

المؤسسة العربية لضمان
الإستثمار وائتمان الصادرات
The Arab Investment & Export
Credit Guarantee Corporation



التقرير السنوي 2020



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The Arab Investment and Export Credit Guarantee Corporation (Dhaman) is an autonomous Arab regional organization established in 1974, in accordance with a multilateral convention signed by 21 Arab states, deposited with the Ministry of Foreign Affairs in the State of Kuwait. Current shareholding membership comprises of all Arab states, and four Arab international organizations. Dhaman commenced its operations in mid-1975, through its Headquarters in Kuwait and its regional office in Riyadh- Saudi Arabia.

OBJECTIVES:

In accordance with its establishment convention, Dhaman's two key objectives are:

- To provide insurance coverage against non-commercial risks for inter-Arab and foreign investments in development projects, in the Arab countries. Furthermore, Dhaman provides insurance against commercial and non-commercial risks, for inter-Arab and worldwide Arab export credits.
- To raise awareness of investments in Arab countries by means of a group of complementary activities and ancillary services, aiming at enhancing the business environment & investment climate; identifying available investment opportunities, and developing human capital in Arab countries.

In order to meet its objectives, Dhaman provides cover against non-commercial risks for new and existing foreign direct investments in Arab countries. Both Arab and non-Arab investors are eligible for coverage. Dhaman also provides trade credit insurance products to protect Arab companies exporting worldwide against both non-commercial and commercial risks. Domestic sales are also eligible to cover against commercial risks. Non-Arab companies selling commodities, equipment and strategic goods to Arab countries can also apply for Dhaman's cover against political and commercial risks. Depending on the covered risk, Dhaman pays compensation varying between 80% and 100% of the loss within one to six months from the date of such loss. Dhaman also carries out research and studies, provides technical assistance and consultancy services in the fields of its competence.

In March, 2021, Standard & Poor's Rating Services reaffirmed its "AA-" rating of Dhaman with Negative Outlook, with respect to Dhaman's counterparty credit rating as well as its financial strength Rating as an insurer, reflecting both Dhaman's very strong business and financial profile.

Headquarters

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Dhaman's Structure

The Arab Investment and Export Credit Guarantee Corporation (Dhaman) consists of the following organizational structure:

1. The Shareholders' Council (General Assembly)

The Shareholders Council is the highest authority of Dhaman. It represents all members (states and entities) and fully entitled to achieve Dhaman's objectives. The Council, among other things, formulates general policies governing Dhaman's activities, interprets and amends provisions of the establishment Convention, and appoints members of the Board of Directors and the Director-General.

2. The Board of Directors

The Board of Directors consists of nine part-time members, appointed by the Shareholders Council for a three-year term. The Board elects its Chairman from among its members.

Within its authorities provided in the Convention, the Board prepares the financial and administrative rules for Dhaman, approves the operations and research programs suggested by the Director-General, and pursues its implementation. It determines utilization of Dhaman's capital. It also sets the annual budget and presents the annual report including Dhaman's activities to the Shareholders' Council. Appointing directors of departments and departments and determining their salaries All the other competences stipulated in the Institution convention.

The current members of the Board of Directors:

1. H.E. Dr. Naif Bin Abdul Rahman Al-Shammari	Chairman
2. H.E. Mr. Jamal Abdullah Farraj Alghanim	Member
3. H.E. Mrs. Mariam Mohamed Alameeri	Member
4. H.E. Dr. Mukhtar Elhadi Eltaweel	Member
5. H.E. Mr. Khaled Mohammed Al-Suwaidi	Member
6. H.E. Mrs. Faiza Frad	Member
7. H.E. Dr. Ali Abdul Qadir	Member
8. H.E. Dr. Hassan Hamdan	Member
9. H.E. Mr. Anis Bin Awad Baharithah	Member

3. The Director-General

H.E. Mr. Abdullah Ahmed AlSabeeh

4. Professional and Administrative Staff



**His Excellency the Chairman of the 48th Session of the Shareholders' Council
The Arab Investment and Export Credit Guarantee Corporation, (Dhaman)**

In accordance with Article (12/1) (e) of the Arab Investment and Export Credit Guarantee Corporation's Convention, it is my pleasure to submit to your honorable Council for consideration the Annual Report of the Board of Directors on Dhaman's activity for the year 2020.

