



Globally Secure

The Islamic Corporation for the Insurance of Investment and Export Credit
1423H ANNUAL REPORT (2002 / 2003)

CONTENTS

<i>Transmittal Letter</i>	1
<i>Mission</i>	2
<i>Management</i>	3
<i>Message from the President</i>	4
<i>ICIEC – An Overview</i>	5
<i>Insurance Operations Results</i>	8
<i>Institutional Developments</i>	15
<i>Finance and Investment Summary</i>	17
<i>Auditors' Report</i>	20
<i>Financial Statements</i>	21

KEY DATA AND RESULTS SUMMARY

	1422H	1423H	Change %
OPERATIONS			
Policies in Force (No.)	63	67	6
Insurance Commitments (USD million)	139	289	108
Business Insured (USD million)	58	129	122
Premium & Fee (USD million)*	1.19	1.74	46
Claims Paid (USD million)*	2.32	4.72	103
Recoveries (USD million)*	2.36	1.02	(57)
FINANCIAL			
Share Capital (ID million)**:			
Authorized	100.00	100.00	-
Subscribed	95.24	95.24	-
Paid-up	71.80	71.87	-
Shareholders' Fund (USD million)***:			
Net Revenues	4.42	3.06	(31)
Surplus / (Deficit)	4.19	2.12	(49)
Accumulated Surplus / (Deficit)	34.15	39.12	15
Policyholders' Fund (USD million)***:			
Net Revenues	0.89	1.44	62
Surplus / (Deficit)	(1.99)	(2.78)	40
Accumulated Surplus / (Deficit)	(13.68)	(17.71)	29
Corporate Result (USD million)***:			
Net Surplus / (Deficit)	2.20	(0.66)	(130)
Net Reserves	20.47	21.41	5
Investments & Banks Balances	107.40	119.64	11
Total Assets	117.54	125.20	7

*Gross cash values prior to accounting adjustments

**1422H: ID 1.00 = 1.255, 1423H: ID 1.00 = USD 1.37

***Retranslated from ID to USD at the year - end exchange rates

TRANSMITTAL LETTER



In the Name of Allah, the Beneficent, the Merciful

*Date: 21 / 05 /1424H
21 / 07 /2003G*

Honorable Members of the Board of Governors of the Islamic Corporation for the Insurance of Investment and Export Credit.

Dear Brothers,

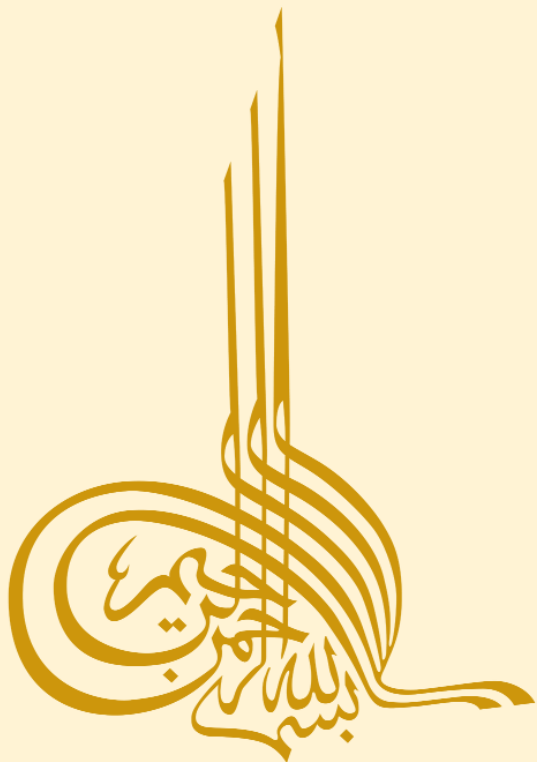
Assalam-O-Alaikum Warahmatullah Wabarakatuh

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 1423H, including audited financial statements.

Please accept the assurances of my highest consideration.

Yours sincerely,

*Dr. Ahmad Mohamed Ali
President of ICIEC*



MISSION



"To be the insurance provider/partner of choice for exporters and investors, and export credit / investment insurance agencies in member countries, offering competitively priced, comprehensive, and innovative Shariah-compatible export credit and investment insurance and reinsurance products to beneficiaries"



MANAGEMENT

Board of Directors

Chairman:

Dr. Ahmad Mohamed Ali

Members (*):

Hon. Abdul Aziz Nur Hersi

Hon. Ahmad Bin Hadji Hashim

Hon. Achour Ould Samba

Hon. Faisal Abdul Aziz Al-Zamil

Hon. Ibrahim Mohamed Al Mofleh

Hon. Jamal Nasser Rashid Lootah

Hon. Ilgar Veysal Oglu Isayev

Hon. Mehdi Ahmed Karbasian

Hon. Mohamed Ali Taleb

Hon. Mohammed Azzaroog Rajab

Hon. Dr. Selim Cafer Karatas

Hon. Dr. Waqar Masood Khan

Hon. Zeinhom Zahran

Hon. Dr. Zul Kifl Salami

() In Alphabetical Order*

Consultative Committee

Chairman:

Dr. Abdel-Rahman Al-Zamil

Members:

Dato Mohd Fadzli Yusof

Mr. Iqbal Ahmed Khan

Mr. Abdul Haq Al-Kafsi

Dr. Abdel Rahman Eltayeb Taha

Dr. Mohammad El Fatih Hamid



A meeting of the Consultative Committee

Officers of the Corporation

President:

Dr. Ahmad Mohamed Ali

General Manager:

Dr. Abdel-Rahman Eltayeb Taha

Legal Adviser:

Dr. Mohammad El Fatih Hamid



Members of the Consultative Committee

MESSAGE FROM THE PRESIDENT

The year 1423H (2002/2003G) witnessed a significant increase in the volume of the insurance operations undertaken by the Corporation. The insurance commitments increased by more than two times of its level last year to reach USD 289 million compared to USD 139 million last year. The actual business insured also increased, within the range of the commitments made, by 122% reaching USD 129 million compared to USD 58 million. Consequently, the premium and fees income has increased from USD 1.19 million to USD 1.74 million.

These results clearly demonstrate that the Corporation has started to reap the benefits of its medium term strategy adopted by the Board of Directors three years ago, which called for aggressive marketing to increase business in an expanded market and stressed the continuous development of the Corporation's human resources and technical systems, in addition to forging a close technical cooperation arrangement with one of the major multinational credit insurers.

During the year under review, not only did the Corporation commence its world-wide coverage of exports from Member Countries, but also launched an aggressive campaign to persuade financial institutions in these countries to use the export credit and political risk insurance offered by ICIEC as an effective credit enhancement tool. The Corporation also continued the development and improvement of its underwriting, accounting, and information technology systems. This effort was greatly enhanced by the success of the Corporation in joining the Credit Alliance led by COFACE (the second largest credit insurer in the world). Membership in the Alliance gives ICIEC on-line access to one of the largest credit information databases, in addition to technical assistance, reinsurance and debt collection services.

On the financial front, ICIEC had IDB and 30 OIC Member Countries as shareholders, subscribing to ID 95.24 million of the ID 100 million authorized capital. The Policyholders' Fund (the insurance operations' account) continued to show a deficit, registering a shortfall of ID 2.03 (USD 2.78) million for the year. This is a reflection of the fact that premium and fees income is still too small to cover operating expenses and net claims incurred. On the other hand, the Shareholders' Fund (the invested share capital) generated a net surplus of ID 1.55 (USD 2.12) million for the year despite the unfavourable conditions in the international financial markets. As a result, the Corporation for the first time reported a net deficit of ID 0.48 (USD 0.66) million, bringing the accumulated net reserves of the Corporation to ID 15.63 (USD 21.41) million and the total assets to ID 91.39 (USD 125.20) million.*

Guided by our Medium Term Strategy and supported by membership in the Credit Alliance and the expected reinsurance treaty to be signed with a major European reinsurer, ICIEC looks forward, Insha'Allah, to a continuation of the rapid growth of the insured business and premium income, leading to better financial results and ultimate fiscal balance.



Dr. Ahmad Mohamed Ali
President of ICIEC

* ID 1.00 = USD 1.37 at 1423H year-end

ICIEC - AN OVERVIEW

The objective of the Corporation shall be to enlarge the scope of trade transactions and the flow of investments among Member States. To serve its objectives the Corporation shall provide, in accordance with the principles of Shariah, export credit / investment insurance or reinsurance in respect of the goods / investments by paying the policyholder a reasonable indemnity in respect of losses resulting from the risks.

