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

# ANNUAL REPORT 2018

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

**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 four 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.

On March 28, 2019, S&P Global Ratings lowered its long-term issuer and financial strength credit ratings on The Arab Investment and Export Credit Guarantee Corp. (Dhaman) to ‹AA-› from ‹AA›, under the revised criteria for Multilateral Lending Institutions (MLIs) issued in December 2018; while affirming Dhaman's stable outlook


**Headquarters**

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E-mail: info@dhaman.org
Website: www.dhaman.org

## 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 determining their salaries All the other competences stipulated in the Institution convention.

**The current members of the Board of Directors:**

| | | |
|---|---|---|
| 1. | H.E. Mr. Ahmed Mohammed H. Al-Ghannam | Chairman |
| 2. | H.E. Mr. Abdullah Ahmed AlSabeeh | Member |
| 3. | H.E. Mrs. Mariam Mohamed Alameeri | Member |
| 4. | H.E. Dr. Mukhtar Elhadi Eltaweel | Member |
| 5. | H.E. Mr. Ahmed Hassan Al-Obaidly | Member |
| 6. | H.E. Mr. Mohammed Ahman Hassan | Member |
| 7. | H.E. Mr. Musallam Mahad Ali Qatan | Member |
| 8. | H.E. Dr. Nasser S. A. Qatami | Member |
| 9. | H.E. Mr. Mohammed Al-Amin Altar | Member |

### 3. The Director-General

H.E. Mr. Fahad Rashid Al Ibrahim

### 4. Professional and Administrative Staff

His Excellency the Chairman of the 46th Session of the Shareholders' Council of the Arab Investment and Export Credit Guarantee Corporation,

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 2018.

**Please accept my highest consideration,**

**Ahmed Mohammed H. Al-Ghannam**
Chairman of the Board of Directors

State of Kuwait, April 2019.

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

www.dhaman.org

المؤسسة العربية لضمان
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 and Independent Auditor's Report

## For the year ended 31 December 2018

**Deloitte.**

**Deloitte & Touche**
**Al-Wazzan & Co.**
Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
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**The Arab Investment & Export Credit Guarantee Corporation**

**An Arab Corporation with a Special Independent Legal Status**

## Independent Auditor's Report to the Chairman and Members of the Corporation's Shareholders Council

### Opinion

We have audited the financial statements of The Arab Investment & Export Credit Guarantee Corporation ("the corporation"), which comprise the statement of financial position as at 31 December 2018, and the statement of income, 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 2018, 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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.

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.

Deloitte.

**The Arab Investment & Export Credit Guarantee Corporation**

**An Arab Corporation with a Special Independent Legal Status**

**Independent Auditor's Report to the Chairman and Members of the Corporation's Shareholders Council (continued)**

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

- 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.

**Bader A. Al-Wazzan**
License No. 62A
Deloitte & Touche - Al Wazzan & Co.

Kuwait, 5 March 2019

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

## Statement of Financial Position as at 31 December 2018

(All amounts are in Kuwaiti Dinars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 6,193,147 | 15,910,650 |
| Deposits and Wakala with financial institutions | 6 | 41,330,384 | 35,567,157 |
| Financial assets at fair value through profit or loss | 7 | 94,369,629 | 18,481,654 |
| Financial instruments at amortized cost | 8 | 5,636,091 | - |
| Available for sale investments | 9 | - | 79,442,854 |
| Recoverable claims | | 405,640 | 405,640 |
| Accounts receivable and other assets | | 1,018,864 | 1,490,024 |
| Property and equipment | 10 | 1,040,688 | 1,091,253 |
| **Total assets** | | **149,994,443** | **152,389,232** |
| | | | |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Payables and other liabilities | | 559,314 | 722,805 |
| Insurance technical reserves | 11 | 1,563,370 | 2,234,148 |
| Obligations under finance lease | 10 | 1,635,935 | 1,696,777 |
| Due to insurance and reinsurance companies | | 835,389 | 835,389 |
| Employee savings and end of service benefits | | 2,852,404 | 3,175,587 |
| **Total liabilities** | | **7,446,412** | **8,664,706** |
| **Equity** | | | |
| Paid-up capital | 12 | 91,102,666 | 90,474,637 |
| General reserve | 13 | 51,445,365 | 51,460,508 |
| Cumulative changes in fair value | | - | 1,789,381 |
| **Total equity** | | **142,548,031** | **143,724,526** |
| **Total liabilities and equity** | | **149,994,443** | **152,389,232** |

The accompanying notes form an integral part of these financial statements.

