

**THE ISLAMIC CORPORATION FOR THE  
INSURANCE OF INVESTMENT AND EXPORT  
CREDIT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**31 DECEMBER 2016 (1437-1438H)**

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT  
AND EXPORT CREDIT

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FINANCIAL STATEMENTS

31 December 2016 (1437-1438H)

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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 2016 (2 Rabi Al-Akhir 1438H), and the statements of income; comprehensive income, changes in shareholders' and policyholders' funds and cash flows for the period from 14 October 2015 to 31 December 2016, 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 2016 and its financial performance and its cash flows for the period from 14 October 2015 to 31 December 2016 in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' 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) together with the ethical requirements that are relevant to our audit of the financial statements as prevailing in the local jurisdiction, 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 2016 Annual Report**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## 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.

### Auditors' 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.

**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)

**Auditors' 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 auditors' 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  
Registration No. 356



28 Jamadal Akhirah 1438 H  
27 March 2017

Jeddah

16/273/00

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

	<i>Notes</i>	<b>31 December 2016</b> <i>Islamic Dinars</i>	<i>13 October 2015</i> <i>Islamic Dinars</i>
<b>ASSETS</b>			
Cash and cash equivalents	3	41,360,060	20,660,579
Murabaha financing, net	4	85,405,610	85,434,818
Available-for-sale investments	5	53,673,078	62,091,902
Held-to-maturity investments	6	14,448,743	-
Accounts receivable, net	7	2,134,877	3,237,858
Reinsurers' share of unearned premiums	9	7,218,718	4,364,322
Reinsurance share of outstanding claims	14	30,214,892	8,555,508
Due from affiliates	18	1,408,203	1,590,436
Prepaid expenses and other assets	10	3,330,434	3,681,610
Property and equipment	11	192,192	147,476
<b>TOTAL ASSETS</b>		<b>239,386,807</b>	<b>189,764,509</b>
<b>LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS</b>			
<b>LIABILITIES</b>			
Accounts payable and accruals	12	13,678,333	6,953,396
Claims payable	13	465,728	252,947
Due to affiliates	18	2,444,414	1,868,250
Unearned premiums	9	18,401,430	12,926,815
Outstanding claims	14	46,404,462	14,951,371
Pension liability	19 (f)	5,519,079	-
<b>TOTAL LIABILITIES</b>		<b>86,913,446</b>	<b>36,952,779</b>
<b>SHAREHOLDERS' FUND</b>			
Share capital	15	140,342,500	127,776,000
Reserves	16	65,873,883	60,737,648
Fair value reserve		659,817	1,446,654
Loan to policyholders' fund	17	(14,490,634)	(25,188,308)
<b>TOTAL SHAREHOLDERS' FUND</b>		<b>192,385,566</b>	<b>164,771,994</b>
<b>POLICYHOLDERS' FUND</b>			
Accumulated deficits		(49,637,987)	(37,148,572)
Actuarial loss on pension liability		(4,764,852)	-
Loan from shareholders' fund	17	14,490,634	25,188,308
<b>Total policyholders' fund</b>		<b>(39,912,205)</b>	<b>(11,960,264)</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS</b>		<b>239,386,807</b>	<b>189,764,509</b>

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 March 2017.

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

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

	<i>Notes</i>	<i>From 14 October 2015 to 31 December 2016 Islamic Dinars</i>	<i>From 25 October 2014 to 13 October 2015 Islamic Dinars</i>
<b>SHAREHOLDERS' FUND</b>			
Investment income		3,587,145	2,829,608
Gain on foreign exchange translation		1,983,177	1,321,948
		<u>5,570,322</u>	<u>4,151,556</u>
Investment management fees paid to Islamic Development Bank (IDB - OCR)	18	(300,000)	(212,267)
General and administrative expenses		(134,087)	(139,631)
Impairment of available-for-sale investment		-	(531,304)
		<u>(434,087)</u>	<u>(883,202)</u>
<b>Net income from shareholders' fund</b>		<u>5,136,235</u>	<u>3,268,354</u>
<b>POLICYHOLDERS' FUND</b>			
Gross written premiums		27,691,684	16,587,564
Gross premium ceded to reinsurers		(13,174,935)	(7,957,044)
		<u>14,516,749</u>	<u>8,630,520</u>
Net change in reserves for unearned premiums		(2,620,219)	(288,892)
Net earned contribution		11,896,530	8,341,628
Outward reinsurance commission income		2,674,713	1,399,430
Policy fees earned		290,690	354,603
Income from disposal of assets and others		19,035	-
<b>Total revenue</b>		<u>14,880,968</u>	<u>10,095,661</u>
Gross claims paid	14	(9,693,648)	(480,720)
Reinsurance share of claims paid	14	6,420,519	176,957
Net claims paid	14	(3,273,129)	(303,763)
Change in net outstanding claims and other reserve		(9,579,058)	(3,303,604)
Net claims incurred		<u>(12,852,187)</u>	<u>(3,607,367)</u>
Acquisition cost		(1,836,523)	(1,261,511)
Employees' related costs		(10,036,256)	(6,930,086)
Sales and marketing expenses		(560,334)	(361,229)
General and administrative expenses		(1,344,387)	(1,261,753)
Loss on foreign exchange translation		(740,696)	(500,052)
<b>Total expenses</b>		<u>(27,370,383)</u>	<u>(13,921,998)</u>
<b>Net deficit from policyholders' fund</b>		<u>(12,489,415)</u>	<u>(3,826,337)</u>
<b>NET CORPORATE LOSS</b>		<u>(7,353,180)</u>	<u>(557,983)</u>

