



Total Confidence

ICIEC 1419H Annual Report





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

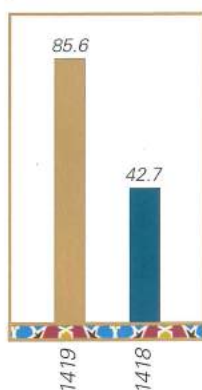
The objective of ICIEC is to enlarge the scope of trade transactions and the flow of investments among Member States of the Organization of the Islamic Conference (OIC). In fulfillment of this objective, the Corporation provides the following Shariah compatible facilities to exporters and investors from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

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

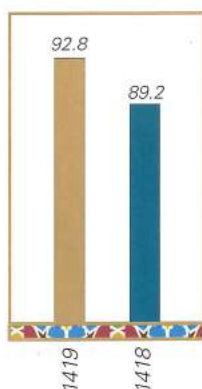
Key Information

During 1419 H, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) doubled its written premium from US\$ 0.4 million to US\$ 0.8 million, while utilization increased from US\$ 8.4 million to US\$ 21 million. Moreover, no claims were reported or paid during the year.

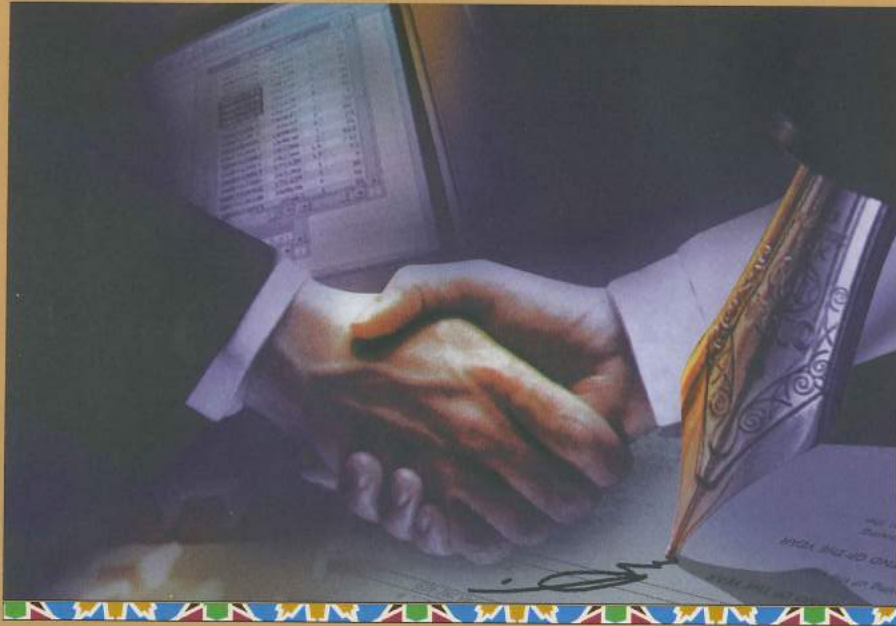
Insurance Commitments: doubled during the year. (US\$ million)



Paid-up Capital: increased by US\$ 3.6 million.



	1419H (1998/99)	1418H (1997/98)
General		
<i>Commencement of Operations -1416H (1995G):</i>		
Subscribed Capital (US \$ million)	123.8	121.73
Paid-up Capital (US\$ million)	92.8	89.2
Member Countries	23	20
Staff Members	18	15
Technical		
Policies in Force	25	19
Insurance Commitments (US\$ million)	85.6	42.7
Utilization (US\$ million)	21.0	8.4
Premium Income (US\$ million)	0.8	0.4
Claims Paid (US\$ million)	—	0.1
Financial		
<i>Policyholder's Fund (US\$ million):</i>		
Net Revenues	0.3	0.1
Profit /(Deficit)	(1.7)	(1.2)
Accumulated Losses	(3.1)	(1.4)
<i>Shareholder's Fund (US\$ million):</i>		
Net Revenues	4.6	4.7
Profit /(Deficit)	4.6	4.7
Reserves	17.4	12.8



Board of Directors

Chairman: *Dr. Ahmed Mohamed Ali*

Members:

*Hon. Bader Eddine Nouioua, Hon. Jamal Nasser Rashid Lootah, Hon. Zaheer Sajjad,
Hon. Zeinhom Zahran, 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. Fuad Abdullah Al-Omar*

Members:

*Dr. Abdel-Rahman Al-Zamil, Dr. Tarek El-Mamoun,
Dr. Nor Mohamed Yacop, Mr. Iqbal Ahmed Khan,
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*

Transmittal Letter

In the Name of Allah, the Beneficent, the Merciful

Jumad Awal, 1420H (June, 1999G)

*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 Wabarkatuh

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 1419H, 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 the previous years, marketing was the focus of ICIEC's business strategy during 1419H. 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\$ 468 million, 66% more than the amount of US\$ 282 million achieved for 1418H. At the same time, ICIEC approved 84 buyer credit limits and export contracts, representing firm cover commitments in the context of current policies, to the tune of US\$ 86 million, double the amount of US\$ 43 million for the previous year.

The utilization of approved buyer credit and contract limits by policyholders reached US\$ 21 million, almost tripled from the US\$ 8 million achieved in 1418H. This resulted in a gross fee and premium income of US\$ 0.8 million in comparison to US\$ 0.4 million for 1418H.

No claims were submitted or paid by the Corporation during the year. Also, no recoveries of paid claims took place and the Corporation continued to pursue the recovery of the one claim paid last year.

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 continued its intensive efforts to secure suitable reinsurance

arrangements in the international market. In this regard, a reinsurance strategy was developed based on a study

conducted by a top international expert. Efforts have been launched to select a broker to organize an appropriate reinsurance treaty. In the meantime, the Corporation succeeded in obtaining limited reinsurance from a national export credit agency, MECIB, the Malaysian export credit agency, which accepted part of the risk of a transaction involving Malaysian exports to Iran.