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

## Statement of Income for year ended 31 December 2018

(All amounts are in Kuwaiti Dinars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Revenue:** | | | |
| Gross guarantee premiums subscribed | | 2,391,810 | 2,134,523 |
| Less: net technical charges | | (356,890) | (175,142) |
| Gross guarantee premiums | | 2,034,920 | 1,959,381 |
| Less: guarantee premiums ceded | | (693,146) | (718,468) |
| Net guarantee premiums | | 1,341,774 | 1,240,913 |
| Unearned premiums reserve | 11 | 188,106 | (62,154) |
| Outstanding claims reserve | 11 | (49,445) | (659,015) |
| Net guarantee premiums earned | | 1,480,435 | 519,744 |
| Revenues and other commissions | | (25,877) | 27,385 |
| Guarantee results | | 1,454,558 | 547,129 |
| Banks and bonds interest income | 14 | 3,546,781 | 3,170,254 |
| Net investments (losses)/ income | 15 | (2,992,662) | 4,411,643 |
| Gains from foreign currency differences | | 25,004 | 204,950 |
| Other miscellaneous income | | 3,210 | - |
| **Total revenue** | | **2,036,891** | **8,333,976** |
| **Expenses:** | | | |
| Salaries, wages and benefits | | (2,113,248) | (2,102,401) |
| Administration expense | | (740,398) | (800,190) |
| Depreciation expense | | (89,498) | (80,527) |
| Provisions and others | | (36,491) | (28,007) |
| **Total expenses** | | **(2,979,635)** | **(3,011,125)** |
| **Net (loss)/ profit for the year** | | **(942,744)** | **5,322,851** |

The accompanying notes form an integral part of these financial statements.

**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 2018 (All amounts are in Kuwaiti Dinars)

| | 2018 | 2017 |
|---|---|---|
| **Net (loss)/ profit for the year** | (942,744) | 5,322,851 |
| | | |
| **Other comprehensive income items** | | |
| *Items that may be reclassified subsequently to statement of income:* | | |
| Unrealized gains from available for sale investments | - | 4,762,502 |
| Transferred to statement of income on sale of available for sale investments | - | (2,857,710) |
| Impairment loss on available for sale investments | - | 669,122 |
| **Total other comprehensive income items** | - | 2,573,914 |
| **Total comprehensive (loss)/ income for the year** | **(942,744)** | **7,896,765** |

The accompanying notes form an integral part of these financial statements.

## Statement of Changes in Equity for the year ended 31 December 2018 (All amounts are in Kuwaiti Dinars)

| | Paid-up capital | General reserve | Cumulative changes in fair value | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2017** | 86,518,994 | 46,352,620 | (784,533) | 132,087,081 |
| (Net profit for the year (Note 13 | - | 5,322,851 | - | 5,322,851 |
| Total Other comprehensive income items | - | - | 2,573,914 | 2,573,914 |
| Deduction based on the corporation's share-holders council decision | 100,000 | (214,963) | - | (114,963) |
| (Share capital increase (Note 12 | 3,855,643 | - | - | 3,855,643 |
| **Balance at 31 December 2017** | **90,474,637** | **51,460,508** | **1,789,381** | **143,724,526** |
| | | | | |
| **Balance as at 1 January 2018** | 90,474,637 | 51,460,508 | 1,789,381 | 143,724,526 |
| (Impact on adoption of IFRS 9 (Note 2.2.1 | - | 1,459,886 | (1,789,381) | (329,495) |
| **Balance as at 1 January 2018** | 90,474,637 | 52,920,394 | - | 143,395,031 |
| (Net loss for the year (Note 13 | - | (942,744) | - | (942,744) |
| Deduction based on the corporation's share-(holders council decision (Note 12 | - | (532,285) | - | (532,285) |
| (Share capital increase (Note 12 | 628,029 | - | - | 628,029 |
| **Balance at 31 December 2018** | **91,102,666** | **51,445,365** | **-** | **142,548,031** |

The accompanying notes form an integral part of these financial statements.

**The Arab Investment & Export Credit Guarantee Corporation**
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## Statement of Cash Flowa for the year ended 31 December 2018