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

The Islamic Corporation for the Insurance of Investment and Export Credit  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE PERIOD ENDED 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

	<i>From 14 October 2015 to 31 December 2016 Islamic Dinars</i>	<i>From 25 October 2014 to 13 October 2015 Islamic Dinars</i>
<b>SHAREHOLDERS' FUND</b>		
Net income from shareholders' fund	5,136,235	3,268,354
<i>Other comprehensive income to be reclassified to statement of income in subsequent periods:</i>		
Unrealized loss on available-for-sale investments	(786,837)	(146,792)
	<u>4,349,398</u>	<u>3,121,562</u>
<b>POLICYHOLDERS' FUND</b>		
Net deficit form policyholders' fund	(12,489,415)	(3,826,337)
<i>Other comprehensive income not to be reclassified to statement of income in subsequent periods:</i>		
Actuarial loss on pension liability	(4,764,852)	-
	<u>(17,254,267)</u>	<u>(3,826,337)</u>

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



The Islamic Corporation for the Insurance of Investment and Export Credit  
 STATEMENT OF CHANGES IN SHAREHOLDERS' AND POLICYHOLDERS' FUNDS  
 FOR THE PERIOD ENDED 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

	<i>Share capital Islamic Dinars</i>	<i>Reserves Islamic Dinars</i>	<i>Fair value reserve Islamic Dinars</i>	<i>Loan to policyholders' fund Islamic Dinars</i>	<i>Total Islamic Dinars</i>
<b>SHAREHOLDERS' FUND</b>					
Balance at 24 October 2014	124,749,000	57,469,294	1,593,446	(24,682,773)	159,128,967
Subscriptions received (note 15 (a))	3,027,000	-	-	-	3,027,000
Net income for the period	-	3,268,354	-	-	3,268,354
Other comprehensive income for the period	-	-	(146,792)	-	(146,792)
Net movement during the period (note 17)	-	-	-	(505,535)	(505,535)
Balance at 13 October 2015	127,776,000	60,737,648	1,446,654	(25,188,308)	164,771,994
Subscriptions received (note 15 (a))	12,566,500	-	-	-	12,566,500
Net income for the period	-	5,136,235	-	-	5,136,235
Other comprehensive income for the period	-	-	(786,837)	-	(786,837)
Net movement during the period (note 17)	-	-	-	10,697,674	10,697,674
<b>Balance at 31 December 2016</b>	<b>140,342,500</b>	<b>65,873,883</b>	<b>659,817</b>	<b>(14,490,634)</b>	<b>192,385,566</b>

	<i>Accumulated deficits Islamic Dinars</i>	<i>Actuarial loss on pension liability Islamic Dinars</i>	<i>Loan from shareholders' fund Islamic Dinars</i>	<i>Total Islamic Dinars</i>
<b>POLICYHOLDERS' FUND</b>				
Balance at 24 October 2014	(33,322,235)	-	24,682,773	(8,639,462)
Net deficit for the period	(3,826,337)	-	-	(3,826,337)
Net movement during the period (note 17)	-	-	505,535	505,535
Balance at 13 October 2015	(37,148,572)	-	25,188,308	(11,960,264)
Net deficit for the period	(12,489,415)	-	-	(12,489,415)
Other comprehensive loss	-	(4,764,852)	-	(4,764,852)
Net movement during the period (note 17)	-	-	(10,697,674)	(10,697,674)
<b>Balance at 31 December 2016</b>	<b>(49,637,987)</b>	<b>(4,764,852)</b>	<b>14,490,634</b>	<b>(39,912,205)</b>

