

Annual Report 1417 H

MAY 1996 - JUNE 1997

The Islamic Corporation for the Insurance Of Investment and Export Credit (ICIEC)

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT & EXPORT CREDIT (ICIEC)

ICIEC is a subsidiary corporation of the Islamic Development Bank (IDB) established on 1st August 1994 as an international institution with full juridical personality with an authorized capital of 100 million Islamic Dinars, the equivalent of about US\$ 140 million. ICIEC commenced operations in July 1995.

The objective of ICIEC is to enlarge the scope of trade transactions and the flow of investments among Member States of the Organization of the Islamic Conference (OIC). In fulfillment of this objective, the Corporation provides the following Shariah compatible facilities to exporters and investors from member countries:

(a) export credit insurance to cover the non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risk; and

(b) investment insurance against country risks, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government (to be launched toward the end of 1997).

ICIEC is located in Jeddah, The Kingdom of Saudi Arabia and could be contacted through the following address:

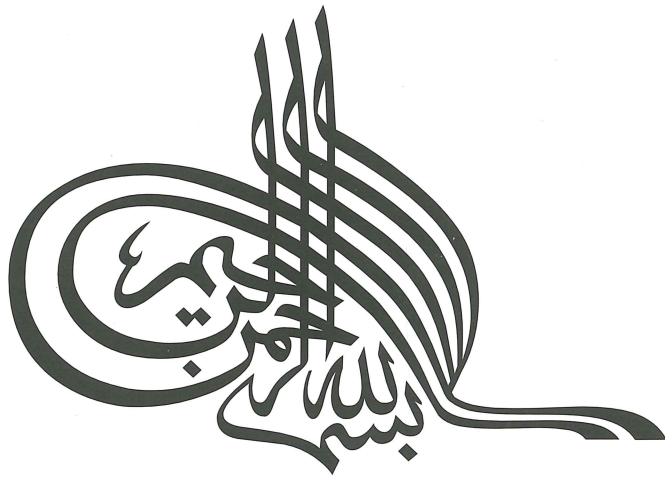
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Telephone: (9662) 6445666 (Direct, 3lines)
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The Islamic Corporation
for the Insurance of Investment
and Export Credit

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**In the Name of Allah, the
Beneficent, the Merciful**



The Islamic Corporation
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**The Islamic Corporation for the Insurance
Of Investment and Export Credit
(An Affiliate of The Islamic Development Bank)**

Annual Report

1417H

(1996 - 1997)



The Islamic Corporation
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MANAGEMENT

Board of Directors

Chairman :

Dr. Ahmed Mohamed Ali

Members:

Hon. Hicham Ibrahim Al Chaar

Hon. Dr. Morteza Gharehbaghian

Hon. Tarik Kivanc

Hon. Dr. Abdullah bin Ibrahim El- Kuwaiz

Hon. Mohamadou Labarang

Hon. Jamal Nasser Rashid Lootah

Hon. Al Haji Momodu Munu

Hon. Badr Eddine Nouioua

Hon. Karnaen A. Perwataatmadja

Hon. Mohammed Azzarooq Rajab

Hon. Faisal Abdul Aziz Al-Zamil

Officers of the Corporation

President :

Dr. Ahmed Mohamed Ali

Manager :

Dr. Abdel-Rahman Taha

Legal Advisor:

Dr. Mohammed El Fatih Hamid



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TRANSMITTAL LETTER

In the Name of Allah, the Beneficent, the Merciful

7 Jumad Awal, 1418 H
8 September, 1997 G

Honourable Members of
The Board of Governors of
The Islamic Corporation for
the Insurance of Investment and
Export Credit

Dear Brothers,

Assalam-O- Alaikum Warahmatullah Wabarakatuh

In accordance with Articles 27 and 44 (2) of the Articles of Agreement establishing the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), I submit for the kind attention of the esteemed Board of Governors, on behalf of the Board of Directors, the Annual Report on the operations and activities of the Corporation in 1417 H (1996 / 1997), including audited financial statements.

Please accept the assurances of my highest consideration.

Yours sincerely,

DR. AHMED MOHAMED ALI

**President, and Chairman
of ICIEC's Board of Directors**



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Message from The President

This is the second Annual Report of ICIEC since it commenced business in Safar 1416H (July 1995), and the first to include audited accounts.

During 1417H ICIEC continued its strategy of aggressive marketing to promote its services among member countries. An intensive marketing program was implemented in member countries resulting in a significant number of business enquiries, part of which developed into actual applications for insurance cover.