(Article 5 of the Corporation's Articles of Agreement)



1. 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), and commenced operations in Safar 1416H (July 1995G) as an international institution with full juridical personality. ICIEC is a member of the IDB Group composed of IDB itself in addition to the Islamic Corporation for the Development of the Private Sector (ICD) and the Islamic Research and Training Institute (IRTI).

2. Membership

Membership in ICIEC is open to the Islamic Development Bank and countries which are members of the Organization of the Islamic Conference (OIC). At the end of 1423H, there were 31 shareholders of ICIEC, comprising IDB and 30 countries. Several other countries are in the process of completing the membership requirements.

3. Capital Subscription

The authorized capital of ICIEC is ID* 100 million (USD 137 million). The Islamic Development Bank and 30 Member Countries subscribed to shares in the capital of the Corporation having a face value of ID 95.24 million (USD 130.48 million). IDB contributed ID 50 million (USD 68.50 million) which makes 50% of authorized capital. Member Countries subscribed ID 45.24 million (USD 61.98 million). The remainder of authorized capital, ID 4.76 million, is available for subscription by new members. (List of Members and Subscriptions, Table 1.1)

4. Objective

The objective of ICIEC, as defined in its Articles of Agreement, is to enlarge the scope of trade transactions and the flow of investments among Member States. In fulfillment of this objective ICIEC 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.

* One Islamic Dinar is equal to One SDR which is equal to USD 1.37 as at the end of 1423H

TABLE 1.1
MEMBERSHIP AND CAPITAL SUBSCRIPTIONS STATUS

AS AT END OF 1423H (MARCH 2003)

Members	Date of Articles Ratification	Number of Shares Subscribed	Value of Shares (ID*)
1. Algeria	23.04.96	1,000	1,000,000
2. Bahrain	06.03.99	250	250,000
3. Bangladesh	11.05.93	250	250,000
4. Benin	08.08.01	250	250,000
5. Brunei	24.03.98	250	250,000
6. Cameroon	04.07.92	250	250,000
7. Chad	19.02.93	250	250,000
8. Egypt	30.12.92	2,500	2,500,000
9. Gambia	01.03.96	250	250,000
10. Guinea	22.07.97	250	250,000
11. Indonesia	24.04.93	250	250,000
12. Iran	19.12.96	5,000	5,000,000
13. Jordan	21.04.93	250	250,000
14. Kuwait	13.07.94	2,500	2,500,000
15. Lebanon	17.08.95	250	250,000
16. Malaysia	01.08.94	2,740	2,740,000
17. Mali	04.09.93	250	250,000
18. Mauritania	18.07.95	250	250,000
19. Morocco	08.02.97	5,000	5,000,000
20. Pakistan	08.05.93	2,500	2,500,000
21. Qatar	11.07.00	250	250,000
22. Saudi Arabia	03.12.92	13,500	13,500,000
23. Senegal	19.09.95	250	250,000
24. Sudan	10.07.95	250	250,000
25. Syria	01.02.98	250	250,000
26. Tunisia	22.02.93	500	500,000
27. Turkey	30.07.97	2,500	2,500,000
28. Uganda	04.02.99	250	250,000
29. UAE	11.07.00	2,500	2,500,000
30. Yemen	30.12.96	500	500,000
31. Islamic Development Bank		50,000	50,000,000
TOTAL		95,240	95,240,000

* ID 1.00 = USD 1.37 as at end of 1423H

5. Corporate Mission

The Corporation's mission statement serves as a means of highlighting ICIEC's overriding focus. The mission statement is:

"To be the insurance provider/partner of choice for exporters and investors, and export credit / investment insurance agencies in member countries, offering competitively priced, comprehensive, and innovative Shariah-compatible export credit and investment insurance and reinsurance products to beneficiaries".

6. Management

The ultimate responsibility for the management of ICIEC rests with the Board of Governors (BOG), which is composed of Governors representing the Member Countries 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. The President is the Chief Executive of the Corporation, responsible for conducting its affairs under the direction of the BOD. The President of The Islamic Development Bank is ex-officio, the President of ICIEC. The President is the legal representative of ICIEC, and has the power to approve its operations and contracts, and may delegate any of his powers to the General Manager of the Corporation who is responsible for conducting the day-to-day business of the Corporation.

The consultative committee advises the President on the overall management of the Corporation. Members of the committee are prominent personalities from Member Countries who are well-versed in matters relating to export credit and investment insurance, international trade and banking.

7. Insurance Facilities

7.1- Export Credit Insurance Services

Since ICIEC commenced business in 1416H (1995G), it has been offering three types of insurance policies:

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

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.

7.2- Investment Insurance Services

ICIEC introduced the Investment Insurance Policy (IIP) in 1419H (1998G), which provides insurance cover to investors from Member Countries who intend to invest in other Member Countries against country risks. Such risks include war, civil disturbance, foreign exchange transfer restrictions, nationalization and other forms of host country government interference which may deny the investor his rights to control his investment.

7.3- Reinsurance Facility

The Export Credit Facultative Reinsurance Facility (ECFRF) was introduced in 1421H (2001G). ECFRF allows ICIEC to reinsure individual Export Credit insurance Agencies (ECAs) in Member Countries in respect of export credit risks underwritten by the ECAs on a policy by policy basis. Under this facility, the extent of cover provided by the ECAs can not be wider than that covered by ICIEC's corresponding policies and ICIEC's eligibility criteria is also applicable.



Staff of The Islamic Corporation for Insurance of Investment and Export Credit (ICIEC)

INSURANCE OPERATIONS RESULTS

Total amount of business insured increased by 122% on 1422H, to USD 129 million, primarily as a result of ICIEC's closer working relationship with policyholders and the extension of ICIEC market to cover non-member countries. Premium and fees income from business insured rose significantly by 46%, to USD1.74 million, during 1423H.



1. Marketing Activities

1.1- Promotional Seminars and Conferences

The promotional seminars and conferences undertaken during 1423H focused on developing an indirect marketing strategy, preparing the involvement of ICIEC in investment promotion and strengthening its relationship with banks. In addition, these activities provided ICIEC a platform to maintain close contact with the international export credit and political risk insurance industry.

1.2- Indirect Marketing

ICIEC, together with the Tunisian export credit agency (COTUNACE) organized the "Third Meeting of ECAs in OIC Member Countries." This provided ICIEC an opportunity to brief these ECAs of ICIEC's recently finalized Inward Reinsurance Facility. In line with the Corporation's indirect marketing strategy, this facility will assist ICIEC to progressively withdraw from the retail market and become ultimately a wholesaler of export credit and political risk insurance, according to its corporate strategy.

1.3- Investment Promotion

ICIEC's mandate includes promoting investments in Member Countries, therefore, ICIEC, during 1423H prepared a proposal for a Multi-Agency Cooperation Program in the field of investment promotion. This proposal was adopted as an IDB Group program to be coordinated and led by ICIEC. The program aims at putting together the know-how of specialized international institutions (MIGA, UNIDO, World Bank) with the financial resources and relationships of IDB Group to assist selected Member Countries in their efforts to attract Foreign Direct Investment.

In the meanwhile, ICIEC participated actively in various investment promotion related events such as:

- UNIDO's Workshop on Investment in Sudan
- IDB, BOT Seminar in Riyadh, Saudi Arabia
- Arab Investors' Meeting in Damascus, Syria
- Conference on Investment Opportunities in Yemen
- 8th Arab Capital Markets' Conference in Lebanon
- IRTI BOT Conference Sudan
- 8th Private Sector Meeting of OIC Member Countries in Sharjah, UAE
- Arab Investment Forum in Rabat, Morocco

1.4- Relationship with Banks

Since export credit insurance and export financing are intertwined, ICIEC continued during 1423H its efforts to build and strengthen a close relationship with banks, so that the cover provided to exporters in Member Countries can facilitate their access to adequate financing for their exports. Besides several meetings with banks in Saudi Arabia and Bahrain, ICIEC organized a seminar for banks in Egypt and attended the Arab Banks' Annual Conference in Khartoum, Sudan.

