



THE ISLAMIC CORPORATION FOR THE
INSURANCE OF INVESTMENT
& EXPORT CREDIT (ICIEC)
(AN AFFILIATE OF THE ISLAMIC DEVELOPMENT BANK)

ICIEC



Annual Report 1418 H (June 1997 - May 1998)

**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.

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

P.O.Box 15722, Jeddah 21454,
Kingdom of Saudi Arabia.
Tel. : (9662) 6445666 (Direct)
6361400 (Extensions : 3303 / 3319 / 3317)
Fax : Management: (9662) 6379504,
Operations: 6443447
Telex : 607509 ICIEC SJ.
E-mail : IDB. ICIEC @ Mail. OICISNET.ORG
Internet Website : [http : // WWW. isdb. org](http://WWW.isdb.org)



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

(AN AFFILIATE OF THE ISLAMIC DEVELOPMENT BANK)



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

Annual Report
1418 H
(June 1997 - May 1998)

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

MANAGEMENT

Board of Directors

Chairman : Dr. Ahmed Mohamed Ali

Members :

Hon. Badr Eddine Nouioua

Hon. Jamal Nasser Rashid Lootah

Hon. Tarik Kivanc

Hon. Dr. Abdullah bin Ibrahim El-Kuwaiz

Hon. Faisal Abdul Aziz al-Zamil

Hon. Karnaen A. Perwataatmadja

Hon. Mohammed El-Zarouq Rajab

Hon. Dr. Morteza Gharehbaghian

Hon. Mohamadou Labarang

Hon. Alhaji Momodu Munu

Hon. Hicham Chaar

Consultative Committee

Chairman : Dr. Fouad Abdallah Al-Omar

Members : Dr. Abdel-Rahman Al-Zamil

Dr. Tarek El-Mamoun

Mr. Iqbal Ahmed Khan

Dr. Nor Mohamed Yackop

Manager of the Corporation

Legal Adviser of the Corporation

Officers of the Corporation

President : Dr. Ahmed Mohamed Ali

Manager : Dr. Abdel-Rahman Eltayeb Taha

Legal Adviser : Dr. Mohammed El Fatih Hamid

Contents :

	Page
* Management	7
* Transmittal Letter	9
* Message from the President	11
* Corporate Structure and Facilities Offered	13
* Insurance Operations Review	19
* Finance and Investment Summary	27

Annexes :

	Page
Annex I-1 : Membership Status	35
Annex I-2 : Position of Capital Subscription	36
Annex I-3 : The Export Credit Insurance Facility	37
Annex I-4 : The Investment Insurance Scheme	40
1-5 : Financial Statements and Auditor's Report	45

TRANSMITTAL LETTER

In the Name of Allah the Beneficent, the Merciful

14 Jumad Awal, 1419 H
5 September, 1998 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 during 1418 H, including audited financial statements.

Please accept the assurances of my highest consideration.

Yours sincerely,

DR. AHMED MOHAMED ALI
President of ICIEC

Message from The President

As had been the case in previous years, marketing was the focus of ICIEC's business strategy during 1418. An intensive marketing program utilizing various marketing tools was implemented in the member countries resulting in an increasing number of business enquiries and insurance proposals.

Insurance operations during the year witnessed an important advance. The Global Cover Limit of policies issued reached US\$ 282 mn. more than double the amount of US\$ 104 mn. achieved for 1417. At the same time ICIEC approved 24 buyer credit limits and export contracts, representing firm cover commitments in the context of current policies, to the tune of US\$ 42.7 mn., increasing from US\$ 16.9 mn. for the previous year.

The utilization of approved buyer credit and contract limits by policyholders, although at US\$ 8.4 mn. is still relatively small, has registered considerable improvement from the US\$ 180,000 achieved in 1417. This resulted in a fee and premium income of US\$ 354,000 in comparison to US\$ 4,985 for 1417.

ICIEC paid its first claim of about US\$ 127,000 during 1418, resulting from the failure of a buyer in one member country to settle his debts to an exporter from another member country. ICIEC, however, concluded a rescheduling agreement with the buyer and expect to recover the value of the claim in due course. Thus for the first time ICIEC experienced the full insurance underwriting cycle from business enquiry to claim recovery.

The need for reinsurance is a growing concern for the Corporation, in view of the anticipated increase in demand for insurance cover and higher levels of risk assumption. ICIEC has commenced efforts to secure suitable reinsurance arrangements in the international market since 1416. These efforts are yet to bear fruit largely due the small size of the volume of insurance business underwritten by the Corporation and also to the dearth of political risk reinsurance supply in the market. Nevertheless the Corporation is continuing its diligent efforts to secure reinsurance with the aid of a reputable specialized brokerage house.

The Financial statements for 1418 show that IDB and 20 member countries subscribed about ID 90 million (US\$ 122 million) to the share capital of the Corporation, of which ID 70.1 million (US\$ 94.6 million) had been called up and ID66 million (US\$ 90 million) were actually paid.

Although, the Policyholders' Fund experienced a deficit of about ID 0.9 million (US\$ 1.2 million) , the Corporation achieved a net surplus for the year of ID 2.6 million (US\$ 3.5 million) accruing largely from investment income of ID 3.2 m (US\$ 4.3 million), thus bringing the total Shareholders' Fund to ID 75.5 million (US\$ 102 million).

ICIEC's business strategy for 1419 aims at the consolidation and expansion of its insurance services through intensive marketing and the introduction of the Investment Insurance Scheme. This strategy is expected to bring about a substantial increase in the volume of insurance business despite limited membership which will continue to handicap the development of the business of the Corporation.