Please accept my highest consideration,

Dr. Naif Bin Abdul Rahman Al-Shammari
Chairman of the Board of Directors

State of Kuwait, May 2021



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Note: The complete English version of this Annual Report is downloadable from our website at:

www.dhaman.org



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الإستثمار وائتمان الصادرات
The Arab Investment & Export
Credit Guarantee Corporation



The Arab Investment & Export Credit Guarantee Corporation
An Arab Corporation with a Special Independent Legal Status

FINANCIAL STATEMENTS
31 DECEMBER 2020



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INDEPENDENT AUDITOR'S REPORT TO THE CHAIRMAN AND MEMBERS OF THE ARAB INVESTMENT & EXPORT CREDIT GUARANTEE CORPORATION SHAREHOLDERS COUNCIL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Arab Investment and Export Credit Guarantee Corporation (the "Corporation"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE CHAIRMAN AND MEMBERS OF THE ARAB INVESTMENT & EXPORT CREDIT GUARANTEE CORPORATION SHAREHOLDERS COUNCIL (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ABDULKARIM ALSAMDAN
LICENCE NO. 208 A
EY
(AL-AIBAN, AL- OSAIMI & PARTNERS)

2 March 2021
Kuwait



The Arab Investment & Export Credit Guarantee Corporation
An Arab Corporation with a Special Independent Legal Status

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 KD	2019 KD
REVENUES			
Gross guarantee premiums subscribed		1,746,188	2,171,579
Net technical charges		(671,817)	20,293
Gross guarantee premiums		1,074,371	2,191,872
Less: guarantee premiums ceded		(413,635)	(632,231)
Net guarantee premiums		660,736	1,559,641
Movement in unearned premiums reserve	3	122,397	(104,797)
Movement in outstanding claims reserve	3	(120,726)	(507,999)
Net guarantee premiums earned		662,407	946,845
Revenues and other commissions		(4,120)	(40,574)
Guarantee results		658,287	906,271
Interest income	4	4,214,777	4,956,616
Net investment income from financial assets	5	218,924	2,873,034
Foreign exchange gain (loss)		546,572	(38,716)
Other income		8,250	2,200
TOTAL REVENUES		5,646,810	8,699,405
EXPENSES			
Salaries, wages and benefits		(2,297,415)	(2,239,229)
Administrative expense		(540,412)	(763,723)
Depreciation expense		(83,729)	(81,576)
Provisions and others		(33,742)	(49,089)
TOTAL EXPENSES		(2,955,298)	(3,133,617)
PROFIT FOR THE YEAR		2,691,512	5,565,788
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,691,512	5,565,788

■ The attached notes 1 to 18 form part of these financial statements..



The Arab Investment & Export Credit Guarantee Corporation
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STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 KD	2019 KD
ASSETS			
Cash and cash equivalents	6	8,521,259	1,771,753
Deposits and wakala with financial institutions	7	78,410,269	83,798,257
Financial assets at fair value through profit or loss	8	58,712,574	59,645,332
Financial instruments at amortised cost	9	11,648,086	8,828,018
Accounts receivable and other assets		1,372,570	2,118,836
Property and equipment	10	933,907	972,269
TOTAL ASSETS		159,598,665	157,134,465
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and other liabilities		2,063,458	1,851,611
Insurance technical reserves	3	2,048,626	2,062,438
Obligations under finance lease	10	1,501,175	1,570,834
Due to insurance and reinsurance companies		835,389	835,389
Employees' savings and end of service benefits		2,344,685	2,700,373
Total liabilities		8,793,333	9,020,645
Equity			
Paid-up capital	11	91,102,666	91,102,666
General reserve	12	59,702,666	57,011,154
Total equity		150,805,332	148,113,820
Total liabilities and equity		159,598,665	157,134,465

■ The attached notes 1 to 18 form part of these financial statements..



The Arab Investment & Export Credit Guarantee Corporation
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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	<i>Paid-up capital KD</i>	<i>General reserve KD</i>	<i>Total KD</i>
Balance as at 1 January 2020	91,102,666	57,011,154	148,113,820
Total comprehensive income for the year	-	2,691,512	2,691,512
Balance as at 31 December 2020	91,102,666	59,702,666	150,805,332

	<i>Paid-up capital KD</i>	<i>General reserve KD</i>	<i>Total KD</i>
Balance as at 1 January 2019	91,102,666	51,445,366	142,548,032
Total comprehensive income for the year	-	5,565,788	5,565,788
Balance as at 31 December 2019	91,102,666	57,011,154	148,113,820

■ The attached notes 1 to 18 form part of these financial statements..



