Islamic Dinars '000	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*	*Islamic Dinars '000*
Policyholders' fund						
Cost:						
At 1 January 2018	116	156	162	567	-	1001
Additions	-	17	3	43	-	63
At 1 January 2019	**116**	**173**	**165**	**610**	**-**	**1,064**
Additions	**60**	**95**	**8**	**32**	**551**	**746**
At 31 December 2019	**176**	**268**	**173**	**642**	**551**	**1,810**
Accumulated depreciation:						
At 1 January 2018	68	156	134	518	-	876
Charge for the year	16	2	8	21	-	47
At 1 January 2019	**84**	**158**	**142**	**539**	**-**	**923**
Charge for the year	**27**	**8**	**10**	**24**	**-**	**69**
At 31 December 2019	**111**	**166**	**152**	**563**	**-**	**992**
Net book value:					**-**	
At 31 December 2019	**65**	**102**	**21**	**79**	**551**	**818**
At 31 December 2018	32	15	23	71	-	141

a) During the year the Corporation embarked on a multi-year information technology implementation project and all costs incurred during the implementation period shall be classified as Assets Under Construction until completion. Depreciation will commence after commissioning of the system.

14 ACCOUNTS PAYABLE AND ACCRUALS

	2019 ***Islamic Dinars*** ***'000***	*2018* *Islamic Dinars* *'000*
Shareholders' liabilities		
Earning not approved by Shari'ah board (see note (a) below)	**347**	343
Subscriptions received in advance, net (see note (b) below)	**247**	247
Other payables	**882**	529
	1,476	1,119
Policyholders' liabilities		
Accrued Islamic reinsurance	**9,316**	17,208
Accrued administrative expenses	**5,103**	3,631
Other payables	**641**	542
	15,060	21,381
	16,536	22,500

a) This represents net accumulated income up to 31 December 2019 generated from placements with certain conventional banks and financial institutions which were not considered operating in compliance with Sharia principles by the IsDB Group Shari'ah Board. This amount will be used for donation or charitable purposes.

Earning not approved by the IsDB Group Shari'ah board

	2019 ***Islamic Dinars*** ***'000***	***Number of events***	*2018* *Islamic Dinars* *'000*	*Number of events*
Interest from foreign bank account	**13**	2	5	2
Premium not utilized from policyholders	**-**	-	80	1
Adjustment of foreign exchange	**5**	1	(7)	1
	18		78	

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

15 CLAIMS PAYABLE RELATED TO POLICYHOLDERS' FUND

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

	2019 ***Islamic Dinars*** ***'000***	*2018* *Islamic Dinars* *'000*
Balance at beginning of the year	**292**	251
Additions during the year	**1,451**	29,010
Payments made during the year	**(1,482)**	(28,969)
Balance at end of the year	**261**	292

16 PENSION LIABILITY RELATED TO POLICYHOLDERS' FUND

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

	2019			*2018*
	Staff retirement pension plan Islamic Dinars '000	***Staff retirement medical plan Islamic Dinars '000***	***Total Islamic Dinars '000***	*Total Islamic Dinars '000*
ALLOCATION OF PENSION ASSETS FROM IsDB	**13,410**	**793**	**14,203**	15,601
Adjustment on post close amendments	**87**	**1**	**88**	(261)
Income on Plan Assets	**612**	**36**	**648**	552
Return on Plan Assets less than discount rate	**169**	**(4)**	**165**	(2,264)
Plan participations contributions	**405**	**19**	**424**	313
Employer contribution	**944**	**131**	**1,075**	725
Disbursements from Plan Assets	**(746)**	**(50)**	**(796)**	(813)
Currency translation gain	**76**	**4**	**80**	350
Fair value of plan assets at 31 December 2019	**14,957**	**930**	**15,887**	14,203