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

The Islamic Corporation for the Insurance of Investment and Export Credit

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

	Notes	From 14 October 2015 to 31 December 2016 Islamic Dinars	From 25 October 2014 to 13 October 2015 Islamic Dinars
<b>OPERATING ACTIVITIES</b>			
Net corporate loss for the period		(7,353,180)	(557,983)
Adjustments for:			
Depreciation	11	90,313	63,779
Unearned premiums		5,474,615	250,401
Reinsurers' share of unearned premiums		(2,854,396)	38,491
Movement in allowance for doubtful debts, net	7	140,876	6,316
Movement in allowance for doubtful claims, net	8	571,352	848,237
Impairment loss on available-for-sale investments		-	531,304
Gain on disposal of property and equipment		(18,438)	-
Service cost on pension liability		754,228	-
Accrued income from investments	6	(95,343)	-
Net foreign exchange differences		(3,655,118)	(3,068,170)
		<u>(6,945,090)</u>	<u>(1,887,625)</u>
Changes in operating assets and liabilities:			
Accounts receivable		962,105	(1,481,490)
Claims recoverable		(571,352)	(477,931)
Prepaid expenses and other assets		351,176	(629,478)
Accounts payable and accruals		6,724,937	2,559,439
Claims payable		212,781	(20,351)
Reinsurers' share of outstanding claim		(21,659,384)	(6,941,730)
Outstanding claim		31,453,091	9,988,884
Due from affiliates		182,233	9,879
Due to affiliates		576,164	(657,565)
Net cash from operating activities		<u>11,286,661</u>	<u>462,032</u>
<b>INVESTING ACTIVITIES</b>			
Disposal of available-for-sale investments	5	10,719,436	271,850
Purchase of held-to-maturity investments		(13,785,733)	-
Murabaha financing		29,208	(25,408,190)
Purchase of property and equipment	11	(135,029)	(43,339)
Cash proceeds from disposal of property and equipment		18,438	-
Net cash used in investing activities		<u>(3,153,680)</u>	<u>(25,179,679)</u>
<b>FINANCING ACTIVITY</b>			
Share subscriptions received	15	12,566,500	3,027,000
Net cash from financing activity		<u>12,566,500</u>	<u>3,027,000</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>20,699,481</b>	<b>(21,690,647)</b>
Cash and cash equivalents at beginning of the period		<u>20,660,579</u>	<u>42,351,226</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	3	<u><u>41,360,060</u></u>	<u><u>20,660,579</u></u>
<b>NON-CASH TRANSACTION</b>			
Fair value adjustment on available-for-sale investments		<u>786,837</u>	<u>146,792</u>

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

# The Islamic Corporation for the Insurance of Investment and Export Credit

## NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

### 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 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

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. \$ 1.34433 as at 31 December 2016 (1436 H: U.S. \$ 1.41162).

a) The following are the Member countries of IDB in 2016 (2015: same):

<i>S. No.</i>	<i>Name of Member Country</i>	<i>S. No.</i>	<i>Name of Member Country</i>
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 d'Ivoire	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

# The Islamic Corporation for the Insurance of Investment and Export Credit

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

### 1 ACTIVITIES (continued)

#### b) Change in fiscal period:

The Board of Executive Directors (BED) of IDB, recommended to the Board of Governors of IDB for reporting purposes only, to change the start and end of financial year using the Solar Hijri calendar, whilst maintaining the Lunar Hijri as the official calendar of the Bank. The Board of Governors of IDB passed a resolution BG/4-436 approving the recommendation of the BED.

This change to the start and end of the IDB's financial year has necessitated the Corporation to adopt the same financial year in order to be consistent with the IDB Group's financial year.

The above change has resulted in the financial year of the Corporation being different than the corresponding period (i.e. lunar Hijri 1438H) thus making two periods incomparable as is presented below:

Reporting period	Period (from/to)	Number of days
Comparative reporting period under <b>Lunar Hijri</b>	- 25 October 2014 13 October 2015	353 days
	- Corresponding to 1 Muharram 1436 H 30 Dhul Hijjah 1436H	
Current reporting period under <b>Solar Hijri</b>	- 14 October 2015 31 December 2016	444 days
	- Corresponding to 1 Muharram 1437 H 2 Rabi Al Akhir 1438H	

### 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 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. 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 period, except for the new standards and interpretations disclosed in note 2(e). The significant accounting policies adopted are as follows:

#### **Premiums earned**

The Corporation issues insurance contracts relating to export credit insurance and reinsurance as well as insurance and 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 the provision for unearned premiums is taken to the statement of income in order that revenue is recognised over the period of risk.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

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

**Reinsurance premiums**

Reinsurance premiums ceded are recognised as an expense when payable.

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

**Insurance contracts**

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Corporation determines whether it has significant

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

**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 the right to receive the dividend is established. 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.

**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 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.

# The Islamic Corporation for the Insurance of Investment and Export Credit

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### 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 interest rate, less impairment.

Interest income from held-to-maturity investments are recognised on an accruals basis, using the effective yield 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	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.

##### 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.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

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

**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.

**Pension liability**

The Corporation has two defined post-employment benefit plans, shared with all IDB 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 Corporation's defined benefit obligations, net of the fair value of plan assets. The Corporation's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the IDB's actuaries, and the contributions are transferred to the scheme's independent custodians

**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.

## The Islamic Corporation for the Insurance of Investment and Export Credit

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

#### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### 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.

