

المؤسسة العربية
لضمان الصادرات
والاستثمار

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



Annual Report
2012





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, until now, 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 March 4th, 2013, Standard & Poor's Rating Services affirmed its «AA» rating, Outlook: Stable, under new criteria, for Dhaman's counterparty credit rating as well as its financial strength rating as an insurer, reflecting Dhaman's very strong business profile and very strong financial profile. Dhaman obtained the same long-term rating in 2010, with a «stable» outlook.

Headquarters

Arab Organizations Headquarters Building
Jamal Abdul Nasser Street and Airport Road Intersection,
Shuwaikh, Kuwait
P.O.Box: 23568 - Safat 13096
Tel: (+965) 24959555, Fax: (+965) 24959596/7
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 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:

1.	H.E. Mr. Nassir Ben Mohamad Al Quhtani	Chairman
2.	H.E. Mr. Ishaq A. Abdulkarim	Member
3.	H.E. Dr. Ali R. Shnebesh	Member
4.	H.E. Mr. Ahmed Mahmoud Alhammadi	Member
5.	H.E. Mr. Ahmad Ali Bokshaisha	Member
6.	H.E. Dr. Jawad Naji	Member
7.	H.E. Mr. Abdelwahab Ali Abdu	Member
8.	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 40th 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 2012.

Please accept my highest consideration,



Nassir Ben Mohamad Al Quhtani
Chairman of the Board of Directors

Dubai, UAE, April 2013.

Chapter One: Guarantee Operations

1.1 Guarantee Contracts Portfolio ⁽¹⁾:

Total value of guarantee contracts portfolio as at 31/12/2012 reached USD 1723 million (KD 485.5 million) ⁽²⁾, compared to USD 1440 million in 2011, realizing an increase of 19.65%. (See Table 1).

Details of guarantee contracts portfolio:

1.1.1 Investment Guarantee Contracts:

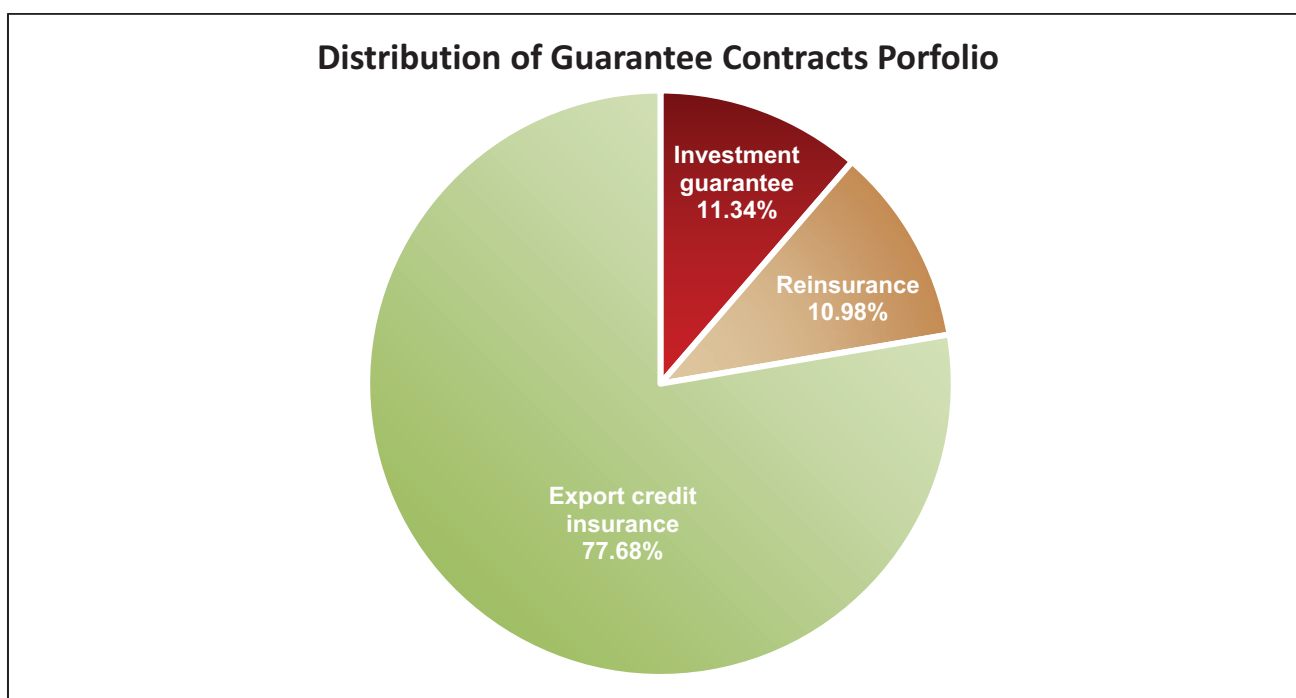
The value of investment guarantee contracts portfolio totaled USD 195.4 million (KD 55 million), or 11.34% of the total value of the portfolio.

1.1.2 Export Credit Insurance Contracts Portfolio:

The value of export credit insurance contracts portfolio totaled USD 1338.8 million (KD 377.2 million), or 77.68% of the total value of the portfolio.