Insurance operations during the year, as measured by the number of insurance policies issued and total insurance cover commitments, saw a substantial increase, jumping from 2 insurance policies with a total cover commitment of US\$ 32.5 million in 1416H to 10 policies with total cover commitments of US\$ 104 million. However, the utilization of cover commitments as at the end of the year was small, consequently the Corporation assumed little contingent liability and income from operations was not significant. Needless to say, no claims were submitted or paid during the year.

The Financial Statements showed that IDB and member countries subscribed ID^(*) 87.49 million (US\$ 119.60 million) to the share capital of ICIEC, of which ID 63.81 million (US\$ 87.23 million) was paid up. Accumulated net income for the period reached ID 6.02 million (US\$ 8.23 million), accruing largely from investing the funds of the Corporation, thus bringing Shareholders' Funds to ID 69.83 million (US\$ 95.46 million).

The small size of the membership of the Corporation continued to handicap the expansion of operations. Only 18 countries, out of 30 who had signed the Original Articles of Agreement and three who joined later, were full members as at the end of the year. This is about one-third of the membership of IDB, clearly not large enough to provide the critical mass necessary for the success of the Corporation. Therefore, it is imperative, if ICIEC is to achieve its objectives, that signatory countries endeavour to complete membership requirements, and other OIC member countries apply to join as soon as possible.

We look forward to a successful year in 1418H, Insha Allah. The expected addition to the membership, the signing of co-operation agreements with export credit guarantee agencies in member countries, the implementation of an intensive marketing strategy, and steps to strengthen the organizational set-up and technical capacity of the Corporation, all augur well for better results in 1418H.

DR. AHMED MOHAMED ALI
President, of ICIEC



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* One ID (Islamic Dinar) = one SDR (Special Drawing Right of the IMF) = US\$ 1.367 as at 30 Dhul-Hijja 1417H.



Corporate Information and
Facilities offered



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CORPORATE INFORMATION AND FACILITIES OFFERED

STATUS

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established on 24 Safar 1415H (1st August 1994). In accordance with its Articles of Agreement, ICIEC was established as a subsidiary Corporation of the Islamic Development Bank (IDB). The Articles stipulated that the Corporation shall be an international institution with full juridical personality, to be situated in Jeddah, the Kingdom of Saudi Arabia. ICIEC commenced operations in Safar 1416H (July 1995).

OBJECTIVE

The objective of ICIEC, as defined in the Articles of Agreement, is to enlarge the scope of trade transactions and the flow of investments among Member States. In fulfillment of this objective, ICIEC shall provide, in accordance with the principles of Shariah:

(a) export credit insurance and reinsurance to cover the non-payment of export receivable resulting from commercial (buyer) or non-commercial (country) risks; and

(b) at a suitable time after its establishment, investment insurance and reinsurance against country risk, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government.

MEMBERSHIP

In accordance with the Articles of Agreement, membership in ICIEC is open to the Islamic Development Bank and countries who are members of the Organization of the Islamic Conference (OIC). Thirty countries signed the Articles of Agreement in 1994 and three countries subsequently applied for membership

and their applications were accepted. Of the above 33 countries only 18 have completed membership requirements. This leaves 15 countries who are signatories to the Articles but have yet to complete membership requirements. In addition, there are 18 countries who are members of the OIC and had neither been signatories to the Articles nor have applied for membership (see Annex 1 for details). The Corporation continued its efforts during the year to encourage signatory countries to complete membership requirements. As a result, five countries became full members and three others ratified the Articles of Agreement.

CAPITAL SUBSCRIPTION

The Islamic Development Bank and 18 member countries subscribed to shares in the capital of the Corporation having a face value of ID 87.49 million (US\$ 119.60 million). IDB contributed to ID 50 million which makes 50% of authorized capital. Eighteen countries subscribed to the capital, with a total subscription of ID 37.49 million or 37.5% of authorized capital. The remainder of authorized capital (ID 12.5 million) is available for subscription by new members (see Annex 2).

MANAGEMENT

In accordance with Chapter V of the Articles of Agreement, which defines the structure of the management of ICIEC, the ultimate responsibility for the management of ICIEC rests with the Board of Governors (BOG), which is composed of Governors and Alternate Governors of the IDB. All powers of the Corporation are vested in the BOG, however, it may delegate any or all of its powers to the Board of Directors of the Corporation (BOD), with a few exceptions defined in the Articles. The (BOD) is responsible for the direction of the general operations of ICIEC and is also composed of the Board of Executive Directors of the IDB.