The Arab Investment & Export Credit Guarantee Corporation
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STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 KD	2019 KD
OPERATING ACTIVITIES			
Profit for the year		2,691,512	5,565,788
<i>Adjustments for:</i>			
Interest income	4	(4,214,777)	(4,956,616)
Net investment income from financial assets		(367,696)	(2,771,301)
Gain on sale of property and equipment		(8,250)	(2,200)
Depreciation expense		83,729	81,576
Finance lease charges		109,958	114,516
Employees' savings and end of service benefits		452,665	652,567
		<u>(1,252,859)</u>	<u>(1,315,670)</u>
Changes in operating assets and liabilities:			
Net movement in financial assets at fair value through profit or loss		(102,726)	36,309,923
Recoverable claims		-	405,640
Accounts receivable and other assets		746,266	(556,025)
Accounts payable and other liabilities		211,847	1,392,851
Insurance technical reserves		(13,812)	499,068
		<u>(411,284)</u>	<u>36,735,787</u>
Employees' savings and end of service benefits paid		(808,353)	(804,598)
		<u>(1,219,637)</u>	<u>35,931,189</u>
INVESTING ACTIVITIES			
Net movement in deposits and wakala with financial institutions		5,387,988	(42,995,645)
Purchase of financial instruments at amortised cost		(2,820,068)	(5,950,244)
Proceeds from sale of financial instruments at amortised cost		-	2,641,589
Purchase of items of property and equipment		(37,117)	(10,957)
Dividend income received		1,403,180	1,185,675
Interest income received		4,214,777	4,956,616
		<u>8,148,760</u>	<u>(40,172,966)</u>
FINANCING ACTIVITY			
Payment of finance lease obligations		(179,617)	(179,617)
		<u>(179,617)</u>	<u>(179,617)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as at 1 January		1,771,753	6,193,147
		<u>8,521,259</u>	<u>1,771,753</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	6	<u>8,521,259</u>	<u>1,771,753</u>

■ The attached notes 1 to 18 form part of these financial statements..



The Arab Investment & Export Credit Guarantee Corporation An Arab Corporation with a Special Independent Legal Status

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

1 CORPORATE INFORMATION AND ACTIVITIES

The Corporation is an Arab Corporation with a special independent legal status that was incorporated in accordance with a convention between Arab member states. The main objectives of the Corporation are to provide guarantee for Inter-Arab investments against non-commercial risks and trade financing among member countries for both commercial and non-commercial risks as defined in its convention. The Corporation also promotes investments and trade among its member states.

The Corporation is located in Kuwait and its registered address is at P.O. Box 23568 Safat, 13096 – State of Kuwait.

The financial statements were authorised for issue by the Corporation's Board of Directors on 2 March 2021.

2.1 BASIS OF PREPARATION

Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss that have been measured at fair value.

The financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Corporation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Corporation's financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Corporation has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial information of the Corporation, but may impact future periods should the Corporation enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial information of the Corporation as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial information of, nor is there expected to be any future impact to the Corporation.



The Arab Investment & Export Credit Guarantee Corporation An Arab Corporation with a Special Independent Legal Status

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial information of the Corporation.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued, but not yet effective, up to the date of issuance of the Corporation's financial statements are disclosed below. The Corporation intends to adopt those standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Corporation will apply these amendments when they become effective.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Net guarantee premiums

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.

Commissions earned and paid

Commissions earned and paid are recognised at the time of recognition of the related premiums.

Policy issuance fees

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Realised gains and losses

Realised gains and losses include gain and loss on financial assets and are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transactions.



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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance leases

Assets acquired under finance lease agreements are capitalised in the statement of financial position and are depreciated over their useful economic lives. A corresponding liability is recorded in the statement of financial position for rental obligations under the finance lease. The finance charge is allocated over the period of the lease so as to produce a constant rate of interest on the remaining obligation.

Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of comprehensive income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Corporation and those not reported at the reporting date.

The Corporation generally estimates its claims based on previous experience. The provision is based on management's judgement and the Corporation's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Reinsurance

In order to minimise financial exposure from large claims the Corporation enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract.

Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

At each reporting date, the Corporation assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Corporation makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Corporation from its obligations to policyholders.

The Corporation also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	40 years
Motor vehicles	5 years
Furniture and equipment	1 year

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.



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NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Impairment of non-financial assets

The Corporation assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Corporation bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Corporation's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.



The Arab Investment & Export Credit Guarantee Corporation An Arab Corporation with a Special Independent Legal Status

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Corporation's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient, the Corporation initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Corporation's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Corporation commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Corporation's financial assets at amortised cost includes cash and cash equivalents, deposits and wakala with financial institutions, financial instruments at amortised costs, recoverable claims, accounts receivable and other assets and cash and cash equivalents.