1.5- Export Credit and Political Risk Insurance Industry

In order to keep abreast of the latest developments in the industry and to benefit from the technical assistance of other related institutions, ICIEC attended a variety of international events, which gave it the opportunity to develop its ties with such institutions and to gain insights of recent developments in the industry. The major events attended in this regard are:

- Credit Alliance Meeting in Amman, Jordan
- Credit Alliance Meeting in Paris, France
- Prague Club Meeting (Union of Export Credit Agencies) in Romania
- Prague Club Meeting (Union of Export Credit Agencies) in Slovenia
- COFACE Annual Conference on Political Risk in Paris, France
- UN/OIC Cooperation Meeting in Vienna, Austria



Opening session of Special Symposium for Exporters and Financial Institutions in Lebanon
(Organizer, ICIEC, Banque du Liban, Association of Banks, Union of Industrialists)

1.6- Islamic Development Bank Group Promotional Activities

As a member of IDB Group, ICIEC is conscious that its role is to complement the activities of various other IDB financing windows/institutions. Therefore, it always seeks to develop synergies within the Group. In this regard, in addition to the promotional activities discussed above, ICIEC participated in the following IDB Group seminars:

- IDB Group Promotional Seminars in Turkmenistan and Kazakhstan
- IDB Group / COMCEC Promotional Seminar for Private Sector in OIC Member Countries in Turkey
- IDB Group Promotional Seminar for private sector in Burkina Faso
- IDB Group Promotional Seminar for private sector in Tunisia

1.7- Direct Marketing

ICIEC uses direct marketing as the main delivery mechanism for its products. Accordingly, the Corporation organized two promotional seminars in Benin and Guinea-Bissau, and participated in the Enterprise International Exhibition in Cameroon and the Islamic Trade Fair in Shrajah, United Arab Emirates. Furthermore, the Corporation mounted eight (8) follow-up missions to Bahrain, Cameroon, Egypt, Jordan, Iran, Saudi Arabia, Sudan, and Yemen. In addition, ICIEC conducted 395 meetings and visits, with potential and current customers in Member Countries.

During the last quarter of 1423H, ICIEC developed a comprehensive marketing strategy to help achieve its overall business objectives. This strategy, titled "Micro Marketing Plan-1424H", complements the Corporation's Annual Business Plan and emphasizes a concentrated strategic and selective marketing approach in identified Target Countries with Target Customers without ignoring direct requests from other sources. This strategy further emphasizes that during 1424H, a concentrated effort will be made towards achieving business volume and therefore supports a bottom-line approach towards marketing.

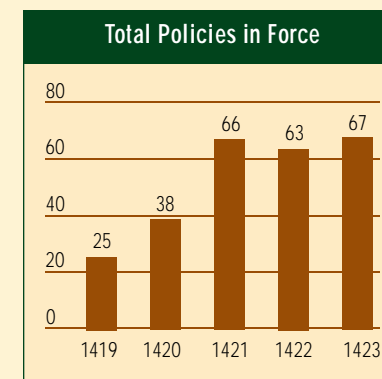
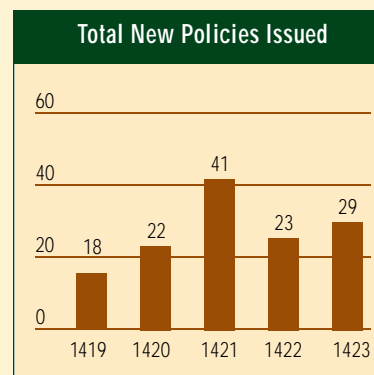
1.8- Marketing Results

As a result of the above activities, the Corporation received 573 enquiries from prospective customers. These enquiries generated 50 new export credit insurance policy applications, as well as 6 preliminary applications and one main application for investment insurance.

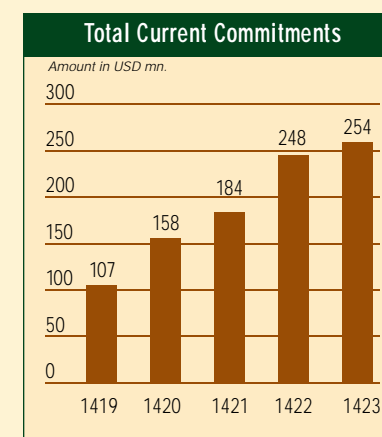
2. Underwriting Activities

2.1- Summary

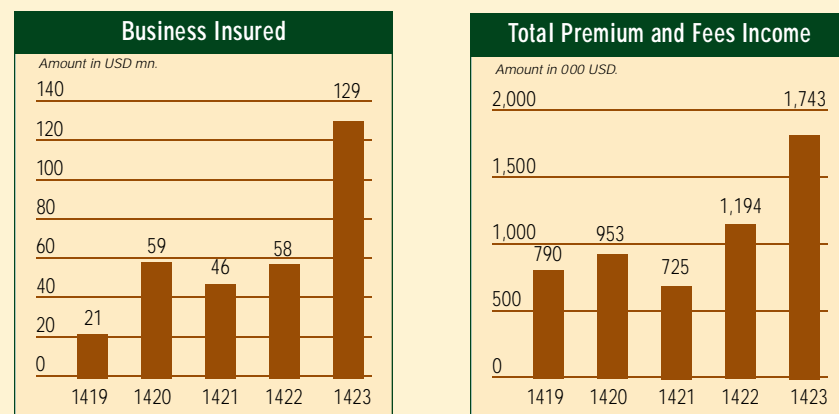
During 1423H, the number of new policies issued increased to 29 from 23 as recorded for 1422H. As a result of this, the Corporation's total number of policies in force reached 67 as at end of 1423H, compared to 63 as at end of 1422H.



New insurance commitments approved by the Corporation during 1423H reached USD 289 million compared to USD 139 million in 1422H, an increase of 108%. The Corporation's total current commitments stood at USD 254 million compared to USD 248 million as at the end of 1422H representing a slight increase of 2%.



The total business insured representing the utilization of the commitments in 1423H was USD 129 million, compared to USD 58 million for 1422H, an increase of 122%. The premium and fees income for 1423H was USD 1.74 million compared to USD 1.19 million for 1422H period representing an increase of 46%.

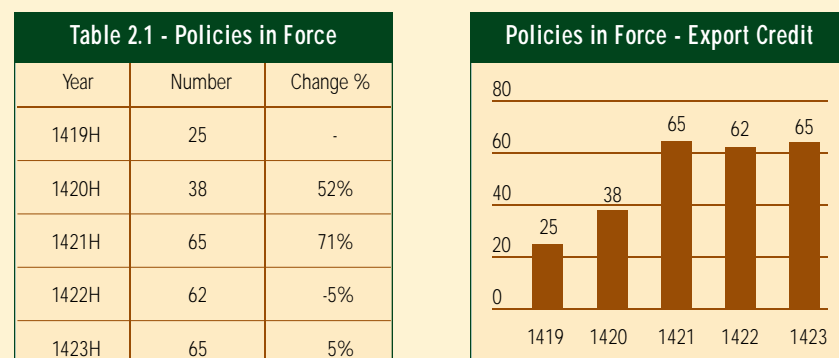


The current total insurance exposure which is the maximum amount the Corporation is liable to pay, reached USD 131 million at the end of 1423H.

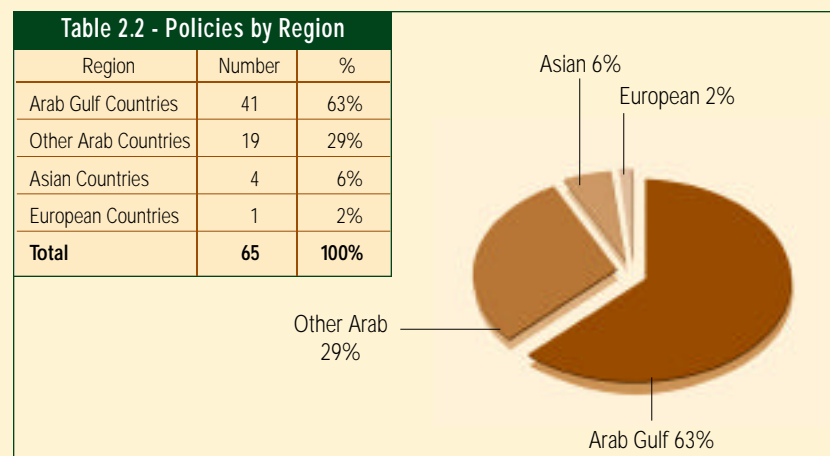
2.2- Export Credit Insurance

a) Policies

During 1423H, the Corporation issued 28 new export credit policies and renewed 48 policies compared to 23 new policies issued and 55 renewed in the year 1422H. As a result, the total number of policies in force as at end of 1423H reached 65 as compared to 62 policies as at end of 1422H, an increase of 5%.