##### 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 Company 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 insurance operations and accumulated surplus and an unexpired risk provision created.



The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

*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 insurance contracts*

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under 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 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.

*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.

*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 judgement. In making this judgment. The Company 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.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**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):

<i>Standard</i>	<i>Description</i>
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.

<i>Standard</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IAS 1	Amendments to IAS 1 – “Presentation of Financial Statements”.	1 January 2016
IAS 7	Amendments to IAS 7 Disclosure Initiative	1 January 2017
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised losses	1 January 2017
IAS 16 & IAS 38	Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”.	1 January 2016
IAS 19	Amendments to IAS 19 – “Employee Benefits” .	1 January 2016
IAS 2	Amendments to IAS 27 – “Separate Financial Statements”.	1 January 2016
IFRS 2	Amendments to IFRS 2 Classification and measurement of Share Based Payment Transactions	1 January 2018
IFRS 5	Amendments to IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”.	1 January 2016
IFRS 7	Amendments to IFRS 7 – “Financial Instruments: Disclosures”.	1 January 2016
IFRS 9	Financial Instruments	See Below
IFRS 10	Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”.	1 January 2016
IAS 28		
IFRS 14	IFRS 14 – “Regulatory Deferral Accounts”.	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)

*f. New IFRS, IFRIC and amendments thereof, issued but not yet effective (continued)*

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 the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Corporation continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Corporation expects that it will be eligible for this temporary exemption and will consider deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2021.

**3 CASH AND CASH EQUIVALENTS**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<b>Shareholders' fund</b>		
Cash at banks	9,168,497	9,858,739
Murabaha commodity placements (see note (a) and 4 below)	30,884,311	9,484,010
	<u>40,052,808</u>	<u>19,342,749</u>
<b>Policyholders' fund</b>		
Cash at banks	1,307,252	1,317,830
	<u>1,307,252</u>	<u>1,317,830</u>
	<u>41,360,060</u>	<u>20,660,579</u>

- 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**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Gross Murabaha commodity placements	115,547,368	92,864,007
Less: Murabaha commodity placements with an original maturity of three months or less (see note 3)	(30,884,311)	(9,484,010)
	<u>84,663,057</u>	<u>83,379,997</u>
Other Murahaba financing	742,552	2,054,821
	<u>85,405,610</u>	<u>85,434,818</u>

- 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.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

5 AVAILABLE-FOR-SALE INVESTMENTS

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Shareholders' fund</i>		
Quoted investments (carried at fair value through other comprehensive income):		
Islamic Sukuks	39,620,046	48,451,022
Unquoted investments		
Units in ICD – Unit Investments Fund	13,229,694	12,906,189
Shares in Takaful Re (carried at cost) (see note (a) below):	1,859,662	1,771,015
Less: Impairment allowance	(1,036,324)	(1,036,324)
	823,338	734,691
Carrying value of unquoted investments	14,053,032	13,640,880
	53,673,078	62,091,902

- 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:

	<i>Quoted Islamic Dinars</i>	<i>Unquoted Islamic Dinars</i>	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Cost:				
At beginning of the period	47,708,972	12,936,276	60,645,248	58,380,232
Impairment loss	-	-	-	(531,304)
Redemption	(10,719,436)	-	(10,719,436)	(271,850)
Foreign currency translation adjustment	2,388,058	699,393	3,087,450	3,068,170
At end of the period	39,377,593	13,635,669	53,013,262	60,645,248
Unrealised gains on available-for-sale investments:				
At beginning of the period	742,049	704,605	1,446,654	1,593,446
Net movement during the period	(499,596)	(287,241)	(786,837)	(146,792)
At end of the period	242,453	417,364	659,817	1,446,654
Net carrying value	39,620,046	14,053,032	53,673,078	62,091,902

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**6 HELD-TO-MATURITY INVESTMENTS**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Shareholders' fund</i>		
Islamic Sukuk	14,448,743	-
The movement in held to maturity investments is as follows:		
Cost:		
At beginning of the reporting period	-	-
Additions	13,268,221	-
Foreign currency translation adjustment	567,668	-
Accrued income	95,343	-
Unamortized premium	517,512	-
At end of the reporting period	<u>14,448,743</u>	<u>-</u>

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

**7 ACCOUNTS RECEIVABLE, NET**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Policyholders' fund</i>		
Trade accounts receivable	2,403,410	3,365,515
Allowance for doubtful debts	<u>(268,533)</u>	<u>(127,657)</u>
	<u>2,134,877</u>	<u>3,237,858</u>

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

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Balance at beginning of the reporting period	127,657	121,341
Charge for the period	134,486	-
Foreign currency translation adjustment	6,390	6,316
Balance at end of the reporting period	<u>268,533</u>	<u>127,657</u>