Dr. Ahmed Mohamed Ali
President of ICIEC

**CORPORATE
STRUCTURE
AND
FACILITIES
OFFERED**

CORPORATE STRUCTURE AND FACILITIES OFFERED

Legal Structure

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

Objective

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

- (a) export credit insurance and reinsurance to cover the non-payment of export receivables 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. The launching of the Investment Insurance Scheme is planned in Muharam 1419 (May, 1998).

Membership

In accordance with the Articles of Agreements, 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 20 completed membership requirements by the end of the year. This leaves 13 countries who are signatories to the Articles but have not yet completed 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 I - I for details). The Corporation continued its efforts during the year to encourage signatory countries to complete membership requirements. as a result, two additional countries became full members.

Capital subscription

The authorized capital of ICIEC is ID 100 Million (US\$ 135 million). The Islamic Development Bank and 20 member countries subscribed to shares in the capital of the Corporation having a face value of ID 90.24 million (US\$ 121.73 million). IDB con-

tributed ID 50 million which makes 50% of authorized capital and 55% of current subscriptions. The remainder of authorized capital (ID 9.76 million) is available for subscription by new members (see Annex I-2).

Management

In accordance with the Articles of Agreement, 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). 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.

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. The committee meets periodically to discuss and advise the President on relevant issues.

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, Information Technology, 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 IDB for a fee in accordance with a Memorandum of Understanding signed between IDB and ICIEC.

Strategy

ICIEC's strategy is embodied in its annual business plan. ICIEC's objectives for the year 1419 (May 1998 - April, 1999) aim at consolidating the progress made thus far in developing, marketing, and operating the insurance system. In addition the Corporation expects to achieve a substantial expansion in the volume of its insurance operations.

The strategy for attaining these objectives have the following main components:

1. Expansion of membership in the Corporation.
2. Continuation of intensive marketing focusing on direct contacts with major exporters and Islamic banks in member countries.
3. Develop and consolidate an agency network.
4. Strengthening cooperation with national export credit insurance agencies in member countries.
5. Intensifying efforts to conclude a reinsurance treaty with international reinsurance providers.
6. Launching, marketing, and operating the Investment Insurance System.
7. Continuing the development and improvement of the organization and operations of the Corporation through the acceleration of recruitment and the development and introduction of a computerized insurance underwriting system.

Insurance Facilities

Since it commenced business in 1995, ICIEC has been offering export credit insurance services under three insurance policies.

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

These policies provide insurance cover for up to 90% of exporters' / banks' loss due to the non-payment of export credits resulting from commercial risks such as buyer's insolvency or non-commercial risks including restrictions on the transfer of foreign exchange, the imposition of import restrictions and war and civil disturbances (see Annex 1 - 3 for more details).

As of the beginning of 1419 (May 1998), ICIEC will launch its Investment Insurance System under an Investment Insurance Policy which provides insurance cover to investors from member countries who intend to invest in other member countries against country risks. Such risks include foreign exchange transfer restrictions, nationalization and other forms of host country government interference which may deny the investor his rights to control his investment, and war and civil disturbances (see Annex 1 - 4 for more details).

INSURANCE OPERATION REVIEW

MARKETING ACTIVITIES

Promotion

In accordance with its Business Plan 1417, the corporation continued its intensive promotional activities designed to develop awareness of the Corporation among exporters and banks in member countries and persuade them to use its services. A variety of promotional tools were utilized, as follows:

Country Promotional Seminars: Five promotional seminars for exporters and banks were organized in Beirut (Lebanon), Jakarta (Indonesia), two seminars in Turkey (Istanbul and Izmir), and Tehran (Iran). These seminars were organized in collaboration with local entities, and were attended by participants representing exporters, banks, and government officials.

Presentations during Conferences and Meetings: ICIEC was invited to participate in 13 events: Eight IDB's seminars organized by The Business Development Department in Morocco, Tunisia, Pakistan, Syria, Riyadh - K.S.A., Gabon, Cameroon and Chad. These seminars aimed to familiarize the private sector with IDB's activities. ICIEC made presentations in five other occasions: Islamic Banks Meeting (Syria), Saudi Arabian Diplomatic Institute (Riyadh), Arab Investors Conference (Beirut), The Islamic Finance Banks Seminar (Bahrain) and Islamic Banks Meeting (IDB, Jeddah).

Follow-up Visits: ICIEC staff made nineteen follow-up missions in thirteen member countries: (Pakistan, Saudi Arabia, Senegal, Kuwait, Lebanon, Mali, Malaysia, Morocco, Tunisia, Turkey, Indonesia, Algeria and Egypt). These missions aimed to sell ICIEC's services directly to exporters and Islamic and commercial banks, and to meet other institutions involved in the development of export trade especially Export Credit Agencies.

Other Visits & Meetings: ICIEC staff conducted 316 meetings with exporters and Islamic and commercial banks, involved in the development of export trade. Some of these (51 meetings) were held in ICIEC's headquarters and the others (111 meetings) were in the visited countries.

Exhibitions: During the year, ICIEC participated to two exhibitions: Jeddah International Fair in Jeddah, Saudi Arabia and the Joint Banking Services Investment & Financing Exhibition in Riyadh, Saudi Arabia.

Enquiries and Insurance proposals

As a result of the above promotional activities, the Corporation received 246 enquiries from exporters and bankers in member countries (178 exporters, 23 banks and 45 other institutions). The Corporation also received 16 insurance proposals (applications) and three renewal applications. The Insurance proposals having a total value of US\$ 975 million, came from 5 banks and 11 exporters in Saudi Arabia, Jordan, Turkey, Sudan, Lebanon and Malaysia.

