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

Annual Report
2011

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 a number of Arab states, deposited with the Ministry of Foreign Affairs in the State of Kuwait. With headquarters in Kuwait and a regional office in Riyadh, Dhaman commenced its operations in mid-1975, encompassing in its membership all Arab states, and a number of Arab international organizations.

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 fulfillment of such objectives, Dhaman provides, wholly or partially, finance to insured operations through factoring, debt collection, insuring bonds, franchises, licenses, and intellectual property rights. In addition to possessing shares and equities in the Arab public and private national guarantee agencies, establishing information corporations, establishing or co-establishing special investment funds owned by governments or institutions in contracting countries.

On April 2nd, 2012, Standard & Poor's Rating Services affirmed its "AA" rating for Dhaman's counterparty credit rating as well as its financial strength rating as an insurer. S&P also revised the outlook to "stable" from a "negative" outlook obtained last year, due to Dhaman's exposure in some Arab countries with political uncertainties.

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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 eight 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.

The current members of the Board of Directors:

H.E. Mr. Nassir Ben Mohamad Al Quhtani	Chairman
H.E. Mr. Ishaq A. Abdulkarim	Member
H.E. Dr. Ali R. Shnebesh	Member
H.E. Mr. Ahmed Mahmoud Alhammadi	Member
H.E. Mr. Ahmad Ali Bokshaisha	Member
H.E. Dr. Jawad Naji	Member
H.E. Mr. Abdelwahab Ali Abdu	Member
H.E. Mr. Mohamed El Gholabzouri	Member

3. The Director-General

H.E. Mr. Fahad Rashid Al Ibrahim

4. Professional and Administrative Staff

His Excellency the Chairman of the 39th Session of the Shareholders' Council of 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 the activity of Dhaman for the year 2011.

Please accept my highest consideration,

Nassir Ben Mohamad Al Quhtani
Chairman of the Board of Directors

Marrakech, Morocco, April 2012

Chapter One: Guarantee Operations

1.1 Guarantee Contracts Portfolio[1]:

Total value of guarantee contracts portfolio during the year 2011 reached USD 1,440.8 million (KD 402.1 million)[2], compared to USD 1,197.4 million in 2010, representing an increase of 20%. *(see Table 1)*

Details of guarantee contracts portfolio:

1.1.1 Investment Guarantee Contracts:

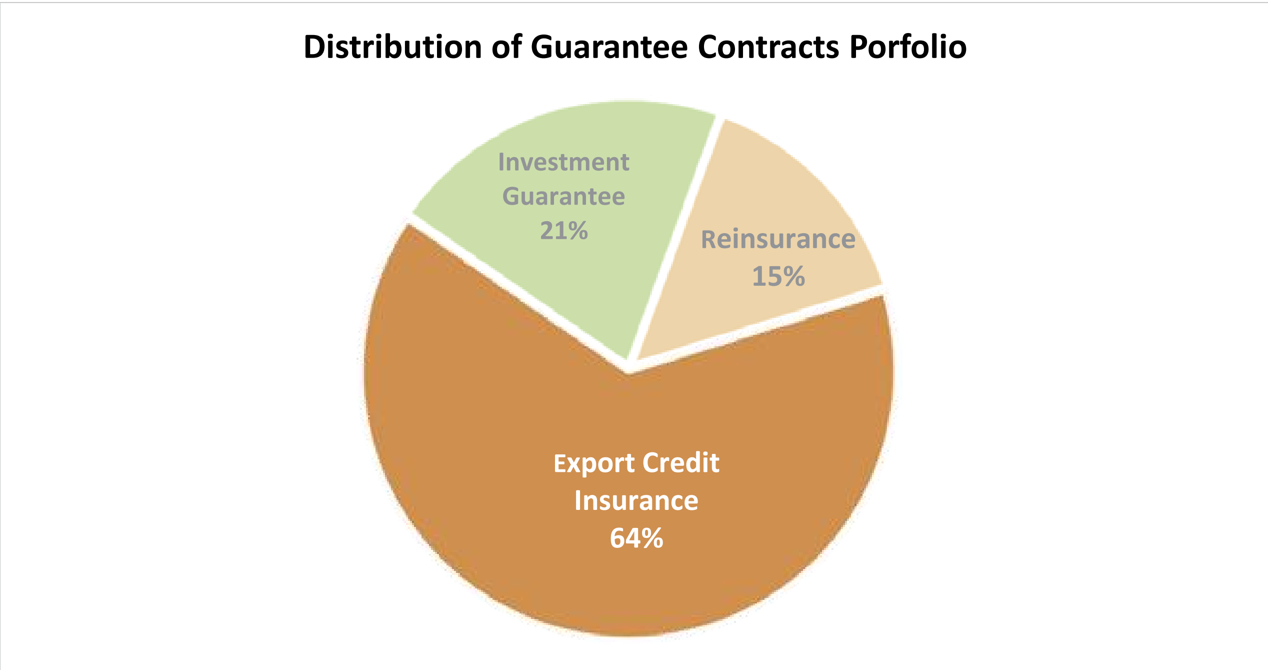
Total value of investment guarantee contracts portfolio reached USD 302.2 million (KD 84.3 million), accounting 21% of the total value of guarantee contracts portfolio.

1.1.2 Export Credit Insurance Contracts Portfolio:

Total value of export credit insurance contracts portfolio reached USD 927.8 million (KD 259 million), accounting 64% of the total value of guarantee contract portfolio.

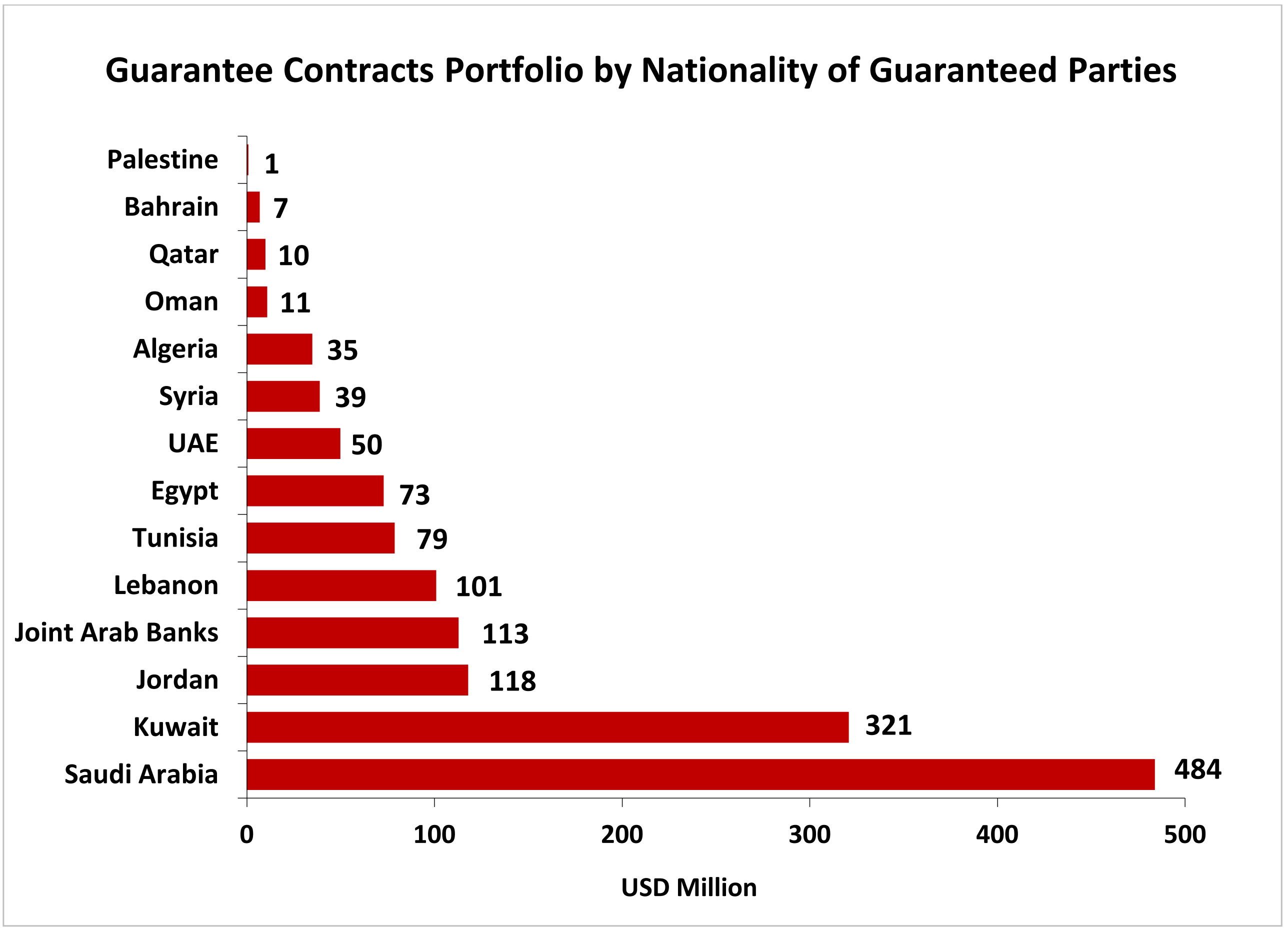
1.1.3 Inward Reinsurance:

The value of transactions attributed to reinsurance treaties totaled USD 210.8 million (KD 58.8 million), accounting 15% of the total value of guarantee contracts portfolio.