The Chief Executive of the Corporation, responsible for conducting its affairs under the direction of the (BOD), is the President of the Corporation. The President is the

legal representative of ICIEC and has the power to approve its operations and the conclusion of contracts pertaining thereto. This position is held, ex-officio, by the President of the IDB. The President may delegate any of his powers to the Manager of the Corporation who is responsible for conducting the day-to-day business of the Corporation.

The Corporation is organized into three main Departments reporting to the Manager of the Corporation: Underwriting, Marketing and Finance and Accounting. Three ancillary units: Administrative Affairs, Data Processing, and Country Risk Analysis provide technical and administrative support to the main Departments. Legal, Internal Audit, Investment services and some administrative services are currently provided by the Islamic Development Bank (ICIEC's parent organization).

In order to advise the President on the overall management of the Corporation, a Consultative Committee was established on 16 Ramadan 1417H (25 January 1997G). The members of the Consultative Committee are prominent personalities from Member Countries who are well-versed in matters relating to export credit and investment insurance, international trade and banking. They will meet periodically to discuss and advise the President on relevant issues.

FACILITIES OFFERED^(*)

In accordance with its Articles of Agreement, the Corporation will provide export credit insurance during its early years of operation and will offer investment insurance at a suitable juncture in the future (planned to be launched towards the end of 1997).

Export credit insurance is currently offered under three insurance policies:

- (a) Comprehensive Short Term Policy;
- (b) Supplemental Medium Term Policy; and
- (c) Bank Master Policy.

★ For details on the Export Credit insurance facilities, see Annex 3.



Operations Review



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Operations Review

Marketing:

During 1417H, the Corporation continued its vigorous marketing campaign to create awareness of its services among exporters and banks in member countries. Towards this end, promotional seminars were conducted in Bangladesh (Dhaka), Egypt (Cairo) and Jordan (Amman and Sahab Industrial Zone). In addition, the Corporation made presentations in seminars organized by IDB aimed at familiarizing the private sector with IDB Group activities as well as several conferences on international trade and finance. These events took place in eleven member countries of the IDB, inclusive of six member countries of the Corporation (Indonesia, Iran, Kuwait, Saudi Arabia, Senegal and Tunisia).

Experience has shown face-to-face encounters with prospective clients to be an effective marketing tool. Therefore, the Marketing Department intensified its efforts in that direction where 457 meetings were held with exporters, Islamic and commercial banks, and other institutions involved in the development of export trade. Most of these meetings were held in member countries.



During this period, the Corporation attended two international trade fairs: in Indonesia (the Islamic Exhibition held in Jakarta, October, 1996) and in Senegal (The International Fair of

Dakar, December 1996).

The Corporation also made use of the media to publicize its activities. A number of press releases were published in several regional and international magazines. A number of articles and news stories were also published about the services of the Corporation and its operations in several magazines and journals.

As an integral part of its marketing strategy, the Corporation sought to develop cooperation with export credit agencies (ECAs) and insurance companies involved in export credit insurance in member countries. During the year, a memorandum of understanding defining the areas and modes of cooperation, was negotiated and signed with P.T. Assuransi Jasa Indonesia (Jasindo), a major Indonesian publicly owned insurance company. Similar agreements have been negotiated with the Inter-Arab Investment Guarantee Corporation, the Egyptian Export Development Bank, the Egyptian Export Guarantee Company and the Arab Trade Financing Program. These agreements are expected to be finalized early next year. Also, contacts have been established with ECAs in Jordan, Pakistan, Bangladesh and Malaysia.

Insurance Underwriting

Resulting from the above marketing activities, the Corporation received 144 business enquiries during 1417H. However, almost one-third of these enquiries were related to ineligible transactions, mainly because one of the countries involved or both were not member countries. The remaining two-thirds were at various stages of consideration as at 30 Dhu al-Hijjah 1417H.

During the year under review, 14 insurance proposals (policy applications) were received and 10 insurance policies, including one for a bank, were actually issued with a total cover commitment of US\$ 104 million, as compared to 2 insurance policies with a total cover commitment of US\$ 32.5 million for the previous year. The



cover commitment was to insure exports from at least 4 member countries (Saudi Arabia, Malaysia, Pakistan and Jordan) to 15 member countries (80% of the membership of the Corporation) as detailed in Annex 4.

Actual utilization by policyholders of the cover commitments offered by the 10 policies was slow. The Corporation received 25 credit limit applications from policyholders, of which 22 valued at US\$ 16.9 million were approved. An approved credit limit is the maximum amount which the Corporation is prepared to pay for any insured loss in respect of individual buyers. The bulk of these approvals remained unutilized as at the end of the year, thus the contingent liability assumed by the Corporation was small and no claims were submitted or paid.