Cooperation with ECAs and other Institutions:

During the year the Corporation endeavoured to develop close cooperation with national export credit insurance agencies (ECAs), insurance companies and other financial institutions involved in export credit insurance or financing of export in member countries. During the year, four Memoranda of Understanding (MOU) were negotiated and signed with The Inter Arab Investment Guarantee Cooperation, the Egyptian Export Guarantee Company, The Malaysia Export Credit Insurance Berhad and The Egyptian Export Development Bank. Six others similar agreements were initiated with the following institutions: -

- * The African Fund for Guarantee and Economic Cooperation (FAGACE) Benin
- * The Chamber of Commerce and Industry (Mali)
- * The Senegalese International Center for Foreign Trade (CICES)
- * The National Export Credit Insurance Company (SONAC) Senegal
- * The Algerian Export Credit Guarantee Company (CAGEX)
- * The Tunisian Export Credit insurance Company (COTUNACE)

These agreements are expected to be finalized during 1419H. Also, contacts have been established with ECAs in Iran, Pakistan, Morocco, and Jordan.

In addition to the MOUs, ICIEC is implementing a new strategy of creating an agency network, a prototype agency agreement has been developed and will be submitted to the Board during 1419H (see Table 2 for details).

UNDERWRITING ACTIVITIES

Export Credit Insurance

During the year under review, the Corporation received 19 proposals (policy applications) having a total value of US\$ 975 mn. This resulted in the issuance of 8 new policies. In addition, 6 policies were renewed bringing the total of policies issued during 1418H to 4 with a total Global Policy Limit of US\$ 281.75 mn., more than double the amount of US\$104 mn. achieved for the previous year. This brought the current total Global Policy Limit (policy limits approved during 1418H plus amounts carried over from 1417H) to US\$ 307 mn. In addition, the Corporation issued 3 policy offers valued at 15.6 mn. These were outstanding at year end. (see Table 1 for details).

During 1418H, policyholders lodged 31 applications for credit and contract limit approvals relating to specific export transactions (CLAs). Twenty four applications were approved valued at US\$ 42.7mn., representing firm cover commitment by the Corporation, in comparison to 25 applications for 1417H of which 22 were approved valued at US\$ 16.9 mn. Thus, bringing current CLAs at year end to US\$ 41.6 mn.

The utilization of approved limits by policyholders as shown by declarations of shipments and thus representing actual risk exposure, reached US\$ 8.44 mn., registering a big improvement over 1417H during which only US\$ 0.18 mn. in shipments were declared.

The distribution of insurance commitments by country as given in Table-2 shows that Saudi Arabia received the largest portion both as a source of exports (\$ 12.9mn or 30.2%) or as an importer (\$18.6mn. or 43.6%) Iran at \$ 11.5 (27%) follows Saudi Arabia as a source of exports and Jordan at \$ 7.1 mn (16.7% followed as an importing country. Actual exposure to risk by the Corporation as shown in Table-3 is evenly distributed between two countries - Iran and Jordan at about \$ 4mn each.

Income from export credit insurance operations for 1418H also witnessed a big jump, reaching US\$ 0.359 mn. from a low of US\$ 4,985 for 1417H (see Table 1 for details).

Investment Insurance

Following the Board of Director's approval that the Corporation may introduce its Investment Insurance Services, the Corporation completed preparation for launching its Investment Insurance Scheme (IIS) in Muharam 1419H (May 1998.) Although the Corporation is also authorized to establish and offer investment promotion services,

this will be implemented at a later stage in consultation and collaboration with the Islamic Development Bank and sister multilateral investment guarantee agencies.

Claims and recoveries

The Corporation paid its first claim in 1418H. The claim was on account of the failure of an industrial enterprise in Mali to pay for a shipment of palm oil effected by the insured exporter, a Malaysian trading establishment. The claim amount of US\$ 126,959 was paid to a bank in Kuala Lumpur, Malaysia, in accordance with the Loss-Payee Nomination under the policy, i.e. the policyholder assigned claims rights to the bank as collateral for post-shipment financing.

Towards recovery of the debt, the Corporation and the buyer in Mali have concluded a rescheduling agreement whereby the latter is to fully settle the debt by installments directly to the Corporation under the Corporation's subrogation rights. An amount of US\$ 10,000 has actually been recovered from the buyer.

Reinsurance

The need for reinsurance protection is a growing concern for the Corporation in view of anticipated increase in demand for cover and higher levels of risk assumption. Whilst efforts to secure a suitable reinsurance programme, initiated in 1416H, have not produced the desired results, the significant increase in premium income in 1418H is likely to reactivate potential reinsurers' interest to reconsider the Corporation's reinsurance requirements on mutually acceptable terms and conditions.

The Corporation will continue to work with brokers or directly with reinsurers towards putting into effect appropriate treaties. In the interim, the Corporation will endeavour to reinsure risks on a facultative (case-by-case) basis with reinsurers .

TABLE-1

**Underwriting Operations
1415-1418- H (1995-1998-G)**

	1416H (1995 - 96)	1417H (1996 - 97)	1/1/1418H TO 29/12/1418H	CUMMUL ATIVE (1416-1418)	CURRENT As at 29/12/1418 (26/4/1998)
Proposals Received (New and Renewals)	7	14	19	40	
Total Value of Proposals Received		-	US\$ 975 mn.	US\$ 975	-
Total Policies Issued / Renewed	2	10	11	23	19*
Total Global Policy Limit Approved	32.5 mn.	US\$ 104.10 mn.	US\$ 281.75 mn.	US\$ 315.66 mn.	US\$ 307.30 mn.
Policies Under Offer		-	3		-
Total Global Policy Limit Under Offer		-	US\$ 15.60 mn.		-
Credit Limit Applications (CLAs) Received		25	31	56	-
Number of CLAs Approved		22	24	46	40
Total CLA Amount Approved		US\$ 16.91 mn.	US\$ 42.7 mn.	US\$ 59.61mn.	US\$ 41.6 mn.
Declarations Submitted		US\$ 0.18 mn.	US\$ 8.44 mn.	US\$ 8.62 mn.	US\$ 7.03 mn.
Premium & Fee Income	-	US\$.005 mn	US\$ 0.359 mn.	0.38 mn.	-
Claims Admitted		-	1		-
Claim Amount Paid		-	US\$ 0.13 mn.	US\$ 0.13 mn.	-
Recoveries Made		-	US\$ 0.01 mn	US\$ 0.01 mn.	-

* Inclusive of 4 Policies which expired during the year and renewal proposals have not been received as at end 1418H .