The aging analysis of unimpaired accounts receivables was as follows:

	Past due but not impaired					Total Islamic Dinars
	<i>Neither past due nor impaired</i>	<i>Above 1 and up to 3 months</i>	<i>Above 3 and up to 6 months</i>	<i>Above 6 and up to 12 months</i>	<i>Above 12 months</i>	
	<i>Islamic Dinars</i>	<i>Islamic Dinars</i>	<i>Islamic Dinars</i>	<i>Islamic Dinars</i>	<i>Islamic Dinars</i>	
<b>31 December 2016</b>	<b>383,946</b>	<b>404,108</b>	<b>619,688</b>	<b>542,113</b>	<b>185,022</b>	<b>2,134,877</b>
13 October 2015	1,921,343	552,278	259,766	135,877	368,594	3,237,858

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.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**8 CLAIMS RECOVERABLE, NET**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Policyholders' fund</i>		
Claims recoverable	12,442,186	11,870,834
Allowance for doubtful claims	<u>(12,442,186)</u>	<u>(11,870,834)</u>
	<u>-</u>	<u>-</u>

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

Movement in the allowance for doubtful claims during the period:

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Balance at beginning of the period	11,870,834	11,022,597
Allowance for impairment during the period	(31,396)	265,864
Foreign currency translation adjustment	602,748	582,373
Balance at end of the period	<u>12,442,186</u>	<u>11,870,834</u>

**9 UNEARNED PREMIUMS, NET**

	<i>31 December 2016</i>			<i>13 October 2015</i>		
	<i>Gross Islamic Dinars</i>	<i>Reinsurance share Islamic Dinars</i>	<i>Net Islamic Dinars</i>	<i>Gross Islamic Dinars</i>	<i>Reinsurance share Islamic Dinars</i>	<i>Net Islamic Dinars</i>
At beginning of the reporting period	12,926,815	(4,364,322)	8,562,493	12,676,414	(4,402,813)	8,273,601
Gross premiums written (ceded) during the period	27,691,684	(13,174,935)	14,516,749	16,587,564	(7,957,044)	8,630,520
Premiums earned during the period	<u>(22,217,069)</u>	<u>10,320,539</u>	<u>(11,896,530)</u>	<u>(16,337,163)</u>	<u>7,995,535</u>	<u>8,341,628</u>
At end of the reporting period	<u>18,401,430</u>	<u>(7,218,718)</u>	<u>11,182,712</u>	<u>12,926,815</u>	<u>(4,364,322)</u>	<u>8,562,493</u>

**10 PREPAID EXPENSES AND OTHER ASSETS**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Shareholders' fund</i>		
Accrued income	<u>316,204</u>	<u>281,259</u>
<i>Policyholders' fund</i>		
Staff advances	2,705,952	3,161,745
Other receivables	<u>308,278</u>	<u>238,606</u>
	<u>3,014,230</u>	<u>3,400,351</u>
	<u>3,330,434</u>	<u>3,681,610</u>

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**11 PROPERTY AND EQUIPMENT**

	<i>Vehicles</i> <i>Islamic Dinars</i>	<i>Furniture and fixtures</i> <i>Islamic Dinars</i>	<i>Office equipment</i> <i>Islamic Dinars</i>	<i>Computer equipment</i> <i>Islamic Dinars</i>	<i>Total</i> <i>Islamic Dinars</i>
<b><i>Policyholders' fund</i></b>					
<b>Cost:</b>					
At 24 October 2014	110,263	155,603	156,062	478,988	900,916
Additions	-	574	2,035	40,730	43,339
At 13 October 2015	110,263	156,177	158,097	519,718	944,255
Additions	84,547	-	2,839	47,643	135,029
Disposal	(78,827)	-	-	-	(78,827)
<b>At 31 December 2016</b>	<b>115,983</b>	<b>156,177</b>	<b>160,936</b>	<b>567,361</b>	<b>1,000,457</b>
<b>Accumulated depreciation:</b>					
At 24 October 2014	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 13 October 2015	110,263	154,537	88,071	443,908	796,779
Charge for the period	19,319	1,114	27,735	42,145	90,313
Disposal	(78,827)	-	-	-	(78,827)
<b>At 31 December 2016</b>	<b>50,755</b>	<b>155,651</b>	<b>115,806</b>	<b>486,053</b>	<b>808,265</b>
<b>Net book value:</b>					
<b>At 31 December 2016</b>	<b>65,228</b>	<b>526</b>	<b>45,130</b>	<b>81,308</b>	<b>192,192</b>
At 13 October 2015	-	1,640	70,026	75,810	147,476

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**12 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
<i>Shareholders' liabilities</i>		
Bank commission (see note (a) below)	278,141	296,476
Subscriptions received in advance, net (see note (b) below)	442,191	456,165
Other payables	698,912	450,493
	<u>1,419,244</u>	<u>1,203,134</u>
<i>Policyholders' liabilities</i>		
Accrued payables	2,348,398	3,438,297
Advance from customers	8,035,765	1,432,896
Other payables	1,874,926	879,069
	<u>12,259,089</u>	<u>5,750,262</u>
	<u><u>13,678,333</u></u>	<u><u>6,953,396</u></u>

a) This represents net accumulated income up to 31 December 2016 generated from placements with certain conventional banks and financial institutions which were not considered operating 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.