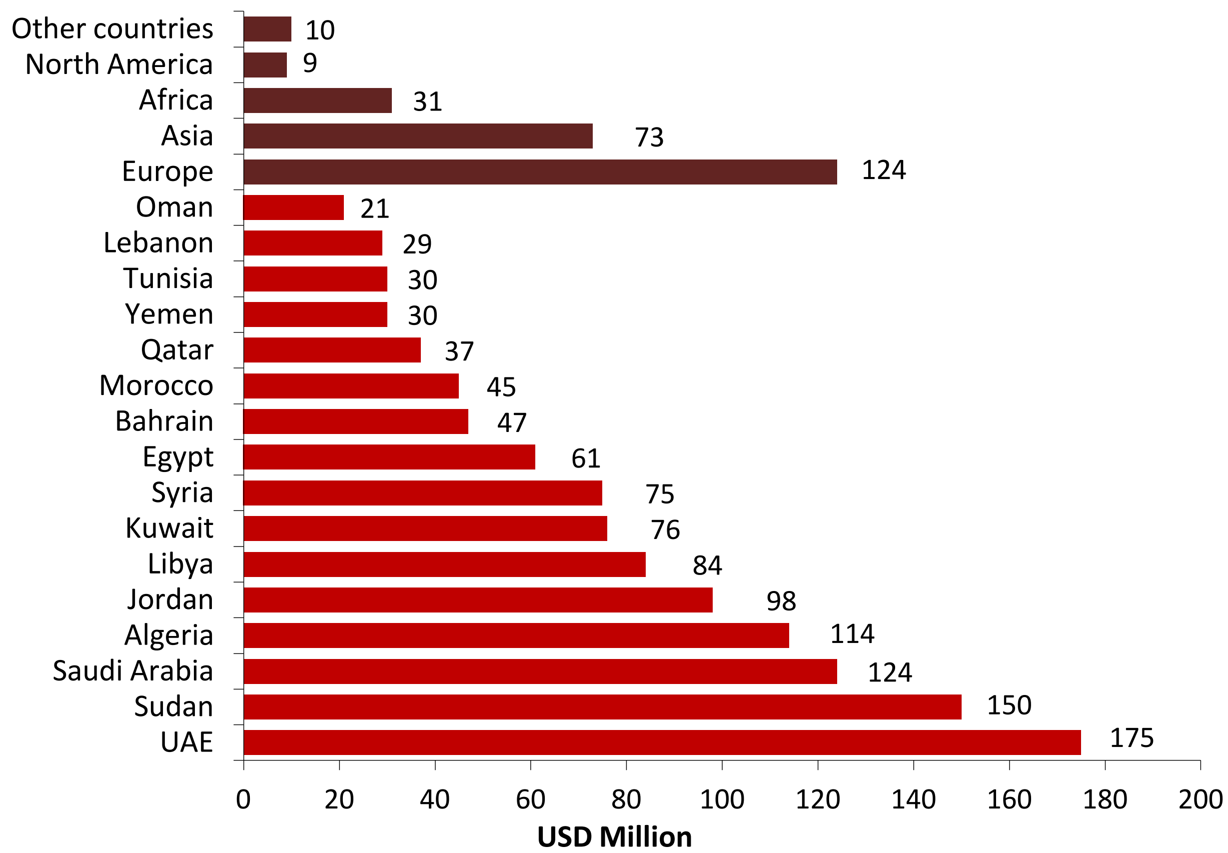
[1] Value of contract signed during 2011 (current and expired)
[2] US$ 1 = KD 0.27905 as at 31/12/2011

Overall, investors and exporters from thirteen Arab countries and a number of Arab and Joint banks benefited from Dhaman's guarantee services. At the lead was Saudi Arabia with (33.59%), followed by Kuwait (22.25%), Jordan (8.22%), Arab & Joint Banks (7.84%), Lebanon (7.03%), Tunisia (5.48%), Egypt (5.06%), UAE (3.49%), Syria (2.68%), Algeria (2.45%), Oman (0.74%), Qatar (0.69%), Bahrain (0.47%), Palestine (0.01%). *(see Table 2)*

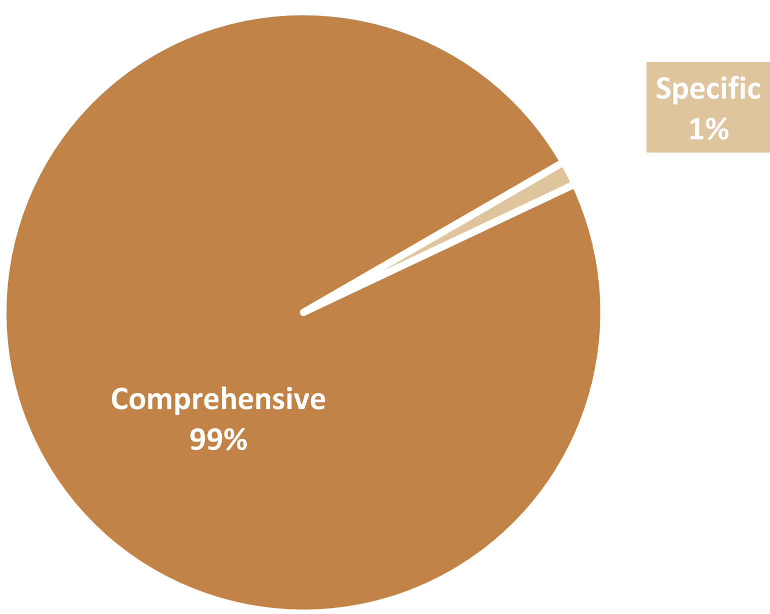


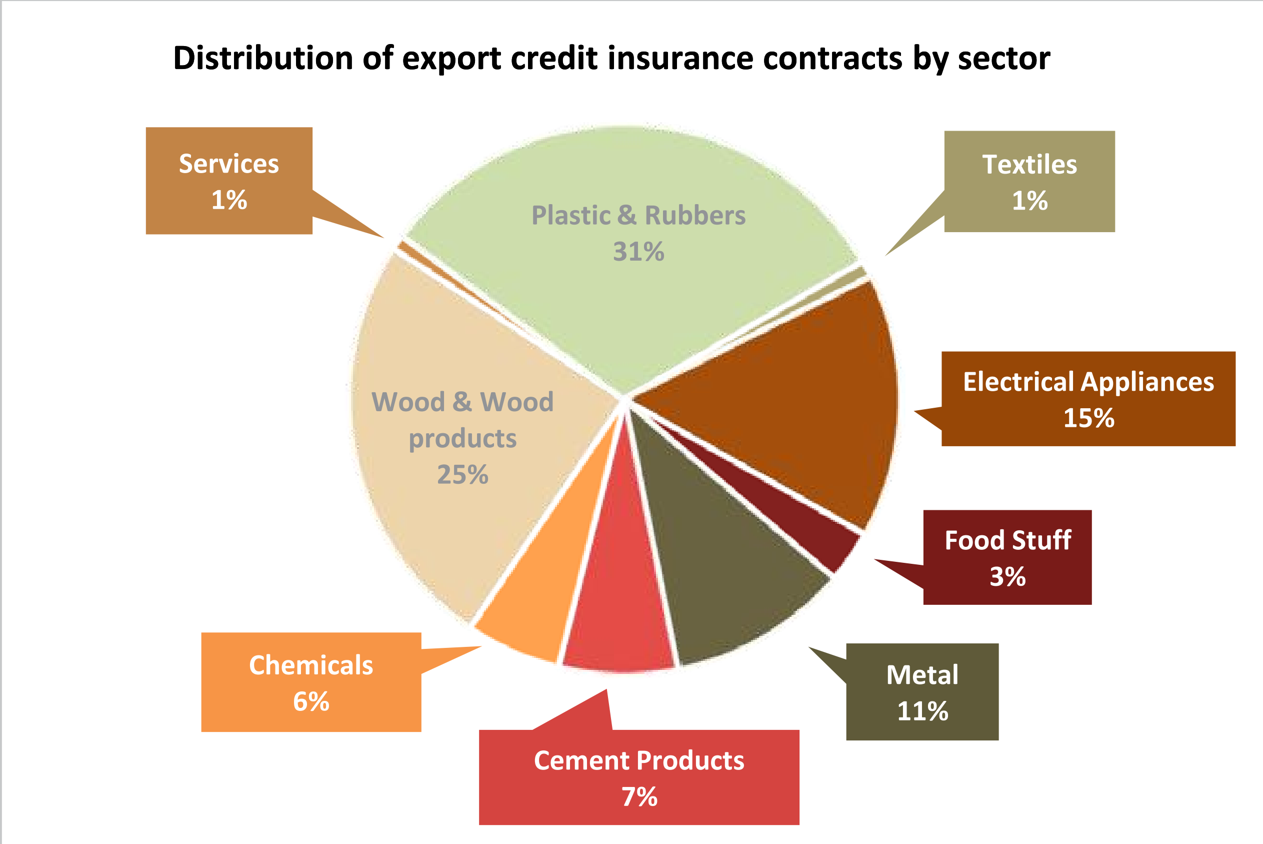
The number of host and importing countries reached sixty three countries, of which sixteen were Arab countries led by UAE (12.12%), Sudan (10.43%), Saudi Arabia (8.62%), Algeria (7.88%), Jordan (6.82%), Libya (5.80%), Kuwait (5.29%), Syria (5.18%), Egypt (4.21%), Bahrain (3.25%), Morocco (3.09%), Qatar (2.53%), Yemen (2.11%), Tunisia (2.07%), Lebanon (1.99%), Oman (1.44%), while the rest of the contracts, representing (17.17%), were distributed amongst forty seven countries. *(see Table 3)*

Guarantee contracts portfolio by host/ importing countries



Distribution of Export Credit Insurance Contracts by Type





1.2 Value of Current Contracts & Outstanding Commitments:

1.2.1 Value of current contracts:

The total value of current contracts during 2011 reached USD 1,232.5 million (KD 344 million), marking a 3% growth compared to 2010, with investment guarantee contracts accounting for 25% and export credit insurance contracts & reinsurance accounting for 75%.