TABLE-2

**Approved Buyer Credit & Contract Limits (Insurance commitments)
Distributed by Exporter and Buyer Country**

1418 H

Exporter's Country	Amount Approved US\$	%	Buyer's Country	Amount Approved US\$	%
Egypt	1,100,000	2.58	Algeria	2,500,000	5.86
Iran	11,500,000	26.97	Egypt	4,250,000	9.97
Jordan	600,000	1.41	Iran	5,250,000	12.31
Malaysia	5,250,000	12.31	Jordan	7,100,000	16.65
Saudi Arabia	12,895,000	30.24	Kuwait	45,000	0.10
Sudan	7,100,000	16.65	Lebanon	1,600,000	3.75
Tunisia	1,700,000	3.98	Morocco	3,100,000	7.27
Turkey	2,500,000	5.86	Saudi Arabia	18,600,000	43.62
			Tunisia	200,000	0.47
	42,645,000			42,645,000	

TABLE-3

Distribution of Actual Exposure by buyer Country 1418

Buyer's Country	Amount Declared (US\$ mn)
Iran	4.05
Jordan	4.33
Kuwait	0.06
	8.44

FINANCE AND INVESTMENT SUMMARY

FINANCE AND INVESTMENT SUMMARY

Last year, the Corporation presented its first audited accounts covering the period from commencement of business in 1415H to the end of 1417H (1995-97). This year, the audited financial statements reflect, for the first time, the full operating cycle of the Corporation; from insurance proposal to redemption and recovery of claims. A summary of the accounts is provided below followed by the highlights of the performance and structure of ICIEC's invested funds.

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 authorized share capital of the Corporation is ID 100 million made up of 100,000 shares of ID 1,000 each. IDB has subscribed to half of the authorised capital while the other half was left for the subscription of the member countries of the Organization 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 1418H, twenty member countries had subscribed to a total of 90,240 share for a nominal value of ID 1,000 per share, or the equivalent of ID 90.24 million (US \$ 121.73 million). Thus about 10,000 shares remain, and are available for subscription by new member countries.

The called-up installments as at 29 Dhul Hijja 1418H amounted to ID 70.12 million, out of which ID 66.06 million has so far been paid, thus leaving an outstanding balance of ID 4.06 million still unpaid by the subscribing member countries.

Separation of Shareholders' and Policyholders' Funds

In conformity with Shariah rules governing takaful (cooperative) insurance, the Articles of Agreement of the Corporation (Article 28) require that the Corporation maintains two separate funds: (a) 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.

1- Exchange rate as at end of 1418H : ID 1 = \$ 1.349

Policyholders' Fund

This year witnessed the complete underwriting operation for the Corporation. To account for the underwriting results, industry practices were reviewed and two generally accepted accounting policies were considered by the Corporation.

First, the underwriting year basis was considered; which endeavours to provide an accurate result of the underwriting operations. However, the results are not available until all the risks have expired; which could take up to five years for the kind of transactions being undertaken by the Corporation.

Second, the 'annual accounting' basis was considered; which provides the estimated result of the underwriting operations at the end of each year. However, the actual results may be significantly different from the estimated results depending upon the accuracy of the estimates used in this process.

After evaluating the benefits and limitations of both the accounting policies, and discussing the same with the ICIEC's external auditors, the management opted for the latter alternative of the 'annual accounting' basis ; to provide both the shareholders as well as the policyholders of the Corporation with timely results of its underwriting operations.

For this year, a loss of ID 888,792 was incurred by the Policyholders' Fund; bringing the accumulated losses in the Fund to ID 1,056,943 at the end of year 1418H. This loss resulted from the ID 164,650 of incurred claims and ID 816,655 of operating expenses; which more than offset the ID 92,513 of premiums earned during the year. The underwriting results should improve in the coming years, as the increase in premiums earned is expected to surpass the increase in operating expenses and incurred claims.

Shareholders' Fund

The total income generated by the Shareholders' Fund, for the year was ID 3,453,483 including investment income of ID 3,183,954 and gain on exchange of ID 269,529. There were no operating expenses associated to the investment activity in the Shareholders' Fund. Hence the net income for the year 1418H was ID 3,453,483. The net income has been transferred to the statutory reserve as mandated under the Articles of Agreement.

The Corporation's paid-up share capital increased from ID 63.81 million last year, to ID 66.06 million as at 29/12/1418H. This increase was brought about due to increase in the membership as well as receipt of some outstanding subscriptions. The balance of subscriptions receivable was brought down from ID 4.94 million last year to ID 4.06

million as at 29/12/1418H.

Net Corporate Financial Result

The overall results of the Corporation reflect a net profit of ID 2.6 million for the year 1418H. This is an outcome of the ID 3.5 million profit in the Shareholders' Fund, offset by the ID 0.9 million loss in the policyholders' Fund.

At the end of 1418H, the total assets of the Corporation stood at ID 79.4 million, compared to ID 72.4 million at the end of 1417H. These assets were primarily financed through the Shareholders' Fund.