(All amounts are in Kuwaiti Dinars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net (loss)/ profit for the year | | (942,744) | 5,322,851 |
| Adjustments for: | | | |
| Depreciation | | 89,498 | 80,527 |
| Net investments losses/ (income) | | 2,936,652 | (4,445,822) |
| Banks and bonds interest income | | (3,546,781) | (3,170,254) |
| Employees savings and end of service benefits | | 419,473 | 424,504 |
| Finance lease charges | | 118,775 | 122,755 |
| Losses from sale of property and equipment | | 1,642 | - |
| Operating losses before changes in operating assets and liabilities | | (923,485) | (1,665,439) |
| Accounts receivable and other assets | | (98,843) | (74,385) |
| Financial assets at fair value through profit or loss | | (7,776,468) | 2,308 |
| Recoverable claims | | - | (405,640) |
| Payables and other liabilities | | (185,071) | 17,467 |
| Insurance technical reserves | | (670,778) | 601,017 |
| Cash used in operating activities | | (9,654,645) | (1,524,672) |
| Paid of employees savings and end of service benefits | | (742,656) | (226,193) |
| Net cash flows used in operating activities | | **(10,397,301)** | **(1,750,865)** |
| **Cash flows from investing activities** | | | |
| Deposits and Wakala with financial institutions | | (5,252,971) | (15,473,115) |
| Purchase of available for sale investments | | - | (4,113,163) |
| Proceeds from sale of available for sale investments | | - | 17,562,360 |
| Purchase of financial instruments at amortized cost | | (1,519,518) | - |
| Proceeds from sale of financial instruments at amortization cost | | 3,030,000 | - |
| Purchase of property and equipment | | (47,575) | (3,148) |
| Proceeds from sale of property and equipment | | 7,000 | - |
| Dividends income received | | 1,136,457 | 1,451,494 |
| Banks and bonds interest income received | | 3,410,278 | 3,029,036 |
| Net cash flows generated from investing activities | | **763,671** | **2,453,464** |
| **Cash flows from financing activities** | | | |
| Share capital increase | | 628,029 | 3,855,643 |
| Paid to support Palestine | | (532,285) | (114,963) |
| Payment of finance lease obligations | | (179,617) | (179,617) |
| Net cash flows (used in)/ generated from financing activities | | (83,873) | 3,561,063 |
| **Change in cash and cash equivalents** | | (9,717,503) | 4,263,662 |
| Cash and cash equivalents at beginning of the year | | 15,910,650 | 11,646,988 |
| **Cash and cash equivalents at end of the year** | 5 | **6,193,147** | **15,910,650** |

The accompanying notes form an integral part of these financial statements.

# 1. Corporation activity and its nature

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 5 March 2019.

# 2. Significant accounting policies

## 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are prepared under the historical cost convention except of certain financial instruments that are measured at fair values, as explained in the accounting policies below.

## 2.2 Application of new and revised International Financial Reporting Standards (IFRS)

### 2.2.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".
- Amendments to IFRS 4 "Insurance Contracts":
- IFRS 15 "Revenue from Contracts with Customers".
- IFRS 9 "Financial Instruments".

The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years except the impact of the application of IFRS 9.

**Impact of application of IFRS 9 "Financial Instruments"**

In the current year, the Corporation has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs that are effective for an annual period that begins on or after 1 January 2018. The Corporation has elected not to restate comparatives in respect of the classification and measurement of financial instruments as allowed in the transition provisions of IFRS 9.

1) IFRS 9 introduces new requirements for:
2) The classification and measurement of financial assets and financial liabilities,
3) Impairment for financial assets and
General hedge accounting.

*Classification of financial assets and financial liabilities*

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Corporation has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

The Corporation's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in note 2.3.1.

The adoption of IFRS 9 did not have a significant impact on the Corporation's accounting policies for financial liabilities.

*Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Corporation to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Corporation to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Corporation is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Corporation's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.3.1.

*Disclosures in relation to the initial application of IFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount under IAS 39 | IFRS 9 adjustments | New carrying amount under IFRS 9 |
|---|---|---|---|---|---|---|
| 1. | Cash and cash equivalents | Loans and receivables | Financial assets at amortised cost | 15,910,650 | - | 15,910,650 |
| 2. | Deposits and Wakala with financial instruments | Loans and receivables | Financial assets at amortised cost | 35,567,157 | (8,195) | 35,558,962 |
| 3. | Financial assets at fair value – statement of income | Financial assets at fair value through statement of income | Financial assets at fair value through profit or loss | 18,481,654 | - | 18,481,654 |
| 4. | Available for sale investments | Available for sale financial assets | Financial assets at fair value through profit or loss | 72,214,294 | (169,989) | 72,044,305 |
| 5. | Available for sale investments | Available for sale financial assets | Financial assets at amortised cost | 7,228,560 | (151,311) | 7,077,249 |
| 6. | Recoverable claims | Loans and receivables | Financial assets at amortised cost | 405,640 | - | 405,640 |
| 7. | Accounts receivables and other assets | Loans and receivables | Financial assets at amortised cost | 1,490,024 | - | 1,490,024 |
| 8. | Payables and other liabilities | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 722,805 | - | 722,805 |
| 9. | Due to insurance and reinsurance companies | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 835,389 | - | 835,389 |