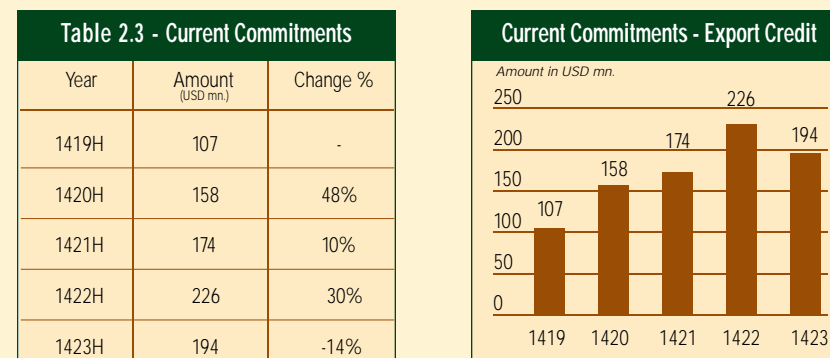


Policies in force were issued to exporters and banks located in different geographical regions. From these, 63% were from Arab Gulf Countries, 29% from Other Arab Countries, 6% from Asian Countries, and 2% from European Countries.

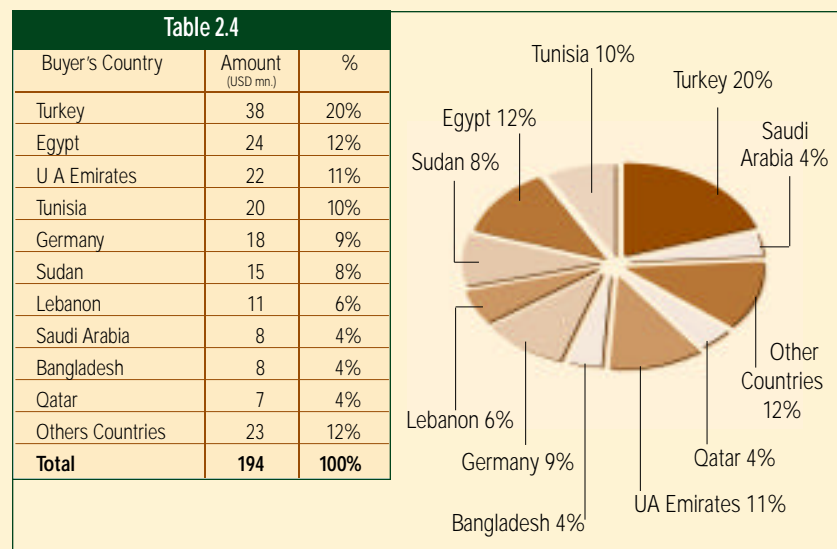


b) Commitments

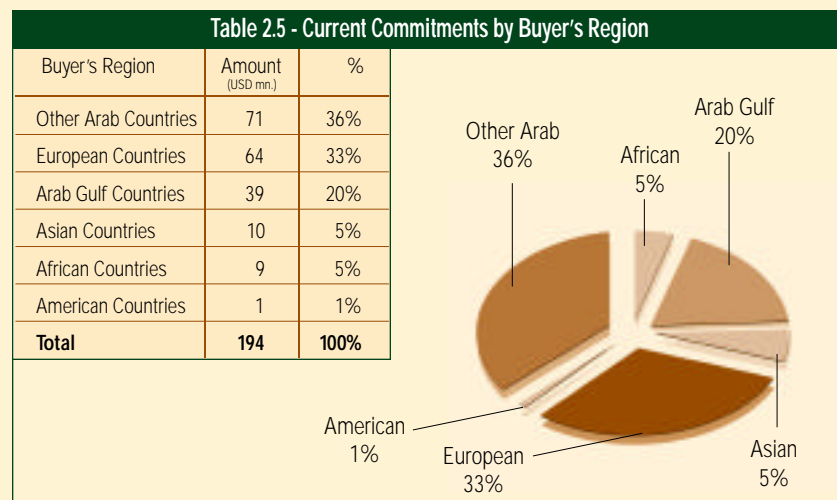
During the year under review ICIEC approved new insurance commitments totaling USD 243 million to cover exports and financing operations, compared to USD 117 million during 1422H, an increase of 108%. The total current commitments as at end of 1423H were USD 194 million compared to USD 226 million as at end of 1422H, a decrease of 14%. This reduction is due to the cancellation of a large proportion of un-utilized commitments, as the Corporation undertook a complete revision of its portfolio.



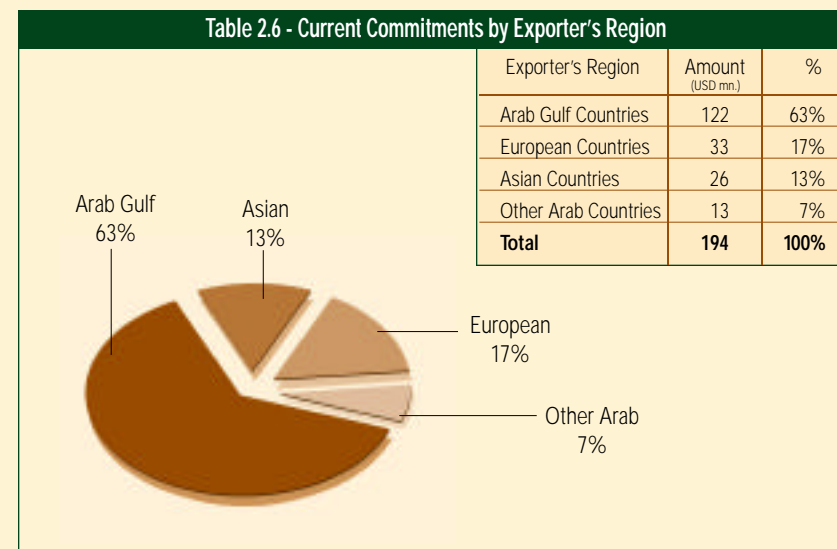
The commitments were to cover the payment risk of buyers located in 20 Member and 25 Non-member countries. 62% of these commitments were approved on buyers in Turkey, Egypt, UAE, Tunisia and Germany.



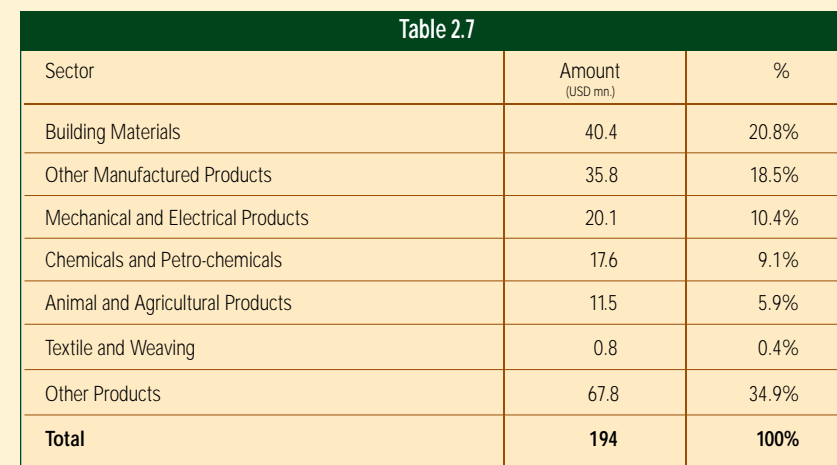
In terms of the regional distribution according to buyers, 36% of the commitments went to buyers in Other Arab Countries, 33% went to European Countries, 20% went to buyers in Arab Gulf Countries, 5% went to Asian Countries, 5% went to African Countries, and 1% to American Countries.



The distribution of ICIEC's commitments according to exporter's region shows Arab Gulf Countries with 63%, European Countries with 17%, Asian Countries with 13%, and Other Arab Countries with 7%.



