THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

FINANCIAL STATEMENTS

30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

Building a better working world

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Independent auditors' report to 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 statement of financial position as at 30 Dhul Hijjah 1436 H, and the related statements of income, comprehensive income, changes in shareholders' and policyholders' funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

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 auditor's 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 control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 Corporation as at 30 Dhul Hijjah 1436 H, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the financial statement preparation and presentation requirements of the Corporation's Articles of Agreement.

Husam Faisal Bawared
Certified Public Accountant
Licence No. 393

7 Jamad Al-Awwal 1437 H
15 February 2016

Jeddah

15/37/00

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF FINANCIAL POSITION

AS AT 30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

	Notes	*1436 H Islamic Dinars*	*1435 H Islamic Dinars*
ASSETS			
Cash and cash equivalents	3	**20,660,579**	42,351,226
Murabaha financing, net	4	**85,434,818**	60,026,628
Available-for-sale investments	5	**62,091,902**	59,973,678
Accounts receivable, net	6	**3,237,858**	1,762,684
Claims recoverable, net	7	**-**	370,306
Reinsurers' share of unearned premiums	8	**4,364,322**	4,402,813
Due from Islamic Corporation for the Development of Private Sector (ICD)	18	**202,058**	211,937
Prepaid expenses and other assets	9	**3,681,610**	3,052,132
Property and equipment	10	**147,476**	167,916
TOTAL ASSETS		**179,820,623**	172,319,320
LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS			
LIABILITIES			
Accounts payable and accruals	11	**6,953,396**	4,393,957
Claims payable	12	**252,947**	273,298
Due to Islamic Development Bank (IDB)	18	**479,872**	1,137,437
Unearned premiums	8	**12,926,815**	12,676,414
Provision for unreported claims	13	**6,395,863**	3,348,709
TOTAL LIABILITIES		**27,008,893**	21,829,815
SHAREHOLDERS' FUND			
Share capital	14	**127,776,000**	124,749,000
Reserve	15	**60,737,648**	57,469,294
Fair value reserve		**1,446,654**	1,593,446
Loan to policyholders' fund	16	**(25,188,308)**	(24,682,773)
TOTAL SHAREHOLDERS' FUND		**164,771,994**	159,128,967
POLICYHOLDERS' FUND			
Accumulated deficits		**(37,148,572)**	(33,322,235)
Loan from shareholders' fund	16	**25,188,308**	24,682,773
Total policyholders' fund		**(11,960,264)**	(8,639,462)
TOTAL LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		**179,820,623**	172,319,320

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2016.

The attached notes 1 to 22 form part of these financial statements.

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF INCOME

FOR THE YEAR ENDED 30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

	Notes	*1436 H Islamic Dinars*	*1435 H Islamic Dinars*
SHAREHOLDERS' FUND			
Investment income		**2,829,608**	2,375,666
Gain/(loss) on foreign exchange translation		**1,321,948**	(713,796)
		4,151,556	1,661,870
Investment management fees paid to Islamic Development Bank (IDB)	18	**(212,267)**	(218,796)
General and administrative expenses		**(139,631)**	(385,905)
Impairment of available-for-sale investment	5	**(531,304)**	(505,020)
		(883,202)	(1,109,721)
Net income from shareholders' fund		**3,268,354**	552,149
POLICYHOLDERS' FUND			
Gross premiums		**17,986,994**	10,802,271
Unearned premiums at beginning of the year		**12,676,414**	12,804,682
Unearned premiums at end of the year	8	**(12,926,815)**	(12,676,414)
		17,736,593	10,930,539
Less: Reinsurance premiums		**(8,830,577)**	(3,233,374)
Net premiums earned		**8,906,016**	7,697,165
Policy fees earned		**354,603**	187,992
		9,260,619	7,885,157
Net claims incurred	17	**(3,607,367)**	(1,478,358)
Employees' related costs		**(6,930,086)**	(7,571,101)
Sales and marketing expenses		**(787,698)**	(909,146)
General and administrative expenses		**(1,261,753)**	(1,220,670)
Loss on foreign exchange translation		**(500,052)**	(260,572)
		(13,086,956)	(11,439,847)
Net deficit from policyholders' fund		**(3,826,337)**	(3,554,690)
NET CORPORATE LOSS		**(557,983)**	(3,002,541)