*Financial impact of initial application of IFRS 9*

The table below show the financial impact of the initial application of IFRS 9 on equity as of 1 January 2018:

| | General reserve | Fair value reserve |
|---|---|---|
| **(Closing balance under IAS 39 (31 December 2017** | **51,460,508** | **1,789,381** |
| ***Impact on reclassification and re-measurements:*** | | |
| *Available for sale investments to financial assets at FVTPL* | 1,987,428 | (2,157,417) |
| *Available for sale investments to financial instruments at amortized cost* | (393,908) | 368,036 |
| ***Recognition of expected credit losses*** | | |
| *Available for sale investments to financial instruments at amortized cost* | (125,439) | - |
| Deposits and Wakala with financial instruments | (8,195) | - |
| | 1,459,886 | (1,789,381) |
| **Opening balance under IFRS 9 at initial application on 1 January 2018** | **52,920,394** | **-** |

### Adoption of IFRS 15 Revenue from Contracts with Customers

The Corporation has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 3. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Corporation adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Corporation in relation to its contracts with customers and therefore it had no material impact on the Corporation's financial statements.

The accounting policies for the new standard is disclosed in note 2.3.12.

### New and revised IFRS in issue but not yet effective

At the date of authorisation of these financial statements, the Corporation has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 Leases | 1 January 2019 |
| Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs. | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. | 1 January 2019 |
| Amendment to IAS 19 Employee Benefits relating to amendment, curtailment or settlement of a defined benefit plan | 1 January 2019 |
| Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. | 1 January 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework | 1 January 2020 |
| Amendment to IFRS 3 Business Combinations relating to definition of a business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 relating to definition of material | 1 January 2020 |
| IFRS 17 Insurance Contracts | 1 January 2021 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |

The Corporation does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Corporation in future periods.

## 2.3 Significant Accounting Policies

The significant accounting policies adopted are set out below:

### 2.3.1 Financial instruments (effective from 1 January 2018)

Financial assets and financial liabilities are recognised when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of income are recognised immediately in statement of income.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

***Classification of financial assets***

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the aforegoing, the Corporation may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Corporation may irrevocably elect to classifying in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Corporation may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

***Amortised cost and effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Corporation recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in statement of income.

***Financial assets at FVTPL***

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Corporation designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

***Foreign exchange gains and losses***

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

***Impairment of financial assets***

The Corporation applied the simplified approach and measure the loss allowance for receivable at an amount equal to lifetime ECL. The expected credit losses on receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Corporation writes off receivable when there is information indicating that the debtor is in serve financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivable are over two years past due.

The Corporation applies the general approach to providing for expected credit losses prescribed by IFRS 9, for financial instruments in Cash and bank balances. The Corporation uses external rating agency credit grades for assessing credit risk on these financial assets and these published grades are continuously monitored and updated.

***Derecognition of financial assets***

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to statement of income. In contrast, on derecognition of an investment in equity instrument which the Corporation has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to statement of income, but is transferred to retained earnings.

**Financial liabilities and equity instruments**

***Classification as debt or equity***

Debt and equity instruments issued by a entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

***Financial liabilities***

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

***Financial liabilities subsequently measured at amortised cost***

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the ''other gains and losses'' line item in statement of income for financial liabilities that are not part of a designated hedging relationship.

***Derecognition of financial liabilities***

The Corporation derecognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognized in statement of income.

**2.3.2 Financial instruments (Effective up to 31 December 2017)**

Financial assets and financial liabilities are recognised when the corporation becomes a party to the contractual obligations of these instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities (other than financial instruments at fair value through profit or loss) on initial recognition. Transaction costs directly attributable to the acquisition are recognised immediately in profit or loss.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), held to maturity, 'available-for-sale' (AFS) financial assets and 'receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The corporation has determined the classification of its financial assets as follows:

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in note 3.4.

*Cash and cash equivalents*

Cash includes cash in hand and at banks. Cash equivalents include cash and bank balances, deposits and wakala with maturity period of three months or less.

*Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including other receivable, cash and cash equivalent) are measured at amortised cost using the effective interest method, less any impairment.

*Available for sale (AFS)*

AFS financial assets are non-derivatives and are not classified as (a) receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The financial assets available for sale is re-measured at fair value. The fair value is determined in the manner described in note 3.4.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the corporation's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income.

*Impairment*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, after discounted by the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is represented as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through provision for doubtful debts. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in the statement other comprehensive income are reclassified to the statement of income for the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through the statement of income. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

*Derecognition*

The corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the statement of income.