65% of ICIEC's commitments were concentrated in 5 sectors: Building Materials with 21%, Other Manufactured Goods with 19%, Mechanical and Electrical Products with 10%, Chemicals and Petro-chemicals with 9%, Animal and Agricultural Products with 6%. Other sectors such as Agro-Industrial Products, Textile and Weaving and Other Products including Mining represented 35%.

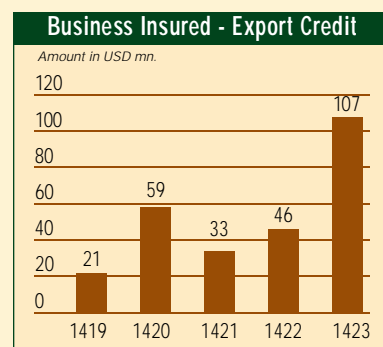


c) Business Insured

The total amount of business insured for the exports made and the financing extended during 1423H was USD 107 million, compared to USD 46 million in 1422H, an increase of 133%. This has occurred as a result of:

- extending ICIEC market to include exports to non-member countries
- a close working relationship with the policyholders to increase commitments' utilization

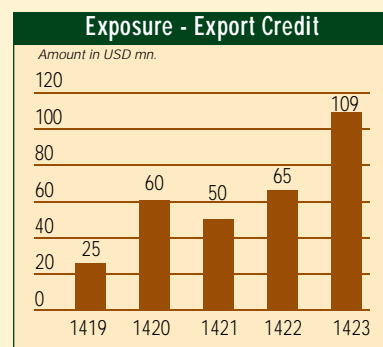
Year	Amount (USD mn.)	Change %
1419H	21	-
1420H	59	181%
1421H	33	-44%
1422H	46	39%
1423H	107	133%



d) Risk Exposure

Total exposure resulting from export credit insurance, as at the end of 1423H, reached USD 109 million compared to USD 65 million as at end of 1422H, representing a 68% increase.

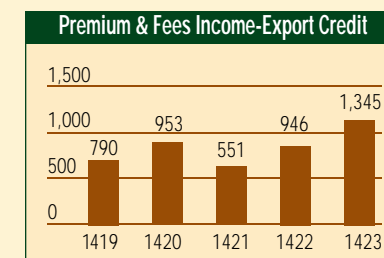
Year	Amount (USD mn.)	Change %
1419H	25	-
1420H	60	140%
1421H	50	-17%
1422H	65	30%
1423H	109	68%



e) Premium Income

Gross premium and fees* income generated from the business insured during 1423H was USD 1.35 million compared to USD 0.95 million in 1422H, an increase of 42%.

Year	Amount (USD 000)	Change %
1419H	790	-
1420H	953	21%
1421H	551	-42%
1422H	946	72%
1423H	1,345	42%



2.3 Investment Insurance

During 1423H, the Corporation received 6 Preliminary Applications for a total provisional investment amount of USD 37 million compared to 4 Preliminary Applications with total amount of USD 47 million during 1422H. One Main Application was received in 1423H, as in the previous year. One new policy was issued for an insured amount of USD 9 million, and another policy was renewed which had an insured amount of USD 13 million. The total premium and fees income generated during the year was USD 0.40 million, an increase of 60% on 1422H.

	1423H	1422H
Investment Insurance		
Policies in Force	2	1
Current Commitments (USD MN)	60	22
Insured Amount (USD MN)	22	13
Investment Insurance Exposure (USD MN)	22	13
Total Premium and Fees Income (USD'000)	398	248

* Premium and fees income reported here may differ from that reported in the final accounts as the latter is subject to certain accounting adjustments.

3. Claims and Recovery*

3.1- Claims Activities' Summary

During 1423H, the Corporation received 3 claims for a total loss amount of USD 2.77 million. This represents a decline of 72% in claims filed during the previous year when ICIEC received 9 claims for an amount of USD 9.93 million. In 1423H, ICIEC paid four claims for a total of USD 4.72 million, representing 90% of losses reported. The figure for 1423H indicates a 103% increase in the amount of claims paid compared to 1422H when ICIEC indemnified 3 policyholders for a total of USD 2.32 million. Recoveries effected for 1423H amount to USD 1.02 million which were realized from defaulted parties located in various Member Countries. The recoveries represent a 57% decrease compared to 1422H when ICIEC recovered USD 2.36 million. The annual gross recovery ratio stands at 22%, compared to 102% the previous year, and 45% on cumulative basis.

3.2- Claims Received

Two claims were lodged with the Corporation during 1423H by policyholders under the Bank Master Policy (BMP) for a total loss of USD 1.85 million. The Corporation issues BMP's mostly to financial institutions, including trade finance windows of The Islamic Development Bank. The third claim was filed under the Comprehensive Short Term Policy (CSTP) for USD 0.92 million: CSTP's are issued to exporters from Member Countries. Defaulted parties were from various Member and Non-member countries.

3.3- Claims Paid

During 1423H, ICIEC paid four claims for a total amount of USD 4.72 million of which USD 3.64 million was paid to a financial institution in a Member Country under the BMP resulting from a default of a buyer in another Member Country. Included in this claim payment is an amount of USD 0.33 million which represents a reinsurer's contribution to the payment of the claim. Hence, net total claims paid amount to USD 4.38 million.

3.4- Recoveries

Recoveries effected during 1423H amount to USD 1.02 million, which were from defaulted parties located in Member Countries. Included in this amount are the policyholders' and reinsurer's shares of the recoveries. Net recoveries were USD 0.82 million.

* Amounts reported here may differ from those recorded in the financial statements as the latter are subject to accounting adjustments

4. Reinsurance Activities

4.1- Outward Reinsurance

During the year under review, considerable progress was achieved towards securing suitable outward reinsurance treaties with first class reinsurers to share risk, increase ICIEC's underwriting capacity and stabilize long-term results. As at end of 1423H, initial negotiations with a leading European reinsurer have taken place resulting in the reinsurer's expression of readiness to offer ICIEC two separate treaties to cover all export credit insurance business. It is expected that the two treaties would be effective by mid-1424H after the precise terms of cover have been finalized.

4.2- Inward Reinsurance

In 1423H, there was an increased demand from Export Credit Agencies (ECAs) in Member Countries for ICIEC's reinsurance support. Ten proposals for cover on individual transactions were received from two ECAs. One reinsurance transaction was accepted during 1423H. In anticipation of future demand, ICIEC is in the process of reviewing existing reinsurance facilities with the view to introduce an integrated inward reinsurance program to assist, and enhance risk-sharing arrangements with ECAs in Member Countries.



ICIEC Participation in the 3rd meeting of the ECAs from OIC member countries - Tunisia 1423H

INSTITUTIONAL DEVELOPMENTS

The Corporation revised its organization structure during 1423H, to utilize its human resources in an efficient and effective manner while responding to the demands of increased business activity.



ICIEC staff with the members of the Consultative Committee

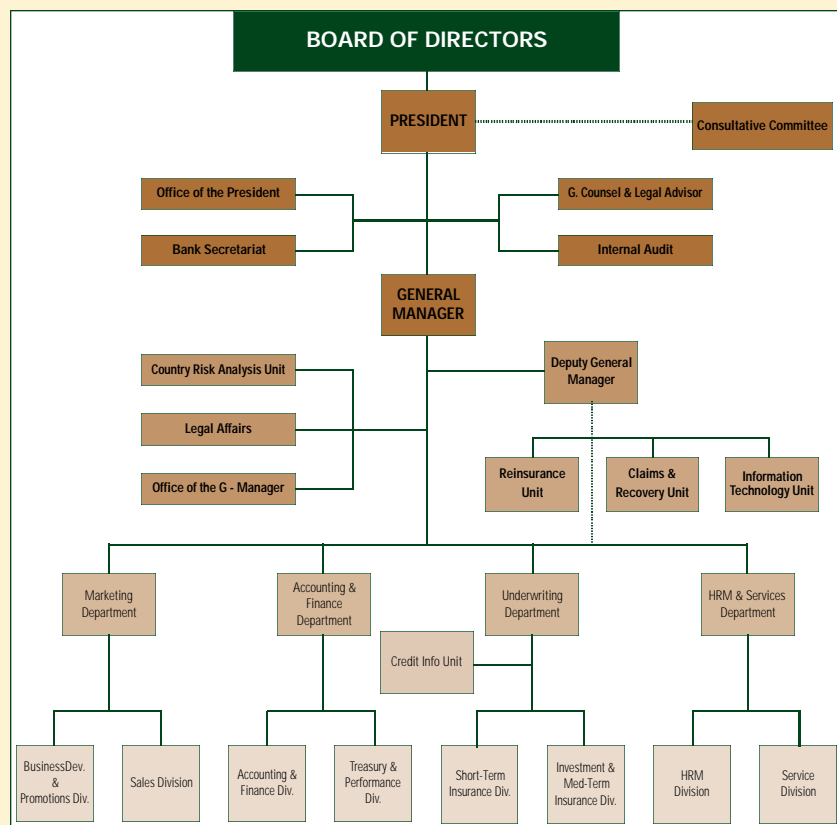


One of the quarterly gatherings of ICIEC, with ICD staff

1- Introduction

ICIEC is a unique multilateral organization, providing export credit and investment insurance and reinsurance services according to Islamic Shariah. To meet the aspirations of its Member Countries, the Corporation had the challenging task of building from scratch an institution that could support the Member Countries in expanding exports as well as investment flows among themselves. At the same time, it had to undertake the mission of creating awareness of the concept and usefulness of such insurance services in the business communities of its Member Countries.