1.1.3 Inward Reinsurance:

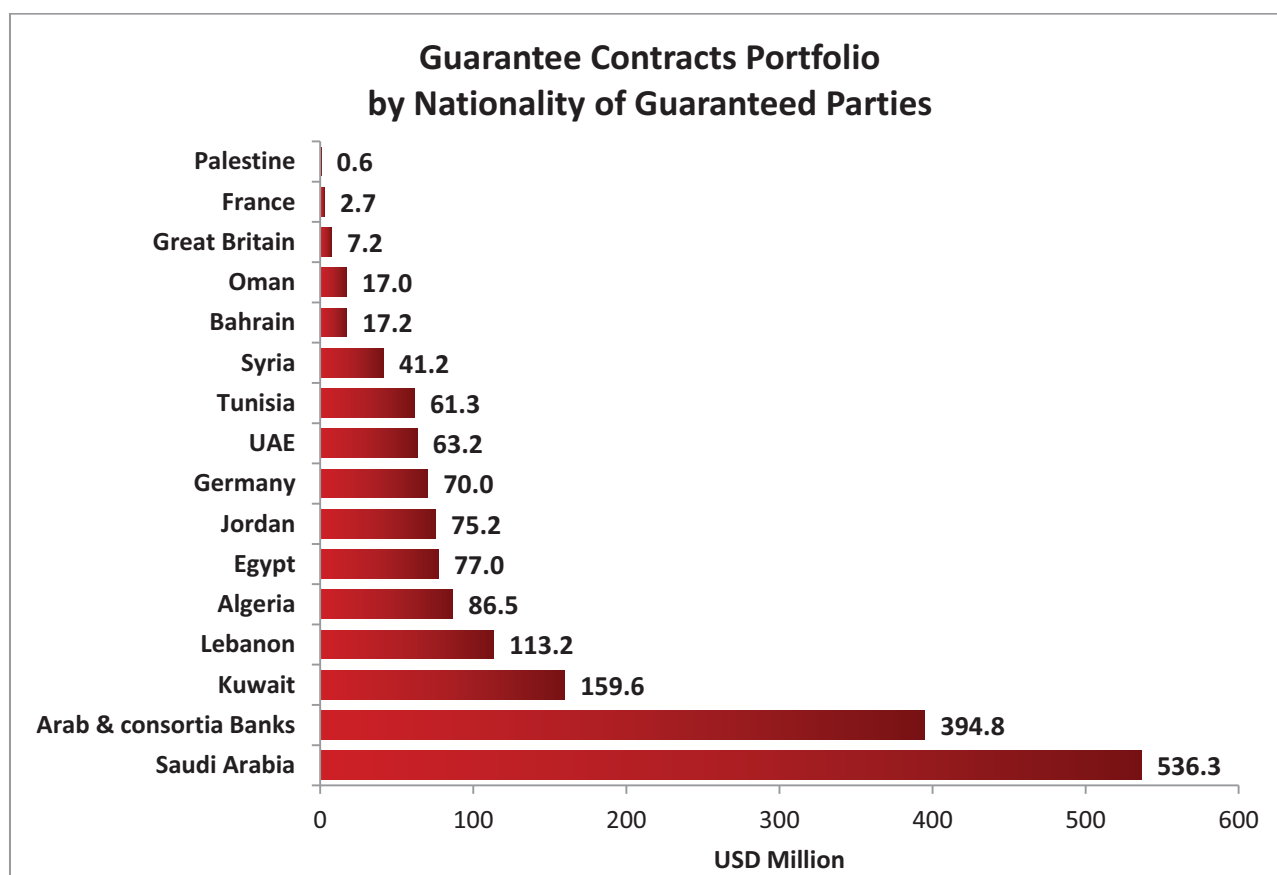
The value of transactions attributed to reinsurance treaties totaled USD 189.2 million (KD 53.3 million), or 10.98% of the total value of the portfolio.



¹ Value of contracts signed during 2012 (current and expired)

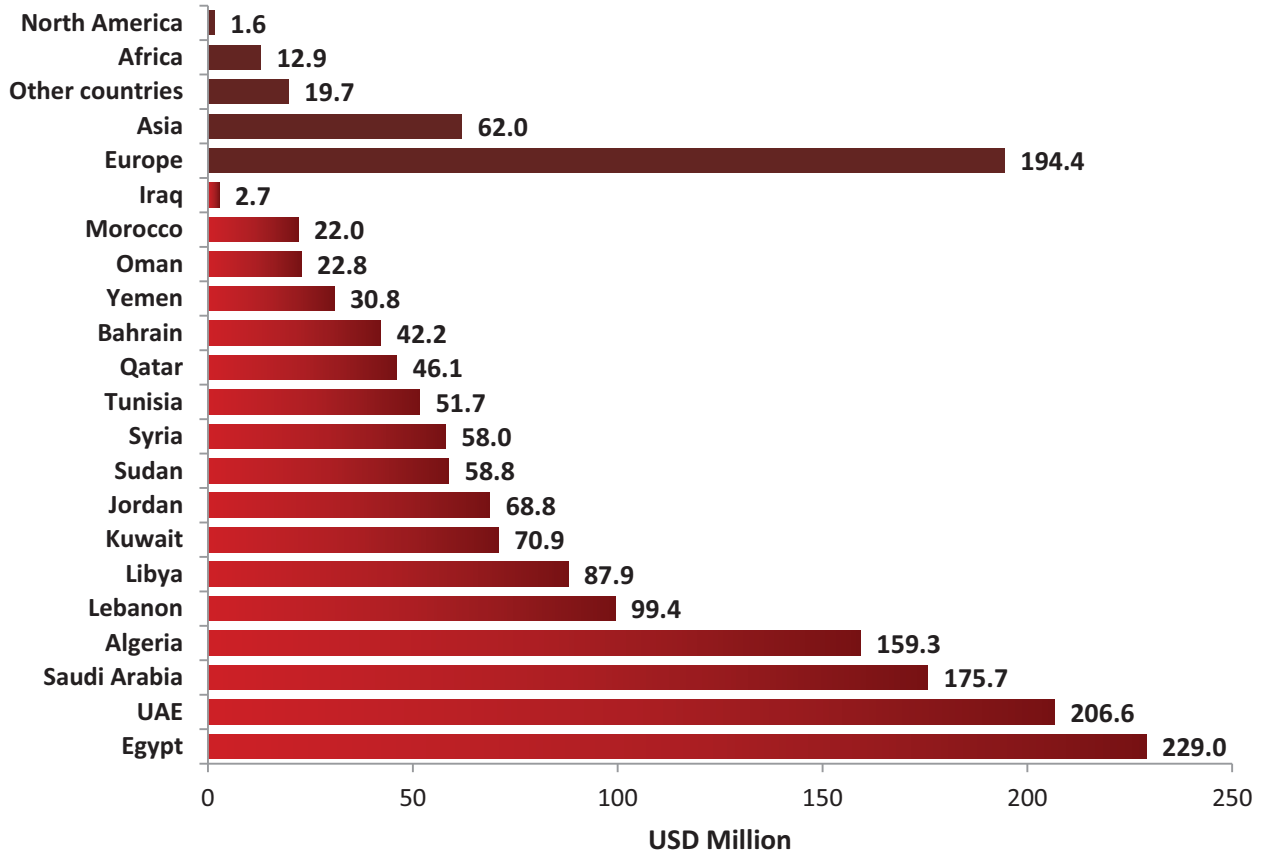
² US\$ 1 = KD 0.28175 as at 31/12/2012

Investors, exporters and banks from fifteen Arab and non-Arab countries and a number of Arab and consortia banks resident in non-Arab countries benefited from Dhaman's guarantee services. At the lead was Saudi Arabia with (31.12%), followed by Arab & consortia Banks (22.91%), Kuwait (9.26%), Lebanon (6.57%), Algeria (5.02%), Egypt (4.47%), Jordan (4.36%), UAE (3.67%), Tunisia (3.56%), Syria (2.39%), Bahrain (1%), Oman (0.43%), Palestine (0.03%), Germany (4.06%), Great Britain (0.99%) and France (0.16%) .