	2019			*2018*
	Staff retirement pension plan Islamic Dinars '000	***Staff retirement medical plan Islamic Dinars '000***	***Total Islamic Dinars '000***	*Total Islamic Dinars '000*
ALLOCATION OF PENSION LIABILITY FROM IsDB	**17,959**	**1,345**	**19,304**	19,321
Current Service costs	**856**	**73**	**929**	999
Past service cost	**123**	**208**	**331**	-
Cost on Defined Benefit Obligation (DBO)	**803**	**61**	**864**	799
Plan participations contributions	**405**	**20**	**425**	313
Disbursements from Plan Assets	**(746)**	**(50)**	**(796)**	(813)
Net actuarial loss	**4,582**	**483**	**5,065**	(1,749)
Currency translation loss	**98**	**8**	**106**	457
Other adjustments related to prior year	**-**	**-**	**-**	(22)
Benefit obligation at 31 December 2019	**24,080**	**2,148**	**26,228**	19,305
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets	**(9,123)**	**(1,218)**	**(10,341)**	(5,102)

16 PENSION LIABILITY RELATED TO POLICYHOLDERS' FUND (continued)

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

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

	2019			*2018*
	Staff retirement pension plan Islamic Dinars '000	*Staff retirement medical plan Islamic Dinars '000*	*Total Islamic Dinars '000*	*Total Islamic Dinars '000*
Gross current service costs	**856**	**73**	**929**	999
Past service cost	**122**	**208**	**330**	-
Cost on DBO	**803**	**61**	**864**	799
Income on assets	**(612)**	**(36)**	**(648)**	(552)
Cost recognized in statement of income	**1,169**	**306**	**1,475**	1,246
Actuarial gain due to assumptions	**4,582**	**483**	**5,065**	(1,749)
Return on plan assets greater than discount rate	**(169)**	**4**	**(165)**	2,264
Adjustment on post close amendments	**(87)**	**(1)**	**(88)**	261
Currency translation loss	**15**	**1**	**16**	107
Cost recognized in statement of changes of equity	**4,341**	**487**	**4,828**	883

(c) Principal assumptions used in the actuarial valuations dated 31 December 2019 as follows:

	2019		*2018*	
	Staff retirement pension plan	*Staff retirement medical plan*	*Staff retirement pension plan*	*Staff retirement medical plan*
Discount rate	**3.50%**	**4.50%**	3.50%	4.50%
Rate of expected salary increase	**4.50%**	**4.50%**	4.50%	4.50%

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

The following table presents the plan assets by major category:

	2019			*2018*
	Staff retirement pension plan Islamic Dinars '000	*Staff retirement medical plan Islamic Dinars '000*	*Total Islamic Dinars '000*	*Total Islamic Dinars '000*
Cash and Cash Equivalent and Commodity placements	**5,608**	**398**	**6,006**	4,838
Managed funds and Instalment sales	**2,368**	**46**	**2,414**	2,301
Investments in sukuk	**5,076**	**443**	**5,519**	5,556
Land	**1,418**	**-**	**1,418**	1,574
Other (net)	**487**	**43**	**530**	(66)
Fair value of plan assets at 31 December 2018	**14,957**	**930**	**15,887**	14,203

1.2% of staff retirement plan assets (2018: 1.2%) are invested as of 31 December 2019.

16 PENSION LIABILITY RELATED TO POLICYHOLDERS' FUND (continued)

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

	31 December 2019 Islamic Dinars '000	*31 December 2018 Islamic Dinars '000*
Present value of defined benefit obligation	**(24,080)**	(17,959)
Fair value of plan assets	**14,957**	13,410
Plan deficit	**(9,123)**	(4,549)

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

	31 December 2019 Islamic Dinars '000	*31 December 2018 Islamic Dinars '000*
Present value of defined benefit obligation	**(2,148)**	(1,346)
Fair value of plan assets	**930**	793
Plan deficit	**(1,218)**	(553)