ICIEC has been able to acquire and effectively use the required human and technical resources to develop a world class institution that could meet the expectations of its Member Countries. The year 1423H witnessed substantial achievement of these goals, whereby ICIEC is now positioned to benefit from its significantly developed technical and human infrastructure to meet its objectives.



ICIEC ORGANIZATIONAL CHART

2- Human Resources

The Corporation recognizes that the quality of human resources is the most important factor affecting its efficiency and ultimately its ability to achieve its objectives. Therefore, it exerts continuous efforts to recruit high caliber staff from around the world and to provide them with the best available training facilities in a very supportive and professional work environment. The professional and support staff of ICIEC has been drawn from 14 countries (including 11 Member Countries of ICIEC).

The period from 1419H to 1422H witnessed rapid growth in the staff strength of ICIEC from 18 to 31 as it put together an organizational set up to effectively manage the Corporation's business. The year under review saw a consolidation of such efforts. With an increased volume of business, the staff strength increased to 36 by the end of 1423H.

ICIEC made use of 41 training opportunities to train and develop 29 of its staff members, during 1423H. These training opportunities consisted of technical, computer and language development areas. Specialized technical training was arranged with COFACE (the French Export Credit Agency), as part of the benefits of joining the Coface Credit Alliance.

To utilize its human resources in an efficient and effective manner, and to respond to the demands of the increasing business activities, the Corporation revised its organization structure. The new organization structure provides four major departments and six ancillary units.

3- Technical Systems

ICIEC utilizes various operating systems, including accounting and human resources management, available from the Islamic Development Bank. The recent introduction of Oracle Financials, and other ancillary systems, is expected to improve the operational efficiency of the IDB Group. ICIEC, as a member of the IDB Group, stands to benefit from the same.

Besides the IDB Group systems, the Corporation has indigenously developed an electronic insurance management system to deal with its unique operational requirements. This system is being tested at present, and is expected to be operational during the second quarter of 1424H.

FINANCE AND INVESTMENT SUMMARY

In conformity with its Articles of Agreement, which require ICIEC to maintain a sound financial position, ICIEC is pursuing a medium-term strategy aiming at achieving financial balance in the Policyholder's Fund.



1- Introduction

The year 1423H witnessed an enhanced level of activity in the insurance operations of the Corporation. The premium income for 1423H showed a very healthy growth over the last year's level, while the incurred claims also increased during the year. However, the income from invested funds remained much lower than that achieved last year, owing to the global factors affecting the LIBOR rates. A summary of the financial statements, highlights of the financial performance and structure of the Corporation's invested funds is provided in the following paragraphs. The details are available in the attached financial statements and accompanying notes.

2- Unit of Account

Islamic Dinar (ID) is the unit of account of the Corporation. It is equivalent to the Special Drawing Right (SDR) of the International Monetary Fund (ID 1.00 = USD 1.37 as at the end of 1423H).

3- 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. During the year, there was no change in the membership of ICIEC. As of 30 Dhul Hijja 1423H, IDB and thirty Member Countries had subscribed to a total of 95,240 shares, equivalent of ID 95.24 (USD 130.48) million. The called-up installments amounted to ID 72.62 (USD 99.49) million, out of which ID 71.87 (USD 98.46) million has so far been paid-up. The balance of ID 0.75 (USD 1.03) million is receivable from some subscribing Member Countries.

4- 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) Policyholders' Fund, which contains mainly the insurance contributions and fees.
- b) Shareholders' Fund, which contains the paid-up capital and the associated reserves.

This requirement is reflected in the structure of financial statements of the Corporation.

5- Policyholders' Fund

The 1423H gross premium amounted to ID 1.15 (USD 1.58) million, compared to 1422H amount of ID 0.88 million.

The net premium and fees earned during the year amounted to ID 1.05 (USD 1.44) million, while the operating expenses were ID 2.13 (USD 2.92) million and net claims incurred were ID 0.95 (USD 1.30) million. The resultant net deficit of ID 2.03 (USD 2.78) million, during 1423H, brought the accumulated losses in the Fund to ID 12.93 (USD 17.71) million at the year-end.

6- Shareholders' Fund

The capital contributed by the Member Countries of the Corporation is mainly invested in various Shariah compatible investment instruments through the IDB Treasury Department, acting as the Corporation's Fund Manager. One long-term investment has been carried out directly by the Corporation, in the shares of IDB's Unit Investment Fund. The Shareholders' Fund generated a net surplus of ID 1.55 (USD 2.12) million for the year 1423H. A gross income of ID 2.23 (USD 3.06) million, net ID 2.11 (USD 2.89) million after deducting investment management fees paid to the IDB



ICIEC participated in the 9th summit on Investment and Arab Capital Markets, - Lebanon

Treasury Department amounting to ID 0.12 (USD 0.17) million, was generated from the investments. An amount of ID 0.56 (USD 0.77) million, was reported as loss on exchange for the year. The net surplus has been transferred to the statutory reserve, as mandated under the Articles of Agreement.

7- Net Corporate Financial Result

The overall results of the Corporation reflect a net deficit of ID 0.48 (USD 0.66) million for the year 1423H. This was the result of a net surplus of ID 1.55 (USD 2.12) million in the Shareholders' Fund and a net deficit of ID 2.03 (USD 2.78) million in the Policyholders' Fund. At the end of 1423H, net reserves were ID 15.63 (USD 21.41) million, and total assets of the Corporation stood at ID 91.39 (USD 125.20) million. These assets primarily relate to the Shareholders' Fund.

8- Liquid Funds' Investment Portfolio

The liquid funds of ICIEC have been placed primarily with Islamic banks or Islamic windows of conventional banks, in Shariah compatible short-term commodity placements. The IDB Treasury Department is responsible for managing these funds, as the Corporation's Fund Manager. The total amount of the liquid funds' portfolio, managed by the IDB Treasury Department,



An ICIEC stand in one of the International exhibitions

stood at ID 70.67 (USD 96.82) million at the end of 1423H. The portfolio income for the year was ID 1.59 (USD 2.18) million. The major portion of these investments (ID 38.76 (USD 53.10) million) is put in commodity placements due to mature in about 3 months from the date of acquisition. These placements were done with reputable banks in Bahrain, France and Saudi Arabia. Another (ID 26.50 (USD 36.31) million) reflects fixed deposits, due to mature within 3 months, with reputable banks in Denmark, Germany, Holland and Sweden. The balance of ID 5.41 (USD 7.41) million represents bank balances (mainly JPY) kept in a United Kingdom Bank due to a lack of good investment opportunities.

An amount of ID 3.65 (USD 5.00) million was invested in Malaysian Sukuk (Islamic bonds) during the year, as part of the IDB Group participation in these Sukuk. The returns on these Sukuk come from lease rentals, and are paid to the holders of Sukuk on a six-monthly basis. The repayment of principal will be at the maturity of Sukuk (five years). During 1423H, an income of ID 0.05 (USD 0.07) million, was recorded from this investment.

The syndicated Murabaha deal with IDB matured during the year, and all the principal and profit installments were completely recovered. The income generated from this investment was ID 0.06 (USD 0.08) million during 1423H.