The financial statements for 1419H show that IDB and 23 Member Countries subscribed about ID 91 (US\$ 123.79) million to the share capital of the Corporation, of which ID 71 (US\$ 96.56) million had been called up and ID 68 (US\$ 92.76) million were actually paid by the member countries.

During 1419H, the Corporation earned a net profit of ID 2.1 (US\$ 2.9) million. This resulted from a profit of ID 3.4 (US\$ 4.6) million in the Shareholders' Fund, and a loss of ID 1.3 (US\$ 1.7) million in the Policyholders' Fund. As a result, the general reserve for the Shareholders' Fund reached ID 12.8 (US\$ 17.4) million; while the accumulated losses for the Policyholders' Fund stood at ID 2.3 (US\$ 3.1) million at the end of 1419H. The total assets of the Corporation increased from ID 79.4 (US\$ 107.2) million last year, to ID 83.4 (US\$ 113.2) million this year.

ICIEC's business strategy for 1420H aims at the consolidation and expansion of its insurance services through intensive marketing and the development of the investment insurance scheme. This strategy is expected to bring about a

Since its inception, ICIEC is giving priority to the development of human resources through recruitment of the best possible staff and by providing a continuous training to improve their skills. ICIEC's staff member increased from 7 employees in 1416H to 18 in 1419H.

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

Legal Structure
Objective
Membership
Capital Subscription
Management
Strategy
Insurance Facilities



Legal Structure

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established on 24 Safar 1415H (1st August 1994G) 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 1995G).

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;

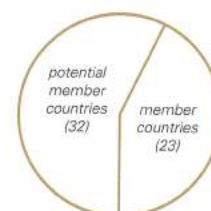
- (a) Export credit insurance and reinsurance to cover the non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risks; and
- (b) Investment insurance and reinsurance against country risks, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government.

Membership

In accordance with the Articles of Agreements, membership in ICIEC is open to the Islamic Development Bank and countries who are members of the Organization of the Islamic Conference (OIC). Three countries became full members during the year. At the end of 1419H, there were 24 full members of ICIEC, comprising of IDB and 23 countries. Another 5 countries are in the process of completing the membership requirements (see Annex 1 for details).

Capital Subscription

The authorized capital of ICIEC is ID 100 million. The Islamic Development Bank and 23 Member Countries subscribed to shares in the capital of the Corporation having a face value of ID 91.24 million. IDB contributed ID 50 million which makes 50% of authorized capital and 54.8% of current subscriptions. The remainder of authorized capital, ID 8.76 million, is available for subscription by new members (see Annex 1).



Membership: Out of the 55 OIC member countries, so far 23 have joined ICIEC.

top photo

ICIEC President and IDB Vice-President of Operations attending a management meeting.

bottom photo

The conclusion of the first insurance policy issued by ICIEC in 1417H.

Management

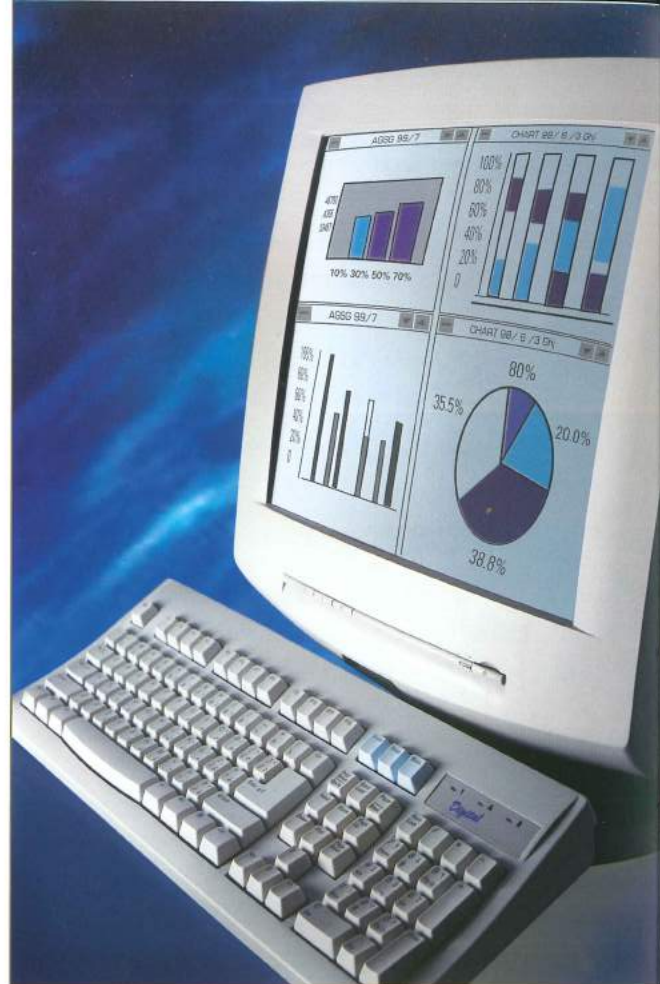
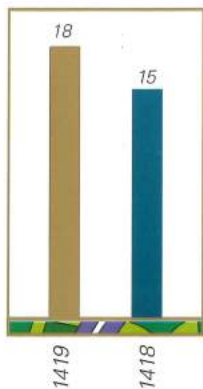
In accordance with the Articles of Agreement, the ultimate responsibility for the management of ICIEC rests with the Board of Governors (BOG), which is composed of Governors and Alternate Governors of the IDB. All powers of the Corporation are vested in the BOG, however, it may delegate any or all of 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.

Staff Members: the ICIEC team was further strengthened.