1.2.2 Value of outstanding commitments:

The total value of outstanding commitments as of 31/12/2011 reached USD 418.4 million (KD 116.8 million), representing 34% of the value of current contracts, compared to USD 501 million in 2010. *(See Table 4)*

1.3 Gross Premium:

Gross premium generated from guarantee operations at the end of 2011 totaled USD 4.73 million (KD 1.32 million).

1.4 Compensation & Recovery:

During the year, two claims amounting to USD 143,930 (KD 40,164) were paid against the realization of commercial risks. Dhaman recovered USD 57,786 during the same period.

1.5 Reinsurance:

During the year, one new inward quota share reinsurance treaty was signed with an Arab company specialized in domestic credit insurance.

Nine similar treaties were renewed with Arab ECAs, eight of them pertaining to export credit insurance and one of them pertaining to domestic credit insurance.

Other nineteen inward facultative reinsurance treaties were also concluded during the year.

The total value of reinsurance transactions concluded by Dhaman reached USD 210.8 million (KD 58.8 million), as mentioned in section 2.1.3.

1.6 Marketing Guarantee Services:

In addition to field visits at Dhaman's headquarters in Kuwait, and in Saudi Arabia, through the Regional Office in Riyadh, Dhaman conducted a number of missions to 6 other Arab countries. It also organized and participated in some economic and investment events, and executed several mailing campaigns targeting large Arab exporting companies, investors and exporters in some member countries.

1.7 Relationship with Export Credit Insurance Agencies:

Dhaman, acting as The Secretariat General of Aman Union, organized the second meeting of Aman Union in Istanbul in October, the meeting was attended by 80 officials from 30 Arab and Islamic ECAs in addition to guests from credit insurance and reinsurance and banking community, insurance brokers and credit information companies.

Dhaman also participated in the Prague Club meetings held in Muscat in November. The meetings discussed a number of issues including the new developments in export credit insurance and investment insurance industry all over the world.

Table (1)

Guarantee Contracts Portfolio During 2011

	US $	KD
Investment	302,179,209	84,323,108
Export Credit	927,870,539	258,922,274
Reinsurance	210,768,882	58,815,057
Total	**1,440,818,630**	**402,060,439**

Table (2)
Guarantee Contracts Portfolio During 2011 by Exporting Countries & Type of Contracts
(in US Dollars and KD Equivalent)

	Exporting Country	Investment Contracts			Export Credit Contracts			Total		% of Total
		US $	KD	%	US $	KD	%	US $	KD	
1	**Saudi Arabia**	30,000,000	8,371,500	9.93%	453,951,614	126,675,198	39.87%	483,951,614	135,046,698	**33.59%**
2	**Kuwait**	257,036,008	71,725,898	85.06%	63,543,390	17,731,783	5.58%	320,579,398	89,457,681	**22.25%**
3	**Jordan**	10,143,201	2,830,460	3.36%	108,340,901	30,232,528	9.51%	118,484,102	33,062,989	**8.22%**
4	**UAE**	-	-	0.00%	50,338,873	14,047,063	4.42%	50,338,873	14,047,063	**3.49%**
5	**Bahrain**	-	-	0.00%	6,706,163	1,871,355	0.59%	6,706,163	1,871,355	**0.47%**
6	**Tunisia**	-	-	0.00%	78,945,777	22,029,819	6.93%	78,945,777	22,029,819	**5.48%**
7	**Syria**	-	-	0.00%	38,669,642	10,790,764	3.40%	38,669,642	10,790,764	**2.68%**
8	**Lebanon**	5,000,000	1,395,250	1.65%	96,248,793	26,858,226	8.45%	101,248,793	28,253,476	**7.03%**
9	**Algeria**	-	-	0.00%	35,338,724	9,861,271	3.10%	35,338,724	9,861,271	**2.45%**
10	**Egypt**	-	-	0.00%	72,892,352	20,340,611	6.40%	72,892,352	20,340,611	**5.06%**
11	**Qatar**	-	-	0.00%	9,984,200	2,786,091	0.88%	9,984,200	2,786,091	**0.69%**
12	**Oman**	-	-	0.00%	10,621,870	2,964,033	0.93%	10,621,870	2,964,033	**0.74%**
13	**Palestine**	-	-	0.00%	90,800	25,338	0.01%	90,800	25,338	**0.01%**
14	**Arab & Joint Banks**	-	-	0.00%	112,966,322	31,523,252	9.92%	112,966,322	31,523,252	**7.84%**
Total for the Year		**302,179,209**	**84,323,108**	**100%**	**1,138,639,421**	**317,737,330**	**100%**	**1,440,818,630**	**402,060,439**	**100%**
% of Total		**20.97%**			**79.03%**					**100%**

Table (3)
Guarantee Contracts Portfolio During 2011 by Host/ Importing Country & Type of contract
(in US Dollars and KD Equivalent)

Host / Importing Country		Investment Contracts			Export Credit Contracts			Total		% of Total
		US $	KD	% of Total	US $	KD	% of Total	US $	KD	
1	Sudan	89,009,422	24,838,079	29.46%	61,212,244	17,081,277	5.38%	150,221,670	41,919,356	10.43%
2	UAE	-	-	0.00%	174,683,199	48,745,347	15.34%	174,683,199	48,745,347	12.12%
3	Kuwait	-	-	0.00%	76,231,857	21,272,500	6.69%	76,231,857	21,272,500	5.29%
4	Saudi Arabia	-	-	0.00%	124,165,607	34,648,413	10.90%	124,165,607	34,648,413	8.62%
5	Jordan	-	-	0.00%	98,200,369	27,402,813	8.62%	98,200,369	27,402,813	6.82%
6	Morocco	35,000,000	9,766,750	11.58%	9,589,574	2,675,971	0.84%	44,589,574	12,442,721	3.09%
7	Syria	50,000,000	13,952,500	16.55%	24,635,662	6,874,581	2.16%	74,635,662	20,827,081	5.18%
8	Qatar	-	-	0.00%	36,523,382	10,191,850	3.21%	36,523,382	10,191,850	2.53%
9	Egypt	-	-	0.00%	60,606,425	16,912,223	5.32%	60,606,425	16,912,223	4.21%
10	Bahrain	-	-	0.00%	46,771,277	13,051,525	4.11%	46,771,277	13,051,525	3.25%
11	Tunisia	6,169,787	1,721,679	2.04%	23,655,539	6,601,078	2.08%	29,825,326	8,322,757	2.07%
12	Oman	-	-	0.00%	20,811,706	5,807,507	1.83%	20,811,706	5,807,507	1.44%
13	Yemen	30,000,000	8,371,500	9.93%	403,213	112,517	0.04%	30,403,213	8,484,017	2.11%
14	Lebanon	10,000,000	2,790,500	3.31%	18,728,593	5,226,214	1.64%	28,728,593	8,016,714	1.99%
15	Algeria	-	-	0.00%	113,519,929	31,677,736	9.97%	113,519,929	31,677,736	7.88%
16	Libya	82,000,000	22,882,100	27.14%	1,636,565	456,683	0.14%	83,636,565	23,338,783	5.80%
Total (Arab Countries)		**302,179,209**	**84,323,108**	**100%**	**891,375,141**	**248,738,233**	**78.28%**	**1,193,554,354**	**333,061,341**	**82.84%**
Europe		-	-	-	123,715,706	34,522,868	10.87%	123,715,706	34,522,868	8.59%
Asia		-	-	-	73,385,690	20,478,277	6.45%	73,385,690	20,478,277	5.09%
Africa		-	-	-	31,352,095	8,748,802	2.75%	31,352,095	8,748,802	2.18%
North America		-	-	-	8,537,966	2,382,519	0.75%	8,537,966	2,382,519	0.59%
Other countries		-	-	-	10,272,819	2,866,630	0.90%	10,272,819	2,866,630	0.71%
Total (Non-Arab Countries)		**-**	**-**	-	**247,264,281**	**68,999,096**	**21.72%**	**247,264,276**	**68,999,096**	**17.16%**
Grand Total		**302,179,209**	**84,323,108**	**100%**	**1,138,639,421**	**317,737,330**	**100%**	**1,440,818,630**	**402,060,439**	**100%**
% of Total		**20.97%**			**79.03%**					

Table (4)
Value of Current Contracts & Outstanding commitments as at 31/12/2011 by Host/ Importing Country & Type of Contract
(In USD and its Equivalent in KD)