**Financial liabilities**

Financial liabilities (including payables and other credit balances) are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method.

*Derecognition*

The corporation derecognises financial liabilities when, and only when, the corporation's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of income.

### 2.3.3 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.

### 2.3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalized.

Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment as follows:

| | | |
|---|---|---|
| Motor vehicles | 5 | years |
| Furniture and equipment | 1 | years |
| Buildings | 40 | years |

Property and equipment carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The assets' residual values, useful lives and depreciation method are reviewed at the end of each reporting period, and the effect of any changes in estimates is accounted for as of the beginning of fiscal year.

Gains or losses on disposals are determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

### 2.3.5 Impairment of tangible assets

At the end of each reporting period, the corporation reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the value of impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell or value in use.

Impairment losses are recognised in the income statement for the period in which they arise. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized immediately in the statement of income.

### 2.3.6 Unearned premiums reserve

Unearned premiums are those portions of the subscribed premiums related to the periods of risks after the reporting date. The pro-rata portion related to the subsequent periods is deferred under unearned premiums reserve.

**2.3.7 Outstanding claims reserve**

Estimates are made for the expected ultimate cost of claims reported at the reporting date. The provision for outstanding claims 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.

**2.3.8 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.

**2.3.9 Reinsurance**

In the normal course of business, the corporation cedes certain levels of risk in various areas of exposure with reinsurance companies. Reinsurance contracts do not relieve the corporation from its obligations to policy- holders; accordingly, failure of reinsurance companies to honour their obligations could result in losses to the corporation. In the opinion of management, the corporation's exposure to such losses is minimal since losses incurred in compensating policyholders are the ultimate responsibility of counter parties or member states. Amounts recoverable from reinsurance companies are estimated in a manner consistent with the related claim liability.

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

**2.3.10 End of service indemnity**

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.

**Employee benefits 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 reoslution no. 10 of 2005 approved by the General Mangaer of the corporation.

**2.3.11 Foreign currencies**

*Functional and presentation currency*

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kuwaiti Dinars' (KD).

*Transactions and balances*

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date.

Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the income statement.

**2.3.12 Revenue recognition**

- Net guarantee premiums is recorded as income over the terms of the policies to which they relate on a pro-rata basis.
- Dividends income is recognised when the right to receive payments is established.
- Interest income on deposits and bonds is accrued on a time proportion basis using the effective yield method.

**2.3.13 Contingent assets and liabilities**

Contingent assets are not recognised as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

**2.3.14 Provisions**

Provisions are recognized when the corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

# 3. Risk management

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.

The main risks arising from the corporation's financial instruments are credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, foreign currency risk and equity price risk.

In the normal course of business, the corporation uses primary financial instruments such as cash and cash equivalents, investments, accounts receivable, accrued interest and payables and as a result, the corporation is exposed to the following risks:

**3.1 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. Financial assets, which potentially subject the corporation to credit risk, consist principally of bank balances, deposits and Wakala bonds, receivables and other debit balances. Cash is placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or governments.

*Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements (if any).

| | 2018 | 2017 |
|---|---|---|
| Bank balances | 966,029 | 6,229,051 |
| Time deposits and Wakala investments | 46,557,502 | 45,248,756 |
| (Financial assets at fair value through profit or loss (Bonds | 32,804,024 | - |
| Financial instruments at amortized cost | 5,636,091 | - |
| (Available for sale investments (Bonds | - | 33,043,621 |
| Recoverable claims | 405,640 | 405,640 |
| Accounts receivable and other assets | 1,018,864 | 1,490,024 |
| **Total credit risk exposure** | 87,388,150 | 86,417,092 |

In the opinion of management, financial assets related to the corporation's investment guarantee business do not expose the corporation to credit risk since such business is supported by the member states.

**3.2 Liquidity risk**

Liquidity risk is the risk that the corporation will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the corporation invests in bank deposits or other investments that are readily realisable.

The maturities of liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments at fair value through profit or loss and available for sale investments is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

The table below summarises the maturity profile of the corporation's liabilities at 31 December :

| At 31 December 2018 | Within 3 months | 3 to 6 Months | 6 to 12 Months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Due to insurance and reinsurance companies | - | - | - | 835,389 | - | 835,389 |
| Payables and other liabilities | 268,760 | - | 290,554 | - | - | 559,314 |
| Obligations under finance lease | - | - | 65,101 | 223,946 | 1,346,888 | 1,635,935 |

| At 31 December 2017 | Within 3 months | 3 to 6 Months | 6 to 12 Months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Due to insurance and reinsurance companies | - | - | - | 835,389 | - | 835,389 |
| Payables and other liabilities | 449,097 | - | 273,708 | - | - | 722,805 |
| Obligations under finance lease | - | - | 60,842 | 209,295 | 1,426,640 | 1,696,777 |

### 3.3 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The corporation is exposed to market risk with respect to its investments.