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2.4 SUMMARY OF significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Impairment of financial assets

The Corporation recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Corporation applies a simplified approach in calculating ECLs. Therefore, the Corporation does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Corporation considers a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Corporation. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Corporation of similar financial assets) is primarily derecognised (i.e., removed from the Corporation's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Corporation continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Corporation also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Corporation's financial liabilities include accounts payable and accruals, due to insurance and reinsurance companies and obligations under finance lease.

Subsequent measurement

Accounts payable and other liabilities

Accounts payable and other liabilities are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

Due to insurance and reinsurance companies

Due to insurance and reinsurance companies are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Current versus non-current classification

The Corporation presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Corporation classifies all other liabilities as non-current.



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Recoverable claims

In accordance with the Corporation's convention, claims incurred and paid by the Corporation in compensating insured individuals and entities against non-commercial risks are reimbursable from the respective member state. The paid claims related to the commercial risks are the responsibility of the importer and subject to reinsurance arrangements. Therefore, the recoverable claims are recognized at nominal value.

Outstanding claims reserve

Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the reporting date. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates.

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

Unearned premium reserve

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and deposits and wakala with financial institutions with an original maturity of three months or less.



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2.4 SUMMARY OF significant accounting policies (continued)

Interest income

Interest income is recognised as the interest accrues using effective interest method.

Dividend income

Dividend income is recognised when the Corporation's right to receive the payment is established, which is generally when shareholders approve the dividend.

Employees' savings

As for the employee benefit savings plan, the employees' savings represent the share deducted from their salaries in addition to the benefits recorded by the Corporation on the net employees' rights (savings balance and end of service indemnity) in accordance with the executive resolution no. 10 of 2005 approved by the General Manager of the Corporation.

Employees' end of service benefits

The end of service indemnity for the General Manager is calculated in accordance with article No. 6 of the resolution made by the Arab Ministers of Finance and Economy in Abu Dhabi. The end of service indemnity for other employees is based on employees' salaries and accumulated periods of service or on the basis of the employment contracts, where such contracts provide extra benefits.

Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Contingencies

Contingent liabilities are not recognised in the statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Foreign currencies

The Corporation's financial statements are presented in Kuwaiti Dinars, which is also the Corporation's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Corporation at their respective functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Corporation's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.



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2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements

In the process of applying the Corporation's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment

The management of the Corporation determines the estimated useful lives of its property equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted when the management believes the useful lives differ from previous estimates.

Impairment of property and equipment

A decline in the value of property and equipment could have a significant impact on the amounts recognised in the financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value that would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from the internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Impairment of financial assets at amortised cost

The impairment provision for financial assets is based on assumptions about risk of default and expected loss rates. The Corporation uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Corporation's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Guarantee contract liabilities

For guarantee contracts, estimates have to be made for the expected ultimate cost of claims reported at the reporting date, outstanding claims reserve. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of guarantee policies.

The outstanding claims reserve is based on estimates of the loss which will eventually be payable on each unpaid claim, established by management in the light of available information and on past experience and modified for changes in current conditions, increased exposure, rising claims cost and the severity and frequency of recent claims as appropriate. Although the Corporation's management believes that the value of the reserve is sufficient, the final liability may be exceed or reduced below the amounts which have been provided.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.



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3 INSURANCE TECHNICAL RESERVES

	2020 KD	2019 KD
<u>Unearned premium reserve movement:</u>		
Unearned premiums reserve as at the beginning of the year	212,101	107,304
Unearned premiums reserve at the end of the year	<u>(89,704)</u>	<u>(212,101)</u>
	<u>122,397</u>	<u>(104,797)</u>
<u>Outstanding claims reserve movement:</u>		
Outstanding claims reserve as at the beginning of the year	1,850,337	1,456,066
Claims paid during the year	<u>(12,141)</u>	<u>(113,728)</u>
Outstanding claims reserve as at the end of the year	<u>(1,958,922)</u>	<u>(1,850,337)</u>
	<u>(120,726)</u>	<u>(507,999)</u>
<u>As at 31 December:</u>		
Unearned premiums reserve	89,704	212,101
Outstanding claims reserve	<u>1,958,922</u>	<u>1,850,337</u>
	<u>2,048,626</u>	<u>2,062,438</u>

As at 31 December, the Corporation estimates the outstanding claims reserve for the claims occurred during the year based on a case by case basis, taking into consideration the nature of the insured risk.