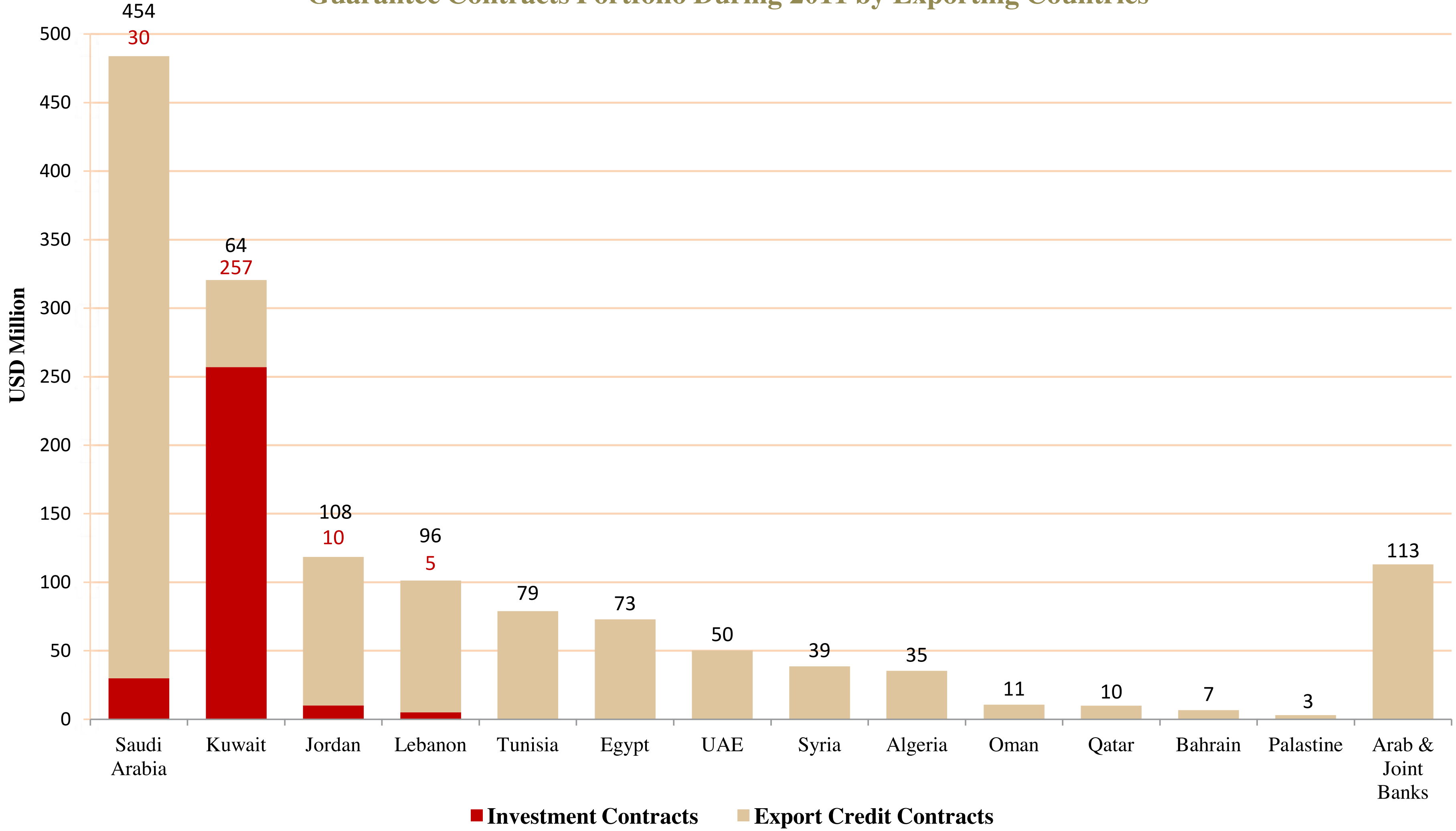
Host/ Importing Country	Current Investment Contracts		Current Export Credit Contracts		Total Current Contracts		Outstanding Commitments for Investment Contracts		Outstanding Commitments for Export Credit Contracts		Total Outstanding Commitments		
	US $	**KD**	**US $**	**KD**	**US $**	**KD**	**US $**	**KD**	**US $**	**KD**	**US $**	**KD**	**% of total**
Sudan	89,009,422	24,838,079	98,816,917	27,574,861	187,826,339	52,412,940	59,916,547	16,719,712	71,728,703	20,015,895	131,645,250	36,735,607	31.47%
Syria	50,000,000	13,952,500	22,816,469	6,366,936	72,816,469	20,319,436	35,254,536	9,837,778	4,756,852	1,327,400	40,011,388	11,165,178	9.56%
Libya	82,000,000.00	22,882,100	1,515,698	422,956	83,515,698	23,305,056	18,839,600	5,257,190	7,833	2,186	18,847,433	5,259,376	4.50%
UAE	-	-	117,044,660	32,661,312	117,044,660	32,661,312	-	-	21,510,395	6,002,476	21,510,395	6,002,476	5.14%
Saudi Arabia	-	-	108,205,300	30,194,689	108,205,300	30,194,689	-	-	6,121,585	1,708,228	6,121,585	1,708,228	1.46%
Kuwait	-	-	59,366,613	16,566,253	59,366,613	16,566,253	-	-	2,527,801	705,383	2,527,801	705,383	0.60%
Morocco	35,000,000.00	9,766,750	8,342,974	2,328,107	43,342,974	12,094,857	9,400,000.00	2,623,070	3,060,803	854,117	12,460,803	3,477,187	2.98%
Yemen	30,000,000	8,371,500	-	-	30,000,000	8,371,500	25,314,764	7,064,085	-	-	25,314,764	7,064,085	6.05%
Jordan	-	-	46,398,246	12,947,431	46,398,246	12,947,431	-	-	2,011,936	561,431	2,011,936	561,431	0.48%
Tunisia	6,169,787	1,721,679	21,695,133	6,054,027	27,864,920	7,775,706	3,452,302	963,365	7,771,552	2,168,652	11,223,854	3,132,016	2.68%
Egypt	-	-	36,549,178	10,199,048	36,549,178	10,199,048	-	-	12,396,552	3,459,258	12,396,552	3,459,258	2.96%
Qatar	-	-	32,136,803	8,967,775	32,136,803	8,967,775	-	-	2,414,416	673,743	2,414,416	673,743	0.58%
Bahrain	-	-	44,136,791	12,316,372	44,136,791	12,316,372	-	-	7,630,116	2,129,184	7,630,116	2,129,184	1.82%
Lebanon	10,000,000	2,790,500	17,339,412	4,838,563	27,339,412	7,629,063	1,433,581	400,041	1,066,047	297,480	2,499,628	697,521	0.60%
Oman	-	-	19,023,195	5,308,423	19,023,195	5,308,423	-	-	941,058	262,602	941,058	262,602	0.22%
Algeria	-	-	84,709,707	23,638,244	84,709,707	23,638,244	-	-	59,349,037	16,561,349	59,349,037	16,561,349	14.19%
Europe	-	-	95,300,699	26,593,660	95,300,699	26,593,660	-	-	26,011,585	7,258,533	26,011,585	7,258,533	6.22%
Asia	-	-	55,613,691	15,519,000	55,613,691	15,519,000	-	-	10,178,121	2,840,205	10,178,121	2,840,205	2.43%
Africa	-	-	42,716,594	11,920,066	42,716,594	11,920,066	-	-	17,687,938	4,935,819	17,687,938	4,935,819	4.23%
North America	-	-	8,160,881	2,277,294	8,160,881	2,277,294	-	-	711,527	198,552	711,527	198,552	0.17%
Group of countries	-	-	10,449,425	2,915,912	10,449,425	2,915,912	-	-	6,889,558	1,922,531	6,889,558	1,922,531	1.65%
Total	**302,179,209**	**84,323,108**	**930,338,386**	**259,610,927**	**1,232,517,594**	**343,934,035**	**153,611,330**	**42,865,242**	**264,773,415**	**73,885,021**	**418,384,746**	**116,750,263**	**100%**

Current contracts represent the value of guarantee contracts, whether executed or not.

The outstanding Guarantee commitments represents the following:

- For Investment Guarantee contracts: the value of investments executed.
- For Export Credit Insurance contracts: the value of shipments executed but not yet repaid.