A significant development in the underwriting area, during 1417H was the issuance of the first Bank Master Policy (BMP), designed for Islamic banks, to the Islamic Banks' Portfolio of the IDB (a trade financing fund contributed to by IDB and 19 commercial Islamic banks and managed by IDB as a Mudharib) with a total commitment limit of US\$ 60 million. It is hoped that commercial banks doing trade finance in accordance with Sharia will also benefit from the BMP to cover buyer and country risks.

New Insurance Facilities:

Towards expanding the range of products on the basis of enquiries received, the Corporation will offer the Specific Transaction Policy (STP) to cover individual medium or long term export contracts, on terms and conditions similar to the whole-turnover Supplemental Medium Term Policy (SMTP). The STP may prove to be popular with exporters as they can select the contract(s) to be insured rather than offer all insurable contracts for cover as required under the SMTP. This facility is expected to be made available by mid-1418H. In addition, the esteemed Board of Directors approved the introduction of the Foreign Investment Insurance (FII) to protect

investors against loss resulting from political risks, in view of the existence of a strong demand for this facility. The protection afforded by the FII is expected to enhance the level of investment flows between Member countries. Since basic documentation and operational regulations for the FII scheme was previously approved by the esteemed Board of Directors, the Corporation is currently formulating the operational procedures and guidelines in order to launch the scheme at the earliest opportunity.

Reinsurance:

Reinsurance is of vital importance to the Corporation as a means of sharing underwritten risks and expansion of insurance capacity. The Corporation has, therefore, established contacts and entered into negotiations with a number of international brokers and reinsurers in an attempt to structure and secure a suitable re-insurance program. However, indications received to-date are unsatisfactory and the Corporation will intensify its efforts to obtain reinsurance cover on more acceptable terms.





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Annexes

Annex 1

MEMBERSHIP STATUS (As at end of Dhu al-Hijjah 1417)

No.	MEMBERS	IN THE PROCESS OF COMPLETING MEMBERSHIP REQUIREMENTS
1.	Algeria	Afghanistan
2.	Bangladesh	Benin
3.	Chad	Burkina Faso
4.	Egypt	Cameron
5.	Gambia	Comoros
6.	Indonesia	Gabon
7.	Iran	Guinea
8.	Jordan	Libya
9.	Kuwait	Mauritania
10.	Lebanon	Niger
11.	Malaysia	Palestine
12.	Mali	Syria
13.	Morocco	Turkey
14.	Pakistan	Uganda
15.	Saudi Arabia	Yemen
16.	Senegal	
17.	Sudan	
18.	Tunisia	
19.	Islamic Development Bank	

Annex 2

POSITION OF CAPITAL SUBSCRIPTION BY MEMBER COUNTRIES IN SHARE CAPITAL OF THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC)

(AS AT THE END OF 1417 H)

Members	Date of Articles ratification	Number of Shares Subscribed	Volume of Shares ID	%
1. Algeria	23.04.96	1,000	1,000,000	1.14
2. Bangladesh	11.05.93	250	250,000	0.29
3. Chad	19.02.93	250	250,000	0.29
4. Egypt	30.12.92	2,500	2,500,000	2.85
5. Gambia	01.03.96	250	250,000	0.29
6. Indonesia	24.04.93	250	250,000	0.29
7. Iran	19.12.96	5,000	5,000,000	5.71
8. Jordan	21.04.93	250	250,000	0.29
9. Kuwait	13.07.94	2,500	2,500,000	2.85
10. Lebanon	17.08.95	250	250,000	0.29
11. Malaysia	01.08.94	2,740	2,740,000	3.13
12. Mali	04.09.93	250	250,000	0.29
13. Morocco	08.02.97	5,000	5,000,000	5.71
14. Pakistan	08.05.93	2,500	2,500,000	2.85
15. Saudi Arabia	03.12.92	13,500	13,500,000	15.43
16. Senegal	19.09.95	250	250,000	0.29
17. Sudan	10.07.95	250	250,000	0.29
18. Tunisia	22.02.93	500	500,000	0.57
19. Islamic Development Bank		50,000.00	50,000,000	57.15
Total ID		87,490.00	87,490,000	100
TOTAL USD			119,598,800	100

ID 1.00 = USD 1,367 (as at 30 Dhul-Hijja 1417H)

Annexe 3**THE EXPORT CREDIT
INSURANCE FACILITY****Shariah Principles**

ICIEC provides insurance facilities in accordance with the principles of Shariah. Thus, in carrying out its operations, ICIEC shall observe the following principles:

- (a) endeavour to achieve mutual co-operation of policyholders through their collective sharing of losses which any one policyholder may suffer;
- (b) distribute the surplus that may accrue from the insurance and any reinsurance operations to policyholders after meeting statutory reserve obligations;
- (c) exclude cover of contracts for the sale of goods prohibited under Shariah, as well as interest accruing from export credit or investment loans; and
- (d) invest its own funds in accordance with Islamic principles.