Continuous Development: ICIEC plans to utilise a state-of-the-art computer network to keep track of its transactions in the member countries and to facilitate the exchange of data with national ECAs.

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 conducts its business guided by a strategy embodied in its annual business plan. ICIEC's objectives for the year 1420H (April 1999G - April 2000G) 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 has the following main components:

1. Expansion of membership in the Corporation.
2. Continuation of intensive marketing efforts focusing on direct contacts with major exporters and Islamic banks in Member Countries.
3. Development and consolidation of an agency network.
4. Strengthen cooperation with national export credit insurance agencies in Member Countries.
5. Intensification of efforts to conclude a reinsurance treaty with international reinsurance providers.
6. Consolidation of the marketing, and operations of the investment insurance system.
7. Continuation of 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

Export Credit Insurance Services

Since ICIEC commenced business in 1995G, it has been offering three insurance policies.

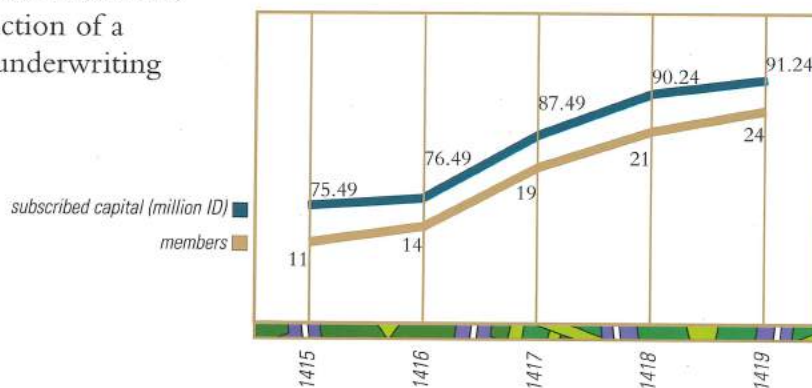
- (a) Comprehensive Short Term Policy,
- (b) Supplemental Medium Term Policy, and
- (c) Bank Master Policy.

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.

Investment Insurance Services

In the beginning of 1419H (May 1998G), ICIEC introduced the 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.

Subscribed Capital: subscribed capital increased from ID 75.49 million in 1415 to ID 91.24 million in 1419. Members increased from 11 to 24 during the same period.



ICIIEC'S
Operations
Results

Marketing Activities
Operations Results





Communications and Public Relations: The Islamic Corporation for the Insurance of Investment and export Credit (ICIEC) signed a contract with the world-renowned advertising agency Horizon.FCB which will work as the Corporation's consultant on the communication side of business.

Marketing Activities

In accordance with its business strategy, the Corporation continued to focus on marketing. Six promotional seminars in 4 Member Countries (Algeria, Syria, Kuwait, and Saudi Arabia) were organized. Presentations about the services of the Corporation were made in four conferences in the UAE, Kuwait, Lebanon, and Jordan. The Corporation also attended the Islamic trade exhibition in Tripoli, Lebanon.

ICIEC staff conducted six follow-up missions in 6 Member Countries: (Bangladesh, Turkey, Jordan, Kuwait, Saudi Arabia, and Sudan). A total of 496 meetings were conducted by ICIEC staff with exporters and financial institutions. About two-thirds of these meetings were conducted in the Member Countries. In addition the Corporation conducted promotional letter-mailing campaigns in two Member Countries (Malaysia and Algeria), and advertisements were placed in newspapers and magazines in several Member Countries.

To further cooperation with export credit agencies (ECAs) in Member Countries, the Corporation negotiated and signed Memoranda of Understanding (MoU) with five ECAs in Tunisia (COTUNACE); Algeria (CAGEX); Bangladesh (Sadharan Bima Corporation); Iran (Export & Investment Insurance Co.); Morocco (SMAEX); and one regional financial institution in Benin (FAGACE).

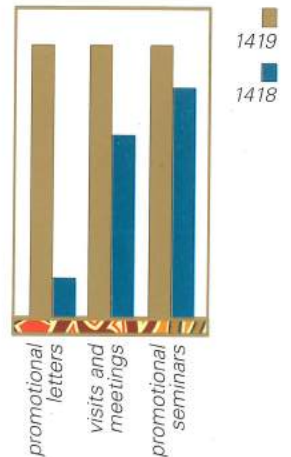
top photo

ICIEC President and the Chairman of the Consultative Committee in the first meeting of the Committee.

bottom photo

H.E. the Lebanese Economy and Commerce Minister with ICIEC G.M. in the ICIEC 1418H promotional seminar conducted in Lebanon.

Marketing Activities: a notable increase over the last year.





لَا إِلَهَ إِلَّا اللَّهُ مُحَمَّدٌ رَسُوْلُهُ



MEMBERSHIP

Islamic Development Bank	1992
Saudi Arabia	1992
Egypt	1992
Tunisia	1992
Indonesia	1992
Jordan	1993
Pakistan	1993
Bangladesh	1993
Mali	1993
Kuwait	1994
Malaysia	1994
Sudan	1995
Senegal	1995
Chad	1996
Lebanon	1996
Gambia	1996
Algeria	1996
Iran	1996
Morocco	1996
Turkey	1997
Syria	1997
Yemen	1998
Guinea	1999
Bahrain	1999



Operations Results

Resulting from the above activities, the Corporation received 344 enquiries from prospective customers and were all answered by the Marketing Department. 92% of the enquiries came from Member Countries of which 82% came from exporters and the balance from banks and other financial institutions. These enquiries generated 31 export credit insurance proposals (policy applications) and ten

This brought current export credit insurance commitments to US\$ 107 million. The commitments for 1419H were generated from 109 credit limit applications by policyholders valued at US\$ 179 million, compared to 31 applications valued at US\$ 77 million for last year (an increase of 252% and 134.5% respectively). This shows a credit limit approval rate of 48% for the year

Full literature is now prepared in Arabic, English and French for existing and potential customers. This includes a guidebook on the Corporation, policies, main features, applications and policy holders manual.

compared to 57% for the last year. (For more details see Annex3-Table2).