4 INTEREST INCOME

	2020 KD	2019 KD
Interest income from deposits and wakala with financial institutions	2,005,692	2,292,048
Interest income from financial instruments (bonds) carried at fair value through profit or loss	1,598,881	2,165,127
Interest income from financial instruments (bonds) carried at amortised cost	610,204	499,441
	<u>4,214,777</u>	<u>4,956,616</u>

5 NET INVESTMENT INCOME FROM FINANCIAL ASSETS

	2020 KD	2019 KD
<u>Financial assets at fair value through profit or loss:</u>		
Realised gain on sale of financial assets at fair value through profit or loss	98,765	2,785,649
Unrealised loss on financial assets at fair value through profit or loss	<u>(1,134,249)</u>	<u>(1,119,464)</u>
Dividend income	1,403,180	1,185,675
Management fees	<u>(147,090)</u>	<u>(59,385)</u>
	<u>220,606</u>	<u>2,792,475</u>
<u>Financial instruments at amortised cost:</u>		
Expected credit losses	<u>(21,700)</u>	<u>(29,083)</u>
Provision of amortisation bonds	20,018	2,422
Realised gain on sale of financial instruments at amortised cost	-	107,220
	<u>(1,682)</u>	<u>80,559</u>
	<u>218,924</u>	<u>2,873,034</u>



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6 CASH AND CASH EQUIVALENTS

	2020 KD	2019 KD
Cash on hand and bank balances	2,054,539	1,771,753
Deposits and wakala with financial institutions *	6,466,720	-
	<u>8,521,259</u>	<u>1,771,753</u>

*These represent deposits and wakala with financial institutions with maturity of less than 3 months held with local and foreign banks. The average effective interest rate on these deposits ranges between 0.4% to 1.2% as at 31 December 2020 (2019: Nil).

7 DEPOSITS and wakala with financial institutions

	2020 KD	2019 KD
Deposits and wakala with financial institutions	78,448,386	83,833,485
Expected credit losses	(38,117)	(35,228)
	<u>78,410,269</u>	<u>83,798,257</u>

These represent deposits and wakala with financial institutions with maturity of more than 3 months held with local and foreign banks. The average effective interest rate on these deposits ranges between 1.2% to 3.7% as at 31 December 2020 (2019: 2.30% to 3.65%).

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 KD	2019 KD
Local quoted shares	3,685,860	2,921,100
Managed funds	28,723,607	19,078,990
Debt instruments (bonds)	24,770,534	36,135,648
Investment in Arab Trade Finance Program	861,264	861,264
Investment in Tunisian External Trade Insurance Company	671,309	648,330
	<u>58,712,574</u>	<u>59,645,332</u>

As at 31 December 2020, equity shares are measured at fair value. Fair value hierarchy disclosures are presented in Note 15.

The average effective interest rates of bonds are ranging between 2% to 8.4% as at 31 December 2020 (2019: 2% to 8.40%).

Investments in Arab Trade Finance Program represent 0.25% of the capital of the Arab Trade Finance Program (2019: 0.25%), which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade.

The Corporation holds 23.18% of the ordinary share capital of Tunisian External Trade Insurance Company. The directors of the Corporation do not consider that the Corporation is able to exercise significant influence over the Tunisian Company as the main shareholder is the Tunisian government, which is responsible for the management.



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9 FINANCIAL INSTRUMENTS AT AMORTISED COST

	2020 KD	2019 KD
Debt instruments (bonds)	11,695,983	8,859,527
Expected credit losses	(47,897)	(31,509)
	<u>11,648,086</u>	<u>8,828,018</u>

The average effective interest rates of bonds are ranging between 4.25% to 9.75% as at 31 December 2020 (2019: 4.25% to 9.75%).

10 PROPERTY AND EQUIPMENT

Property and equipment are substantially represented in the carrying amount of the Corporation's premises, which were acquired under a finance lease based on the space allocated to and occupied by the Corporation in the Joint Building of the Arab Organisations. The premises are being depreciated over the 40-year lease term and the related depreciation charge for the year amounted to KD 67,648 (2019: KD 67,648).