Eligibility Criteria

In order to qualify for the Corporation's facilities, the following eligibility criteria apply to:

- (a) Exporters and/ or buyers and investors may be either of the following:
 - the Islamic Development Bank;
 - persons who are nationals of a Member State;
 - corporations or other juridical entities (including commercial banks) the majority of whose shares are owned by one or more Member States or by nationals of one or more Member States and whose principal office is

located in a Member State; and

- a juridical person whose principal office is located in a non-Member State, provided that not less than 50 percent of its shares are owned by nationals of Member States (subject to the approval of the Board of Directors).

(b) for export credit insurance, goods must be wholly or partially produced, manufactured, assembled or processed in one or more Member States and the local content and/or value-added that must accrue to the Member State in which such goods have been produced, should not be less than one-third of the cost of production.

(c) goods must not be forbidden by Shariah.

Export Credit Insurance Policies

Export credit insurance is offered under three policies:

- (a) Comprehensive Short Term Policy (CSTP)
- (b) Supplemental Medium Term Policy (SMTP); and
- (c) Bank Master Policy (BMP).

Comprehensive Short Term Policy

The CSTP is designed to cover repetitive shipments of raw materials, commodities and light manufactured goods under which credit extended to buyers does not exceed two years. The exporter is normally obliged to offer all his insurable export turnover, but certain exclusions may be considered. The main features of the CSTP are as follows:

(a) **Risks Covered:**

The commercial risks covered are the buyer's insolvency, protracted default and non-acceptance of goods despatched. The non-commercial risks (also known as country or political risks) include restriction of or delay in the transfer of payments, the imposition of import or export restrictions, war and civil disturbances.

(b) **Extent of Indemnity:**

90 percent of the loss or of the credit limit approved on the buyer, whichever is lower.

(c) **Claims Waiting Period:**

Immediately in the event of buyer's insolvency but normally four months in respect of all other causes of loss.

(d) **Export Financing:**

Claims proceeds under the policy can be assigned to a bank to secure the requisite export financing.

(e) **Premium:**

Payable monthly based on export declarations submitted by the exporter. Premium rates are quoted for each individual policy, dependent on factors such as the terms of payment, market grading of buyer's country and the exporter's claims experience.

(f) **Claims:**

A claim must be filed within 45 days after the date of loss. Upon verification that a claim is valid, the Corporation will promptly settle the stipulated percentage of indemnity after expiry of the relevant claims waiting period.

(g) **Recoveries:**

The exporter is required to pursue recoveries from the defaulting buyer after payment of a claim, with advice from and in consultation with ICIEC. ICIEC may exercise its subrogation rights and pursue recoveries directly.

(h) **Extensions of Covers:**

Where appropriate, the policy can be extended through an endorsement to cover pre-shipment risks, sales to/by overseas subsidiaries and other special situations.

Supplemental Medium Term Policy

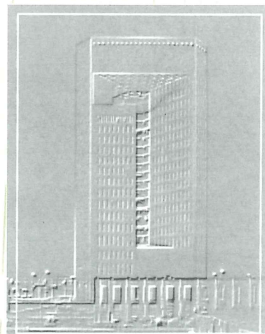
The SMTP is suitable for exports of consumer durables,

capital or semi-capital goods where credit extended to buyers exceeds two years, up to a maximum of five years. The SMTP is available for holders of the CSTP as a supplement, but could also be obtained separately.

The terms and conditions of cover, underwriting considerations and exporter's obligations under the SMTP are identical to those applicable to the CSTP. However, premiums are invariably higher on account of the longer risk horizons. In addition, each sales contract under the policy is individually underwritten. Accordingly, the exporter must obtain the ICIEC's approval before attachment of risk and must declare such contract when it becomes effective.

Bank Master Policy

The BMP is specially tailored to cover non-payment risks in connection with IDB's and other Islamic banks financing operations. It provides cover for export financing operations carried out in accordance with Shariah. The BMP will cover the same risks covered by the two other policies, in addition to capital goods owned by the insured bank in the context of a lease financing, and the refusal of the buyer to enter into a sale contract in the context of a Morabaha transaction.