**13 CLAIMS PAYABLE**

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

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Balance at beginning of the period	252,947	273,298
Additions during the period	9,421,767	460,369
Payments made during the period	(9,208,986)	(480,720)
	<u>465,728</u>	<u>252,947</u>



The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

14 OUTSTANDING CLAIMS

	31 December 2016			13 October 2015		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
	Islamic Dinars	Islamic Dinars	Islamic Dinars	Islamic Dinars	Islamic Dinars	Islamic Dinars
Outstanding at beginning of the reporting period	14,951,371	(8,555,508)	6,395,863	4,962,487	(1,613,778)	3,348,709
Claims paid during the period	(9,693,648)	6,420,519	(3,273,129)	480,720	(176,957)	303,763
Charge for during the period	41,146,739	(28,079,903)	13,066,836	9,508,164	(6,764,773)	2,743,391
Outstanding at end the of reporting period	<u>46,404,462</u>	<u>(30,214,892)</u>	<u>16,189,570</u>	<u>14,951,371</u>	<u>(8,555,508)</u>	<u>6,395,863</u>
Comprise of:						
- IBNR (Note 14.1)	13,715,838	(7,903,378)	5,812,460	6,648,681	(3,573,894)	3,074,787
- Reported (Note 14.2)	32,688,624	(22,311,514)	10,377,110	8,302,690	(4,981,614)	3,321,076
	<u>46,404,462</u>	<u>(30,214,892)</u>	<u>16,189,570</u>	<u>14,951,371</u>	<u>(8,555,508)</u>	<u>6,395,863</u>

14.1 The IBNR provision 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 period, this provision is calculated based on a model developed to align the risk with the probable loss on a transaction level. Whereas for the reported claims ICIEC assigns a separate provision as covered below.

14.2 The reported claim provision represents a provision against a particular reported claim filed and remain unpaid at the end of the period. This provision balance for the period ended 31 December 2016 amounted to ID 32,688,624 (2015: ID 8,555,508), from which ID 22,311,514 (2015: ID 4,981,614) were ceded to re-insurer by 68%. These provisions are pertaining to three insurance policies covering the same underlying risk.

15 SHARE CAPITAL

	31 December 2016 Islamic Dinars	13 October 2015 Islamic Dinars
<b>Authorized capital</b>		
400,000 shares (1435 H: 400,000) of ID 1,000 each	<u>400,000,000</u>	<u>400,000,000</u>
<b>IDB ("Special Account Resources Waqf Fund")</b>		
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
<b>Member countries</b>		
137,935 shares (1436 H: 137,677) of ID 1,000 each, of which ID 500 has been called	68,967,500	68,838,500
Less: Subscriptions receivable	(3,625,000)	(16,062,500)
	<u>140,342,500</u>	<u>127,776,000</u>

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.

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**15 SHARE CAPITAL (continued)**

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

<i>Shareholder</i>	<i>From 14 October 2015 to 31 December 2016 Islamic Dinars</i>	<i>From 25 October 2014 to 13 October 2015 Islamic Dinars</i>
Kuwait	-	2,500,000
Nigeria	4,000	464,500
Iraq	-	62,500
IDB	12,500,000	-
Comoros	62,500	-
	<u>12,566,500</u>	<u>3,027,000</u>

**16 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.

**17 LOAN 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 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:

<i>Policyholders' fund</i>	<i>31 December 2016 G Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Total assets	7,982,985	12,669,897
Total liabilities	(42,376,111)	(24,630,161)
Accumulated deficits	48,883,760	37,148,572
Net deficit in policyholders' fund	<u>14,490,634</u>	<u>25,188,308</u>
Loan to policyholders' fund from shareholders' fund	<u>(14,490,634)</u>	<u>(25,188,308)</u>
	<u>-</u>	<u>-</u>

**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:

	<i>From 14 October 2015 to 31 December 2016 Islamic Dinars</i>	<i>From 25 October 2014 to 13 October 2015 Islamic Dinars</i>
Investment management fees paid to IDB – OCR	300,000	212,267
Charges for office space paid to IDB – OCR	229,020	259,278
Expenses paid by IDB on behalf of the Corporation	1,478,844	2,091,545
Pensions paid to IDB – pension and medical fund	864,030	655,451