The obligations under finance lease are mature as follows:

	2020 KD	2019 KD
Within one year	179,617	179,617
From one to five years	898,085	898,085
Over five years	1,257,319	1,436,936
Due to Arab Fund for Economic and Social Development	2,335,021	2,514,638
Less: Finance charge allocated to future periods	(833,846)	(943,804)
	<u>1,501,175</u>	<u>1,570,834</u>



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11 Paid-up capital

At 31 December, the capital of the Corporation and the share of each member state and other authorities are as follows:

	<i>Issued</i>		<i>Paid</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>A. Member State:</i>				
The Hashemite Kingdom of Jordan	788,000	788,000	788,000	788,000
United Arab Emirates	6,510,000	6,510,000	6,510,000	6,510,000
Kingdom of Bahrain	750,000	750,000	750,000	750,000
The Republic of Tunisia	1,875,000	1,875,000	1,875,000	1,875,000
Peoples' Democratic Republic of Algeria	1,875,000	1,875,000	1,875,000	1,875,000
Republic of Djibouti	300,000	300,000	200,000	200,000
Kingdom of Saudi Arabia	8,610,000	8,610,000	8,610,000	8,610,000
Republic of Sudan	1,826,932	1,826,932	1,826,931	1,826,931
Syrian Arab Republic	750,000	750,000	500,000	500,000
Somali Democratic Republic	87,735	87,735	58,735	58,735
Republic of Iraq	750,000	750,000	750,000	750,000
Sultanate of Oman	1,125,000	1,125,000	1,125,000	1,125,000
State of Palestine	750,000	750,000	750,000	750,000
State of Qatar	5,985,000	5,985,000	5,985,000	5,985,000
State of Kuwait	7,485,000	7,485,000	7,485,000	7,485,000
Republic of Lebanon	750,000	750,000	750,000	750,000
State of Libya	6,735,000	6,735,000	6,735,000	6,735,000
Arab Republic of Egypt	1,875,000	1,875,000	1,875,000	1,875,000
Kingdom of Morocco	3,000,000	3,000,000	3,000,000	3,000,000
The Islamic Republic of Mauritania	750,000	750,000	750,000	750,000
The Republic of Yemen	1,500,000	1,500,000	1,000,000	1,000,000
	54,077,667	54,077,667	53,198,666	53,198,666
<i>B. Arab Financial Authorities:</i>				
Arab Fund for Economic and Social Development	22,804,800	22,804,800	19,003,800	19,003,800
Arab Monetary Fund	12,177,000	12,177,000	10,148,000	10,148,000
BADEA	7,659,960	7,659,960	7,659,960	7,659,960
Arab Authority for Agricultural Investment and Development	1,638,240	1,638,240	1,092,240	1,092,240
	44,280,000	44,280,000	37,904,000	37,904,000
	98,357,667	98,357,667	91,102,666	91,102,666

At the Members' Council annual meeting held on 2-3 April 2013, it was approved to increase the issued capital by 50% to be allocated proportionally to each member's percentage of ownership in the issued capital as of 31 December 2012. Such increase shall be settled in five equal annual instalments starting from the date of the meeting. In addition, the council of the shareholders has been notified of the desire of five member states to make an optional increase of their shares by KD 14,925,000 in the Corporation's capital in order to maintain a permanent seat for them in the Board of Directors.

12 GENERAL RESERVE

Article 24 of the Corporation's convention states that "Net income realized from the Corporation's operations is to be accumulated to establish a reserve equal to three times the capital", after which time, the council shall decide the manner of utilisation or distribution of the realized annual profits, provided that no more than 10% of such profits shall be distributed and that the distribution shall be made in proportion to the share of each member in the capital of the Corporation.



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13 CONTINGENCIES AND CAPITAL COMMITMENTS

Contingencies

As at 31 December 2020, the total outstanding commitment for the executed guarantee contracts amounted to KD 95,049,664 (2019: KD 142,000,807).

In the opinion of management and in accordance with the Corporation's business practices, all litigations and claims are the ultimate responsibility of the importer in the case of commercial risks and the ultimate responsibility of the respective member state in the case of non-commercial risks. Accordingly, no provision has been made in the accompanying financial statements in respect of the matters discussed above.

Capital commitments

As at 31 December 2020, the Corporation has capital commitments of KD Nil (2019: KD 1,516,645).

14 RELATED PARTY TRANSACTIONS

Related parties represent members states. In the normal course of business. No amounts were received during the financial year ended 31 December 2020 against management fees of fiduciary assets in favour of members states (2019: Nil). Non-commercial risks related to guarantees granted by the Corporation are guaranteed by members states.