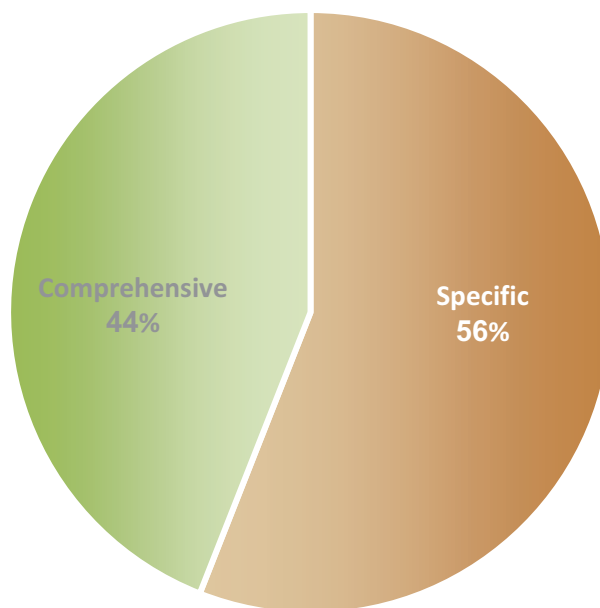


The number of host and importing countries reached ninety eight countries, of which seventeen were Arab countries led by Egypt (13.29%) followed by UAE (11.99%), Saudi Arabia (10.20%), Algeria (9.24%), Lebanon (5.77%), Libya (5.10%), Kuwait (4.11%), Jordan (3.99%), Sudan (3.41%), Syria (3.37%), Tunisia (3%), Qatar (2.67%), Bahrain (2.45%), Yemen (1.79%), Oman (1.32%), Morocco (1.28%) and Iraq (0.16%) while the rest of the contracts, representing (16.86%), were distributed amongst eighty one countries. (see Table 3)

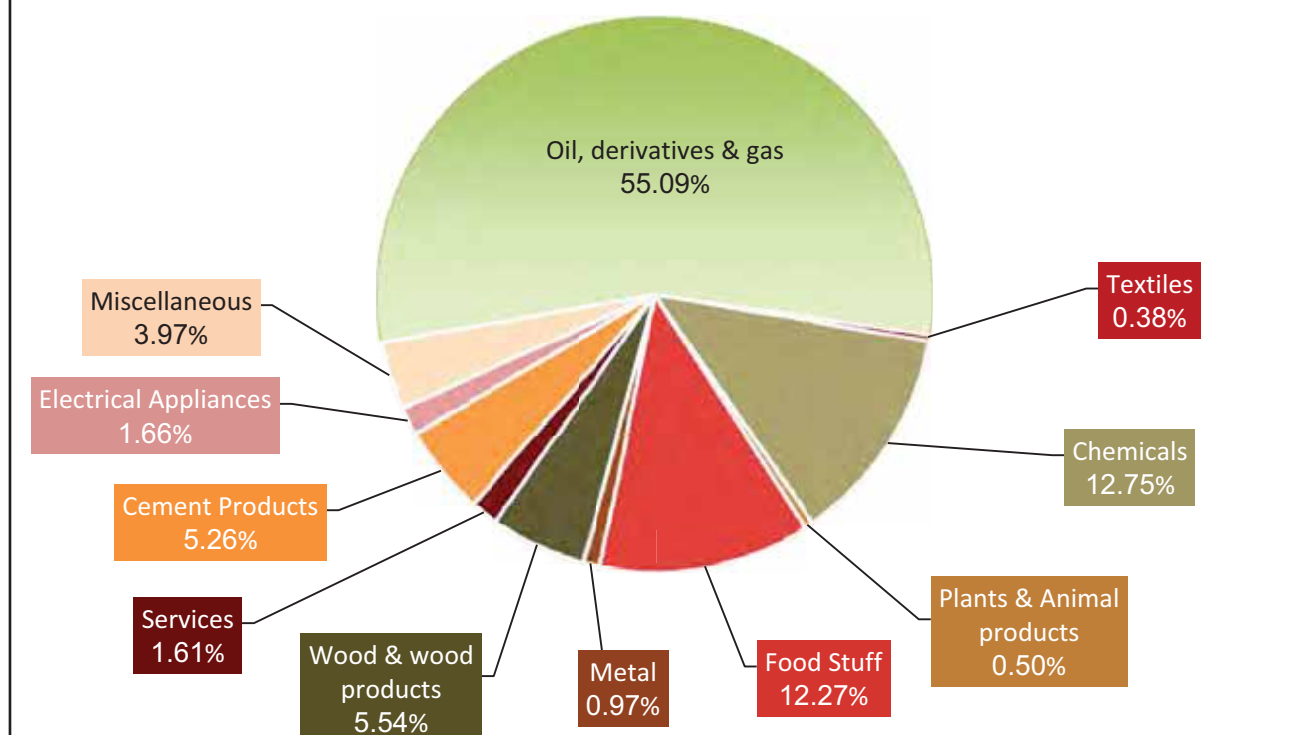
Guarantee contracts portfolio by host/ importing countries



Distribution of Export Credit Insurance Contracts by Type



Distribution of export credit insurance contracts by sector



1.2 Value of Current Contracts & Outstanding Commitments:

1.2.1 Value of current contracts:

The total value of current contracts as at 31/12/2012 reached USD 1260.9 million (KD 355.2 million), marking a 2.3% growth over 2011, with investment guarantee contracts accounting for 15.49% and export credit insurance contracts & reinsurance accounting for 84.51%.

1.2.2 Value of outstanding commitments:

The total value of outstanding commitments as of 31/12/2012 reached USD 348.6 million (KD 98.2 million), representing 27.64% of the value of current contracts, compared to USD 418.4 million in 2011. (See Table 4)

1.3 Gross Premium:

Gross premium generated from guarantee operations at the end of 2012 totaled USD 4.94 million (KD 1.37 million).

On the other hand, the Corporation participated in a single export finance transaction generating an income of USD 60,880.

1.4 Compensation & Recovery:

During the year, two claims amounting to USD 253,605 (KD 71,453) were paid against the realization of commercial risks in an Arab country and a non-Arab country. Dhaman did not recover any amount during the same period.

1.5 Reinsurance:

During the year, two new inward quota share reinsurance treaties were signed with a national export credit agency and with an Arab company specialized in domestic credit insurance.