Chart (1)
Guarantee Contracts Portfolio During 2011 by Exporting Countries



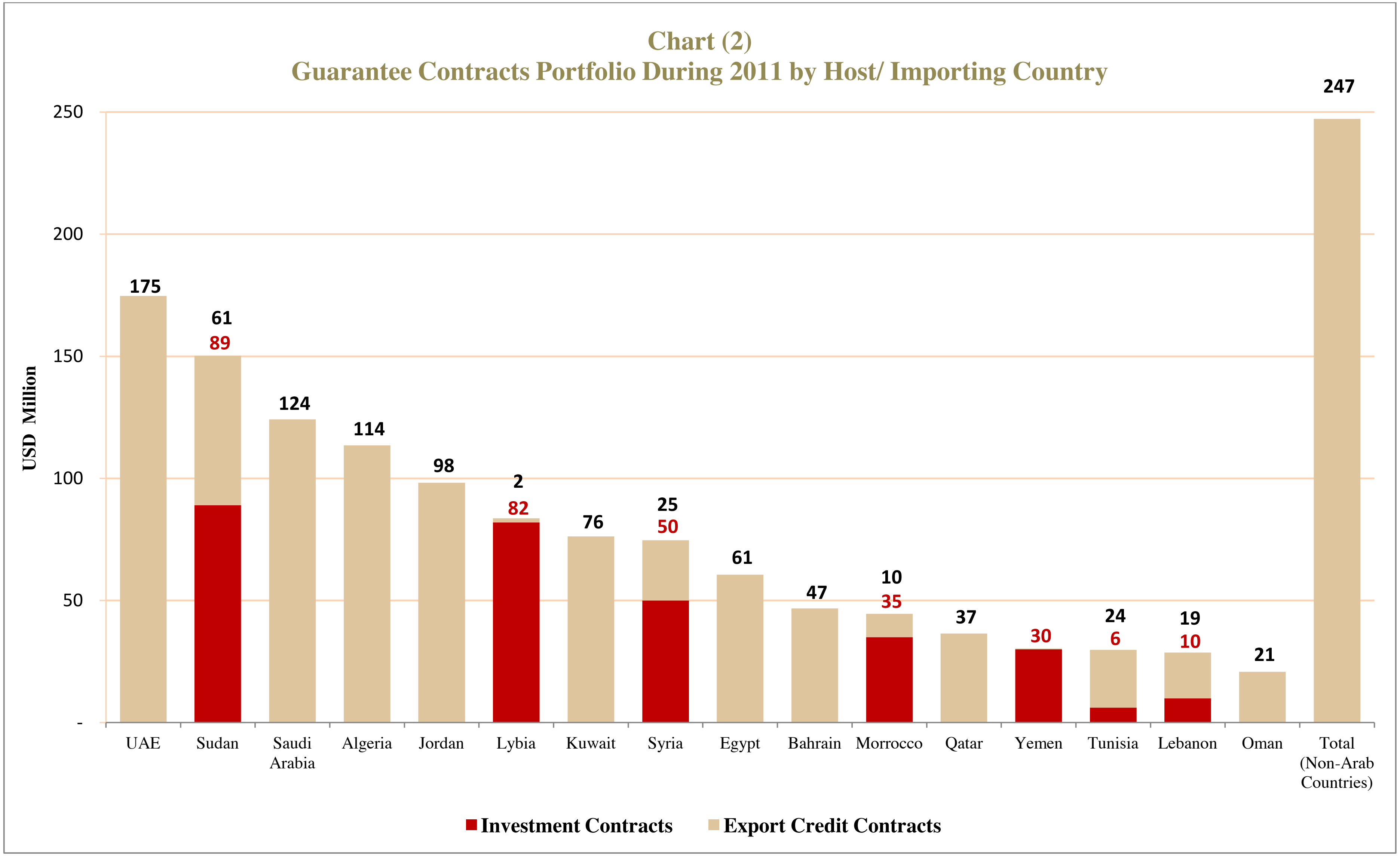


Chart (2)
Guarantee Contracts Portfolio During 2011 by Host/ Importing Country
USD Million
250
200
150
100
50
-
175
61
89
124
114
98
2
82
76
25
50
61
47
10
35
37
30
24
6
19
10
21
247
UAE
Sudan
Saudi Arabia
Algeria
Jordan
Lybia
Kuwait
Syria
Egypt
Bahrain
Morrocco
Qatar
Yemen
Tunisia
Lebanon
Oman
Total (Non-Arab Countries)
Investment Contracts
Export Credit Contracts

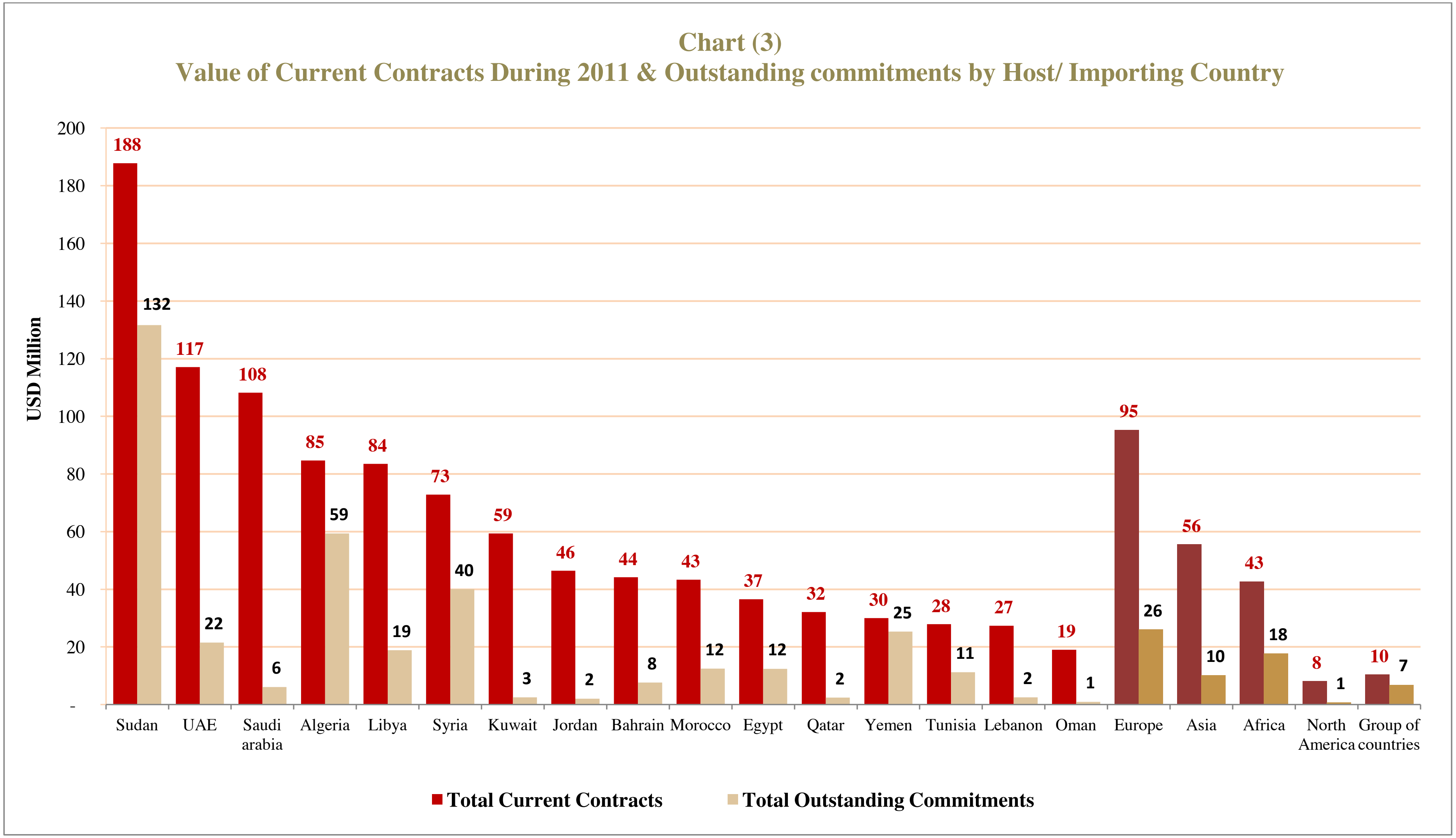
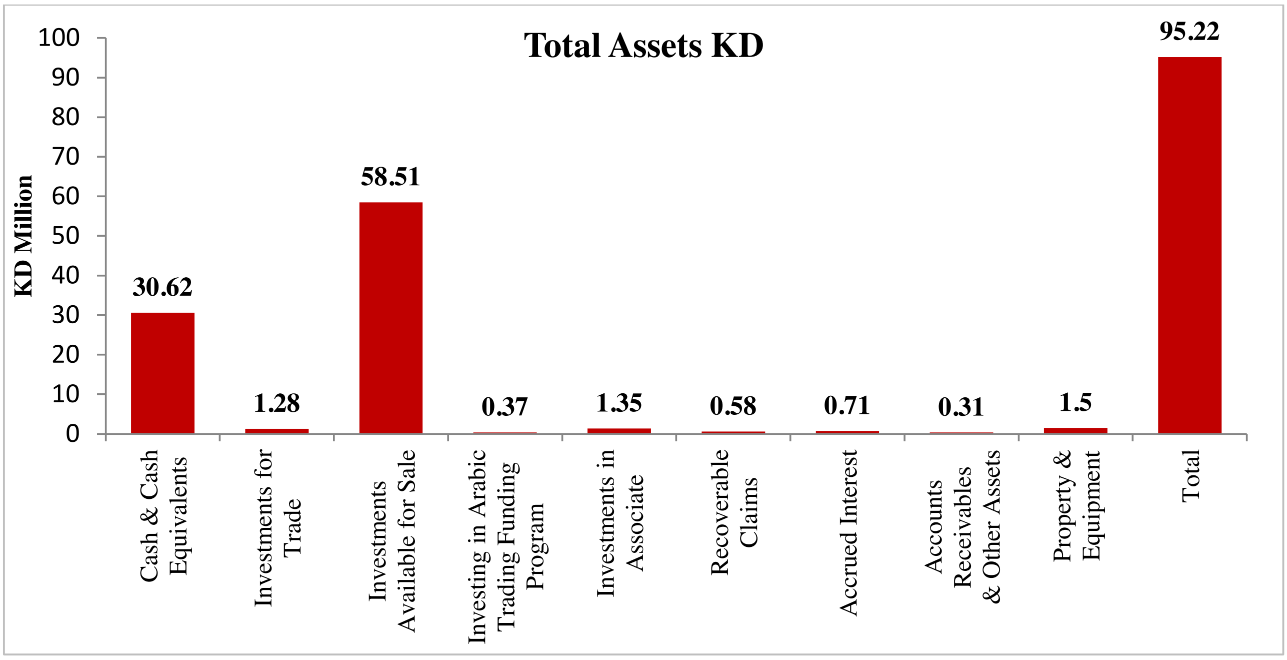
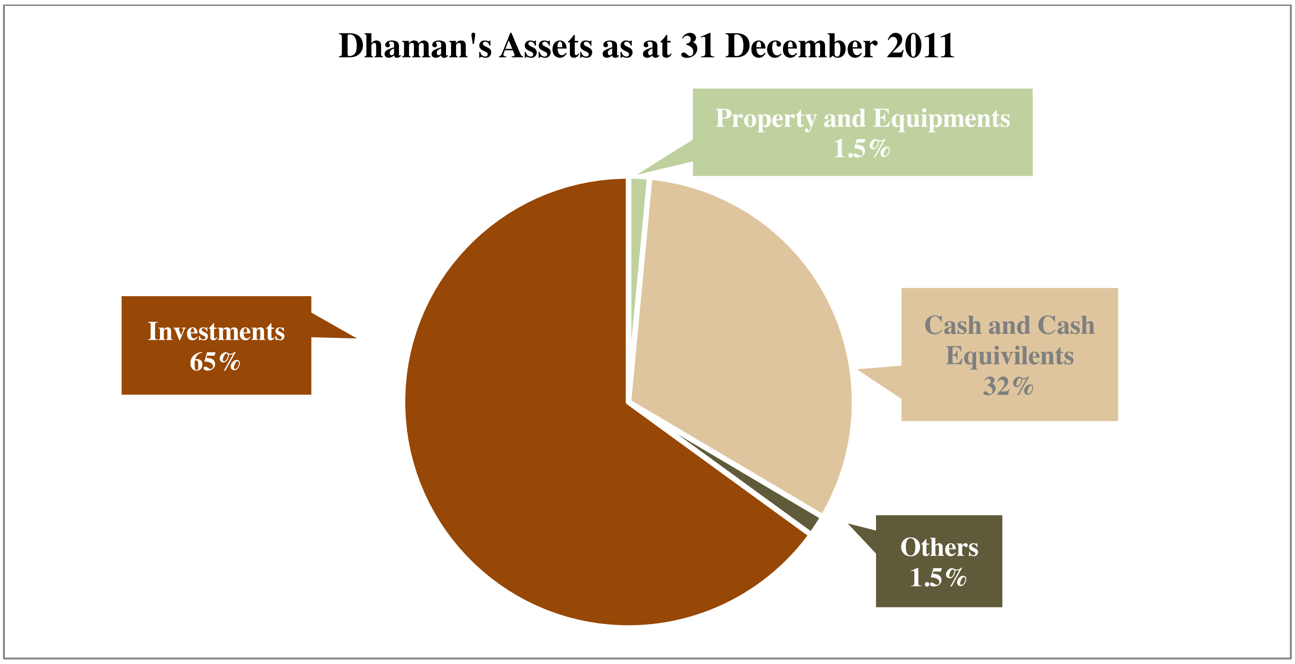