Annex 4
**EXPORT CREDIT INSURANCE
POLICIES ISSUED
DURING 1417H**

(By Total Cover Commitments Distributed According to Country of Destination)

POLICY NO & POLICYHOLDER'S COUNTRY		TOTAL COVER COMMITMENTS (US\$ mn.)														TOTAL	
		ALGERIA	BANGLA DESH	EGYPT	GAMBIA	INDONE SIA	JORDAN	KUWAIT	LEBANON	MALAY SIA	MALI	PAK- ISTAN	SAUDI ARABIA	SENE- GAL	SUDAN		TUNISIA
1.	CSTP/PAK/1/96 PAKISTAN		-	-	-	-	-	0.050		-	-	0.60	-	-	-	0.65	
2.	CSTP/MAL/1/96 MALAYSIA	-	-	-	-	-	-	0.20		-	1.0	1.0	-	-	3.0	5.2	
3.	CSTP/SAU/2/96 SAUDI ARABIA	-	-	1.2	-	-	2.5	4.8		-	-	-	-	-	-	8.5	
4.	SNTP/JOR/1/96 JORDAN	-	-	-	-	-	-	-		-	-	10.0	-	-	-	10.0	
5.	CSTP/SAU/3/96 SAUDI ARABIA	0.4		0.75	0.4	-	0.75	0.6	0.3		0.35		0.45		0.2	4.2	
6.	CSTP/JOR/2/96 JORDAN	2.0				-			0.65			2.4				5.05	
7.	BMP/DB/1/96★	-		5.0		-	5.0		10	25.0		10.0	5.0			4.1	
8.	CSTP/SAU/4/97 SAUDI ARABIA	-	0.15	0.5		-	0.15	0.2	0.1		0.5	0.5		0.5	0.5	1.0	1.4
9.	CSTP/SAU/5/97 SAUDI ARABIA	-	-	0.3	-	-	-	-	-	0.5	-	-	0.5	-	0.1	-	
10.	CSTP/SAU/6/97 SAUDI ARABIA	1.0		2.0		-	2.0									5.0	
TOTAL		3.4	0.15	9.75	0.4	-	10.40	5.85	11.05	25.0	2.35	11.5	18.0	1.45	0.5	4.3	104.10

★ Exporting countries under this policy were not declared in advance.



Finance Summary



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for the Insurance of Investment
and Export Credit

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Finance Summary

Introduction

The Corporation presents its first audited financial statements since inception (Annex 5) which relate to the period from commencement of business on 24 Safar 1415H to 29 Dhul Hijja, 1417H (1 August 1995 to 6 May 1997).

Unit of Account

The unit of account of the Corporation is the Islamic Dinar (ID) which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund¹.

Share Capital

The authorised share capital of the Corporation is ID 100 million made up of 100,000 shares of ID 1,000 each. IDB has subscribed to half of the authorised capital while the other half was left for the subscription of the member countries of the Organisation of the Islamic Conference (OIC), so that each member may subscribe to a minimum of 250 shares in the Corporation.

As of 29 Dhul Hijja 1417H, eighteen member countries had subscribed to a total of 87,490 shares for a nominal value of ID 1,000 per share, or the equivalent of ID 87.49 million.

The called-up instalments as at 29 Dhul Hijja 1417H amounted to ID 68.7 million, out of which ID 63.8 million has so far been paid, thus leaving an outstanding balance of ID 4.9 million still unpaid by the subscribing member countries.

Separation of Shareholders' and Policyholders' funds

In conformity with Sharia rules governing takaful insur-

¹ Exchange rate:
- 1417H: ID 1 = US\$ 1.367
- 1416H: ID 1 = US\$ 1.444

ance (cooperative insurance), the Articles of Agreement of the Corporation (Article 28) require that the Corporation maintains two separate funds : (a) a policyholders' fund which contains mainly the insurance contributions and fees, and (b) a shareholders' fund which contains the paid-up capital and the reserves. This requirement is reflected in the Financial Statements.

Policyholders' Fund

Fee income earned during the period upto 29 Dhul Hijja 1417H amounted to ID 3,801. Establishment expenses of ID 171,952 were charged to the policyholders' fund in accordance with the Articles of Agreement. Thus, the policyholders' fund incurred a loss of ID 168,151 which has been carried forward as accumulated loss.

Shareholders' Fund

The issued share capital amounted to ID 68.7 million at the end of the period under review. The Corporation invests its liquid funds mainly in short-term commodities and murabaha transactions. The investments are managed by the Islamic Development Bank on behalf of the Corporation. Total income accruing to the shareholders' fund from investments and deposits amounted to ID 7,538,175 at the end of the period, of which ID 382,608 was attributable to gain on foreign exchange.