Eight similar quota share reinsurance treaties were renewed with Arab ECAs, seven of them pertaining to export credit insurance and one to domestic credit insurance.

Three new inward facultative reinsurance treaties were also concluded and three others were renewed.

The total value of reinsurance transactions concluded by Dhaman reached USD 189.2 million (KD 53.3 million), as mentioned in section 1.1.3.

1.6 Marketing Guarantee Services:

In addition to field visits in Kuwait where Dhaman is headquartered, and in Saudi Arabia, through the Regional Office in Riyadh, Dhaman conducted a number of missions to 4 other Arab countries and 3 non-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. Dhaman issued a new English brochure and communicated with a number of investing and exporting companies in some Arab countries.

1.7 Relationship with Export Credit Insurance Agencies:

Dhaman, as a founder member, participated in the third annual meeting of Aman Union in Kuala Lumpur in Malaysia in November 2012. Dhaman also participated in the Prague Club and Credit Alliance meetings held during January and May where the meetings discussed a number of issues including the new developments in export credit insurance and investment insurance industry.

Table (1)
Guarantee Contracts Portfolio in 2012

	USD	KWD
Investment	195,342,611	55,037,781
Export Credit	1,338,812,026	377,210,288
Reinsurance	189,250,000	53,321,188
Total	1,723,404,637	485,569,257



Table (2)
Guarantee Contracts Portfolio as at 31/12/2012 by Exporting Countries & Type of Contracts
(in USD and KWD Equivalent)

Exporting Country	Investment Contracts			Export Credit Contracts			Total		% of Total
	USD	KWD	%	USD	KWD	%	USD	KWD	
1 Saudi Arabia	80,845,685	22,778,272	41.39%	455,465,261	128,327,337	29.81%	536,310,946	151,105,608.92	31.12%
2 Kuwait	84,353,725	23,766,662	43.18%	75,291,194	21,213,294	4.93%	159,644,919	44,979,956.04	9.26%
3 Lebanon	5,000,000	1,408,750	2.56%	108,242,400	30,497,296	7.08%	113,242,400	31,906,046.20	6.57%
4 Algeria	-	-	-	86,554,000	24,386,590	5.66%	86,554,000	24,386,589.50	5.02%
5 Egypt	-	-	-	77,098,000	21,722,362	5.05%	77,098,000	21,722,361.50	4.47%
6 Jordan	25,143,201	7,084,097	12.87%	50,066,383	14,106,203	3.28%	75,209,584	21,190,300.30	4.36%
7 UAE	-	-	-	63,209,423	17,809,255	4.14%	63,209,423	17,809,254.98	3.67%
8 Tunisia	-	-	-	61,327,000	17,278,882	4.01%	61,327,000	17,278,882.25	3.56%
9 Saudi Arabia	-	-	-	41,220,000	11,613,735	2.70%	41,220,000	11,613,735.00	2.39%
10 Bahrain	-	-	-	17,200,586	4,846,265	1.13%	17,200,586	4,846,265.23	1.00%
11 Oman	-	-	-	7,256,000	2,044,378	0.46%	7,256,000	2,044,378.00	0.43%
12 Palestine	-	-	-	560,000	157,780	0.04%	560,000	157,780.00	0.03%
13 Arab & consortia Banks	-	-	-	394,843,946	111,247,282	25.84%	394,843,946	111,247,281.90	22.91%
14 Germany	-	-	-	70,000,000	19,722,500	4.58%	70,000,000	19,722,500.00	4.06%
15 Great Britain	-	-	-	17,000,000	4,789,750	1.11%	17,000,000	4,789,750.00	0.99%
16 France	-	-	-	2,727,832	768,567	0.18%	2,727,832	768,566.73	0.16%
Total for the Year	195,342,611	55,037,781	100%	1,528,062,026	430,531,476	100%	1,723,404,637	485,569,257	100%
% of Total	11.34%			88.66%					100%

Table (3)
Guarantee Contracts Portfolio as at 31/12/2012 by Host/Importing Country & Type of contract
(in USD and KWD Equivalent)

Host/Importing Country	Investment Contracts			Export Credit Contracts			Total		% of Total
	USD	KWD	%	USD	KWD	%	USD	KWD	
1 Egypt	-	-	0.00%	228,987,304	64,517,173	14.99%	228,987,304	64,517,173	13.29%
2 UAE	-	-	0.00%	206,610,761	58,212,582	13.52%	206,610,761	58,212,582	11.99%
3 Saudi Arabia	-	-	0.00%	175,706,273	49,505,242	11.50%	175,706,273	49,505,242	10.20%
4 Algeria	50,010,027	14,090,325	25.60%	109,268,111	30,786,290	7.15%	159,278,138	44,876,615	9.24%
5 Lebanon	-	-	0.00%	99,398,857	28,005,628	6.50%	99,398,857	28,005,628	5.77%
6 Libya	28,000,000	7,889,000	14.33%	59,924,773	16,883,805	3.92%	87,924,773	24,772,805	5.10%
7 Kuwait	-	-	0.00%	70,869,916	19,967,599	4.64%	70,869,916	19,967,599	4.11%
8 Jordan	-	-	0.00%	68,767,222	19,375,165	4.50%	68,767,222	19,375,165	3.99%
9 Sudan	30,882,271	8,701,080	15.81%	27,893,168	7,858,900	1.83%	58,775,439	16,559,980	3.41%
10 Syria	50,000,000	14,087,500	25.60%	8,036,266	2,264,218	0.53%	58,036,266	16,351,718	3.37%
11 Tunisia	5,614,655	1,581,929	2.87%	46,101,544	12,989,110	3.02%	51,716,199	14,571,039	3.00%
12 Qatar	-	-	0.00%	46,074,728	12,981,555	3.02%	46,074,728	12,981,555	2.67%
13 Bahrain	-	-	0.00%	42,234,511	11,899,573	2.76%	42,234,511	11,899,573	2.45%
14 Yemen	30,835,658	8,687,947	15.79%	-	-	0.00%	30,835,658	8,687,947	1.79%
15 Oman	-	-	0.00%	22,781,998	6,418,828	1.49%	22,781,998	6,418,828	1.32%
16 Morocco	-	-	0.00%	22,041,286	6,210,132	1.44%	22,041,286	6,210,132	1.28%
17 Iraq	-	-	0.00%	2,727,832	768,567	0.18%	2,727,832	768,567	0.16%
Total (Arab Countries)	195,342,611	55,037,781	100%	1,237,424,550	348,644,367	80.99%	1,432,767,161	403,682,148	83.14%
Europe	-	-	-	194,445,846	54,785,117	12.72%	194,445,846	54,785,117	11.28%
Asia	-	-	-	62,042,159	17,480,378	4.06%	62,042,159	17,480,378	3.60%
Africa	-	-	-	12,899,874	3,634,539	0.84%	12,899,874	3,634,539	0.75%
North America	-	-	-	1,574,656	443,659	0.10%	1,574,656	443,659	0.09%
Other Countries	-	-	-	19,674,941	5,543,415	1.29%	19,674,941	5,543,415	1.14%
Total (Non-Arab Countries)	-	-	-	290,637,476	81,887,109	19.01%	290,637,476	81,887,109	16.86%
Grand Total	195,342,611	55,037,781	100%	1,528,062,026	430,531,476	100%	1,723,404,637	485,569,257	100%
% of Total	11.34%			88.66%					