Chart (3)
Value of Current Contracts During 2011 & Outstanding commitments by Host/ Importing Country
USD Million
200
180
160
140
120
100
80
60
40
20
-
188
132
117
22
108
6
85
59
84
19
73
40
59
3
46
2
44
8
43
12
37
12
32
2
30
25
28
11
27
2
19
1
95
26
56
10
43
18
8
1
10
7
Sudan
UAE
Saudi arabia
Algeria
Libya
Syria
Kuwait
Jordan
Bahrain
Morocco
Egypt
Qatar
Yemen
Tunisia
Lebanon
Oman
Europe
Asia
Africa
North America
Group of countries
Total Current Contracts
Total Outstanding Commitments

Dhaman’s Balance Sheet as at 31 December 2011 reveals that the total assets amounted to KD 95,218,311 (USD 341,223,118) as shown by the following chart:



Dhaman’s Assets were distributed mainly between investments 65%, Cash and cash equivalents 32%, and other assets 3% as shown below.



The Shareholder's Equity as at 31 December 2011 amounted to KD 88,602,461 (USD 317,514,643) and it is composed of paid up capital amounted to KD 55,621,667 (USD 199,325,092), The general reserve of KD 36,262,096 (USD 129,948,382) and the decline in changes in fair value reserve amounted to KD 3,281,302 (USD 11,758,832).

With regard to income and expenditure as at 31 December 2011, the income from the results of guarantee premiums, interest on bonds, deposits and call accounts, and other income amounted to KD 2,930,536 (USD 10,501,831).

The investments results showed realized gains of KD 1,189,062 (USD 4,261,107) as a result of funds dividends; gain on sale of bonds, funds and portfolios. The losses in foreign exchange amounted to KD 30,547 and thus the net operating profit amounted to KD 4,089,051 (USD 14,653,471).

With regard to the net results of the year 2011 it reflected a profit of KD 1,618,213 (USD 5,799,007).

As for total expenditures at 31 December 2011 it is amounted to KD 2,470,838 (USD 8,854,463), which is lower than the overall expenditures in 2010 for the amount of KD 57,247, a rate of 2%, as a result of the rationalization of expenditures by the administration to reduce the actual expenses during the last quarter of 2011, and these expenditures within the limits of the projected budget for the year 2011.

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

Independent Auditor's Report and Financial Statements
for the year ended 31 December 2011

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE CHAIRMAN AND MEMBERS OF COUNCIL OF THE ARAB INVESTMENT & EXPORT CREDIT GUARANTEE CORPORATION AN ARAB CORPORATION WITH A SPECIAL INDEPENDENT LEGAL STATUS

Report on the Financial Statements

We have audited the accompanying financial statements of The Arab Investment & Export Credit Guarantee Corporation (the corporation), which comprise the statement of financial position as at 31 December 2011 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The management of the corporation is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the corporation as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE CHAIRMAN AND MEMBERS OF COUNCIL OF THE ARAB INVESTMENT & EXPORT CREDIT GUARANTEE CORPORATION AN ARAB CORPORATION WITH A SPECIAL INDEPENDENT LEGAL STATUS (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the corporation and we obtained all the information and explanations that we required for the purpose of our audit. We further report that, to the best of our knowledge and belief, no violations of the corporation's convention have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the corporation or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

22 February 2012
Kuwait

Income Statement

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
REVENUES:			
Gross guarantee premiums		1,317,009	1,672,719
Guarantee premiums ceded		(89,236)	(14,386)
Net guarantee premiums		1,227,773	1,658,333
Unearned premiums reserve	12	45,772	(393,770)
Outstanding claims reserve	12	(367,094)	(25,059)
Net guarantee premiums earned		906,451	1,239,504
Revenues and other commissions		574,968	444,432
Guarantee results		1,481,419	1,683,936
Interest income		1,445,111	1,465,511
Net investment income	3	1,189,062	2,780,994
Foreign exchange loss		(30,547)	(374,033)
Other miscellaneous income		4,006	15,379
TOTAL REVENUES		4,089,051	5,571,787
EXPENSES	4	(2,470,838)	(2,528,085)
PROFIT FOR THE YEAR		1,618,213	3,043,702

The attached notes 1 to 20 form part of these financial statement.

Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 KD	December 31 2010 KD
Profit for the year		1,618,213	3,043,702
Other comprehensive loss			
Unrealized (loss) gain on investments available for sale		(1,636,716)	863,912
Realized gain transferred to income statement on sale of investments available for sale	3	(964,237)	(2,051,065)
Impairment loss on investments available for sale transferred to income statement	3 & 7	276,900	395,920
Other comprehensive loss for the year		(2,324,053)	(791,233)
Total comprehensive (loss) income for the year		(705,840)	2,252,469

The attached notes 1 to 20 form part of these financial statement.

Statement of Financial Position

At 31 December 2011

	Notes	2011 KD	2010 KD
ASSETS			
Cash and cash equivalents	5	8,602,295	10,754,420
Time deposits	5	22,015,925	17,000,000
Investment at fair value through income statement	6	1,277,858	1,462,225
Investments available for sale	7	58,875,372	63,726,172
Investments in an associate	8	1,345,336	1,375,017
Recoverable claims	9	583,261	593,549
Due from insurance and reinsurance companies	10	-	2,172,054
Accounts receivable and other assets		1,019,770	995,276
Property and equipment	11	1,498,494	1,569,645
TOTAL ASSETS		95,218,311	99,648,358
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and other liabilities		458,310	845,508
Insurance technical reserves	12	1,078,961	797,616
Obligations under finance lease	13	1,986,785	2,024,675
Due to insurance and reinsurance companies	10	849,342	4,505,995
Employee savings and end of service benefits		2,242,452	2,166,263
TOTAL LIABILITIES		6,615,850	10,340,057
EQUITY			
Paid-up capital	14	55,621,667	55,621,667
General reserve	15	36,262,096	34,643,883
Cumulative changes in fair values		(3,281,302)	(957,249)
TOTAL EQUITY		88,602,461	89,308,301
TOTAL LIABILITIES AND EQUITY		95,218,311	99,648,358

The attached notes 1 to 20 form part of these financial statement.

The Arab Investment & Export Credit Guarantee Corporation

An Arab Corporation with A Special Independent Legal Status

Statement of Changes in Equity

Year ended 31 December 2011

	Paid-up capital KD	*General reserve KD*	*Cumulative changes in fair values KD*	*Retained earnings KD*	*Total KD*
Balance as at 1 January 2011	55,621,667	34,643,883	(957,249)	-	89,308,301
Profit for the year	-	-	-	1,618,213	1,618,213
Other comprehensive loss	-	-	(2,324,053)	-	(2,324,053)
Total comprehensive (loss) income for the year	-	-	(2,324,053)	1,618,213	(705,840)
Transfer to general reserve	-	1,618,213	-	(1,618,213)	-
Balance at 31 December 2011	55,621,667	36,262,096	(3,281,302)	-	88,602,461
Balance as at 1 January 2010	55,512,443	31,600,181	(166,016)	-	86,946,608
Profit for the year	-	-	-	3,043,702	3,043,702
Other comprehensive loss	-	-	(791,233)	-	(791,233)
Total comprehensive (loss) income for the year	-	-	(791,233)	3,043,702	2,252,469
Transfer to general reserve	-	3,043,702	-	(3,043,702)	-
Share capital increase (Note 14)	109,224	-	-	-	109,224
Balance at 31 December 2010	55,621,667	34,643,883	(957,249)	-	89,308,301