Liquid Funds Investment Portfolio

The Corporation's liquid funds are invested in Shariah compatible short term commodity placements with Islamic banks or Islamic windows of conventional banks. These investments are managed by the Islamic Development Bank on behalf of the Corporation. On 29/12/1418H, the total liquid funds' portfolio stood at ID 71.02 million compared to ID 65.88 million on 29/12/1417H. Total income during the year from this portfolio amounted to ID 2.89 million, up from ID 1.39 million last year providing a 4.2% rate of return on the average liquid funds invested for the year.

The portfolio is predominantly composed of commodity placements due to mature within 3 months from the date of acquisition (ID 51.07 million). The balance (ID 19.95 million) reflects commodity placements due to mature between 4 to 6 months from the date of acquisition. The funds are placed with 12 banks in 4 countries: France, Bahrain, Saudi Arabia and United Kingdom.

In line with the composition of Islamic Dinar, the Corporation's unit of account, the liquid funds are composed of five currencies - U.S. Dollars (46%), Deutsche Mark (20%), Japanese Yen (13%), Great Britain Pound (12%) and French Franc (9%).

Investment in IDB Unit Investment Fund

The IDB Unit Investment Fund, a Trust Fund, is managed by the Islamic Development Bank in accordance with the Islamic concept of Mudarabah. The Fund invests in public and private sector ventures, primarily in the member countries of the IDB, in line with the principles of Shariah. The Corporation's investment in this fund stood at ID 5.56 million as on 29/12/1418H. During the year, the Corporation received a dividend of ID 0.36 million representing a return of 6.5% on the investment.

The investment portfolio of the Fund, which is guaranteed by IDB, predominantly consists of leases and installments sales, followed by commodity financed deposits and Murabahah syndications. Units of the Fund are traded on the Bahrain Stock Exchange.

ANNEXES

Annex I-I

MEMBERSHIP STATUS
(As at end of Dhu al-Hijjah 1418)

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	Uganda
13.	Morocco	Yemen
14.	Pakistan	
15.	Saudi Arabia	
16.	Senegal	
17.	Sudan	
18.	Syria	
19.	Tunisia	
20.	Turkey	
21.	Islamic Development Bank	

POSITION OF CAPITAL SUBSCRIPTION BY MEMBER COUNTRIES IN THE SHARE CAPITAL OF THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC) (AS AT END OF 1418H)

Members	Date of Articles Ratification	Number of Shares Subscribed	Value of Shares ID	%
1. Algeria	23.04.96	1,000	1,000,000.00	1.14
2. Bangladesh	11.05.93	250	250,000.00	0.29
3. Chad	19.02.93	250	250,000.00	0.29
4. Egypt	30.12.92	2,500	2,500,000.00	2.85
5. Gambia	01.03.96	250	250,000.00	0.29
6. Indonesia	24.04.93	250	250,000.00	0.29
7. Iran	19.12.96	5,000	5,000,000.00	5.71
8. Jordan	21.04.93	250	250,000.00	0.29
9. Kuwait	13.07.94	2,500	2,500,000.00	2.85
10. Lebanon	17.8.95	250	250,000.00	0.29
11. Malaysia	01.08.94	2,740	2,740,000.00	3.13
12. Mali	04.09.93	250	250,000.00	0.29
13. Morocco	08.02.97	5,000	5,000,000.00	5.71
14. Pakistan	08.05.93	2,500	2,500,000.00	2.85
15. Saudi Arabia	03.12.92	13,500	13,500,000.00	15.43
16. Senegal	19.09.95	250	250,000.00	0.29
17. Sudan	10.07.95	250	250,000.00	0.29
18. Syria	01.02.98	250	250,000.00	0.29
19. Tunisia	22.02.93	500	500,000.00	0.57
20. Turkey	30.07.97	2,500	2,500,000.00	2.85
21. Islamic Development Bank		50,000	50,000,000.00	57.15
TOTAL ID		90,240.00	90,240,000.00	100
TOTAL USD			126,335,560.00	100

ID 1.00= USD 1.444 (as at 30 Dhul- Hijja 1418 H)

Annex I-3

THE EXPORT CREDIT INSURANCE FACILITY

Shariah Principles

ICIIEC provides insurance facilities in accordance with the principles of Shariah. Thus, in carrying out its operations, ICIIEC 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:

- (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 Cover** : 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 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.

THE INVESTMENT INSURANCE SCHEME

Why Investment Insurance Is Necessary

In examining investment opportunities abroad, prospective investors focus not only on profitability but are also concerned with risks, including political risks, in the host countries. Some of the investments being considered might be rendered financially unfeasible and hence will not materialize. However, even feasible projects may not materialize if perceived political risks are deemed unacceptable. Investment insurance could make a difference to the investment decision by substantially mitigating an investor's exposure to political risks in the host country. Thus, investment insurance would make possible additional investment flows which otherwise would not have occurred.

Eligibility Criteria

In order to qualify for coverage, investments must meet certain requirements with respect to the investor, the type of investment, and the time of the investment.

The investor

The following shall be eligible to be insured under ICIEC's Investment Insurance Policy (IIP):

- (a) the IDB, whether as a principal or as a trustee or agent;
- (b) Persons who are nationals of a Member State other than the host country;
- (c) Corporations or other juridical entities the majority of whose shares are owned by the IDB or by any Member State (s) or by nationals of one or more Member States and whose principal office is located in a Member State other than the host country;
- (d) Subject to the approval of the Board of Directors, corporations or other juridical entities which are subsidiaries owned as to not less than fifty percent by the IDB or by Member States or by nationals of Member States, even if their principal office is located in a non- Member State;
- (e) Subject to the approval of the Board of Directors, eligibility for insurance may be extended to a person who is a national of the host country or a juridical person incorporated in the host country (or the majority of whose shares is owned by na-

tionals of the host country), provided that the request for insurance is jointly made by the host country and the applicant for insurance and that the assets to be insured are or will be transferred from outside the host country.