Table (4)

**Value of Current Contracts & Outstanding commitments as at 31/12/2012 by Host/Importing Country & Type of Contracts
(In USD and its Equivalent in KWD)**

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		
	USD	KWD	USD	KWD	USD	KWD	USD	KWD	USD	KWD	USD	KWD	% from Total
UAE	-	-	140,054,467	39,460,346	140,054,467	39,460,346	-	-	15,361,991	4,328,241	15,361,991	4,328,241	4.41%
Algeria	50,010,027	14,090,325	84,995,039	23,947,352	135,005,066	38,037,677	50,010,027	14,090,325	14,588,014	4,110,173	64,598,041	18,200,498	18.53%
Saudi Arabia	-	-	127,207,501	35,840,713	127,207,501	35,840,713	-	-	9,619,310	2,710,241	9,619,310	2,710,241	2.76%
Sudan	30,882,271	8,701,080	36,811,981	10,371,776	67,694,251	19,072,856	20,120,986	5,669,088	31,515,950	8,879,619	51,636,936	14,548,707	14.81%
Lebanon	-	-	62,737,449	17,676,276	62,737,449	17,676,276	-	-	13,399,456	3,775,297	13,399,456	3,775,297	3.84%
Kuwait	-	-	62,418,031	17,586,280	62,418,031	17,586,280	-	-	3,095,490	872,154	3,095,490	872,154	0.89%
Egypt	-	-	62,110,743	17,499,702	62,110,743	17,499,702	-	-	41,067,971	11,570,901	41,067,971	11,570,901	11.78%
Syria	50,000,000	14,087,500	8,869,427	2,498,961	58,869,427	16,586,461	35,254,536	9,932,966	833,161	234,743	36,087,697	10,167,709	10.35%
Bahrain	-	-	47,937,579	13,506,413	47,937,579	13,506,413	-	-	10,726,253	3,022,122	10,726,253	3,022,122	3.08%
Jordan	-	-	42,745,311	12,043,491	42,745,311	12,043,491	-	-	2,026,587	570,991	2,026,587	570,991	0.58%
Qatar	-	-	40,384,017	11,378,197	40,384,017	11,378,197	-	-	1,870,433	526,994	1,870,433	526,994	0.54%
Libya	28,000,000	7,889,000	4,431,497	1,248,574	32,431,497	9,137,574	18,839,600	5,308,057	3,409,534	960,636	22,249,134	6,268,694	6.38%
Yemen	30,835,658	8,687,947	-	-	30,835,658	8,687,947	30,835,659	8,687,947	-	-	30,835,659	8,687,947	8.84%
Tunisia	5,614,655	1,581,929	43,868,905	12,360,064	49,483,560	13,941,993	3,843,233	1,082,831	7,825,746	2,204,904	11,668,979	3,287,735	3.35%
Oman	-	-	19,125,532	5,388,619	19,125,532	5,388,619	-	-	971,170	273,627	971,170	273,627	0.28%
Morocco	-	-	13,178,051	3,712,916	13,178,051	3,712,916	-	-	272,095	76,663	272,095	76,663	0.08%
Iraq	-	-	2,727,832	768,567	2,727,832	768,567	-	-	2,727,832	768,567	2,727,832	768,567	0.78%
Europe	-	-	146,179,367	41,186,037	146,179,368	41,186,037	-	-	6,419,672	1,808,743	6,419,672	1,808,743	1.84%
Asia	-	-	61,500,462	17,327,755	61,500,462	17,327,755	-	-	1,178,574	332,063	1,178,574	332,063	0.34%
Africa	-	-	37,249,883	10,495,155	37,249,883	10,495,155	-	-	19,272,221	5,429,948	19,272,221	5,429,948	5.53%
North America	-	-	1,435,517	404,457	1,435,517	404,457	-	-	218,811	61,650	218,811	61,650	0.06%
Other countries	-	-	19,674,941	5,543,415	19,674,941	5,543,415	-	-	3,325,489.00	936,957	3,325,489	936,957	0.95%
Total	195,342,611	55,037,781	1,065,643,532	300,245,065	1,260,986,143	355,282,846	158,904,041	44,771,214	189,725,760	53,455,233	348,629,800	98,226,446	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 31/12/2012 by Insured Countries