(f) Total pension liability

	31 December 2019		
	Staff retirement pension plan Islamic Dinars '000	***Staff retirement medical plan Islamic Dinars '000***	***Total Islamic Dinars '000***
Balance at 1 January 2019	**(4,549)**	**(553)**	**(5,102)**
Transfer of Actuarial Deficit from ISDB-OCR	**(4,574)**	**(665)**	**(5,239)**
Balance at 31 December 2019	**(9,123)**	**(1,218)**	**(10,341)**

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

17 SHARE CAPITAL RELATED TO SHAREHOLDERS' FUND

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Authorized capital		
400,000 shares (2018: 400,000) of ID 1,000 each	**400,000**	400,000
IsDB ("Special Account Resources Waqf Fund")		
Issued and subscribed capital		
150,000 shares of ID 1,000 each:		
50,000 shares of ID 1,000 each fully paid	**50,000**	50,000
50,000 shares of ID 1,000 each, of which ID 500 has been called	**25,000**	25,000
Member countries		
145,888 shares (2018: 138,435) of ID 1,000 each, of which ID 500 has been called	**72,944**	69,218
Less: Subscriptions receivable - Overdue	**(2,926)**	(1,313)
	145,018	142,905

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

The shareholders may withdraw from the Corporation after the expiry of a period of 5 years from the date of their membership. In such an event, the Corporation shall arrange for the repurchase of the shares of a withdrawing shareholder at a price equal to the book value of such shares on the date shareholder ceases to be a member. The management believes that likelihood of any member states withdrawing their capital is remote and none has been withdrawn so far.

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

Shareholder	***2019 Islamic Dinars***	*2018 Islamic Dinars*
Egypt	**1,675,750**	-
Oman	**125,000**	-
Turkmenistan	**125,000**	-
Uzbekistan	**62,500**	-
Cote D'Ivoire	**62,500**	-
Palestine	**62,500**	-
Qatar	-	2,250,000
Iraq	-	125,000
Suriname	-	62,500
	2,113,250	2,437,500

18 RESERVE

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

After the 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 special reserves.

19 QARD TO POLICYHOLDERS' FUND FROM SHAREHOLDERS' FUND

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

Qard from Shareholders' fund is comprised of the following:

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Policyholders' fund		
Total assets	**84,304**	59,635
Total liabilities	**(104,433)**	(106,273)
Accumulated deficits	**45,756**	47,813
Net deficit in Policyholders' fund	**25,627**	1,175
Qard to Policyholders' fund from Shareholders' fund	**(25,627)**	(1,175)
	-	-

20 CLAIMS RECOVERABLE NOT RELATED TO POLICYHOLDERS' FUND, NET

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Policyholders' fund		
Claims recoverable	**12,092**	12,018
Allowance for doubtful claims, maintain against claims recoverable	**(12,092)**	(12,018)
	-	-

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Balance at beginning of the year	**12,018**	11,731
Foreign currency translation adjustment	**74**	287
Balance at end of the year	**12,092**	12,018

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

21 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The fair values of financial instruments are not materially different from their carrying values. At 31 December 2019, apart from the available-for-sale investments which are carried at fair value, there were no other financial instruments held by the Corporation that were measured at fair value.

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

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

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

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

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

	Level 1 Islamic Dinars '000	*Level 2 Islamic Dinars '000*	*Level 3 Islamic Dinars '000*
For the year ended 31 December 2019			
Sukuk	**11,832**	-	-
Unit in ICD - Unit Investment Fund	**3,050**	-	-
Shares in Takaful Re.	-	-	**177**
For the year ended 31 December 2018			
Sukuk	13,953	-	-
Unit in ICD - Unit Investment Fund	9,941	-	-
Shares in Takaful Re.	-	-	1,404

There were no transfers between levels during the years ended 31 December 2019 and 31 December 2018.