9- Investment in IDB's Unit Investment Fund (UIF)

The Islamic Development Bank manages the IDB Unit Investment Fund, a Trust Fund 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 value of the Corporation's investment in this Fund was ID 12.57 (USD 17.22) million as at the end of 1423H. An amount of ID 0.53 (USD 0.73) million, was received as dividend from UIF, during 1423H.

AUDITOR'S REPORT

Your Excellencies the Chairman and Members of the Board of Governors
The Islamic Corporation for the Insurance of Investment and Export Credit

We have audited the accompanying balance sheet of The Islamic Corporation for the Insurance of Investment and Export Credit as of 30 Dhul Hijjah 1423H (3 March 2003) and the related statements of income, cash flows and changes in shareholders' and policyholders' funds for the year then ended. 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 basis for our opinion.

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 1423H (3 March 2003), and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Corporation's Articles of Agreement in relation to the preparation and presentation of the financial statements.

For Ernst & Young



Dr. Abdullah A. Baeshen
Registration No. 66

21 Jumad Awal 1424H
21 July 2003
Jeddah

BALANCE SHEET

30 Dhul Hijjah 1423H (3 March 2003)

(Islamic Dinars)

ASSETS	Notes	1423	1422
Bank balances	3	32,346,393	271,798
Murabaha commodity placements with banks	4	38,757,204	71,365,565
Accounts receivable	5	397,314	439,643
Claims recoverable	6	3,403,345	4,039,758
Prepaid expenses and other receivables	7	171,004	181,518
Amounts due from Islamic Development Bank	8	-	3,316,812
Non-trading investments	9	16,224,180	13,941,208
Fixed assets	10	89,446	84,298
Total assets		91,388,886	93,640,600
LIABILITIES, SHAREHOLDERS' AND POLICYHOLDERS' FUNDS			
LIABILITIES			
Accounts payable and accruals	11	469,731	756,162
Claims payable	12	881,807	3,297,978
Amounts due to Islamic Development Bank	8	570,937	-
Unearned premiums	13	574,636	308,843
Advance billings	14	445,913	532,245
Provision for unreported claims	15	950,000	632,043
Total liabilities		3,893,024	5,527,271
SHAREHOLDERS' FUND			
Share capital	16	71,870,000	71,807,500
Reserve	17	28,757,750	27,207,159
Fair value reserve		(200,609)	-
Loan to policyholders' fund	18	(13,633,559)	(5,267,120)
Total shareholders' fund		86,793,582	93,747,539
POLICYHOLDERS' FUND			
Accumulated losses	17	(12,931,279)	(10,901,330)
Loan from shareholders' fund	18	13,633,559	5,267,120
Total policyholders' fund		702,280	(5,634,210)
Total liabilities, shareholders' and policyholders' funds		91,388,886	93,640,600

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on July 21st, 2003

INCOME STATEMENT

Year ended 30 Dhul Hijjah 1423H

(3 March 2003)

(Islamic Dinars)

	Notes	1423	1422
SHAREHOLDERS' FUND			
Investment income		2,232,074	3,561,045
Investment management fees paid to Islamic Development Bank	8	(121,652)	(183,197)
		2,110,422	3,377,848
Loss on exchange		(559,831)	(41,452)
Net income for the year		1,550,591	3,336,396
POLICYHOLDERS' FUND			
Premiums earned	19	878,644	637,586
Policy fees earned		179,072	72,093
		1,057,716	709,679
Claims incurred	20	954,339	97,313
Employees' cost		1,727,431	1,654,628
General and administration expenses		373,702	494,641
Fees paid to Islamic Development Bank	8	32,193	46,149
		3,087,665	2,292,731
Loss for the year		(2,029,949)	(1,583,052)
NET CORPORATE (LOSS)/INCOME FOR THE YEAR		(479,358)	1,753,344

STATEMENT OF CASH FLOWS

Year ended 30 Dhul Hijjah 1423H

(3 March 2003)

(Islamic Dinars)

	Notes	1423	1422
OPERATING ACTIVITIES			
Net corporate (loss)/income for the year		(479,358)	1,753,344
Adjustments for:			
Loss on exchange		559,831	41,452
Depreciation		42,031	35,700
		122,504	1,830,496
Changes in operating assets and liabilities:			
Amounts due from/to Islamic Development Bank		3,887,749	9,532,970
Other assets		689,256	(1,835,182)
Liabilities		(2,788,934)	1,539,691
Unearned premium		265,793	(24,735)
Provision for unreported claims		317,957	185,043
Net cash from operating activities		2,494,325	11,228,283
INVESTING ACTIVITIES			
Non-trading investments		(3,043,412)	(193,058)
Murabaha commodity placements with banks		33,351,693	24,870,481
Purchase of fixed assets		(47,179)	(22,143)
Net cash from investing activities		30,261,102	24,655,280
FINANCING ACTIVITY			
Proceeds from issue of share capital		62,500	875,000
Net cash from financing activity		62,500	875,000
INCREASE IN CASH AND CASH EQUIVALENTS	21	32,817,927	36,758,563
Cash and cash equivalents at the beginning of the year		37,555,647	797,084
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	70,373,574	37,555,647

STATEMENT OF CHANGES IN SHAREHOLDERS' AND POLICYHOLDERS' FUNDS

Year ended 30 Dhul Hijjah 1423H
(3 March 2003)
(Islamic Dinars)

	Notes	Capital	Reserve	Fair Value Reserve	Loan to Policyholder's Fund	Total
SHAREHOLDERS' FUND						
Balance at 30 Dhul-Hijjah 1421H		70,932,500	23,870,763	-	(7,209,258)	87,594,005
Subscriptions paid	16	875,000	-	-	-	875,000
Net income for the year	17	-	3,336,396	-	-	3,336,396
Net movement during the year	18	-	-	-	1,942,138	1,942,138
Balance at 30 Dhul Hijjah 1422H		71,807,500	27,207,159	-	(5,267,120)	93,747,539
Subscriptions paid	16	62,500	-	-	-	62,500
Net income for the year	17	-	1,550,591	-	-	1,550,591
Net movement during the year	18	-	-	-	(8,366,439)	(8,366,439)
Net fair value loss from Investment in IDB - Unit Investment Fund		-	-	(200,609)	-	(200,609)
Balance at 30 Dhul Hijjah 1423H		71,870,000	28,757,750	(200,609)	(13,633,559)	86,793,582
POLICYHOLDERS' FUND						
				Accumulated losses	Loan from shareholders' Fund	Total
Balance at 30 Dhul Hijjah 1421H				(9,318,278)	7,209,258	(2,109,020)
Net loss for the year				(1,583,052)	-	(1,583,052)
Net movement during the year	18			-	(1,942,138)	(1,942,138)
Balance at 30 Dhul Hijjah 1422H				(10,901,330)	5,267,120	(5,634,210)
Net loss for the year				(2,029,949)	-	(2,029,949)
Net movement during the year	18			-	8,366,439	8,366,439
Balance at 30 Dhul Hijjah 1423H				(12,931,279)	13,633,559	702,280

NOTES TO FINANCIAL STATEMENTS

30 Dhul Hijjah 1423H (3 March 2003)

1. GENERAL

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 located in Jeddah, Saudi Arabia.

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

The Articles of Agreement of the Corporation came into effect on 24 Safar 1415H and the Corporation commenced operations on 4 Safar 1416H (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 the policyholders' fund shall be covered from the capital by way of a loan to be repaid from future surplus accruing to the policyholders' fund.

The accompanying financial statements are denominated in Islamic Dinars (ID). The value of one Islamic Dinar, which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund, was equal to US \$ 1.370 as of 30 Dhul Hijjah 1423 (1422: US\$ 1.255).

At 30 Dhul Hijjah 1423H the Corporation had 36 employees (1422H: 31 employees).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention.

Premiums earned

Net premiums, after deducting policy acquisition costs, are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent premiums that belong to a period subsequent to the balance sheet date. It is computed as a percentage of direct net premiums at a rate of 50%.

Murabaha commodity placements income

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

Non-trading investments income

Income is recognised when the right to receive payment is established.

Bank commission income

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

Outstanding claims

Outstanding claims comprise the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates. In addition, a provision based on management's judgement and the company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date.

Any difference between the provisions at the balance sheet date and settlements and provisions in the following year is included in the underwriting account for that year.