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Due from:		
Islamic Corporation for the Development of the Private Sectors (ICD)	190,449	202,058
Islamic Solidarity Fund for Development (ISFD)	138,377	-
IDB – Special Account Resources WAQF Fund	802,963	1,360,848
IDB - Staff Retirement Medical Plan and Staff Retirement Pension Plan	269,372	27,530
The Saudi Project for Utilization of Sacrificial Animals (ADAHI)	7,042	-
	<u>1,408,203</u>	<u>1,590,436</u>
Due to:		
Islamic Development Bank Ordinary Capital Resources – (IDB – OCR)	2,443,951	1,862,404
Islamic Trade Finance Corporation (ITFC)	463	2,571
The Saudi Project for Utilization of Sacrificial Animals (ADAHI)	-	3,275
	<u>2,444,414</u>	<u>1,868,250</u>

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

	<i>From 14 October 2015 to 31 December 2016 Islamic Dinars</i>	<i>From 25 October 2014 to 13 October 2015 Islamic Dinars</i>
Salaries and other short term benefits	560,081	124,344
Post-employment benefits	67,211	7,182

**19 PENSION LIABILITY**

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

	<i>31 December 2016</i>	
	<i>Staff retirement pension plan Islamic Dinars</i>	<i>Staff retirement medical plan Islamic Dinars</i>
<b>ALLOCATION OF PENSION ASSETS FROM IDB</b>	<b>14,299,945</b>	<b>597,184</b>
Income on Plan Assets	748,346	33,295
Return on Plan Assets less than discount rate	(744,404)	(5,277)
Plan participations contributions	388,223	21,224
Employer contribution	891,320	42,692
Disbursements from Plan Assets	(1,582,481)	(18,106)
Currency translation gain	705,572	32,412
<b>Fair value of plan assets at 31 December 2016</b>	<u><b>14,706,521</b></u>	<u><b>703,424</b></u>

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

19 PENSION LIABILITY (continued)

	<i>31 December 2016</i>	
	Staff retirement pension plan <i>Islamic Dinars</i>	Staff retirement medical plan <i>Islamic Dinars</i>
<b>ALLOCATION OF DEFINED PENSION LIABILITY FROM IDB</b>	<b>19,068,229</b>	<b>1,325,969</b>
Current Service costs	1,285,632	93,494
Cost on Defined Benefit Obligation(DBO)	991,568	77,406
Plan participations contributions	388,223	21,224
Disbursements from Plan Assets	(1,582,481)	(18,106)
Net actuarial gain	(1,460,501)	(266,414)
Currency translation loss	941,565	63,217
<b>Benefit obligation at 31 December 2016</b>	<b>19,632,235</b>	<b>1,296,790</b>
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets	<b>4,925,714</b>	<b>593,366</b>

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 2016 comprised the following:

	<i>31 December 2016</i>	
	Staff retirement pension plan <i>Islamic Dinars</i>	Staff retirement medical plan <i>Islamic Dinars</i>
Gross current service costs	1,285,632	93,494
Cost on DBO	991,568	77,406
Income on assets	(748,346)	(33,295)
<b>Cost recognized in statement of income</b>	<b>1,528,854</b>	<b>137,605</b>
Actuarial gain due to assumptions	(1,510,358)	(275,509)
Return on plan assets greater than discount rate	769,816	5,457
<b>Cost recognized in statement of changes of equity</b>	<b>(740,542)</b>	<b>(270,052)</b>

The Islamic Corporation for the Insurance of Investment and Export Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**19 PENSION LIABILITY (continued)**

(c) Principal assumptions used in the actuarial valuations dated 31 December 2016 and extended as at end of the reporting period as follows:

	Staff retirement pension plan	Staff retirement medical plan
Discount rate	4.15%	4.15%
Rate of expected salary increase	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:

	<i>31 December 2016</i>	
	Staff retirement pension plan <i>Islamic Dinars '000</i>	Staff retirement medical plan <i>Islamic Dinars '000</i>
Cash and Cash Equivalent and Commodity placements	867	45
Syndicated Murabaha	458	38
Managed funds and Instalment sales	3,084	609
Investments in sukuk	8,141	7
Land	1,759	4
Other (net)	398	-
<b>Plan assets</b>	<b>14,707</b>	<b>703</b>

1.2% of staff retirement plan assets (1436H: 3.9%) are invested as of 31 December 2016.