Types of investment

ICIEC covers investments made by members or nationals of Member States in other Member States. The types of eligible investments are direct investments in enterprises (including their branches and agencies) either private, or public or investments in the share capital of enterprises, as well as principal amounts of loans made or guaranteed by holders of equity in the enterprises, as well as principal amounts of loans made or guaranteed by other lenders. Other forms of direct investment may be insured, subject to the approval of the Board of Directors. Both equity and non-equity direct investments (such as production-sharing arrangements, licensing agreements and operating leases) are eligible. Investments may be made in monetary form or in assets such as machinery, patents or technical services.

Investments must be seen to contribute to the overall developmental objectives and strategies of the host country and must not be in contravention of the principles of Shariah.

Time of investment

ICIEC covers only new investments, i.e. investments which were not made prior to their registration for insurance by ICIEC. However, investments made to expand or develop existing investments and earnings from existing investments which could otherwise be transferred outside the host country are also eligible for insurance.

Scope of cover

ICIEC's IIP covers 90% of the investor's loss arising from the political risks of transfer restrictions, expropriation and war as a standard package. Cover against the breach of contract by the host country (in cases where the investment is substantially dependent on such a contract) may be offered under an endorsement to the IIP.

Transfer restrictions

Cover is provided against losses resulting from the investor's inability to convert profits, capital, royalties and other remittances from local currency into foreign exchange for transfer outside the host country. In addition, losses due to the failure or refusal of

the exchange control authorities to act (within a reasonable period of time) on an application for hard currency, and the imposition of a rate of exchange (at the time of transfer) which is discriminatory against the investor, are also covered.

Expropriation

Cover may encompass, but is not limited to, measures of expropriation, nationalization, confiscation, sequestration seizure, attachment and freezing of assets. However, loss due to bonafide non-discriminatory measures of general application, e.g. tax increases, price controls etc., are not covered.

Expropriation includes both single measures and any series of measures together designed to be expropriatory. It includes measures which deprive the investor of his rights with respect to his shares in the investment, measures which deprive the insured enterprise of its assets and measures which make it impossible or unviable to continue with the enterprise.

War and civil disturbance

The investor is compensated for any loss resulting from the removal, destruction or physical damage of the assets of the project due to war or any military action in the territory of the host country. War includes lesser forms of civil disturbance (provided that this has a primarily political aim) and covers both destruction and inability of the enterprise to operate for a specific period.

Although cover may be extended to the costs of business interruption, a mere reduction in business opportunities or a deterioration of operating conditions as a result of war or civil disturbance shall not be covered.

Breach of contract

The investor is protected against any loss arising from the repudiation or breach of contract by the host government. Cover shall be limited to cases where:

- (a) the investor does not have recourse to a judicial or arbitral forum to determine the claim of repudiation or breach
- (b) a decision by such forum is not rendered within a specified period
- (c) a final judicial or arbitral decision cannot be enforced.

Duration of cover

Each investment is underwritten individually and a separate policy is issued for each

investment. Policies apply for a minimum of one year and normally a maximum of 15 years, although up to 20 years may be allowed in special circumstances.

In order to maintain cover, the investor is required to submit a completed renewal application and pay premium for the succeeding year before each anniversary date. The investor may terminate the policy at any anniversary date after the commencement date of the policy.

Insured amount

The Insured Amount under the policy shall be agreed upon between ICIEC and the investor but shall in no case exceed:

- (a) the investor does not have recourse to a judicial or arbitral forum to determine the claim of repudiation or breach.
- (b) a decision by such forum is not rendered within a specified period .
- (c) a final judicial or arbitral decision cannot be enforced.

Claims and recoveries

The investor is required to notify ICIEC immediately upon becoming aware of any potential loss situation. Upon receipt of such notification, ICIEC shall consult with the investor and, where appropriate, with investor's country and the host country on ways to avoid or minimize the loss.

Should a loss occur, the investor must submit a fully-documented claim within 365 days from the Date of Loss (as defined in the policy) so that ICIEC may expeditiously settle the claim upon expiry of the Waiting Period as specified in the policy (normally from 4 to 9 months).

After payment of a claim, ICIEC and the investor will make all reasonable efforts to seek recoveries from the host country. If necessary, ICIEC will exercise its subrogation rights and pursue recoveries directly against the host country or any other obligor.

Policy fee and premium rates

The investor is required to pay a non-refundable Application Fee of US\$ 500, together with the Preliminary Application. In addition, he must pay a Processing Fee of US\$ 5,000 which is subject to a refund or additional payment depending on actual cost incurred by ICIEC to process the application. However, the full Processing Fee paid will be credited to the first year's premium in the event that a policy is issued.

Premium charged by ICIEC is calculated on an annual basis as percentages of the Insured Amount and Stand-by Amount. Premium rates are quoted for each individual policy, dependent on factors such as the risk profile of the host country, the type of investment and ICIEC's previous experience with the investor concerned. As a guide, premium rates for the Insured Amount range from 1.25% to 2.35% per annum whilst for the Stand-by Amount, the premium rates range from 0.32% to 0.59% per annum.

The above rates are applicable for the standard risks package of transfer restrictions, expropriation and war and civil disturbance.

For the breach of contract cover, the premium rate is approximately 0.75% of the Insured Amount and 0.375% of the Stand-by Amount.

Application procedure

The investor should submit a Preliminary Application to ICIEC together with the non-refundable US\$ 500 fee before the investment is made or irrevocably committed. Upon positive determination that the proposed investment is eligible for cover, ICIEC will register the application and invite the investor to submit the Main Application together with payment of the US\$ 5,000 Processing Fee.

On the basis of the Main Application, ICIEC will make an offer of insurance to the investor.