The attached notes 1 to 22 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

	1436 H *Islamic Dinars*	*1435 H* *Islamic Dinars*
Net income from shareholders' fund	**3,268,354**	552,149
Unrealized (loss)/gain on available-for-sale investments	**(146,792)**	1,910,659
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,121,562**	2,462,808

The attached notes 1 to 22 form part of these financial statements.

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF CHANGES IN SHAREHOLDERS' AND POLICYHOLDERS' FUNDS
FOR THE YEAR ENDED 30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

SHAREHOLDERS' FUND	*Share capital* *Islamic Dinars*	*Reserve* *Islamic Dinars*	*Fair value reserve* *Islamic Dinars*	*Loan to policyholders' fund* *Islamic Dinars*	*Total* *Islamic Dinars*
Balance at 29 Dhul Hijjah 1434 H	110,249,000	56,917,145	(317,213)	(21,994,124)	144,854,808
Subscriptions received (note 14 (a))	14,500,000	-	-	-	14,500,000
Total comprehensive income for the year	-	552,149	1,910,659	-	2,462,808
Net movement during the year (note 16)	-	-	-	(2,688,649)	(2,688,649)
Balance at 30 Dhul Hijjah 1435 H	124,749,000	57,469,294	1,593,446	(24,682,773)	159,128,967
Subscriptions received (note 14 (a))	3,027,000	-	-	-	3,027,000
Total comprehensive income for the year	-	3,268,354	(146,792)	-	3,121,562
Net movement during the year (note 16)	-	-	-	(505,535)	(505,535)
Balance at 30 Dhul Hijjah 1436 H	**127,776,000**	**60,737,648**	**1,446,654**	**(25,188,308)**	**164,771,994**

POLICYHOLDERS' FUND	*Accumulated deficits* *Islamic Dinars*	*Loan from shareholders' fund* *Islamic Dinars*	*Total* *Islamic Dinars*
Balance at 29 Dhul Hijjah 1434 H	(29,767,545)	21,994,124	(7,773,421)
Net deficit for the year	(3,554,690)	-	(3,554,690)
Net movement during the year (note 16)	-	2,688,649	2,688,649
Balance at 30 Dhul Hijjah 1435 H	(33,322,235)	24,682,773	(8,639,462)
Net deficit for the year	(3,826,337)	-	(3,826,337)
Net movement during the year (note 16)	-	505,535	505,535
Balance at 30 Dhul Hijjah 1436 H	**(37,148,572)**	**25,188,308**	**(11,960,264)**

The attached notes 1 to 22 form part of these financial statements.

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 DHUL HIJJAH 1436 H (CORRESPONDING TO 13 OCTOBER 2015)