The corporation limits market risk by having substantially all of its investments managed by specialized investment management **companies.**

*Foreign currency risk*

The corporation incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The corporation ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| Currency | Change in currency rate % | Effect on profit | Change in currency rate % | Effect on profit | Effect on equity |
| USD | +5% | 3,896,685 | +5% | 1,474,593 | 2,790,859 |
| GBP | +5% | 139,275 | +5% | 147,307 | 60,956 |
| Euro | +5% | 1,044 | +5% | 191 | - |

*Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the corporation to cash flow interest risk, whereas fixed interest rate instruments expose the corporation to fair value interest risk.

The corporation's interest risk guideline requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The guideline also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

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.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Currency | Change in interest rate | Impact on profit | Change in interest rate | Impact on profit |
| USD | +5% | 79,945 | +5% | 75,487 |
| Euro | +5% | - | +5% | 2,059 |
| KD | +5% | 97,041 | +5% | 80,554 |

*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:

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| | Change in equity price % | Effect on profit | Change in equity price % | Effect on profit | Effect on equity |
| Financial assets at fair value through profit or loss | +5% | 4,718,481 | +5% | 924,083 | - |
| Financial instruments at amortized cost | +5% | 281,805 | +5% | - | - |
| Available for sale investments | +5% | - | +5% | - | 2,253,379 |

### 3.4 Fair value of financial instruments

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 to 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.

At the reporting date, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of certain available for sale investments as indicated in note 8.

*Fair value hierarchy*

The corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that is not based on observable market data.

As at 31 December, the corporation held the following financial instruments measured at fair value:

| 31 December 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 47,418,231 | 36,777,717 | 10,173,681 | 94,369,629 |

| 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available for sale investments | 38,908,446 | 30,463,728 | - | 69,372,174 |
| Financial assets at fair value through profit or loss | 1,886,066 | 16,595,588 | - | 18,481,654 |
| | 40,794,512 | 47,059,316 | - | 87,853,828 |

## 4. Critical accounting estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Actual results could differ from those estimates.

**Accounting estimates**

In the process of applying the corporation's accounting policies, management has made the following significant judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements:

*Classification of investments (effective up to 31 December 2017)*

Management decides on acquisition of an investment whether it should be classified as, at fair value through profit or loss, or available for sale.

Classification of investments as fair value through profit or loss depends on how management monitors the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of the results for the period, they are classified as at fair value through profit or loss.

All other investments are classified as available for sale investments.

*Classification of investments in equity instruments - IFRS 9 (Effective from 1 January 2018)*

On acquisition of an investment, the Corporation decides whether it should be classified as "FVTPL" or "FVTOCI". The Corporation follows the guidance of IFRS 9 on classifying its investments.

**Estimation uncertainty**

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 discussed below:

*Valuation of financial instruments*

Some of the Corporation's assets and liabilities are measured at fair value for financial reporting purposes. The Corporation management determines the appropriate valuation techniques and input for fair value measurement. In estimating the fair value of an asset or a liability the Corporation uses market observable data to the extent it is available. Information about valuation techniques and input used in determining the fair value of various assets and liabilities are disclosed in note 3.3.

*Impairment of financial instruments (effective from 1 January 2018)*

The Corporation estimates the expected credit losses for all financial assets carried at amortized cost. The determination of expected credit losses using observable internal and external data and assumptions (Note 2.3.1)

*Evidence of impairment of investments (effective up to 31 December 2017)*

Corporation determines the impairment in equity instruments classified as available for sale when there is a significant or prolonged decline in the fair value of these investments. Determination of what is significant or prolonged requires judgment from management. The Corporation evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments, impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. The impact of such impairment on these financial statements is disclosed in note (15).

*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 corperation's Managment believes that the value of the reserve is sufficient, the final liability may be exceed or reduced below the amounts which have been provided.

## 5 Cash and cash equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash on hand and at banks | 966,029 | 6,229,051 |
| Time deposits and Wakala | 5,227,118 | 9,681,599 |
| | 6,193,147 | 15,910,650 |

The average interest rate on deposits and wakala range between 2.15% to 2.43% as at 31 December 2018 (1% to 1.35% - 2017).