The attached notes 1 to 20 form part of these financial statement

Statement of Cash Flows

At 31 December 2011

	Notes	2011 KD	2010 KD
OPERATING ACTIVITIES			
Profit for the year		1,618,213	3,043,702
Adjustments for:			
Depreciation	4	76,361	82,388
Net investment income	3	(1,189,062)	(2,780,994)
Interest income		(1,445,111)	(1,465,511)
Finance lease charges	13	179,617	179,617
		(759,982)	(940,798)
Changes in operating assets and liabilities:			
Investment at fair value through income statement		-	(1,153,763)
Recoverable claims		10,288	(10,288)
Due from insurance and reinsurance companies		2,172,054	483,072
Accounts receivable and other assets		821,000	217,540
Accounts payable and other liabilities		(387,198)	245,982
Insurance technical reserves		281,345	418,829
Due to insurance and reinsurance companies		(3,656,653)	(1,145,105)
Employees savings and end of service benefits		76,189	320,789
Cash used in operations		(1,442,957)	(1,563,742)
Dividend received		577,572	563,017
Interest received		737,818	1,115,235
Net cash (used in) from operating activities		(127,567)	114,510
INVESTING ACTIVITIES			
Purchase of investments available for sale		(31,844,975)	(49,940,514)
Proceeds from sale of investments available for sale		35,059,059	29,948,969
Purchase of property and equipment		(5,210)	(9,420)
Time deposits		(5,015,925)	(17,000,000)
Net cash used in investing activities		(1,807,051)	(37,000,965)
FINANCING ACTIVITIES			
Payment of finance lease obligations		(217,507)	(215,028)
Share capital increase	14	-	109,224
Net cash used in financing activities		(217,507)	(105,804)
DECREASE IN CASH AND CASH EQUIVALENTS		(2,152,125)	(36,992,259)
Cash and cash equivalents at beginning of the year		10,754,420	47,746,679
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	8,602,295	10,754,420

The attached notes 1 to 20 form part of these financial statement.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

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 22 February 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

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 for the measurement at fair value of investments available for sale and investments at fair value through the income statement

The financial statements have been presented in Kuwaiti Dinars which is the functional currency.

Changes in accounting policy and disclosures
The accounting policies used in the preparation of these financial statements are consistent with those used in previous financial year except for the following new and amended IFRS interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the corporation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosures (continued)

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the corporation because the corporation does not have these types of instruments.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendment resulted in changes to accounting policies, but no impact on the financial position or performance of the corporation.

IAS 1 Presentation of Financial Statements:
The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The corporation provided this analysis in the statement of changes in equity.

The application of other IASB Standards did not have a material impact on the financial statements of the corporation.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the corporation's financial statements are listed below. This listing is of standards and interpretations issued are those that the corporation reasonably expects to be applicable at a future date. The corporation intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the corporation's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the corporation's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the corporation's financial position or performance.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the corporation's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The corporation will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The corporation is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The significant accounting policies adopted are set out below:

Income recognition

Net guarantee premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on a time proportion basis. Interest on doubtful or overdue accounts is suspended and recognised in the income statement as and when received.

Cash and cash equivalents

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

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either investment at fair value through income statement, receivables and other assets, and investments available for sale, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

The corporation determines that classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the corporation commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investment at fair value through income statement

After initial recognition investments at fair value through income statement are remeasured at fair value with all changes in fair value recognized in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Investments available for sale
After initial recognition investments available for sale are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognized in the income statement. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Fair value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Investment in associate
An associate is an entity over which the company has significant influence usually evidenced by holding of 20% to 50% of the voting power of the investee and has influence but not control over the investee company. The financial statements include the corporation's share of the associate's results using the equity method of accounting.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the corporation's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The corporation recognises in the income statement its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment.

Adjustments to the carrying amount may also be necessary for changes in the corporation's share in the associate arising from changes in the associate's equity. The corporation's share of those changes is recognised directly in equity; fair value reserve or foreign currency translation reserve as appropriate.

Unrealized gains on transactions with an associate are eliminated to the extent of the corporation's share in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the corporation's reporting date or to a date not earlier than three months of the corporation's reporting date using consistent accounting policies. Where practicable, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the associates and the corporation's reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized when:

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

Where the corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the corporation's continuing involvement in the asset. 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.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where 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 recognized in the income statement.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value;
b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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. Claims paid in relation to commercial risks are the responsibility of the importer and are subject to reinsurance arrangements. Accordingly, recoverable claims are stated at face value.

Receivables

Receivables are stated at face value, less provision for doubtful accounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Payables
Accounts payable are stated at their amortized cost.

Unearned premiums reserve
Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The pro-rata attributable to subsequent periods is deferred as a reserve for unearned premiums.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 employment contracts, where such contracts provide extra benefits.

Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Kuwaiti Dinars at the rate of exchange prevailing on that date. Exchange differences are reported in the income statement.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Provisions

Provisions are recognised when the corporation has a present obligation (legal or contractual) arising from a past event and the costs to settle the obligation are both probable and measurable.

Judgments

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

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

Classification of investments as fair value through income statement 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 income statement.

All other investments are classified as available for sale.

Impairment of investments

The corporation treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the corporation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty
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 reporting period. Actual results could differ from those estimates.

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 unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Guarantee contract liabilities
For guarantee contracts, estimates have to be made for the expected ultimate cost of claims reported at the reporting date, provision for outstanding claims (OCR). 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.

3. NET INVESTMENT INCOME

	2011 KD	*2010 KD*
Unrealized (loss) gain on investments at fair value through income statement	(184,367)	308,462
Realized gain on sale of investments available for sale	964,237	2,051,065
Dividend income	577,572	563,017
Commission income on guarantee funds	116,810	211,330
Share of results of an associate company	(8,290)	43,040
Impairment loss on investments available for sale	(276,900)	(395,920)
	1,189,062	2,780,994

4. EXPENSES

		2011 KD	2010 KD
First Chapter	- Salaries, wages and bonuses	1,640,361	1,611,699
Second Chapter	- General and administrative expenses	713,607	783,117
Third Chapter	- Depreciation expenses	76,361	82,388
Fourth Chapter	- Provisions and others	40,509	50,881
		2,470,838	2,528,085

5. CASH AND CASH EQUIVALENTS

	2011 KD	2010 KD
Cash in hand and at banks	2,128,966	1,597,973
Time deposits	28,489,254	26,156,447
	30,618,220	27,754,420
Less: Time deposits maturing after three months	(22,015,925)	(17,000,000)
	8,602,295	10,754,420

The average interest rate on deposits range between 0.35% to 7.0% (2010: 0.625% to 2.5%)

The corporation's exposure to interest rate risk and a sensitivity analysis for assets is disclosed in Note 18.

6. INVESTMENT CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2011 KD	2010 KD
Held for trading:		
Investment in managed portfolios of quoted securities	1,277,858	1,462,225

7. INVESTMENTS AVAILABLE FOR SALE

	2011 KD	2010 KD
Bonds	7,757,757	10,703,711
Managed funds	50,751,884	52,656,730
Investment in Arab Trade Finance Program	365,731	365,731
	58,875,372	63,726,172

Interest-bearing investments available for sale have stated interest rates that range between 5.25% to 13.5% (2010: 5.62% to 13.5%).
An impairment loss of KD 276,900 (31 December 2010: KD 395,920) has been recorded in respect of the managed funds on which there has been a significant or prolonged decline in value.

Investments in Arab Trade Finance Program represent 0.25% of the capital of the Arab Trade Finance Program, which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. Due to the unpredictable nature of future cash flow and the lack of suitable other methods for arriving at reliable measure of fair value, the investment is carried at cost.

8. INVESTMENT IN AN ASSOCIATE

The corporation has the following investment in an associate:

	Country of incorporation	*Percentage of ownership*		*Principal activity*
		2011	*2010*	
Tunisian External Trade Insurance Company	Tunisia	25%	25%	External Trading Guarantee

During 2009, the corporation acquired 50,000 shares for an amount of KD 1,331,977 being 25% of the share capital of "Tunisian External Trade Insurance Company.", a company incorporated in Republic of Tunisia.

	2011 KD	2010 KD
Share of associate's statement of financial position:		
Net assets	5,414,504	5,327,908
Percentage of ownership	25 %	25 %
Share of net assets	1,353,626	1,331,977
Share of associate's (loss) profit	(8,290)	43,040
Net assets value of the associate	1,345,336	1,375,017

9. RECOVERABLE CLAIMS

These amounts represent compensation claims paid to Arab nationals against risks realized in member states. In accordance with the inter member states convention, such compensation claims are reimbursable from the importer or member state in which the risk is realized. Accordingly, in the opinion of management, the claims are recoverable in full.

10. DUE FROM/TO INSURANCE AND REINSURANCE COMPANIES

Due from insurance and reinsurance companies represent the reinsurance companies' share of claims incurred and paid by the corporation under the respective reinsurance contract. Due to insurance and reinsurance companies represent amounts refundable to the reinsurance companies following reimbursement by the counter party or member state. In making settlement with a given reinsurance company, the corporation observes amounts owed by the reinsurance company and settle on a net basis

11. 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 (2010: KD 67,648).

12. INSURANCE TECHNICAL RESERVES

	2011 *KD*	*2010* *KD*
Unearned premium reserve movement:		
Unearned premiums reserve at the beginning of the year	555,530	161,760
Unearned premiums reserve at the end of the year	(509,758)	(555,530)
	45,772	(393,770)
Outstanding claims reserve movement:		
Outstanding claims reserve at the beginning of the year	242,086	217,027
Claims paid during the year	(39,977)	-
Outstanding claims reserve at the end of the year	(569,203)	(242,086)
	(367,094)	(25,059)
As at 31 December:		
Unearned premiums reserve	509,758	555,530
Outstanding claims reserve	569,203	242,086
	1,078,961	797,616

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.

13. OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2011 *KD*	*2010* *KD*
Within one year	179,617	179,617
From the first to the fifth years inclusive	898,085	898,085
Over five years	2,873,872	3,053,489
Due to Arab Fund For Economic And Social Development	3,951,574	4,131,191
Less: Finance charges allocated to future periods	(1,964,789)	(2,106,516)
	1,986,785	2,024,675

14. PAID-UP CAPITAL

At 31 December 2011, the capital of the corporation and the share of each member state and other authorities are as follows:

	Issued		*Paid*	
	2011	*2010*	*2011*	*2010*
	KD	*KD*	*KD*	*KD*
A. Member State:				
The Hashemite Kingdom of Jordan	525,000	525,000	525,000	525,000
United Arab Emirates	2,350,000	2,350,000	2,350,000	2,350,000
Kingdom of Bahrain	500,000	500,000	500,000	500,000
The Republic of Tunisia	1,250,000	1,250,000	1,250,000	1,250,000
Peoples' Democratic Republic of Algeria	1,250,000	1,250,000	1,250,000	1,250,000
Republic of Djibouti	200,000	200,000	200,000	200,000
Kingdom of Saudi Arabia	3,750,000	3,750,000	3,750,000	3,750,000
Republic of Sudan	1,217,932	1,217,932	1,217,932	1,217,932
Syrian Arab Republic	500,000	500,000	500,000	500,000
Somali Democratic Republic	58,735	58,735	58,735	58,735
Republic of Iraq	500,000	500,000	500,000	500,000
Sultanate of Oman	750,000	750,000	750,000	750,000
State of Palestine	500,000	500,000	500,000	500,000
State of Qatar	2,000,000	2,000,000	2,000,000	2,000,000

14. PAID-UP CAPITAL (continued)

State of Kuwait	3,000,000	3,000,000	3,000,000	3,000,000
Republic f Lebanon	500,000	500,000	500,000	500,000
Libya	2,500,000	2,500,000	2,500,000	2,500,000
Arab Republic of Egypt	1,250,000	1,250,000	1,250,000	1,250,000
Kingdom of Morocco	2,000,000	2,000,000	2,000,000	2,000,000
The Islamic Republic of Mauritania	500,000	500,000	500,000	500,000
The Republic of Yemen	1,000,000	1,000,000	1,000,000	1,000,000
	26,101,667	26,101,667	26,101,667	26,101,667
B. Arab Financial Authorities:				
Arab Fund for Economical and Social Development	15,202,800	15,202,800	15,202,800	15,202,800
Arab Monetary Fund	8,118,000	8,118,000	8,118,000	8,118,000
BADEA	5,106,960	5,106,960	5,106,960	5,106,960
Arab Authority for Agricultural Investment and Development	1,092,240	1,092,240	1,092,240	1,092,240
	55,621,667	55,621,667	55,621,667	55,621,667

During the year ended 31 December 2010, the Arab Authority for Agricultural Investment and Development paid its remaining portion of unpaid capital amounting to KD 109,224.

15. 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 percent 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.

16. CONTINGENT AND UNRECORDED LIABILITIES

The underlying value of written guarantee contracts in force as of 31 December 2011 amounted to KD 99,016,095 (2010: KD 140,847,041).

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.

17 . RELATED PARTY TRANSACTIONS

Related parties represent member states. In the normal course of business and upon the management approval, fees of KD 116,810 were received for management of fiduciary assets in favour of one member state (2010: KD 211,330). Non commercial risks related to guarantees granted by the corporation are guaranteed by member states.

18. 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, recoverable claims and payables and as a result, the corporation is exposed to the following risks:

18.1 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 cash and cash equivalents, time deposits and bonds. 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).

	Gross maximum exposure 2011 KD	*Gross maximum exposure 2010 KD*
Cash and cash equivalents	8,602,295	10,754,420
Time deposits	22,015,925	17,000,000
Investment available for sale (Bonds)	7,757,757	10,703,711
Recoverable claims	583,261	593,549
Due from insurance and reinsurance companies	-	2,172,054
Accounts receivables and other assets	1,019,770	995,276
Total credit risk exposure	39,979,008	42,219,010

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 backed up by the member states.

18. RISK MANAGEMENT (continued)

18.2 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 table below summarises the maturity profile of the corporation's assets and liabilities at 31 December 2011. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments at fair value through income statement and investments available for sale 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.

At 31 December 2011	*Within 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 3 years*	*Over 3 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
ASSETS						
Cash and cash equivalents	8,602,295	-	-	-	-	8,602,295
Time deposits	-	-	22,015,925	-	-	22,015,925
Investment at fair value through income statement	1,277,858	-	-	-	-	1,277,858
Investments available for sale	-	-	-	51,117,615	7,757,757	58,875,372
Investments in associate	-	-	-	-	1,345,336	1,345,336
Recoverable claims	-	-	-	583,261	-	583,261
Accounts receivable and other assets	707,293	312,477	-	-	-	1,019,770
Property and equipments	-	-	-	-	1,498,494	1,498,494
TOTAL ASSETS	10,587,446	312,477	22,015,925	51,700,876	10,601,587	95,218,311
LIABILITIES						
Accounts payable and accruals	259,206	-	199,104	-	-	458,310
Insurance technical reserves	-	-	-	1,078,961	-	1,078,961
Obligation under finance lease	-	-	-	1,856,447	130,338	1,986,785
Due to insurance and reinsurance companies	-	849,342	-	-	-	849,342
Employees savings and end of service benefits	-	-	-	-	2,242,452	2,242,452
TOTAL LIABILITIES	259,206	849,342	199,104	2,935,408	2,372,790	6,615,850
NET SURPLUS (GAP)	10,328,240	(536,865)	21,816,821	48,765,468	8,228,797	88,602,461

18. RISK MANAGEMENT (continued)

18.2 Liquidity risk (continued)

At 31 December 2010	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*1 to 3 years KD*	*Over 3 years KD*	*Total KD*
ASSETS						
Cash and cash equivalents	10,754,420	-	-	-	-	10,754,420
Time deposits	-	-	17,000,000	-	-	17,000,000
Investment at fair value through income statement	1,462,225	-	-	-	-	1,462,225
Investments available for sale	-	-	-	53,022,461	10,703,711	63,726,172
Investments in associate	-	-	-	-	1,375,017	1,375,017
Recoverable claims	-	-	-	593,549	-	593,549
Due from insurance and reinsurance companies	-	2,172,054	-	-	-	2,172,054
Accounts receivable and other assets	350,276	645,000	-	-	-	995,276
Property and equipments	-	-	-	-	1,569,645	1,569,645
TOTAL ASSETS	12,566,921	2,817,054	17,000,000	53,616,010	13,648,373	99,648,358
LIABILITIES						
Accounts payable and accruals	645,686	-	199,822	-	-	845,508
Insurance technical reserves	-	-	-	797,616	-	797,616
Obligation under finance lease	-	-	-	113,843	1,910,832	2,024,675
Due to insurance and reinsurance companies	-	4,505,995	-	-	-	4,505,995
Employees savings and end of service benefits	-	-	-	-	2,166,263	2,166,263
TOTAL LIABILITIES	645,686	4,505,995	199,822	911,459	4,077,095	10,340,057
NET SURPLUS (GAP)	11,921,235	(1,688,941)	16,800,178	52,704,551	9,571,278	89,308,301

18.3 Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the corporation has no significant exposure to such risk.

18.4 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 cause by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

18. RISK MANAGEMENT (continued)

18.4 Market risk (continued)

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 firms.

18.4.1 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.

	31 December 2011			*31 December 2010*		
Currency	*Change in currency rate in %*	*Effect on profit KD*	*Effect on equity KD*	*Change in currency rate in %*	*Effect on profit KD*	*Effect on equity KD*
USD	±5%	228,965	2,800,756	±5%	136,205	3,038,432
GBP	±5%	163	-	±5%	163	-
Euro	±5%	12,535	73,381	±5%	4,482	75,986

18.4.2 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.

18. RISK MANAGEMENT (continued)

18.4 Market risk (continued)

18.4.2 Interest rate risk (continued)

	2011		2010	
Currency	*Change in variables*	*Impact on profit KD*	*Change in variables*	*Impact on profit KD*
USD	±50 basis	149,484	±50 basis	58,106
EURO	±50 basis	3,735	±50 basis	1,035
OTHERS	±50 basis	127,420	±50 basis	125,160

18.4.3 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:

	2011			2010		
	Change in equity price %	*Effect on profit KD*	*Effect on equity KD*	*Change in equity price %*	*Effect on profit KD*	*Effect on equity KD*
Investment at fair value through income statement	±5	63,893	-	±5	73,111	-
Investments available for sale	±5	-	2,943,769	±5	-	3,186,309

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.
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 investments available for sale as indicated in Note 7.

Fair value hierarchy
As at 31 December 2011, the corporation held the following financial instruments measured at fair value:
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

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	Total KD	Level 1 KD	Level 2 KD	Level 3 KD
31 December 2011				
Investments available for sale	58,875,372	46,538,258	8,762,274	3,574,840
Investment at fair value through income statement	1,277,858	1,277,858	-	-
	60,153,230	47,816,116	8,762,274	3,574,840

	Total KD	Level 1 KD	Level 2 KD	Level 3 KD
31 December 2010				
Investments available for sale	63,726,172	47,879,150	11,069,442	4,777,580
Investment at fair value through income statement	1,462,225	1,462,225	-	-
	65,188,397	49,341,375	11,069,442	4,777,580

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets:

	At 1 January 2011 KD	Change in fair value KD	At 31December 2011 KD
Investments available for sale:			
Managed funds	4,777,580	(1,202,740)	3,574,840

	At 1 January 2010 KD	Change in fair value KD	At 31December 2010 KD
Investments available for sale:			
Managed funds	3,855,904	921,676	4,777,580

20. 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 as at the reporting date was KD 29,001,390 (2010: KD 35,014,524), which represent investments managed on behalf of a member state.