Export credit insurance

policy renewal applications. The application, worth a total volume of US\$ 1,597 million came from 28 exporters and 3 banks in 11 countries. The Corporation also received 2 applications for investment insurance policies valued at US\$ 10 million each (for more details see Annex 2).

commitments were made to exporters in 9 Member Countries (Egypt, Indonesia, Iran, Jordan, Malaysia, Saudi Arabia, Syria, Tunisia, and Turkey). About 40% of the commitments went to exporters in Saudi Arabia followed by Jordan (17%), Turkey (14%), Malaysia (13%), and Tunisia (11%) (see Chart 1). The commitments were to cover the payment risk of buyers in 16 Member Countries, led by Saudi Arabia (25%), Iran (22%), Egypt (12%), Malaysia (7%) and Bangladesh (6%) (see Chart2).

During the year under review, 18 new export credit insurance policies were issued and 7 policies were renewed with a total global policy limit of US\$ 468 million. The number of new policies issued witnessed an increase of 125% from last year, and the total global limit of policies issued and renewed increased by 66% over last year. (For more details see Annex 3-Table 1).

Export credit insurance commitments as represented by approved credit limits reached US\$ 86 million, double the volume for last year.

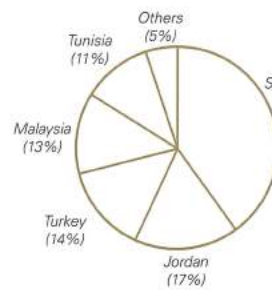
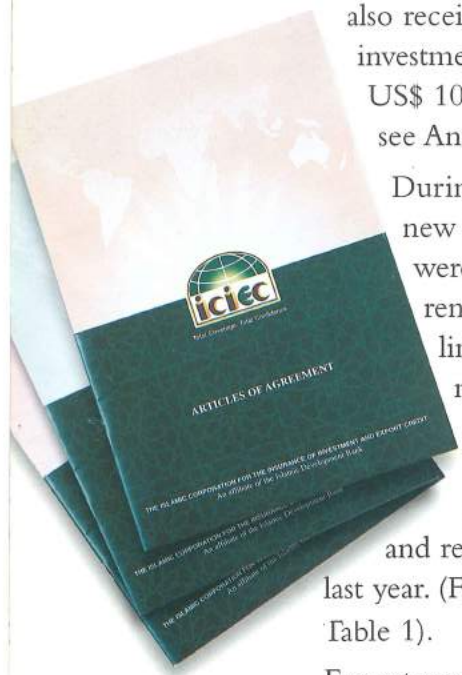


Chart 1: Insurance commitments by exporter's country.

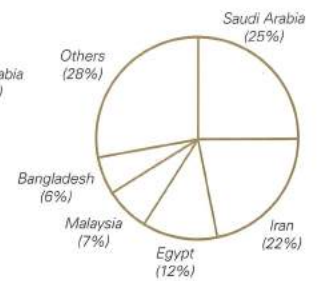
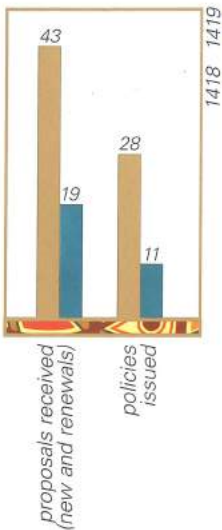


Chart 2: Insurance commitments by buyer's country.

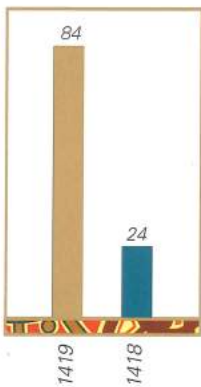


*Underwriting Activities:
increased business activities
during the year.*



Discussions Meeting: The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) hosted the second discussions meeting on the GCC industrial export guarantee and finance, held in 1418 in Jeddah.

*Underwriting Activities:
number of CLAs approved
quadrupled during the
year.*



Export declarations which represent the utilization of insurance commitments by policyholders and hence the Corporation's actual insurance risk exposure, reached US\$ 21 million increasing from US\$ 8 million for 1418H, an increase of almost 150%. This shows an implementation rate of about 25% compared to about 20% for last year.

No claims were submitted or paid by the Corporation during the year. Also, no recoveries of paid claims took place and the Corporation continued to pursue the recovery of the one claim paid last year. Legal proceedings were instituted against the defaulting buyer since he failed to honour the rescheduling agreement concluded with him.

The Corporation continued its intensive efforts to obtain reinsurance for its operations. In this regard, the following was achieved during the year:

- (a) A reinsurance strategy was developed based on a study conducted by a top international expert.
- (b) The Corporation continued discussions with international brokers and reinsurers, and requested offers from three brokers to arrange a reinsurance treaty.
- (c) The Corporation succeeded in arranging reinsurance with MECIB, the Malaysian export credit agency, to cover part of a transaction involving Malaysian exports to Iran, to ensure that ICIEC's exposure is within the designated buyer ceiling.

**Finance
And Investment
Summary**

Unit of Account

Share Capital

Separation of Shareholders' and
Policyholders' Funds

Policyholders' Fund

Shareholders' Fund

Net Corporate Financial Results

Liquid Funds Investment Portfolio

Investment in IDB Unit
Investment Fund



The Corporation experienced for the first time the full operating cycle last year; from insurance proposal to redemption and recovery of claim. This year, it added on the experience of getting one of its transactions reinsured. Accordingly, the audited financial statements of 1419H reflect all these events. 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 the Special Drawing Right (SDR) of the International Monetary Fund.*

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 authorized capital while the other half was left for the subscription of the Member Countries of the Organization of the Islamic Conference (OIC). Each Member Country may subscribe to a minimum of 250 shares in the Corporation.