	Notes	*1436 H Islamic Dinars*	*1435 H Islamic Dinars*
OPERATING ACTIVITIES			
Net corporate loss for the year		**(557,983)**	(3,002,541)
Adjustments for:			
Depreciation	10	**63,779**	78,943
Unearned premiums		**250,401**	(128,268)
Reinsurers' share of unearned premiums		**38,491**	872,375
Movement in allowance for doubtful debts, net	6	**6,316**	3,696
Movement in allowance for doubtful claims, net	7	**848,237**	1,327,306
		649,241	(848,489)
Changes in operating assets and liabilities:			
Accounts receivable		**(1,481,490)**	(288,050)
Claims recoverable		**(477,931)**	(219,333)
Prepaid expenses and other assets		**(629,478)**	(265,478)
Accounts payable and accruals		**2,559,439**	(331,850)
Claims payable		**(20,351)**	41,057
Provision for unreported claims		**3,047,154**	564,070
Due from ICD		**9,879**	(5,753)
Due to IDB		**(657,565)**	1,011,084
Net cash from/(used in) operating activities		**2,998,898**	(342,742)
INVESTING ACTIVITIES			
Net movement in available-for-sale investments		**(2,265,016)**	(2,303,379)
Murabaha financing		**(25,408,190)**	(5,934,054)
Purchase of property and equipment	10	**(43,339)**	(26,077)
Net cash used in investing activities		**(27,716,545)**	(8,263,510)
FINANCING ACTIVITY			
Share subscriptions received		**3,027,000**	14,500,000
Net cash from financing activity		**3,027,000**	14,500,000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(21,690,647)**	5,893,748
Cash and cash equivalents at beginning of the year		**42,351,226**	36,457,478
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**20,660,579**	42,351,226
NON-CASH TRANSACTION			
Fair value adjustment on available-for-sale investments		**146,792**	(1,910,659)

The attached notes 1 to 22 form part of these financial statements.

1 ACTIVITIES

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

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

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

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

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

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

The accompanying financial statements are denominated in Islamic Dinars (ID). The value of one Islamic Dinar, which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund, was equal to U.S. $ 1.41162 as at 30 Dhul Hijjah 1436 H (1435 H: U.S. $ 1.48509).

a) The following are the Member countries of IDB:

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

c. Summary of significant accounting policies

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

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 reporting date. These are taken to income over the unexpired declaration period on a pro-rata basis.

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

Investments income
Income from shares is recognized when dividends are declared. Income from investments in sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities. Income from investment in fund is recognized when fund declares its income.

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

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

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

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

2 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 equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

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

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	10 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.

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.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 judgment 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.

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 statement of income, 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.

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

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

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Summary of significant accounting policies (continued)

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.

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

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

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

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

The Corporation does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Summary accounting judgments, estimates and assumptions

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

The ultimate liability arising from claims made under insurance contracts
Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred on a monthly basis, and claims incurred but not reported on a quarterly basis. 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.

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.

Reinsurance
The Corporation is exposed to disputes with, and possibility of defaults by, its reinsurers. The Corporation monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Standard	*Description*
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IFRS 2	Share based payment
IFRS 3	Business combination
IFRS 8	Operating segments
IFRS 13	Fair value measurement
IAS 16 & 38	Property, plant and equipment and intangible assets
IAS 24	Related party disclosures
IAS 40	Investment property

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

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

Standards issued but not yet effective up to the date of issuance of the 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 when they become effective.

Standard	*Description*	*Effective from periods beginning on or after the following date*
IFRS 9	Financial Instruments	1 January 2018
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IAS 1	Amendments to IAS 1 Disclosure initiative	1 January 2016
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28 Applying the Consolidation Exception	1 January 2016

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

3 CASH AND CASH EQUIVALENTS

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Shareholders' fund		
Cash at banks	**9,858,739**	13,759,491
Murabaha commodity placements (see note (a) and 4 below)	**9,484,010**	26,644,801
	19,342,749	40,404,292
Policyholders' fund		
Cash at bank	**1,317,830**	1,946,934
	1,317,830	1,946,934
	20,660,579	42,351,226

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

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

4 MURAHABA FINANCING, NET

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Gross Murabaha commodity placements	**92,864,007**	77,780,150
Less: Murabaha commodity placements with an original maturity of three months or less (see note 3)	**(9,484,010)**	(26,644,801)
	83,379,997	51,135,349
Other Murahaba financing	**2,054,821**	8,891,279
	85,434,818	60,026,628

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

5 AVAILABLE-FOR-SALE INVESTMENTS

	30 Dhul Hijjah 1436 H Islamic Dinars	*29 Dhul Hijjah 1435 H Islamic Dinars*
Shareholders' fund		
Quoted investments (carried at fair value through other comprehensive income):		
Units in ICD – Unit Investments Fund	**12,906,189**	11,713,929
Islamic Sukuks	**48,451,022**	47,081,369
	61,357,211	58,795,298
Unquoted investments (carried at cost) (see note (a) below):		
Shares in Takaful Re	**1,771,015**	1,683,400
Less: Impairment allowance	**(1,036,324)**	(505,020)
	734,691	1,178,380
	62,091,902	59,973,678