The administrative expenses of the Corporation, including staff cost and other general expenses incurred for running its offices situated at the Headquarters of the Islamic Development Bank, amounted to ID 1,517,310.

Thus the net income earned by the shareholders' fund amounted to ID 6,020,865 which has been transferred to the statutory reserve mandated under the Articles of Agreement. This process will recur each year until the reserve balance equals five times the subscribed capital of the Corporation. At such time the Board of Governors of the Corporation will decide on how to allocate the reserves in accordance with the rules stipulated by the Articles of Agreement.



Annex 5

Financial Statements
29 Dhul Hijjah 1417H



The Islamic Corporation
for the Insurance of Investment
and Export Credit

ANNUAL REPORT 1417H

MAY 1996 - JUNE 1997

AUDITORS' REPORT TO THE SHAREHOLDERS OF THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

We have audited the financial statements of The Islamic Corporation for the Insurance of Investment and Export Credit set out on the following pages. These financial statements are the responsibility of the Corporation's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the Corporation as of 29 Dhul Hijjah 1417 H and the results of its operations and its cash flows for the period from 24 Safar 1415 H to 29 Dhul Hijjah 1417 H in accordance with International Accounting Standards and comply with the requirements of the Corporation's Articles of Agreement in so far as they affect the preparation and presentation of the financial statements.

for Whinney Murray & Co.

Faiq J. Anayi

Chartered Accountant

Registration No. 205
Jeddah

14 July 1997 - 10 Rabi Awal 1418 H

BALANCE SHEET

29 Dhul Hijjah 1417 H

ASSETS		
SHAREHOLDERS' FUND	Note	ID
Bank balances		11,255
Other assets		79,337
Investments		72,168,392
Amounts due from policyholders' fund		168,151
TOTAL ASSETS		72,427,135
LIABILITIES AND SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		
SHAREHOLDERS' LIABILITIES	Note	ID
Deferred income		519,045
Accounts payable and accruals		96,494
Amounts due to Islamic Development Bank	4	1,983,231
		2,598,770
POLICYHOLDERS' LIABILITIES		
Amounts due to shareholders' fund		168,151
TOTAL LIABILITIES		2,766,921
SHAREHOLDERS' FUNDS		
Share capital	5	63,807,500
Statutory reserve	6	6,020,865
		69,828,365
POLICYHOLDERS' FUNDS		
Accumulated deficit		(168,151)
TOTAL SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		69,660,214
TOTAL LIABILITIES AND SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		72,427,135

The attached notes 1 to 7 form part of these financial statements.

STATEMENT OF INCOME
for the period from 24 Safar 1415^H
to 29 Dhul Hijjah 1417^H

POLICYHOLDERS' FUNDS

	Note	ID
Fee income		3,801
Establishment expenses		(171,952)
LOSS FOR THE PERIOD FOR POLICYHOLDERS' FUND		(168,151)

SHAREHOLDERS' FUNDS

INCOME		
Investment income		7,155,567
Gain on exchange		382,608
		7,538,175
EXPENSES		
	4	
Employees' cost		1,094,634
General and administration		350,778
Fees paid to IDB		71,898
		1,517,310
NET PROFIT FOR THE PERIOD FOR SHAREHOLDERS' FUND	6	6,020,865
NET PROFIT FOR THE CORPORATION FOR THE PERIOD		5,852,714

The attached notes 1 to 7 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the period from 24 Safar 1415 H
to 29 Dhul Hijjah 1415 H

OPERATING ACTIVITIES	
	ID
Net profit for the period	5,852,714
Adjustments for:	
Investment income	(7,155,567)
Gain on exchange	(382,608)
Changes in operating assets and liabilities:	
Other assets	(79,337)
Payables	2,079,725
	314,927
Investment income received (see note below)	8,295,670
Net cash from operating activities	8,610,597
INVESTING ACTIVITIES	
Investment in IDB unit fund	(5,102,214)
Investments in Murabaha deals (net)	(12,402,273)
Net cash used in investing activities	(17,504,487)
FINANCING ACTIVITIES	
Proceeds from issue of share capital	63,807,500
Net cash from financing activities	63,807,500
CASH AND CASH EQUIVALENTS	54,913,610
AT END OF THE PERIOD	
Cash and cash equivalents comprise the following :	
Investments maturing within three months from the date of acquisition	54,902,355
Bank balances	11,255
	54,913,610
Note:	
Investment income per the statement of income	7,155,567
Add: Exchange losses netted off against income	1,423,109
Less: Accrued income adjustment	(283,006)
	8,295,670

The attached notes 1 to 7 form part of these financial statements.