As of 30 Dhul Hijja 1419H, IDB and twenty three Member Countries had subscribed to a total of 91,240 shares for a nominal value of ID 1,000 per share; equivalent of ID 91.24 million.

* ID 1.00 = USD 1.3567 (as at end of 1419H)

Position of Capital Subscription: bar graph showing the 24 members' subscription in the share capital of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).



top photo

First Investment Insurance Scheme promotional seminar organised by ICIEC in Riyadh.

bottom photo

An ICIEC promotional seminar in Casablanca, Morocco.

The called-up installments as at 30 Dhul Hijja 1419H amounted to ID 70.62 million, out of which ID 68.37 million has so far been paid. The balance of ID 2.25 million is receivable from 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.

Policyholders' Fund

To report the results of underwriting operations at the financial year-end, ICIEC uses the 'annual accounting' basis. This provides both the shareholders as well as the policyholders of the Corporation with timely results of its underwriting operations.

In arriving at reasonable estimates of the underwriting operations, the following accounting policies are used:

- a) Unearned premiums are calculated on the basis of 50% of the premiums recorded during the year.
- b) Claims incurred but not reported are calculated at 1.5% of the total risk covered.

For the year 1419H, the Policyholders' Fund incurred a loss of ID 1.28 million; bringing the accumulated losses in the Fund to ID 2.34 million at the year-end. Although no claims were reported during the year, the provision for claims incurred

but not reported of ID 0.22 million and operating expenses of ID 1.30 million more than offset the premium earned of ID 0.24 million during the year, resulting in this loss.

Shareholders' Fund

The total income generated by the Shareholders' Fund, for the year 1419H, was ID 3.36 million arrived at with a combination of ID 3.30 million of investment income and ID 0.06 million of gain on exchange. There were no operating expenses associated to the investment activity in the Shareholders' Fund. Hence the net income for the year 1419H was ID 3.36 million. The net income has been transferred to the statutory reserve as mandated under the Articles of Agreement.

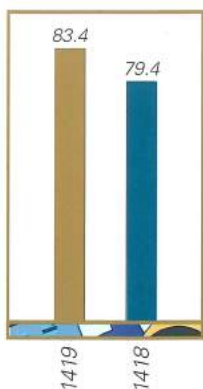
The Corporation's paid-up share capital increased from ID 66.06 million last year, to ID 68.37 million at the end of 1419H. This increase was brought about due to the induction of three new Member Countries, as well as the receipt of some outstanding subscriptions. The balance of subscriptions receivable was brought down from ID 4.06 million last year to ID 2.25 million at the 1419H year end.

Net Corporate Financial Result

The overall results of the Corporation reflect a net profit of ID 2.08 million for the year 1419H. This is an outcome of the ID 3.36 million profit in the Shareholders' Fund, offset by the ID 2.34 million loss in the Policyholders' Fund.

At the end of 1419H, the total assets of the Corporation stood at ID 83.38 million, compared to ID 79.4 million at the end of 1418H. These assets were primarily financed through the Shareholders' Fund.

Total Assets: during the year, ICIEC's assets increased by ID 4 million.

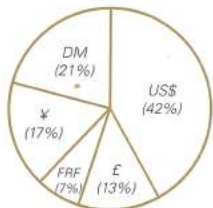


Liquid Funds Investment Portfolio

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. At the end of

ICIEC signed memoranda of understanding (MOU) with several agencies in terms of export credit insurance. The latest MOU was signed with the Tunisian Export Credit Company (COTUNACE) with the objective to strengthen cooperation in the field of exchange of commercial information, expertise, co-insurance and reinsurance.

1419H, the total liquid funds' portfolio stood at ID 72.40 million compared to ID 72.03 million at the end of 1418H. Total income during the year from this portfolio amounted to ID 2.95 million, up from ID 2.89 million last year providing a 4% rate of return on the average liquid funds invested for the year.



Liquid Funds: breakdown by the five currencies that compose the Islamic Dinar.

The portfolio is predominantly composed of commodity placements due to mature within 6 months from the date of acquisition (ID 38.30 million). The balance (ID 32.45 million) reflects commodity placements due to mature between 7 to 12 months from the date of acquisition. The funds are placed with 21 banks in 5 countries: Bahrain, France, Kuwait, Saudi Arabia and United Kingdom.

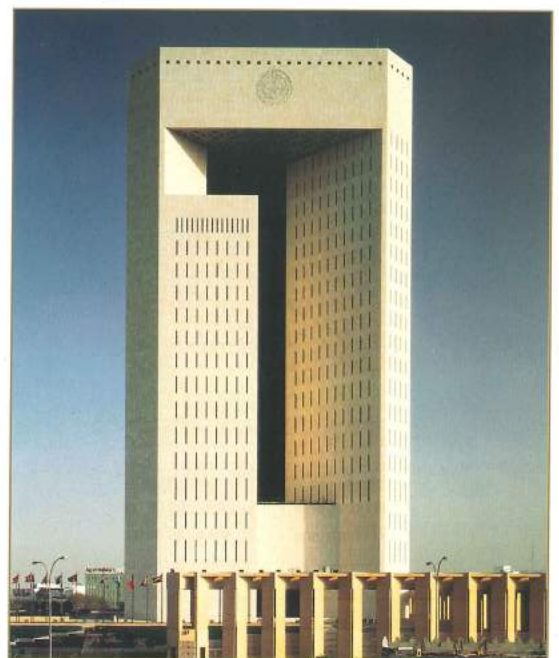
In line with the composition of Islamic Dinar, the Corporation's unit of account, the liquid funds are composed of five currencies - U.S. Dollars (42%), Deutsche Mark (21%), Japanese Yen (17%) Great Britain Pound (13%) and French Franc (7%).