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

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

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

	Quoted Islamic Dinars	*Unquoted Islamic Dinars*	*30 Dhul Hijjah 1436 H Islamic Dinars*	*30 Dhul Hijjah 1435 H Islamic Dinars*
Cost:				
At beginning of the year	45,603,903	12,776,329	**58,380,232**	55,442,428
Additions	-	-	**-**	4,713,518
Impairment loss	-	(531,304)	**(531,304)**	(505,020)
Redemption	(271,850)	-	**(271,850)**	(2,020,080)
Foreign currency translation adjustment	2,376,919	691,251	**3,068,170**	749,386
At end of the year	47,708,972	12,936,276	**60,645,248**	58,380,232
Unrealised gains on available-for-sale investments:				
At beginning of the year	1,477,466	115,980	**1,593,446**	317,212
Net movement during the year	(735,417)	588,625	**(146,792)**	1,276,234
At end of the year	742,049	704,605	**1,446,654**	1,593,446
Net carrying value	48,451,021	13,640,881	**62,091,902**	59,973,678

6 ACCOUNTS RECEIVABLE, NET

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Policyholders' fund		
Trade accounts receivable	**3,365,515**	1,884,025
Allowance for doubtful debts	**(127,657)**	(121,341)
	3,237,858	1,762,684

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

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Balance at beginning of the year	**121,341**	117,645
Foreign currency translation adjustment	**6,316**	3,696
Balance at end of the year	**127,657**	121,341

The aging analysis of unimpaired accounts receivables was as follows:

	Neither past due nor impaired Islamic Dinars	*Up to 3 months Islamic Dinars*	*Above 3 and up to 6 months Islamic Dinars*	*Above 6 and up to 12 months Islamic Dinars*	*Above 12 months Islamic Dinars*	*Total Islamic Dinars*
1436 H	**1,921,343**	**552,278**	**259,766**	**135,877**	**368,594**	**3,237,858**
1435 H	288,706	694,568	134,470	252,857	392,083	1,762,684

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

7 CLAIMS RECOVERABLE, NET

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Policyholders' fund		
Claims recoverable	**11,870,834**	11,392,903
Allowance for doubtful claims	**(11,870,834)**	(11,022,597)
	-	370,306

Claims recoverable represents amounts recoverable from defaulted parties in respect of claims settled by the Corporation.

7 CLAIMS RECOVERABLE, NET (continued)

Movement in the allowance for doubtful claims during the year:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Balance at beginning of the year	**11,022,597**	9,695,291
Allowance for impairment during the year	**265,864**	1,014,472
Foreign currency translation adjustment	**582,373**	312,834
Balance at end of the year	**11,870,834**	11,022,597

The aging analysis of unimpaired claims recoverable was as follows:

	Within 1 year Islamic Dinars	*Above 1 and up to 2 years Islamic Dinars*	*Above 2 and up to 5 years Islamic Dinars*	*Above 5 years Islamic Dinars*	*Total Islamic Dinars*
1436 H	-	-	-	-	-
1435 H	-	33,627	-	336,679	370,306

8 UNEARNED PREMIUMS, NET

Unearned premiums are related to the policyholders' fund. Unearned premiums and reinsurers' share of unearned premiums represent premiums that belong to a period subsequent to the reporting date. These are recognized in the statement of income over the unexpired declaration period on a pro-rata basis.