*Notes to the Financial
Statements*

29 Dhul Hijjah 1417 H



The Islamic Corporation
for the Insurance of Investment
and Export Credit

ANNUAL REPORT 1417H

MAY 1996 - JUNE 1997



NOTES TO THE FINANCIAL STATEMENTS

29 Dhul Hijjah 1417 H

1. ACTIVITIES

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

The objectives of the Corporation as defined in its Articles of Agreement are to enlarge the scope of trade transactions and the flow of investments among member states. In fulfilment of this objective, the Corporation shall provide in accordance with the principles of Shariah, the following:

- (a) export credit insurance and reinsurance; and
- (b) investment insurance and reinsurance.

The Articles of Agreement of the Corporation came into effect on 24 Safar 1415 H and it commenced operations on 4 Safar 1416 H (corresponding to 1 July 1995). These financial statements are the Corporation's first financial statements.

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

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

Establishment expenses are paid out of the capital by way of a loan to be repaid from the surplus accruing to the policyholders' fund. The shareholders shall not be entitled to a share in any surplus accruing to the policy-

holders' fund; any deficit in policyholders' fund shall be covered from the capital by way of a loan to be repaid from the surplus accruing to the policyholders' fund.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with International Accounting Standards. The significant accounting policies adopted are as follows:

a) Accounting conventio

The financial statements are prepared under the historical cost convention.

b) Foreign currencies

The records of the company are maintained in Islamic Dinars. Foreign currency transactions are recorded in Islamic Dinars at the approximate rates of exchange prevailing at the time of transactions. Assets and liabilities in foreign currencies at the balance sheet date are retranslated at the period end rates of exchange. Exchange differences are reported as part of the results for the period.

c) Investments and investment inco

Amounts advanced for financing trade on a Murabaha basis are stated at total amounts due including mark-up at maturity date. The portion of mark-up which has not been accrued to income is included under liabilities as deferred income.

The investment in IDB's Unit Investment Fund is recorded at cost with provision for any permanent decline in value, if considered necessary.

Income from Murabaha investments and short-term commodity transactions is accrued evenly over the period from actual disbursement of funds to the repayment date. Once a payment is overdue, no additional charge is made or income is accrued. Income from the IDB Unit Investment Fund is recognised when a dividend is declared.

d) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and investments having a maturity of three months or less at date of acquisition.

3. INVESTMENTS

	ID
Murabaha Investments (see below)	66,683,570
Investment in IDB, Unit Investment Fund	5,484,822
	72,168,392

The Murabaha investment portfolio at 29 Dhul Hijjah 1417 H comprises trading contracts in the following commodities:

Items	Cost ID	Value ID
Copper	13,425,411	13,565,908
Nickle	15,015,699	15,172,262
Aluminium	7,055,576	7,159,703
Platinum	9,305,224	9,395,969
Palladium	4,662,390	4,737,539
Zinc	3,372,356	3,418,442
Blister	8,685,993	8,805,860
Oil	3,799,321	3,867,287
Others	559,546	560,600
	65,881,516	66,683,570

4. RELATED PARTY TRANSACTIONS

The Corporation has entered into a Memorandum of Understanding with IDB whereby IDB provides a number of services including finance, administration, legal, etc. to the Corporation for a fee. In addition, a significant

proportion of the Corporation's expenses are paid by IDB and re-charged to the Corporation.

5. SHARE CAPITAL

	ID
Authorised capital	
100,000 shares of ID 1,000 each	100,000,000
Issued and subscribed capital	
50,000 shares of ID 1,000 each fully paid	50,000,000
37,490 shares of ID 1,000 each, of which ID 500 has been called up	18,745,000
Less: subscriptions receivable	(4,937,500)
	63,807,500

The remainder of the unpaid subscriptions 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 states) may withdraw from the Corporation after the expiry of a period of 5 years from the date of their membership. In such an event, the Corporation shall arrange for the repurchase of the shares of a withdrawing shareholder at a price equal to the book value of such shares on the date the shareholder ceases to be a member.

6. STATUTORY RESERVE

	ID
Transfer for the period and balance at end of the period	6,020,865

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

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

7. FINANCIAL INSTRUMENTS

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

a) **Credit risk**

The financial instruments which subject the Corporation to credit risk principally consist of bank balances and investments.

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

b) **Fair value of financial assets and liabilities**

The values of all classes of financial assets and financial liabilities, as recorded in the balance sheet, approximate the fair value of those assets and liabilities.

c) **Currency risk**

As a substantial portion of the Corporation's investment portfolio is either in Islamic Dinars or United States Dollars, the Corporation does not believe that it is exposed to any material currency risk.