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

	<i>31 December 2016</i> <i>Islamic Dinars</i>
Present value of defined benefit obligation	19,632,235
Fair value of plan assets	(14,706,521)
<b>Plan deficit</b>	<b>4,925,714</b>

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

	<i>31 December 2016</i> <i>Islamic Dinars</i>
Present value of defined benefit obligation	1,296,790
Fair value of plan assets	(703,424)
<b>Plan deficit</b>	<b>593,365</b>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**19 PENSION LIABILITY (continued)**

(f) Total pension liability

	<i>31 December 2016</i>		
	<b>Staff retirement pension plan <i>Islamic Dinars</i></b>	<b>Staff retirement medical plan <i>Islamic Dinars</i></b>	<b>Total <i>Islamic Dinars</i></b>
Transfer of Actuarial Deficit from IDB-OCR	4,925,714	593,365	5,519,079
<b>Balance at 31 December 2016</b>	<b>4,925,713</b>	<b>593,365</b>	<b>5,519,079</b>

**20 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, 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. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2016, 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:

	<i>Level 1 Islamic Dinars</i>	<i>Level 2 Islamic Dinars</i>	<i>Level 3 Islamic Dinars</i>
<b>For the period ended 31 December 2016</b>			
Islamic Sukuk	39,620,046	-	-
Unit in IDB - Unit Investment Fund	13,229,694	-	-
Shares in Takaful Re.	-	-	1,859,662
<b>For the year ended 13 October 2015</b>			
Islamic Sukuk	48,451,022	-	-
Unit in IDB - Unit Investment Fund	12,906,189	-	-
Shares in Takaful Re.	-	-	1,239,710

There were no transfers between levels during the period ended 31 December 2016 and 13 October 2015.

## The Islamic Corporation for the Insurance of Investment and Export Credit

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

#### 21 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.

##### *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 Islamic Corporation for the Insurance of Investment and Export Credit

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

### 21 RISK MANAGEMENT (continued)

#### *Credit risk (continued)*

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:

	<i>31 December 2016</i> <i>Islamic Dinars</i>	<i>13 October 2015</i> <i>Islamic Dinars</i>
Cash at banks	9,168,497	9,858,739
Murabaha receivables	116,289,920	94,918,828
Accounts receivable, net	2,134,877	3,237,858
Islamic Sukuks	54,068,790	48,451,022
	<u>181,662,084</u>	<u>156,466,447</u>

#### *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.

#### *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.

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

	<i>2016</i>		<i>2015</i>	
	<i>+5%</i> <i>Islamic Dinar</i>	<i>-5%</i> <i>Islamic Dinar</i>	<i>+5%</i> <i>Islamic Dinar</i>	<i>-5%</i> <i>Islamic Dinar</i>
US Dollar	(4,579,945)	5,062,044	(4,322,283)	4,777,260
Sterling Pound	(747,080)	825,719	(518,728)	573,331
Euro	(609,718)	3,604,113	(3,304,227)	3,652,040
Japanese Yen	(3,260,864)	673,899	(443,714)	490,420

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 minimized to a certain extent, as the corresponding reinsurance receivables will also be in USD.



## The Islamic Corporation for the Insurance of Investment and Export Credit

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

#### 21 RISK MANAGEMENT (continued)

##### *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:

	<i>Less than 3 months Islamic Dinars</i>	<i>3 to 12 months Islamic Dinars</i>	<i>1 to 5 years Islamic Dinars</i>	<i>Total Islamic Dinars</i>
<b>31 December 2016</b>				
Financial assets	88,672,480	87,312,373	24,696,775	200,681,628
Financial liabilities	(9,866,530)	-	-	(9,866,530)
<b>13 October 2015</b>				
Financial assets	33,659,190	90,453,660	51,195,975	175,308,825
Financial liabilities	(1,935,953)	-	-	(1,935,953)

##### *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 1,165 million (1436 H: ID 769 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016 (CORRESPONDING TO 2 RABI AL-AKHIR 1438H)

**21 RISK MANAGEMENT (continued)**

*Geographical risk (continued)*

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

Country	<i>31 December 2016 Islamic Dinars</i>	<i>13 October 2015 Islamic Dinars</i>
Saudi Arabia	1,249,574,075	287,267,107
India	293,639,643	14,499,702
Egypt	162,275,714	139,373,392
United Arab Emirates	189,678,984	108,164,968
Turkey	188,221,774	120,676,329
Sudan	166,209,367	1,648,787
Lebanon	136,789,296	57,635,048
Spain	93,475,576	116,622,527
Bangladesh	90,929,256	15,676,306
Cote D'Ivoire	66,224,137	16,804,478
Taiwan	56,533,738	-
China	54,262,410	-
Algeria	50,472,293	71,534,699
Pakistan	50,374,512	63,877,090
Oman	49,830,373	3,609,706
Other	688,302,399	644,779,988
Gross exposure	3,586,793,547	1,662,170,127
Ceded exposure to Reinsurers	(2,422,226,152)	(893,473,500)
Net exposure	<u>1,164,567,395</u>	<u>768,696,627</u>

**22 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 following Article of Agreement.

**23 ZAKAT AND TAX TREATMENT**

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

**24 RECLASSIFICATION**

Certain comparative figures have been re-classified to conform to current year presentation.