Murabaha commodity placements with banks

Murabaha commodity placements with banks are stated at total amounts due including mark-up at maturity date less any provision for impairment. The portion of mark-up which has not been accrued to income is considered as unearned income and deducted from the total amounts due including mark-up at maturity date.

Non-trading investments

Non-trading investments are classified as "held to maturity" or "available for sale."

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on investments designated as held to maturity or available for sale are amortised on a systematic basis and taken to the income statement.

Held to maturity

Investments which yield fixed or determinable payments which are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition.

Available for sale

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Unrealised gains and losses are reported as a separate component of the statement of changes in shareholders' fund until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in the statement of changes in shareholders' fund is included in the income statement for the period.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and any impairment loss is recognised in the income statement.

Foreign currencies

The records of the Corporation are maintained in Islamic Dinars (ID). Transactions in other currencies are recorded in Islamic Dinars at the approximate rates of exchange prevailing at the time of transactions. Monetary assets and liabilities in other 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.

Cash and cash equivalents

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

Employees' retirement benefits

The Corporation subscribes to the staff retirement benefit plans of IDB group. The contributions under these plans are paid to IDB, and in return, IDB assumes the obligation for payment of employees' retirement benefits.

3. BANK BALANCES

	1423	1422
Shareholders' fund:		
Current accounts	5,413,217	3,770
Time deposits	26,501,007	-
Policyholders' fund	432,169	268,028
	32,346,393	271,798

4. MURABAHA COMMODITY PLACEMENTS WITH BANKS

	1423	1422
Shareholders' fund:		
Murabaha commodity placements, net:		
With original maturity period of three months or less	38,027,181	37,283,849
With original maturity period of more than three months	730,023	34,081,716
	38,757,204	71,365,565

5. ACCOUNTS RECEIVABLE

Accounts receivable are related to the policyholders' fund.

6. CLAIMS RECOVERABLE

Claims recoverable are related to the policyholders' fund.

7. PREPAID EXPENSES AND OTHER RECEIVABLES

	1423	1422
Shareholders' fund	117,336	112,441
Policyholders' fund	53,668	69,077
	171,004	181,518

8. AMOUNTS DUE FROM/TO ISLAMIC DEVELOPMENT BANK

The amounts due from/(to) IDB are related to the following:

	1423	1422
Shareholders' fund - amounts due from IDB	-	8,672,595
Policyholders' fund - amounts due to IDB	(570,937)	(5,355,783)
	(570,937)	3,316,812

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.

9. NON-TRADING INVESTMENTS

	Held to maturity	Available for sale	1423	1422
Shareholders' fund:				
Quoted investments				
Units in IDB - Unit Investment Fund	-	12,574,065	12,574,065	13,941,208
Sukuk	3,650,115	-	3,650,115	-
Total	3,650,115	12,574,065	16,224,180	13,941,208

10. FIXED ASSETS

The Corporation's fixed assets are related to the policyholders' fund.

11. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals are related to the following:

	1423	1422
<i>Shareholders' liabilities:</i>		
Bank commission	219,362	164,736
Other payable	-	53,587
Accrued expense	-	129,717
	219,362	348,040
<i>Policyholders' liabilities:</i>		
Other payable	86,403	183,714
Accrued expenses	163,966	224,408
	250,369	408,122
	469,731	756,162

12. CLAIMS PAYABLE

Claims payable are related to the policyholders' fund.

13. UNEARNED PREMIUMS

Unearned premiums are related to the policyholders' fund.

14. ADVANCE BILLINGS

Advance billings are related to the policyholders' fund.

15. PROVISION FOR UNREPORTED CLAIMS

Provision for claims estimated as incurred but not reported relates to the policyholders' fund and represents 1% of the total exposure of the Corporation.

16. SHARE CAPITAL

	1423	1422
<i>Authorised capital</i>		
100,000 shares of ID 1,000 each	100,000,000	100,000,000
<i>Issued and subscribed capital</i>		
50,000 shares of ID 1,000 each fully paid	50,000,000	50,000,000
45,240 (1422 H: 45,240) shares of ID 1,000 each, of which ID 500 has been called up	22,620,000	22,620,000
Less: subscriptions receivable	(750,000)	(812,500)
	71,870,000	71,807,500

The remainder of the uncalled subscriptions on issued capital is 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.

17. RESERVE

In accordance with Article 29 of Chapter IV of the Corporation's Articles of Agreement, all profits accruing to the shareholders' fund as well as the surplus accruing to the policyholders' fund shall be allocated to reserves, until such reserves equal 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 the surplus accruing to the policyholders' fund and the net income accruing to the shareholders' fund may be distributed or allocated to reserves.

18. LOAN TO POLICYHOLDERS' FUND FROM SHAREHOLDERS' FUND

In accordance with clause 13 (3) of the Articles of Agreement, the deficit in the policyholders' fund has been covered by a loan from the shareholders' fund. The loan is recoverable only from the future surplus accruing to the policyholders' fund.

Loan from shareholders' fund is comprised of the following:

	1423	1422
<i>Policyholders' fund:</i>		
Total assets	4,629,533	4,900,804
Total liabilities	(3,665,616)	(10,535,014)
Accumulated losses	12,669,642	10,901,330
<i>Net deficit in policyholders' fund</i>	13,633,559	5,267,120

19. PREMIUMS EARNED

	1423	1422
Gross premiums	1,151,968	883,618
Advance billings at the end of the year	(445,913)	(532,245)
Advance billings at the beginning of the year	532,245	326,186
	1,238,300	677,559
Reinsurance premiums	(89,028)	(69,543)
<i>Net premiums</i>	1,149,272	608,016
Unearned premiums at the beginning of the year	304,008	333,578
Unearned premiums at the end of the year	(574,636)	(304,008)
	878,644	637,586

20. CLAIMS INCURRED

	1423	1422
Gross claims	1,109,265	3,530,777
Reinsurance claims	-	(256,966)
Recoveries, net (see note below)	1,109,265 (472,883)	3,273,811 (3,361,541)
Net claims	636,382	(87,730)
Provision of unreported claims at the beginning of the year	(632,043)	(447,000)
Provision of unreported claims at the end of the year	950,000	632,043
	954,339	97,313

Recoveries represent amounts collected or collectible by the Corporation in respect of debts which were the subject of insurance claims during the year, net of the corresponding reinsurers' share (1423H: Nil, 1422H: ID 145,212). Any revisions to previous estimates of amounts considered to be collectible are adjusted in the year in which such estimates are revised.

21. CASH AND CASH EQUIVALENTS

	1423	1422
Bank balances	32,346,393	271,798
Murabaha commodity placements with banks	38,027,181	37,283,849
	70,373,574	37,555,647

22. 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.

23. RISK MANAGEMENT

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

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Corporation the maximum credit risk exposure to the Corporation is the carrying value as disclosed in the balance sheet.

The financial instruments which subject the Corporation to credit risk principally consist of bank balances and murabaha commodity placements with banks.

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

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Corporation's investment portfolio is denominated in Islamic Dinars and is held in major stable currencies, in line with the composition of the Islamic Dinars basket, namely U.S. Dollars, Sterling Pounds, Euro and Japanese Yen. As such, the Corporation is not exposed to any material currency risk.

c) Liquidity risk

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

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

d) Geographical risk

The Corporation carries on business mainly with member countries in Africa and Asia. Due to the relatively high country risk of some of the countries in these continents, the Corporation is exposed to potential losses arising from large insurance claims. The maximum theoretical geographical risk, based on the declarations made by exporters during 1423H, amounts to ID 94.9 million (ID 63.2 million in 1422H). The Corporation minimizes any detrimental impact on its assets, due to the realization of such risks, by setting exposure limits for each country and monitoring outstanding exposures in addition to maintaining reserves (Notes 15 and 20).

24. ZAKAT AND TAX TREATMENT

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

25. COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform with the presentation in the current year.

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

(an affiliate of the Islamic Development Bank)

Address:

*P.O. Box 15722 Jeddah 21454
Kingdom of Saudi Arabia*

*Telephone (General): (966-2) 644 5666
(Marketing Dept.) (966-2) 646 7594/7588/7596/7608*

*Fax (Management): (966-2) 637 9504
(Operations): (966-2) 644 3447
(Finance and Service): (966-2) 637 9755*

E-mail: iciec@isdb.org.sa

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