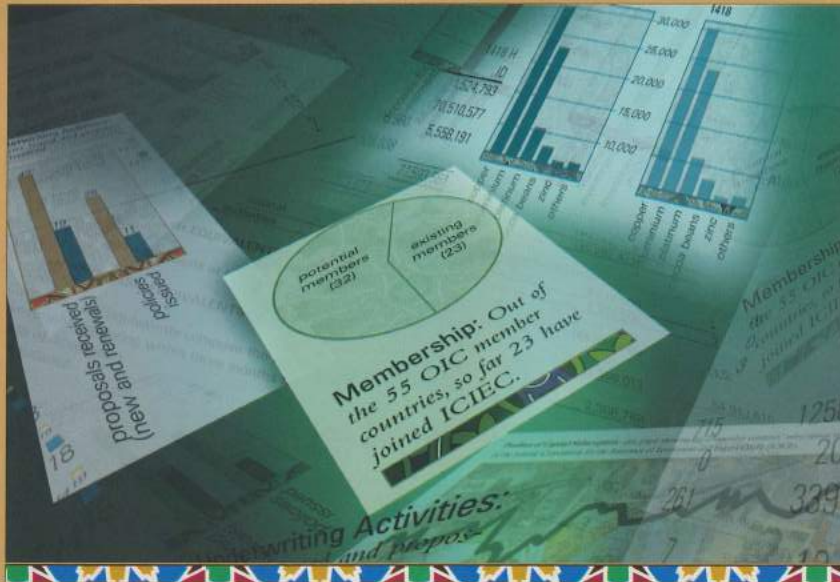
Investment in IDB Unit Investment Fund

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 5.53 million as at the end of 1419H. During the year, the Corporation received a dividend

of ID 0.35 million representing a return of 6.25% 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 Murabaha syndications. Units of the Fund are traded on the Bahrain Stock Exchange.





Annexes and Tables

Annex 1: Position of Capital Subscription

Annex 2: Marketing Events

Annex 3: Underwriting Operational Results:

Table-1: Highlights of Underwriting Activities

Table-2: Insurance Commitments

Table-3: Distribution of Actual Utilization

Annex 1: 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 1419 H)

Members	Date of Articles Ratification	Number of Shares Subscribed	Value of Shares ID
1. Algeria	23 April 96	1,000	1,000,000.00
2. Bahrain	06 March 99	250	250,000.00
3. Bangladesh	11 May 93	250	250,000.00
4. Chad	19 February 93	250	250,000.00
5. Egypt	30 December 92	2,500	2,500,000.00
6. Gambia	01 March 96	250	250,000.00
7. Guinea	22 July 97	250	250,000.00
8. Indonesia	24 April 93	250	250,000.00
9. Iran	19 December 96	5,000	5,000,000.00
10. Jordan	21 April 93	250	250,000.00
11. Kuwait	13 July 94	2,500	2,500,000.00
12. Lebanon	17 August 95	250	250,000.00
13. Malaysia	01 August 94	2,740	2,740,000.00
14. Mali	04 September 93	250	250,000.00
15. Morocco	08 February 97	5,000	5,000,000.00
16. Pakistan	08 May 93	2,500	2,500,000.00
17. Saudi Arabia	03 December 92	13,500	13,500,000.00
18. Senegal	19 September 95	250	250,000.00
19. Sudan	10 July 95	250	250,000.00
20. Syria	01 February 98	250	250,000.00
21. Tunisia	22 February 93	500	500,000.00
22. Turkey	30 July 97	2,500	2,500,000.00
23. Yemen	30 December 96	500	500,000.00
24. Islamic Development Bank		50,000	50,000,000.00
Total		91,240	91,240,000.00

ID 1.00 = USD 1.3567

Annex 2: Marketing Events

Events	1418H	1417H	% Increase
1. Marketing Activities			
a. promotional letters	137	15	825.5
b. visits & meetings	316	284	57
c. promotional seminars	5	3	20
d. other presentations	15	19	(73)
e. follow-up visits	19	28	(68)
f. trade fairs	2	3	(50)
2. Marketing Results			
a. inquiries	246	212	40
b. policy applications			
- export credit	16	17	94
- investment	0	0	—
- renewals	3	2	233
c. value of policy applications (US\$ million)			
- export credit	715	547	76
- investment	0	0	—
- renewals	261	197	30
d. MOU executed	7	8	86
e. agency agreements signed	0	0	—

Annex 3: Underwriting Operational Results

	1418H	1417H	% Increase
1. Proposals Received (New and Renewals)	19	15	126
2. New Policies Issued	8	6	125
3. Total Global Limit for New/ Renewed Policies	US\$ 281.75 mn.	US\$ 169.15 mn.	66
4. Number of Credit Limit Applications (CLAs) Received	31	12	251
5. Number of CLAs Approved	24	9	250
6. Total Credit Limit Amount Approved (Insurance Commitments)	US\$ 42.7 mn.	US\$ 42.7 mn.	100
7. Export Declarations (Utilization)	US\$ 8.44 mn.	US\$ 5.31 mn.	149
8. Premium Income	US\$ 0.352 mn.	US\$ 0.287 mn.	124
9. Number of Claims Received	1	—	—
10. Claims Amount Paid	US\$ 0.13 mn.	—	—
11. Recoveries Made	US\$ 0.01 mn.	—	—