## 6. Deposits and Wakala with financial institutions

Represents in deposits and Wakala with financial institutions for period more than three month. Interest rate range from 2.75% to 3.1% as at 31 December 2018 (2.4% to 2.65% – 2017).

The expected credit losses were KD 17,202 as at 31 December 2018.

## 7. Financial instruments at fair value through profit or loss

| | 2018 | 2017 |
|---|---|---|
| Local shares – quoted | 2,168,773 | 1,886,066 |
| Investments in funds units | 57,931,078 | 16,595,588 |
| (Debt instruments (bonds | 32,804,024 | - |
| Investment in Arab Trade Finance Program | 861,264 | - |
| Investment in Tunisian External Trade Insurance Company | 604,490 | - |
| | **94,369,629** | **18,481,654** |

Fair value of investments at fair value through profit or loss has been determined based on valuation basis (Note 3.4).

- Bonds interest rate ranges between 4.75% to 8.40% as at 31 December 2018.
- Investments in Arab Trade Finance Program represent 0.25% of the capital of the Program (0.25% - 2017), 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 exercies significant influance over the Tunisian Company as the main shareholder is the Tunisian government, which is responsible for the management.

## 8. Financial instruments at amortized cost

| | 2018 | 2017 |
|---|---|---|
| (Debt instruments (bonds | 5,772,377 | - |
| Less: expected credit losses provision | (136,286) | - |
| | **5,636,091** | **-** |

Bonds interest rate ranges between 5.93% to 9.75% as at 31 December 2018.

## 9. Available for sale investments

| | 2018 | 2017 |
|---|---|---|
| Bonds | - | 33,043,621 |
| Managed funds | - | 45,067,580 |
| Investment in Arab Trade Finance Program | - | 601,493 |
| Investment in Tunisian External Trade Insurance Company | - | 730,160 |
| | **-** | **79,442,854** |

## 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 (KD 67,648 - 2017).

The obligations under the finance lease are mature as follows:

| | 2018 | 2017 |
|---|---|---|
| Within one year | 179,617 | 179,617 |
| From one year to five years | 898,085 | 898,085 |
| Over five years | 1,616,553 | 1,796,170 |
| Due to Arab Fund For Economic and Social Development | 2,694,255 | 2,873,872 |
| Less: Finance charges allocated to future periods | (1,058,320) | (1,177,095) |
| | **1,635,935** | **1,696,777** |

Notes to the Financial Statements for the year ended 31 December 2018
(All amounts are in Kuwaiti Dinars unless otherwise stated)

## 10. Insurance technical reserves

| | 2018 | 2017 |
|---|---|---|
| :Unearned premiums reserve movement | | |
| Unearned premiums reserve at the beginning of the year | 295,410 | 233,256 |
| Unearned premiums reserve at the end of the year | (107,304) | (295,410) |
| | 188,106 | (62,154) |
| :Outstanding claims reserve movement | | |
| Outstanding claims reserve at the beginning of the year | 1,938,738 | 1,399,875 |
| Claims paid during the year | (532,117) | (120,152) |
| Outstanding claims reserve at the end of the year | (1,456,066) | (1,938,738) |
| | (49,445) | (659,015) |
| :As at 31 December | | |
| Unearned premiums reserve | 107,304 | 295,410 |
| Outstanding claims reserve | 1,456,066 | 1,938,738 |
| | 1,563,370 | 2,234,148 |

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.

## 12. Paid-up capital

As per the decision of the council of the shareholders in the annual meeting held on 2-3 April 2013, it has been approved to increase the issued share capital by 50% to be allocated over the member states and authorities on a pro-rata basis, each as per his share as at 31 December 2012. Such increase shall be settled in five equal annual installments 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 maintian a permanent seat for them in the Board of Directors.

During the year ended 31 December 2018, an amount of KD 628,029 was collected in cash out of the share capital increase. Based on the decision No. (2) of 2018 by the Corporation's shareholders council, it has been approved to deduct an amount of KD 532,285 from general reserve equivalent to 10% of the Corporation's net profits for 2017, in order to support Palestine in coordination with Al-Aqsa Fund.