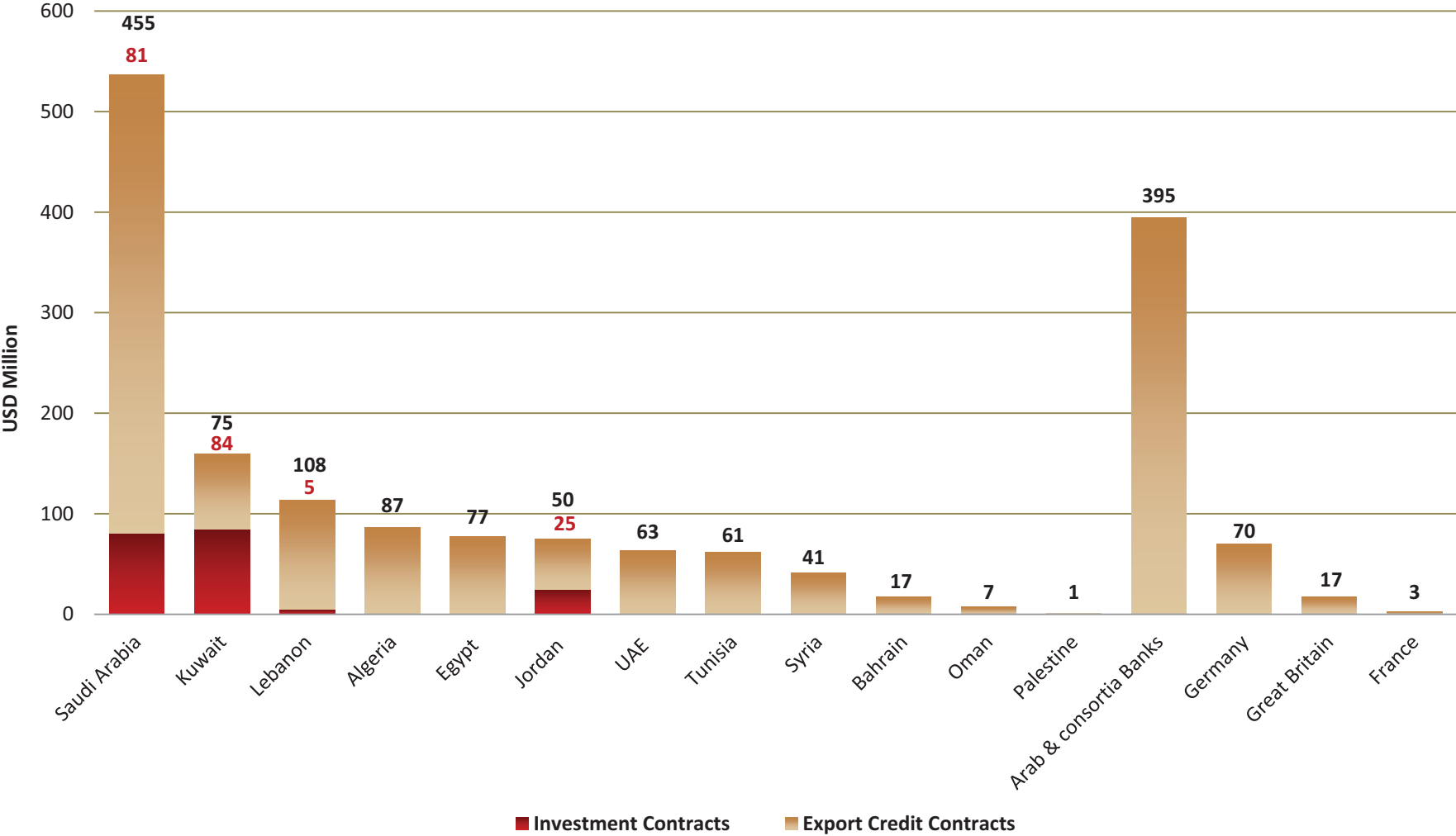


Chart (2)
Guarantee Contracts Portfolio as at 31/12/2012 by Host/Importing Country