Table 1: Highlights of Underwriting Activities

No.	Exporter's Country	Amount Approved US\$	%	Buyer's Country	Amount Approved US\$	%
1.	Egypt	420,000	0.49	Algeria	460,000	0.54
2.	Indonesia	203,600	0.24	Bangladesh	4,912,000	5.74
3.	Iran	844,360	0.99	Egypt	10,432,000	12.19
4.	Jordan	14,800,000	17.30	Gambia	4,844,360	5.66
5.	Malaysia	11,271,995	13.18	Indonesia	2,400,000	2.81
6.	Saudi Arabia	34,055,333	39.80	Iran	19,036,995	22.26
7.	Syria	1,000,000	1.17	Jordan	3,500,000	4.09
8.	Tunisia	9,780,000	11.43	Kuwait	120,000	0.14
9.	Turkey	12,180,000	14.23	Lebanon	500,000	0.58
10.	*	1,000,000	1.17	Malaysia	6,000,000	7.01
11.				Morocco	4,720,000	5.52
12.				Saudi Arabia	21,603,600	25.25
13.				Sudan	1,258,333	1.47
14.				Syria	4,750,000	5.55
15.				Turkey	200,000	0.23
16.				Yemen	818,000	0.96
Total		85,555,288	100.00		85,555,288	100.00

Table 2: Insurance Commitments by Exporter and Buyer Country

* Exporter's country not identified financing operation under BMP

No.	Country	Exposure (US\$)	%
1.	Malaysia	5,051,314.00	24.00
2.	Iran	4,399,434.00	20.91
3.	Gambia	4,007,188.00	19.05
4.	Morocco	2,862,315.00	13.60
5.	Syria	1,693,414.00	8.05
6.	Lebanon	1,026,761.00	4.86
7.	Saudi Arabia	675,000.00	3.21
8.	Algeria	643,012.00	3.06
9.	Kuwait	369,381.00	1.75
10.	Bangladesh	238,500.00	1.14
11.	Egypt	56,600.00	0.28
12.	Jordan	20,592.00	0.09
Total		21,043,511.00	100.00

Table 3: Distribution of Actual Utilization by Buyer Country 1419H

Financial Statements and Auditors' Report

Auditors' Report

Balance Sheet

Statement of Income and
Accumulated Losses

Statement of Cash Flows

Notes to the Financial Statements



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 pages 26 to 32. These financial statements are the responsibility of the Corporation's management. 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:

- i) present fairly, in all material respects, the financial position of the Corporation as of 30 Dhul Hijjah 1419 H and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards; and
- ii) 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

11 Rabi Awal 1420 H
24 June 1999
Jeddah

FINANCIAL STATEMENTS

Balance Sheet

30 Dhul Hijjah 1419 H	Note	1419 H ID	1418 H ID
ASSETS			
RELATING TO SHAREHOLDERS' FUND			
Bank balances		37,834	12,436
Other assets		272,748	433,850
Investments	3	77,923,618	77,593,561
Amounts due from policyholders' fund		2,152,520	1,082,614
Amounts due from Islamic Development Bank	4	2,417,545	—
		<u>82,804,265</u>	<u>79,122,461</u>
RELATING TO POLICYHOLDERS' FUND			
Bank balances		511,728	276,167
Other assets		67,971	1,316
		<u>579,699</u>	<u>277,483</u>
Total Assets		83,383,964	79,399,944
LIABILITIES AND SHAREHOLDER'S AND POLICYHOLDERS' FUNDS			
SHAREHOLDERS' LIABILITIES			
Unearned income		1,233,980	314,611
Accounts payable and accruals	5	365,468	129,266
Amounts due to Islamic Development Bank		—	3,146,736
		<u>1,599,448</u>	<u>3,590,613</u>
POLICYHOLDERS' LIABILITIES			
Amounts due to shareholders' fund		2,152,520	1,082,614
Advance billings		327,486	86,536
Unearned premiums	6	141,883	87,796
Provision for unreported claims	7	293,737	77,480
		<u>2,915,626</u>	<u>1,334,426</u>
Total Liabilities		4,515,074	4,925,039
SHAREHOLDERS' FUNDS			
Share capital	8	68,370,000	66,057,500
Statutory reserve	9	12,834,817	9,474,348
		<u>81,204,817</u>	<u>75,531,848</u>
POLICYHOLDERS' FUNDS			
Accumulated losses		<u>(2,335,927)</u>	<u>(1,056,943)</u>
Total Shareholders' and Policyholders' Funds		78,868,890	74,474,905
Total Liabilities and Shareholders' and Policyholders' Funds		83,383,964	79,399,944

The attached notes 1 to 11 form part of these financial statements.

FINANCIAL STATEMENTS

Statement of Income and Accumulated Losses

Year Ended 30 Dhul Hijjah 1419 H	Note	1419 H ID	1418 H ID
POLICYHOLDERS' FUNDS			
Premiums earned	6	229,679	87,796
Commission earned		4,150	–
Policy fees earned		11,003	4,717
Total Revenue		<u>244,832</u>	<u>92,513</u>
Claims incurred	7	(216,257)	(164,650)
Employees' cost	4	(863,608)	(600,580)
General and administration expenses	4	(403,690)	(196,454)
Fees paid to Islamic Development Bank	4	(40,261)	(19,621)
		<u>(1,523,816)</u>	<u>(981,305)</u>
LOSS FOR THE YEAR		<u>(1,278,984)</u>	<u>(888,792)</u>
Accumulated losses at beginning of the year		<u>(1,056,943)</u>	<u>(168,151)</u>
ACCUMULATED LOSSES AT END OF THE YEAR		<u>(2,335,927)</u>	<u>(1,056,943)</u>
SHAREHOLDERS' FUNDS			
INCOME			
Investments income		3,299,072	3,183,954
Gain on exchange		61,397	269,529
NET PROFIT FOR THE YEAR		<u>3,360,469</u>	<u>3,453,483</u>
NET PROFIT FOR THE CORPORATION FOR THE YEAR			
Policyholders' funds – loss		(1,278,984)	(888,792)
Shareholders' funds – profit		3,360,469	3,453,483
Net Profit		<u>2,081,485</u>	<u>2,564,691</u>

The attached notes 1 to 11 form part of these financial statements.