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

| | Issued | Paid | |
|---|---|---|---|
| **A. Member State:** | **2018/2017** | **2018** | **2017** |
| The Hashemite Kingdom of Jordan | 788,000 | 788,000 | 788,000 |
| United Arab Emirates | 6,510,000 | 6,510,000 | 6,275,000 |
| Kingdom of Bahrain | 750,000 | 750,000 | 750,000 |
| Republic of Tunisia | 1,875,000 | 1,875,000 | 1,856,971 |
| Peoples' Democratic Republic of Algeria | 1,875,000 | 1,875,000 | 1,875,000 |
| Republic of Djibouti | 300,000 | 200,000 | 200,000 |
| Kingdom of Saudi Arabia | 8,610,000 | 8,610,000 | 8,610,000 |
| Republic of Sudan | 1,826,932 | 1,826,931 | 1,826,931 |
| Syrian Arab Republic | 750,000 | 500,000 | 500,000 |
| Somali Democratic Republic | 87,735 | 58,735 | 58,735 |
| Republic of Iraq | 750,000 | 750,000 | 750,000 |
| Sultanate of Oman | 1,125,000 | 1,125,000 | 1,050,000 |
| State of Palestine | 750,000 | 750,000 | 750,000 |
| State of Qatar | 5,985,000 | 5,985,000 | 5,985,000 |
| State of Kuwait | 7,485,000 | 7,485,000 | 7,185,000 |
| Republic of Lebanon | 750,000 | 750,000 | 750,000 |
| State of Libya | 6,735,000 | 6,735,000 | 6,735,000 |
| Arab Republic of Egypt | 1,875,000 | 1,875,000 | 1,875,000 |
| Kingdom of Morocco | 3,000,000 | 3,000,000 | 3,000,000 |
| The Islamic Republic of Mauritania | 750,000 | 750,000 | 750,000 |
| The Republic of Yemen | 1,500,000 | 1,000,000 | 1,000,000 |
| | 54,077,667 | 53,198,666 | 52,570,637 |

| | | | |
|---|---|---|---|
| **B. Arab Financial Authorities:** | | | |
| Arab Fund for Economical and Social Development | 22,804,800 | 19,003,800 | 19,003,800 |
| Arab Monetary Fund | 12,177,000 | 10,148,000 | 10,148,000 |
| BADEA | 7,659,960 | 7,659,960 | 7,659,960 |
| Arab Authority for Agricultural Investment and Development | 1,638,240 | 1,092,240 | 1,092,240 |
| | 98,357,667 | 91,102,666 | 90,474,637 |

As at 31 December 2018, the uncollected portion of required installments was KD 7,255,001 (KD 7,883,030 as at 31 December 2017).

## 13. General reserve

Article (24) of the corporation's convention states that "income realized after deduct provisions from the corporation's operations is to be accumulated to establish a reserve equal to three times the capital", after that, 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.

## 14. Banks and bonds interest income

| | 2018 | 2017 |
|---|---|---|
| Interests from deposits and Wakala | 1,097,697 | 750,602 |
| Interests from financial instruments (bonds) carried at amortized cost | 430,227 | - |
| Interests from financial instruments (bonds) carried at fair value through profit or loss | 2,018,857 | - |
| Interests from available for sale investments (bonds) | - | 2,419,652 |
| | 3,546,781 | 3,170,254 |

## 15. Net investments (losses)/ income

| | 2018 | 2017 |
|---|---|---|
| ***Financial assets at fair value through profit or loss:*** | | |
| Realized losses | (277,993) | - |
| Unrealized (losses)/ gains | (3,577,134) | 729,553 |
| Cash dividends | 996,781 | 73,972 |
| Management fees | (56,010) | (2,280) |
| | (2,914,356) | 801,245 |
| ***:Financial instruments at amortized cost*** | | |
| Expected credit losses | (19,762) | - |
| Provision of amortization bonds | (24,486) | - |
| Realized losses | (34,058) | - |
| | (78,306) | - |
| ***:Available for sale investments*** | | |
| Realized gains | - | 2,912,058 |
| Cash dividends | - | 1,399,361 |
| Impairment losses | - | (669,122) |
| Management fees | - | (31,899) |
| | - | 3,610,398 |
| | (2,992,662) | 4,411,643 |

## 16. Contingent and unrecorded liabilities/ capital commitments

**Contingent liabilities**

As at 31 December 2018, the total executed guarantee contracts were amounted to KD 173,697,770 (KD 117,553,805 - 2017).

In the opinion of management and in accordance with the corporation's business practices, all obligations and judicial 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 provided in the accompanying financial statements in respect of the matters discussed above.

**Capital commitments**

| | 2018 | 2017 |
|---|---|---|
| Capital commitments | 2,619,508 | 4,746,387 |

## 17. Related parties' transactions

Related parties represent members states. In the normal course of business. No amounts was received during the financial year ended 31 December 2018 against management fees of fiduciary assets in favour of members states (KD Nil - 2017). Non commercial risks related to guarantees granted by the corporation are guaranteed by members states.

## 18. Fiduciary assets

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

Total fiduciary assets managed by the corporation is KD 15,888,135 as at 31 December 2018 (KD 26,516,523 - 2017).