22 RISK MANAGEMENT

Risk management lies at the heart of the Corporation's operations. Insuring political and credit risk requires a sound risk management infrastructure and an effective risk culture. The Corporation considers the importance of risk management at all levels of its operations; from the Corporation's Board of Directors to the underwriting officer level. The Corporation manages its risk in line with the guidelines and policies which have been approved by the Board of Directors. The Corporation shares the same Board of Directors, Shari'ah Board and Audit Committee as that of IsDB.

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

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

22 RISK MANAGEMENT (continued)

Islamic Reinsurance risk

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

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

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

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

Credit risk

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

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

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

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

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

	2019 Islamic Dinars '000	*2018 Islamic Dinars '000*
Cash at banks	**125,949**	40,394
Murabaha receivables	**34,324**	113,348
Accounts receivable	**5,168**	4,126
Islamic Sukuks	**50,703**	47,028
	216,144	204,896

22 RISK MANAGEMENT (continued)

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

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

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

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

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

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

	2019		*2018*	
	+5% Islamic Dinar '000	***-5% Islamic Dinar '000***	*+5% Islamic Dinar '000*	*-5% Islamic Dinar '000*
US Dollar	**(9,676)**	**10,694**	(4,508)	4,982
Sterling Pound	**-**	**-**	960	(690)
Euro	**(46)**	**51**	(2,220)	2,453
Japanese Yen	**(167)**	**185**	(624)	690
Chinese Yuan	**-**	**-**	(789)	872

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

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

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

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

	Less than 3 months Islamic Dinars '000	***3 to 12 months Islamic Dinars '000***	***1 to 5 years Islamic Dinars '000***	***Total Islamic Dinars '000***
31 December 2019				
Financial assets	**131,874**	**49,520**	**40,069**	**221,463**
Financial liabilities	**(7,496)**	**-**	**-**	**(7,496)**
31 December 2018				
Financial assets	67,252	63,106	83,795	214,153
Financial liabilities	(6,372)	-	-	(6,372)

22 RISK MANAGEMENT (continued)

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

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

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

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

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

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

Shari'ah non-compliance risk (SNCR)
The Corporation defines Shari'ah non-compliance risk as the risk of losses resulting from non-adherence to Shari'ah rules and principles as determined by the IsDB Group Shari'ah Board. The Corporation attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR). Shari'ah compliance forms an integral part of ICIEC's purpose in line with its Articles of Agreement. Consequently, the Corporation effectively manage SNCRs through leveraging on the IsDB Group wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the IsDB Group Shari'ah Compliance function serves as the 2nd line of defence to strategically manage and monitor SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a Risk-based Internal Shari'ah Audit (RBISA) methodology.

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 Islamic insurance claims. The maximum theoretical geographical risk based on the outstanding net exposure at the year-end amounts to ID 646 million (2018: ID 797million). 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.

22 RISK MANAGEMENT (continued)

Geographical risk (continued)

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

Country	***2019 Islamic Dinars '000***	*2018 Islamic Dinars '000*
Turkey	**590,727**	432,074
Algeria	**338,503**	314,423
Kingdom of Saudi Arabia	**197,365**	125,152
Senegal	**182,231**	129,876
Egypt	**167,922**	240,604
Pakistan	**132,233**	66,319
Cameroon	**130,111**	81,119
Oman	**107,294**	87,590
Indonesia	**93,639**	11,185
Bangladesh	**80,461**	76,879
United Arab Emirates	**67,643**	127,028
Cote D'Ivoire	**53,896**	34,496
Bahrain	**36,705**	15,614
Niger	**29,770**	40,634
Kazakhstan	**26,875**	13,625
Other	**188,365**	1,303,827
Gross exposure	**2,423,740**	3,100,445
Ceded exposure to Reinsurers	**(1,777,707)**	(2,303,346)
Net exposure	**646,033**	797,099

23 CAPITAL MANAGEMENT

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

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

24 ZAKAT AND TAX TREATMENT

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

25 SUBSEQUENT EVENTS

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The Corporation considers this outbreak to be a non-adjusting post balance sheet event. The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.