The net unearned premiums comprise of the following:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Unearned premiums	**12,926,815**	12,676,414
Reinsurers' share of unearned premiums	**(4,364,322)**	(4,402,813)
	8,562,493	8,273,601

9 PREPAID EXPENSES AND OTHER ASSETS

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Shareholders' fund		
Accrued income	**281,259**	258,119
Policyholders' fund		
Staff advances	**3,161,745**	2,727,657
Other receivables	**238,606**	66,356
	3,400,351	2,794,013
	3,681,610	3,052,132

10 PROPERTY AND EQUIPMENT

	Vehicles *Islamic Dinars*	*Furniture and fixtures* *Islamic Dinars*	*Office equipment* *Islamic Dinars*	*Computer equipment* *Islamic Dinars*	*Total* *Islamic Dinars*
Policyholders' fund					
Cost:					
At 1 Muharram 1435 H	110,263	155,095	148,784	460,697	874,839
Additions	-	508	7,278	18,291	26,077
At 30 Dhul Hijjah 1435 H	110,263	155,603	156,062	478,988	900,916
Additions	-	574	2,035	40,730	43,339
At 30 Dhul Hijjah 1436 H	110,263	156,177	158,097	519,718	944,255
Depreciation:					
At 1 Muharram 1435 H	95,462	148,236	42,033	368,326	654,057
Charge for the year	12,276	5,161	23,274	38,232	78,943
At 30 Dhul Hijjah 1435 H	107,738	153,397	65,307	406,558	733,000
Charge for the year	2,525	1,140	22,764	37,350	63,779
At 30 Dhul Hijjah 1436 H	110,263	154,537	88,071	443,908	796,779
Net book value:					
At 30 Dhul Hijjah 1436 H	**-**	**1,640**	**70,026**	**75,810**	**147,476**
At 30 Dhul Hijjah 1435 H	2,525	2,206	90,755	72,430	167,916

11 ACCOUNTS PAYABLE AND ACCRUALS

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Shareholders' liabilities		
Bank commission (see note (a) below)	**296,476**	311,840
Subscriptions received in advance, net (see note (b) below)	**456,165**	878,012
Other payables	**450,493**	343,898
	1,203,134	1,533,750
Policyholders' liabilities		
Accrued payables	**3,438,297**	1,413,519
Advance from customers	**1,432,896**	524,718
Other payables	**879,069**	921,970
	5,750,262	2,860,207
	6,953,396	4,393,957

a) This represents net accumulated income up to 30 Dhul Hijjah 1436 H generated from placements with certain conventional banks and financial institutions which were not considered in compliance with Sharia principles. This amount will be used for donation or charitable purposes.

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

12 CLAIMS PAYABLE

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

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Balance at beginning of the year	**273,298**	232,241
Additions during the year	**460,369**	207,858
Payments made during the year	**(480,720)**	(166,801)
Balance at end of the year	**252,947**	273,298

13 PROVISION FOR UNREPORTED CLAIMS

Provision for unreported claims estimated as Incurred But Not Reported (IBNR) relates to the policyholders' fund and represents 0.4% of the net outstanding exposure at 30 Dhul Hijjah 1436 H (30 Dhul Hijjah 1435 H: 0.4%).

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Total underwritten exposure at year end, net (refer note 20)	**768,696,627**	837,177,133
IBNR provision (see note (a) below)	**3,074,787**	3,348,709
Additional provision at the end of the year (see note (b) below)	**3,321,076**	-
	6,395,863	3,348,709

a) The net exposure and related provision for IBNR is as follows:

	Gross Exposure Islamic Dinars	*Reinsured Exposure Islamic Dinars*	*Net Exposure Islamic Dinars*
30 Dhul Hijjah 1436 H			
Total underwritten exposure at year end	**1,662,170,127**	**(893,473,500)**	**768,696,627**
IBNR provision @ 0.4%	**6,648,681**	**(3,573,894)**	**3,074,787**
30 Dhul Hijjah 1435 H			
Total underwritten exposure at year end	1,240,621,808	(403,444,675)	837,177,133
IBNR provision @ 0.4%	4,962,487	(1,613,778)	3,348,709

b) The Corporation has provided an additional provision in respect of a claim notification of probable loss. The provision represents management's best estimate of the potential liability after consulting with an external lawyer.