15 FAIR VALUE MEASUREMENT

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

		<i>Fair value measurement using</i>			
31 December 2020	<i>Date of valuation</i>	Total KD	<i>Quoted prices in active markets (Level 1) KD</i>	<i>Significant observable inputs (Level 2) KD</i>	<i>Significant unobservable inputs (Level 3) KD</i>
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted shares	31 December 2020	3,685,860	3,685,860	-	-
Managed funds	31 December 2020	28,723,607	-	8,182,849	20,540,758
Debt instruments (bonds)	31 December 2020	24,770,534	-	11,190,004	13,580,530
Investment in Arab Trade Finance Program	31 December 2020	861,264	-	-	861,264
Investments in Tunisian External Trade Insurance Company	31 December 2020	671,309	-	-	671,309
		<u>58,712,574</u>	<u>3,685,860</u>	<u>19,372,853</u>	<u>35,653,861</u>



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15 FAIR VALUE MEASUREMENT (continued)

		<i>Fair value measurement using</i>			
			<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
31 December 2019	<i>Date of valuation</i>	Total KD	<i>KD</i>	<i>KD</i>	<i>KD</i>
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted shares	31 December 2019	2,921,100	2,921,100	-	-
Managed funds	31 December 2019	19,078,990	-	9,569,484	9,509,506
Debt instruments (bonds)	31 December 2019	36,135,648	-	22,552,568	13,583,080
Investment in Arab Trade Finance Program	31 December 2019	861,264	-	-	861,264
Investments in Tunisian External Trade Insurance Company	31 December 2019	648,330	-	-	648,330
		<u>59,645,332</u>	<u>2,921,100</u>	<u>32,122,052</u>	<u>24,602,180</u>

The methodologies and assumptions used to determine fair values of assets is described in fair value section of Note 2.4.

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of level 3 fair value measurement.



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15 FAIR VALUE MEASUREMENT (continued)

Reconciliation of Level 3 fair values

The following table shows a reconciliation of the opening and closing amount of level 3 assets which are recorded at fair value:

	As at 1 January 2020	Additions	Disposals	Change in fair value	Exchange rate movements	As at 31 December 2020
	KD	KD	KD	KD	KD	KD
Financial assets at fair value through profit or loss:						
Managed funds	9,509,506	13,368,000	(2,028,455)	(359,802)	51,509	20,540,758
Debt instruments (bonds)	13,583,080	6,000,000	(5,996,910)	(5,640)	-	13,583,080
Investment in Arab Trade Finance Program	861,264	-	-	-	-	861,264
Investments in Tunisian External Trade Insurance Company	648,330	-	-	-	22,979	671,309
	<u>24,602,180</u>	<u>19,368,000</u>	<u>(8,025,365)</u>	<u>(365,442)</u>	<u>74,488</u>	<u>35,653,861</u>
Financial assets at fair value through profit or loss:						
Managed funds	3,317,649	6,335,364	-	(158,381)	14,874	9,509,506
Debt instruments (bonds)	13,588,720	-	-	(5,640)	-	13,583,080
Investment in Arab Trade Finance Program	861,264	-	-	-	-	861,264
Investments in Tunisian External Trade Insurance Company	604,490	-	-	-	43,840	648,330
	<u>18,372,123</u>	<u>6,335,364</u>	<u>-</u>	<u>(164,021)</u>	<u>58,714</u>	<u>24,602,180</u>

Description of significant unobservable inputs to valuation of financial assets:

Unquoted securities represent delisted securities on stock exchange, which are valued based on last traded prices, adjusted for additional impairment losses recognised on a prudent basis. The Corporation is confident of realising the remaining amount and believes it to be reasonable estimates of fair value.

Unquoted managed funds are valued based on net assets value method using latest available financial statements of the funds, wherein the underlying assets are fair valued.



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16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Corporation's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Corporation's continuing profitability and each individual within the Corporation is accountable for the risk exposures relating to his or her responsibilities.

The management of the Corporation is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

The Corporation is exposed to credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and equity price risk). The Corporation's senior management is supported by the Board of Directors, that advises on financial risks and the appropriate financial risk governance framework for the Corporation. The Board of Directors provides assurance to the Corporation's senior management that the Corporation's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Corporation's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

16.1 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. The maximum credit risk is limited to the carrying values of financial assets appearing on the statement of financial position.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2020 KD	2019 KD
Bank balances	1,948,663	1,761,487
Deposits and wakala with financial institutions	84,876,989	83,798,257
Financial assets at fair value through profit or loss (bonds)	24,770,534	36,135,648
Financial instruments at amortised cost	11,648,086	8,828,018
Accounts receivables and other assets	1,372,570	2,118,836
	<u>124,616,842</u>	<u>132,642,246</u>

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on bank balances, deposits and wakala with financial institutions, financial assets at fair value through profit or loss (bonds) and financial instruments at amortised cost has been measured on 12 months and life time expected loss basis and reflects the short maturities of the exposures. The Corporation considers that these financial assets have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

16.2 Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in raising Corporation's to meet commitments associated with financial instruments. The Corporation limits its liquidity risk by ensuring that sufficient Corporation's are made available in banks to meet future commitments.