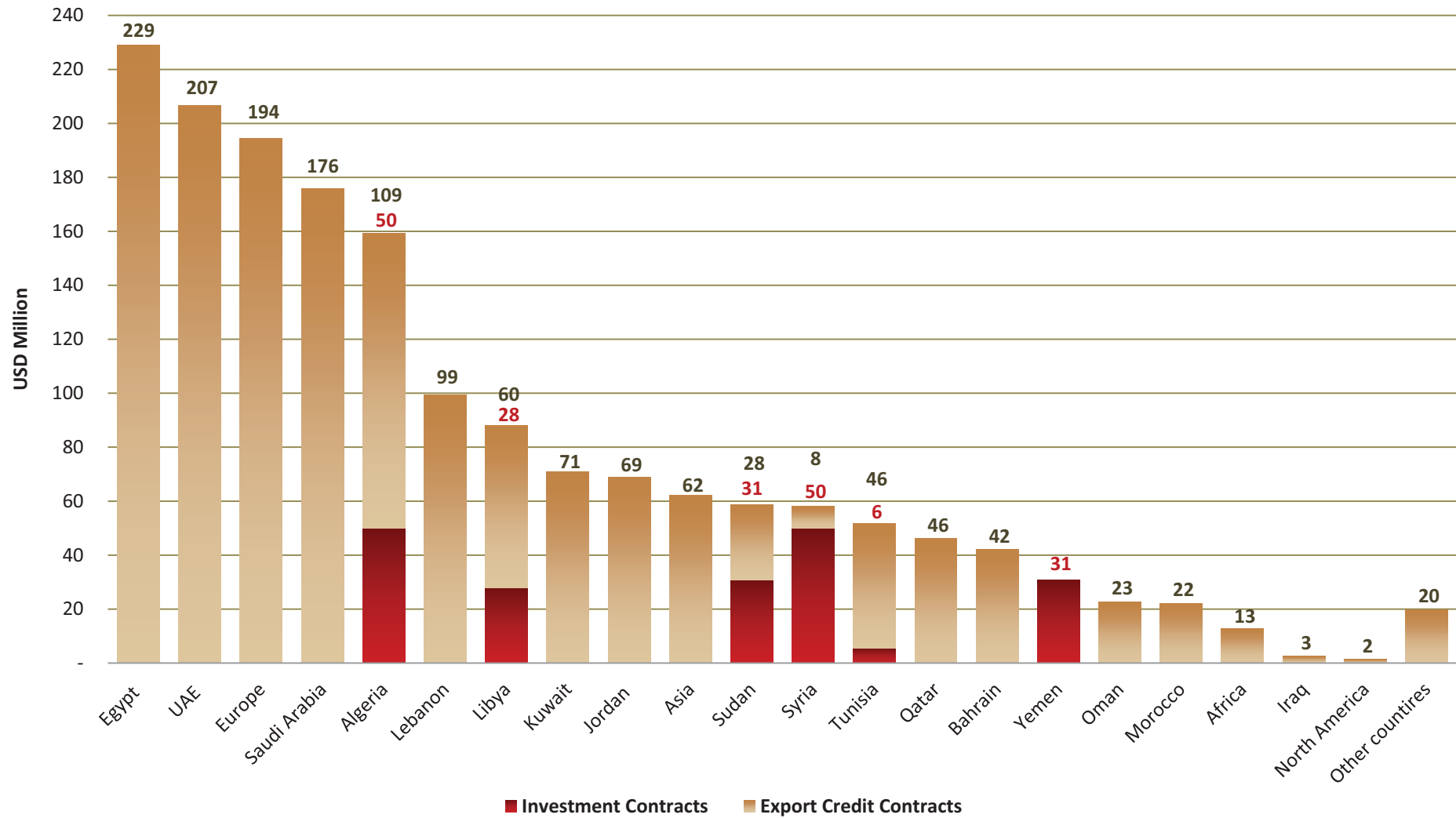
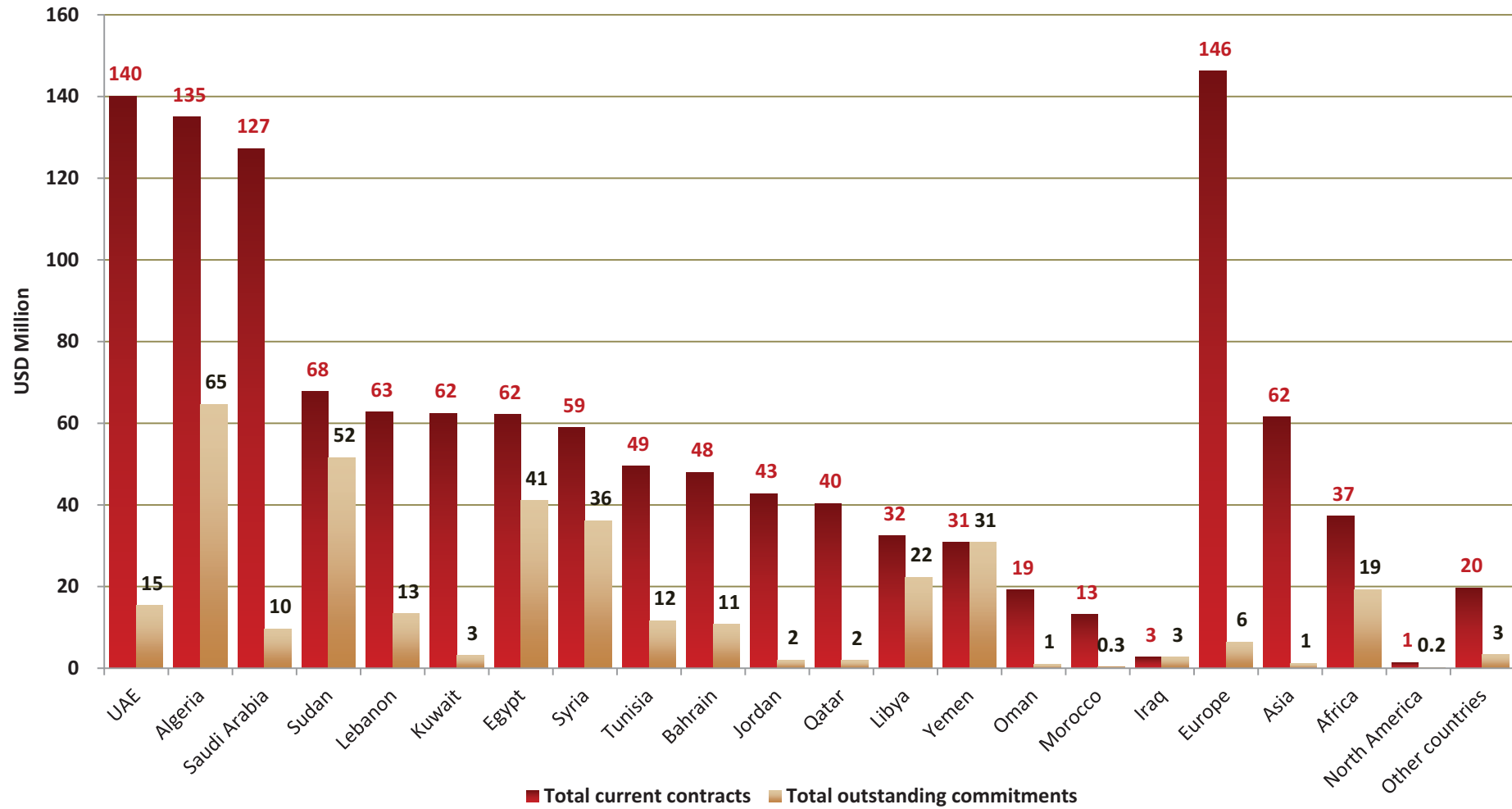
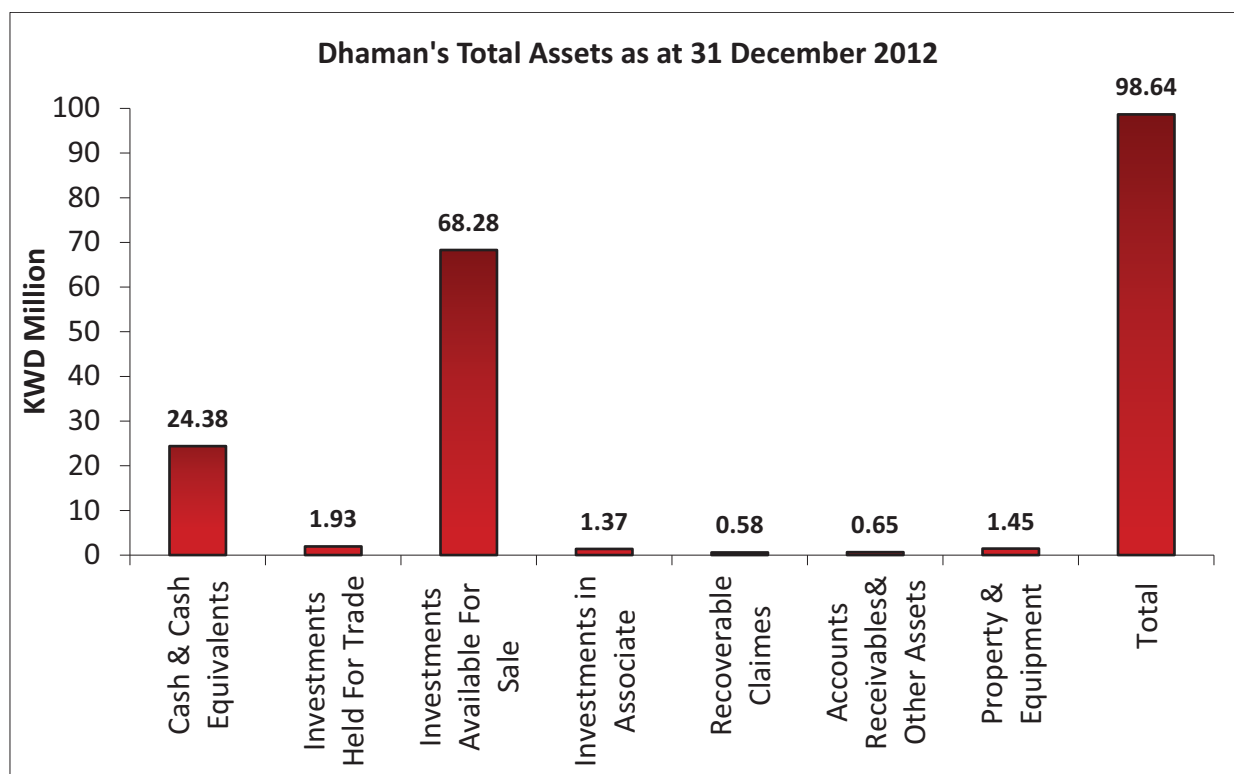