FINANCIAL STATEMENTS

Statement of Cash Flows

Year Ended 30 Dhul Hijjah 1419 H	1419 H ID	1418 H ID
OPERATING ACTIVITIES		
Net profit for the year	<u>2,081,485</u>	<u>2,564,691</u>
Adjustments for:		
Investments income	(3,299,072)	(3,183,954)
Gain on exchange	(61,397)	(269,529)
Changes in operating assets and liabilities:		
Islamic Development Bank	(5,564,281)	—
Other assets	94,447	(355,829)
Liabilities	477,152	1,282,813
Insurance funds	270,344	165,276
Net cash (used in)/from operating activities	<u>(6,001,322)</u>	<u>203,468</u>
INVESTING ACTIVITIES		
Investments in Murabaha deals (net)	(45,282,423)	(6,009,065)
Net cash used in investing activities	<u>(45,282,423)</u>	<u>(6,009,065)</u>
FINANCING ACTIVITIES		
Proceeds from issue of share capital	2,312,500	2,250,000
Net cash from financing activities	<u>2,312,500</u>	<u>2,250,000</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(48,971,245)</u>	<u>(3,555,597)</u>
Cash and cash equivalents at beginning of the year	<u>51,358,013</u>	<u>54,913,610</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>2,386,768</u>	<u>51,358,013</u>
Cash and cash equivalents comprise the following:		
Investments maturing within three months from the date of acquisition	1,837,206	51,069,410
Bank balances	<u>549,562</u>	<u>288,603</u>
	<u>2,386,768</u>	<u>51,358,013</u>

The attached notes 1 to 11 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 Dhul Hijjah 1419 H

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 its 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 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 unearned income.

NOTES TO THE FINANCIAL STATEMENTS

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

	1419 H	1418 H
	ID	ID
Deposits for investment	–	1,524,793
Murabaha investments (see below)	72,395,580	70,510,577
Investment in IDB, Unit Investment Fund	5,528,038	5,558,191
	<u>77,923,618</u>	<u>77,593,561</u>

The Murabaha investment portfolio at 30 Dhul Hijjah 1419 H comprises trading contracts in the following commodities:

	Cost	Maturity
	ID	ID
Copper	29,837,882	31,023,874
Aluminium	22,890,568	23,546,515
Platinum	10,882,184	11,078,055
Cocoa beans	5,281,575	5,283,991
Zinc	599,540	609,219
Others	824,375	853,926
Total at 30 Dhul Hijjah 1419 H	<u>70,316,124</u>	<u>72,395,580</u>
Total at 29 Dhul Hijjah 1418 H	<u>69,516,875</u>	<u>70,510,577</u>

4. 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.

NOTES TO THE FINANCIAL STATEMENTS

5. ACCOUNTS PAYABLE AND ACCRUALS

	1419 H	1418 H
	ID	ID
Bank commission income (see note below)	154,594	84,694
Accrued expenses	210,874	44,572
	<u>365,468</u>	<u>129,266</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.

6. PREMIUMS EARNED

	1419 H	1418 H
	ID	ID
Gross premiums	325,263	175,592
Less: reinsurance premiums	(41,497)	–
	<u>283,766</u>	<u>175,592</u>
Unearned premiums at beginning of the year	87,796	–
Unearned premiums at end of the year	(141,883)	(87,796)
Premium earned	<u>229,679</u>	<u>87,796</u>

7. CLAIMS INCURRED

	1419 H	1418 H
	ID	ID
Gross claims paid	–	94,537
Recoveries	–	(7,367)
Net claims paid	–	87,170
Provision for unreported claims at beginning of the year	(77,480)	–
Provision for unreported claims at end of the year	293,737	77,480
	<u>216,257</u>	<u>164,650</u>

8. SHARE CAPITAL

	1419 H	1418 H
	ID	ID
Authorised capital		
100,000 shares of ID 1,000 each	100,000,000	100,000,000
Issued and subscribed capital		
50,000 shares of ID 1,000 each fully paid	50,000,000	50,000,000
41,240 (1418 H - 40,240) shares of ID 1,000 each, of which ID 500 has been called up	20,620,000	20,120,000
Less: subscriptions receivable	(2,250,000)	(4,062,500)
	<u>68,370,000</u>	<u>66,057,500</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.

NOTES TO THE FINANCIAL STATEMENTS

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

	1419 H ID	1418 H ID
Balance at beginning of the year	9,474,348	6,020,865
Transfer for the year	3,360,469	3,453,483
Balance at end of the year	<u>12,834,817</u>	<u>9,474,348</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 extent 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 Murabaha deals with reputable banks. The Corporation is, therefore, of the opinion that no credit loss is likely to 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 book 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 1419 H amount to ID 20 million (1418 H - ID 5 million).

11. NUMBER OF EMPLOYEES

At 30 Dhul Hijjah 1419 H the Corporation had 18 (1418H-15) employees.



***The Islamic Corporation for the Insurance of
Investment and Export Credit (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.

*Telephone: (9662) 6445666 (Direct) 6361400
(Extensions: 3303/3319/3317)*

Fax: Management: (9662) 6379504;

Operations: 6443447 Telex: 607509 ICIEC SJ

E-mail: iciec@isdb.org.sa

Web Site: <http://www.isdb.org>

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 Shariah compatible investment & export credit insurance facilities to exporters and investors from Member Countries.