14 SHARE CAPITAL

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Authorized capital		
400,000 shares (1435 H: 400,000) of ID 1,000 each	**400,000,000**	400,000,000
IDB ("Special Account Resources Waqf Fund")		
Issued and subscribed capital		
150,000 shares of ID 1,000 each:		
50,000 shares of ID 1,000 each fully paid	**50,000,000**	50,000,000
50,000 shares of ID 1,000 each, of which ID 500 has been called	**25,000,000**	25,000,000
50,000 shares of ID 1,000 each, entirely callable	-	-
Member countries		
137,677 shares (1435 H: 136,748) of ID 1,000 each, of which ID 500 has been called	**68,838,500**	68,374,000
Less: Subscriptions receivable	**(16,062,500)**	(18,625,000)
	127,776,000	124,749,000

14 SHARE CAPITAL (CONTINUED)

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

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

a) The subscriptions received from the Member countries and IDB are as follows:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Shareholder		
Kuwait	**2,500,000**	-
Nigeria	**464,500**	-
Iraq	**62,500**	62,500
IDB	-	12,500,000
Turkey	-	625,000
United Arab Emirates	-	1,250,000
Qatar	-	62,500
	3,027,000	14,500,000

15 RESERVE

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

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

16 LOAN TO POLICYHOLDRS' FUND FROM SHAREHOLDERS' FUND

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

Loan from shareholders' fund is comprised of the following:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Policyholders' fund		
Total assets	**12,669,897**	11,656,603
Total liabilities	**(24,630,161)**	(20,296,065)
Accumulated deficits	**37,148,572**	33,322,235
Net deficit in policyholders' fund	**25,188,308**	24,682,773
Loan to policyholders' fund from shareholders' fund	**(25,188,308)**	(24,682,773)
	-	-

17 NET CLAIMS INCURRED

Net claims incurred comprise of the following:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Gross claims paid	**480,720**	166,801
Recoveries, net (see note (a) below)	**(176,957)**	(219,364)
Net claims	**303,763**	(52,563)
Claims related expenses/(reversal)	**10,937**	(88,677)
Outstanding claims:		
Movement in allowance for unreported claims	**(273,922)**	564,070
Movement in allowance for doubtful claims	**265,864**	1,014,471
Movement in claims payable	**(20,351)**	41,057
Additional provision during the year (see note 13(b))	**3,321,076**	-
	3,607,367	1,478,358

a) 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 amounts to ID 346 K for the year ended 30 Dhul Hijjah 1436 H (30 Dhul Hijjah 1435 H: ID 55 K). Any revisions to previous estimates of amounts considered to be collectible are adjusted in the year in which such estimates are revised.

18 RELATED PARTY TRANSACTIONS AND BALANCES

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:

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Investment management fees paid to IDB	**212,267**	218,796
Charges for office space paid to IDB	**259,278**	189,118
Expenses paid by IDB on behalf of the Corporation	**2,091,545**	7,571,102
Pensions paid to IDB	**655,451**	1,617,960

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

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Due from ICD	**202,058**	211,937
Claims payable – International Islamic Trade Finance Corporation (ITFC)	**159,445**	161,206
Due to IDB	**479,872**	1,137,437

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

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Salaries and other short term benefits	**124,344**	286,554
Post-employment benefits	**7,182**	494,436

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible to by the Corporation.

The Corporation's financial assets include cash and cash equivalents, Murabaha financing, available-for-sale investments, accounts receivable, claims recoverable, due from ICD and certain other assets. The Corporation's financial liabilities consist of claims payable, accounts payable, due to IDB and certain other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 30 Dhul Hijjah 1436 H, 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.