Co-operation with other investment insurers

In order to increase its capacity to underwrite investment insurance and enhance its technical expertise, ICIEC actively seeks to co-operate with other investment insurers through co-insurance, reinsurance and other collaborative arrangements.

FINANCIAL STATEMENTS

ICIEC

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 1418 H and the results of its operations and its cash flows for the year then ended 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

10 August 1998
18 Rabi Thani 1419 H

Jeddah

BALANCE SHEET 29 Dhul Hijjah 1418H

	Note	1418 H ID	1417 H ID
ASSETS			
RELATING TO SHAREHOLDERS' FUND			
Bank balances		12,436	11,255
Other assets		433,850	79,337
Investments	3	77,593,561	72,168,392
Amounts due from Policyholders' Fund		1,082,614	168,151
		<u>79,122,461</u>	<u>72,427,135</u>
RELATING TO POLICYHOLDERS' FUND			
Bank balances		276,167	-
Other assets		1,316	-
		<u>277,483</u>	<u>-</u>
TOTAL ASSETS		<u><u>79,399,944</u></u>	<u><u>72,427,135</u></u>
LIABILITIES AND SHAREHOLDERS' AND POLICYHOLDER'S FUNDS			
SHAREHOLDERS' LIABILITIES			
Unearned income		314,611	519,045
Accounts payable and accruals	4	129,266	96,494
Amounts due to Islamic Development Bank	5	3,146,736	1,983,231
		<u>3,590,613</u>	<u>2,598,770</u>
POLICYHOLDERS' LIABILITIES			
Amounts due to Shareholders' Fund		1,082,614	168,151
Advance billings		86,536	-
Unearned premiums	6	87,796	-
Provision for unreported claims	7	77,480	-
		<u>1,334,426</u>	<u>168,151</u>
TOTAL LIABILITIES		<u><u>4,925,039</u></u>	<u><u>2,766,921</u></u>
SHAREHOLDERS' FUNDS			
Share capital	8	66,057,500	63,807,500
Statutory reserve	9	9,474,348	6,020,865
		<u>75,531,848</u>	<u>69,828,365</u>
POLICYHOLDERS' FUNDS			
Accumulated losses		<u>(1,056,943)</u>	<u>(168,151)</u>
TOTAL SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		<u><u>74,474,905</u></u>	<u><u>69,660,214</u></u>
TOTAL LIABILITIES AND SHAREHOLDERS' AND POLICYHOLDERS' FUNDS		<u><u>79,399,944</u></u>	<u><u>72,427,135</u></u>

The attached notes 1 to 10 from part of these financial statements.

STATEMENT OF INCOME AND ACCUMULATED LOSSES
Year Ended 29 Dhul Hijjah 1418H

	Note	1418 H ID	For the pe- riod from 24 Safar 1415H to 29 Dhul Hij- jah 1417 H ID
POLICYHOLDERS' FUNDS			
Premiums earned	6	92,513	3,801
Claims incurred	7	(164,650)	-
Establishment expenses		-	(171,952)
Employees' cost (see note 5)		(600,580)	-
General and administration (see note 5)		(196,454)	-
Fees paid to IDB (see note 5)		(19,621)	-
		<u>(981,305)</u>	<u>(171,952)</u>
LOSS FOR THE YEAR		(888,792)	(168,151)
Accumulated loss at beginning of the year		(168,151)	-
ACCUMULATED LOSSES AT END OF THE YEAR		<u>(1,056,943)</u>	<u>(168,151)</u>
SHAREHOLDERS' FUNDS			
INCOME			
Investment income		3,183,954	7,155,567
Gain on exchange		269,529	382,608
		<u>3,453,483</u>	<u>7,538,175</u>
EXPENSES			
Employees' cost	5	-	1,094,634
General and administration		-	350,778
Fees paid to IDB		-	71,898
		<u>-</u>	<u>1,517,310</u>
NET PROFIT FOR THE YEAR		<u>3,453,483</u>	<u>6,020,865</u>
NET PROFIT FOR THE CORPORATION FOR THE YEAR	9	<u>3,453,483</u>	<u>6,020,865</u>
Policyholders' Funds - loss		(888,792)	(168,151)
Shareholders' Funds - profit		3,453,483	6,020,865
NET PROFIT		<u>2,564,691</u>	<u>5,852,714</u>

The attached notes 1 to 10 from part of these financial statements.



STATEMENT OF CASH FLOWS
Year Ended 29 Dhul Hijjah 1418H

For the period
from 24 Safar
1415H to 29
Dhul Hijjah

	1418 H ID	1417 H ID
OPERATING ACTIVITIES		
Net profit for the year	2,564,691	5,852,714
Adjustments for :		
Investment income	(3,183,954)	(7,155,567)
Gain on exchange	(269,529)	(382,608)
Change in operating assets and liabilities :		
Other assets	(355,829)	(79,337)
Liabilities	1,282,813	2,079,725
Insurance funds	165,276	-
Net cash from operating activities	<u>203,468</u>	<u>314,927</u>
INVESTING ACTIVITIES		
Investment in IDB unit fund	-	(5,102,214)
Investment in Murabaha deals (net)	(6,009,065)	(4,106,603)
Net cash used in investing activities	<u>(6,009,065)</u>	<u>(9,208,817)</u>
FINANCING ACTIVITIES		
Proceeds from issue of share capital	2,250,000	63,807,500
Net cash from financing activities	<u>2,250,000</u>	<u>63,807,500</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(3,555,597)	-
Cash and cash equivalents at beginning of the year	54,913,610	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>51,358,013</u></u>	<u><u>54,913,610</u></u>
Cash and cash equivalents comprise the following :		
Investments maturing within three months from the date of acquisition	51,069,410	54,902,355
Bank balances	288,603	11,255
	<u><u>51,358,013</u></u>	<u><u>54,913,610</u></u>

The attached notes 1 to 10 from part of these financial statements.