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16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

16.2 Liquidity risk (continued)

The table below summarises the maturity profile of the Corporation's financial liabilities at 31 December, based on contractual undiscounted payment obligations:

	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
31 December 2020						
Accounts payable and other liabilities	11,124	125,057	15,817	353,072	1,558,388	2,063,458
Obligations under finance lease	-	-	74,535	256,395	1,170,245	1,501,175
Due to insurance and reinsurance companies	-	-	-	835,389	-	835,389
	<u>11,124</u>	<u>125,057</u>	<u>90,352</u>	<u>1,444,856</u>	<u>2,728,633</u>	<u>4,400,022</u>
	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
31 December 2019						
Accounts payable and other liabilities	50,712	263,881	118,232	354,696	1,064,090	1,851,611
Obligations under finance lease	-	-	69,659	239,622	1,261,553	1,570,834
Due to insurance and reinsurance companies	-	-	-	835,389	-	835,389
	<u>50,712</u>	<u>263,881</u>	<u>187,891</u>	<u>1,429,707</u>	<u>2,325,643</u>	<u>4,257,834</u>

16.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

16.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments.

The Corporation is exposed to interest rate risk on its floating interest-bearing assets (deposits and wakala with financial institutions, debt instruments "bonds" and financial instruments at amortised costs). The interest rates are disclosed in Notes 7,8 and 9.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.



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16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

16.3 Market risk (continued)

16.3.1 Interest rate risk (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, the Corporation's profit (loss) is affected through the impact on floating rate assets, as follows:

	Increase / decrease in basis points	Effect on profit (loss) KD
2020	+/- 100	1,148,289
2019	+/- 100	1,287,619

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on KD 114,828,889 (2019: KD 128,761,923) interest bearing assets. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

16.3.2 Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation seeks to limit exposure to currency risk by monitoring the amounts of financial assets and financial liabilities held in various currencies and by ensuring that these amounts commensurate with the level of operations in the respective currencies. The Corporation adjusts pricing of its products according to market movement in currencies.

The table below indicates the sensitivity to foreign currency rate movements at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Kuwaiti Dinar against foreign currencies, with all other variables held constant (due to the fair value of currency sensitive monetary assets and liabilities):

Currency	Change in currency rate (+/-)	Net effect on profit (loss) (+/-)	
		2020 KD	2019 KD
US Dollars	5%	2,638,056	4,127,169
GBP	5%	91,825	176,484
Euro	5%	18,824	11,975

16.3.3 Equity price risk

Equity price risk arises from the change in the fair values of equity investments. The Corporation manages this risk through diversification of investments in terms of geographical distribution and industry concentrations. The equity price risk sensitivity is determined on the following assumptions:

2020

Market indices	% change in equity price	Effect on profit (loss) KD
Financial assets at fair value through profit or loss (Boursa Kuwait)	+ 5	231,205

2019

Market indices	% change in equity price	Effect on profit KD
Financial assets at fair value through profit or loss (Boursa Kuwait)	± 5	± 191,332



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17 FIDUCIARY ASSETS

Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Corporation and accordingly are not included in these financial statements.

Total fiduciary assets managed by the Corporation is KD 16,552,304 (2019: KD 16,656,343).

Management fee related to these fiduciary assets amounted to KD Nil for the year ended 31 December 2020 (2019: KD Nil).

18 COVID-19

On 11 March 2020, the World Health Organization (WHO) made an assessment that the outbreak of a Coronavirus (COVID-19) can be characterized as a pandemic. In addition, oil prices significantly dropped between January to March 2020 because of a number of political and economic factors. As a result, businesses have seen reduced customer traffic and, where governments mandated, temporary suspension of travel and closure of recreation and public facilities.

To alleviate the negative impact of the COVID-19 pandemic, the Government, Central Bank and other independent jurisdictions and regulators have taken measures and issued directives to support businesses and the economy at large, including extensions of deadlines, facilitating continuation of businesses through social-distancing and easing pressure on credit and liquidity in the country.

These conditions are considered significant and impacted the economic and risk environment in which the Corporation operates. The situation, including the government and public response to the challenges, continues to progress and rapidly evolve.

Based on assessment performed by the management, the COVID-19 thus far has no material financial impact beyond what is recognized in the financial information.

However, the extent and duration of the impact of COVID-19 pandemic remain uncertain and depend on future developments that cannot be accurately predicted at this stage. Therefore, a reliable estimate of such an impact beyond the reporting date cannot be made at the date of authorisation of these financial statements.

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