19 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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*	*Level 2* *Islamic Dinars*	*Level 3* *Islamic Dinars*
For the year ended 30 Dhul Hijjah 1436 H			
Islamic Sukuk	**48,451,022**	-	-
Unit in IDB - Unit Investment Fund	**12,906,189**	-	-
Shares in Takaful Re.	-	-	**1,239,710**
For the year ended 30 Dhul Hijjah 1435 H			
Islamic Sukuk	47,081,369	-	-
Unit in IDB - Unit Investment Fund	11,713,929	-	-
Shares in Takaful Re.	-	-	1,178,380

As at 30 Dhul Hijjah 1436 H and 30 Dhul Hijjah 1435 H, all financial instruments, which are fair valued, are Level 1 & Level 3 instruments. There were no transfers between levels during the years ended 30 Dhul Hijjah 1436 H and 30 Dhul Hijjah 1435 H.

20 RISK MANAGEMENT

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

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

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

20 RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

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

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

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

	30 Dhul Hijjah 1436 H Islamic Dinars	*30 Dhul Hijjah 1435 H Islamic Dinars*
Murabaha receivables	**94,918,828**	86,671,429
Accounts receivable, net	**3,237,858**	1,762,684
Claims recoverable, net	**-**	370,306
Islamic Sukuks	**48,451,022**	47,081,369
	146,607,708	135,885,788

20 RISK MANAGEMENT (CONTINUED)

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

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

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

A 5% change in the value of investments with all other variables held constant, would impact the Corporation by ID 3,105 thousand (1435 H: ID 2,999 thousand).

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation's investment portfolio is held in major currencies in line with the composition of the Islamic Dinar basket, namely US Dollars, Sterling Pound, Euro and Japanese Yen. The Corporation has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly. As such, the Corporation is not exposed to any material currency risk.

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

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

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

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

	Less than 3 months Islamic Dinars	*3 to 12 months Islamic Dinars*	*1 to 5 years Islamic Dinars*	*Total Islamic Dinars*
1436 H				
Financial assets	**26,537,665**	**90,453,660**	**51,195,975**	**168,187,300**
Financial liabilities	**(1,935,953)**	**-**	**-**	**(1,935,953)**
1435 H				
Financial assets	81,262,998	23,707,343	59,792,474	164,762,815
Financial liabilities	(2,676,603)	-	-	(2,676,603)

20 RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

Geographical risk
The Corporation carries on business mainly with Member countries in Africa and Asia. Due to the relatively high country risk of some of the countries in these continents, the Corporation is exposed to potential losses arising from large insurance claims. The maximum theoretical geographical risk based on the outstanding net exposure at the year-end amounts to ID 769 (1435 H: ID 837 million). The Corporation minimizes any detrimental impact on its assets, due to the realization of such risks, by setting exposure limits for each country and monitoring outstanding exposures in addition to maintaining reserves.

20 RISK MANAGEMENT (CONTINUED)

Geographical risk (continued)

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

Country	***30 Dhul Hijjah 1436 H Islamic Dinars***	*30 Dhul Hijjah 1435 H Islamic Dinars*
Saudi Arabia	**287,267,107**	214,394,191
Egypt	**139,373,392**	21,267,178
Turkey	**120,676,329**	60,223,844
Spain	**116,622,527**	13,316,528
United Arab Emirates	**108,164,968**	125,202,145
Bahrain	**96,903,258**	87,629,822
Algeria	**71,534,699**	86,397,195
Pakistan	**63,877,090**	40,077,175
Lebanon	**57,635,048**	51,744,876
Morocco	**50,904,692**	17,833,382
Ethiopia	**49,146,641**	79,733,435
Jordan	**41,202,139**	27,124,274
Italy	**33,900,171**	7,024,673
Kenya	**26,796,680**	3,818,130
United Kingdom	**25,817,802**	29,029,321
Other	**372,347,585**	375,805,639
Gross exposure	**1,662,170,127**	1,240,621,808
Ceded exposure to Reinsurers	**(893,473,500)**	(403,444,675)
Net exposure	**768,696,627**	837,177,133

21 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 benefit from the solvency II and IFSB standards.

22 ZAKAT AND TAX TREATMENT

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