1 - ACTIVITIES

The Islamic Corporation for the Insurance of Investment and Export Credit was formed as an autonomous affiliate of The Islamic Development Bank 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 the Corporation commenced operations on 4 Safar 1416 H (corresponding to 1 July 1995).

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

- (a) a Policyholders' Fund
- (b) a Shareholders' Fund

Establishment expenses are paid out of the capital by way of a loan to be repaid from the surplus accruing to the Policyholders' Fund. The shareholders shall not be entitled to a share in any surplus accruing to the Policyholders' Fund; any deficit in 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 convention

The financial statements are prepared under the historical cost convention.

- (b) Foreign currencies

The records of the Corporation are maintained in Islamic Dinars (ID). The value of

the Islamic Dinar is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. Foreign currency transactions are recorded in Islamic Dinars at the approximate rates of exchange prevailing at the time of transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at the year end rates of exchange. Exchange differences are reported as part of the results for the year.

(c) Investments and investment income

Amounts advanced for financing trade on a Murabahah 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 unearned 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) Premiums earned

Premiums in respect of policies issued are recognised as income in the year in which the declaration of the gross invoice value of goods by the policyholders is accepted. Unearned premiums are calculated on the basis of 50% of the premiums recorded during the year.

(e) Outstanding claims

The liability for outstanding claims is based on an estimate of total claims reported up to the close of the accounting period, less amounts considered recoverable. The liability includes an assessment of claims incurred but not reported at the year end or likely to be incurred during the period of cover calculated at 1.5% of the total risk covered based on the declared gross invoice value of goods. These estimates are based on a case by case evaluation and, in the absence of adequate actual loss experience and industry benchmarks, are necessarily subject to the impact of changes in such factors as claim severity and frequency.

(f) 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	1418 H ID	1417 H ID
Deposits for investment	1,524,793	-
Murabahah investments (see below)	70,510,577	66,683,570
Investment in IDB, Unit Investment Fund	5,558,191	5,484,822
	<u>77,593,561</u>	<u>72,168,392</u>

The Murabaha investment portfolio at 29 Dhul Hijjah 1418 H comprises trading contracts in the following commodities :

	Cost ID	Maturity Value ID
Copper	11,712,982	11,977,929
Nickle	5,928,736	6,013,357
Aluminium	19,567,024	19,894,731
Platinum	25,895,485	26,174,936
Oil	4,272,796	4,279,347
Others	2,139,852	2,170,277
Total at 29 Dhul Hijjah 1418 H	<u>69,516,875</u>	<u>70,510,577</u>
Total at 29 Dhul Hijjah 1417 H	<u>65,881,516</u>	<u>66,683,570</u>

4 - ACCOUNTS PAYABLE AND ACCRUALS

	1418 H ID	1417 H ID
Bank commission income (see note below)	84,694	-
Other Payables	-	68,532
Accrued expenses	44,572	27,962
	<u>129,266</u>	<u>96,494</u>

As the Corporation is operating under Shariah laws, bank commission income received is not taken to the statement of income but kept in a liability account. These amounts will be utilised, as considered appropriate, in accordance with Shariah laws.

5 - RELATED PARTY TRANSACTIONS

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

6 - PREMIUMS EARNED

	1418 H ID	1417 H ID
Gross premiums earned	175,592	-
Policy fees and other income	4,717	3,801
	<u>180,309</u>	<u>3,801</u>
Unearned premiums at end of the year	(87,796)	-
	<u>92,513</u>	<u>3,801</u>

7 - CLAIMS INCURRED

	1418 H ID	1417 H ID
Gross claims paid	94,537	-
Recoveries	(7,367)	-
Net claims paid	87,170	-
Provision for unreported claims at end of the year	77,480	-
	<u>164,650</u>	<u>-</u>

8 - SHARE CAPITAL

	1418 H ID	1417 H ID
Authorised capital 100,000 shares of ID 1,000 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and subscribed capital 50,000 shares of ID 1,000 each fully paid 40,240 (1417 H - 37,490) shares of ID 1,000 each, of which ID 500 has been called up Less : subscriptions receivable	<u>50,000,000</u> <u>20,120,000</u> <u>(4,062,500)</u> <u>66,057,500</u>	<u>50,000,000</u> <u>18,745,000</u> <u>(4,937,500)</u> <u>63,807,500</u>

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.

9 - STATUTORY RESERVE

	1418 H ID	1417 H ID
Balance at beginning of the year	6,020,865	-
Transfer for the year	<u>3,453,483</u>	<u>6,020,865</u>
Balance at end of the year	<u>9,474,348</u>	<u>6,020,865</u>

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 a statutory reserve, until such reserve equals five times the subscribed capital of the Corporation. After the reserves of the Corporation have reached this level the Board of Governors will decide to what ex-

tent surplus accruing to the Policyholders' Fund and net income accruing to the Shareholders' Fund may be distributed or allocated to reserves.

10 - 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 Murabahah deals with reputable banks. The Corporation is, therefore, of the opinion that no credit loss is likely to occur. All of the Corporation's Murabahah 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

The Corporation's investment portfolio though denominated in Islamic Dinars is in other currencies namely United States Dollars, Deutsche Marks, Pounds Sterling, French Francs and Japanese Yen. As such the Corporation does not believe that it is exposed to any material currency risk.

(d) Geographical risk

The Corporation carries on business mainly with Islamic Countries in Africa and Asia. Due to volatile nature of these continents, the Corporation is exposed to potential losses arising from large insurance claims. The maximum theoretical geographical risk based on the declarations made by exporters during 1418 H amount to ID 5 million (1417 H - Nil).