Chart (3)
Value of Current Contracts as at 31/12/2012 & Outstanding commitments by Host/Importing Countries

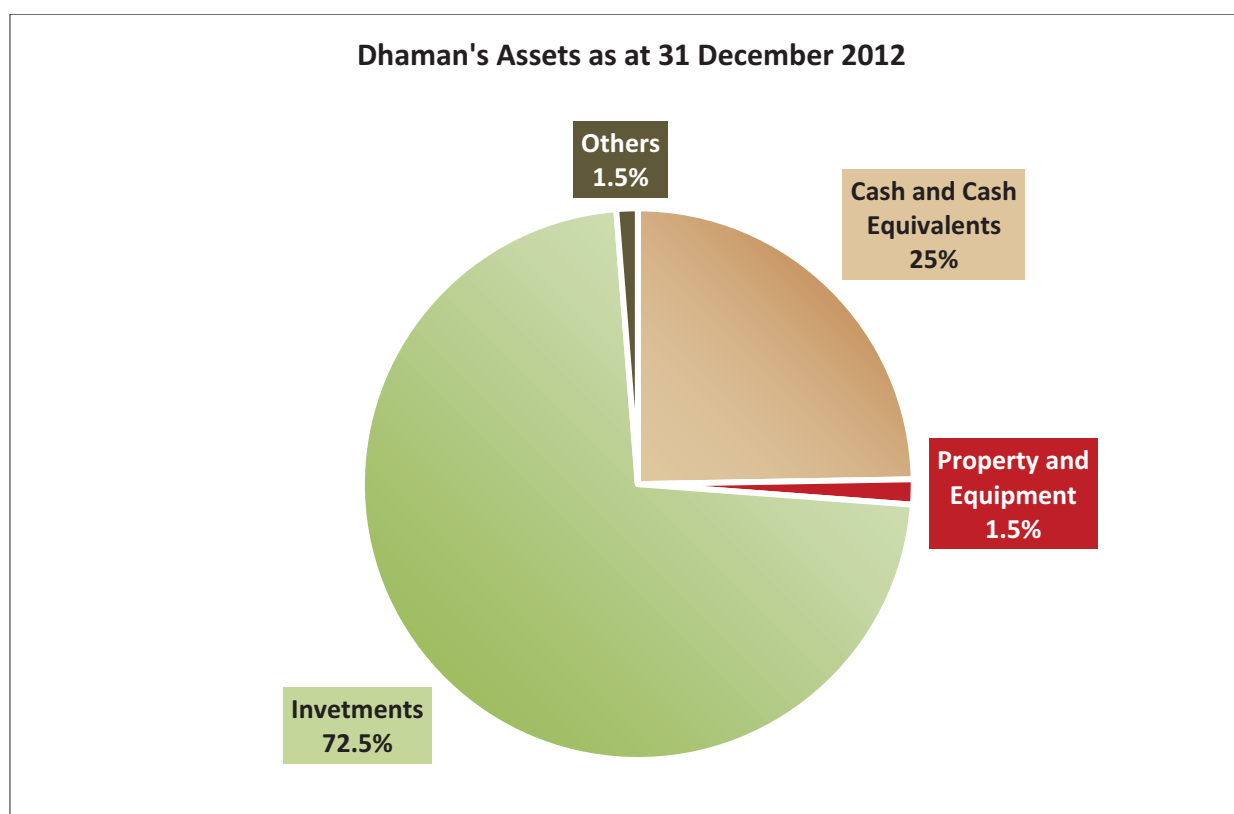


Chapter Two: Financial Report

Dhaman's Balance Sheet as at 31 December 2012 reveals that the total assets amounted to KWD 98,642,901 (USD 350,107,900) as shown by the following chart:



Dhaman's Assets distributed mainly between investments 72.5%, Cash 25% and other assets 2.5% as shown below.



The Shareholder's Equity as at 31 December 2012 amounted to KWD 91,710,822 (USD 325,504,248) and it is composed of paid up capital amounted to KWD 55,621,667 (USD 197,414,967), The general reserve of KWD 37,340,549 (USD 132,530,786) and the changes in fair value reserve amounted to KWD (1,251,394) (USD 4,441,505). Whereby,

The Shareholder's Equity increased this year for the amount of KD 3.11 million (USD 11.04 million).

With regard to income and expenditure as at 31 December 2012, the income from the results of guarantee premiums, interest on bonds, deposits and call accounts, and other income amounted to KWD 1,833,602 (USD 6,507,904).

The investments results showed realized gains of KWD 1,773,144 (USD 6,293,324) as a result of funds dividends; gain on sale of bonds, funds and portfolios. The gain in foreign exchange amounted to KWD 70,692 and thus the net operating profit amounted to KWD 3,677,438 (USD 13,052,131).

With regard to the net results of the year 2012 it reflected a profit of KWD 1,078,454 (USD 3,827,698).

As for total expenditures at 31 December 2012 it is amounted to KWD 2,598,984 (USD 9,224,433), which is higher for the amount of KWD 128,146. And these expenditures within the limits of the projected budget for the year 2012.

**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 2012**





Ernst & Young
Al Alban, Al Osalmi & Partners
P.O. Box: 74, Safat
13001 Safat, Kuwait
Ballak Tower, 18-21st Floor
Safat Square
Ahmed Al Jabel Street
Phone: 22452880 / 22955000
Fax: 22456419
kuwait@kw.ey.com
www.ey.com/mse

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 2012, 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 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.





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 2012 that might have had a material effect on the business of the corporation or on its financial position.

WALEED AL OSAIMI
LICENCE NO.68 A
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

20 February 2013
Kuwait



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

INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 KD	2011 KD
Revenues:			
Gross guarantee premiums	3	1,179,142	1,191,713
Guarantee premiums ceded		(224,641)	(102,046)
Net guarantee premiums		954,501	1,089,667
Unearned premiums reserve	11	13,392	45,772
Outstanding claims reserve	11	(312,642)	(361,489)
Net guarantee premiums earned		655,251	773,950
Revenues and other commissions		11,450	707,469
Guarantee results		666,701	1,481,419
Interest income		1,156,726	1,445,111
Net investment income	4	1,773,144	1,189,062
Foreign exchange gain (loss)		70,692	(30,547)
Other miscellaneous income		10,175	4,006
TOTAL REVENUES		3,677,438	4,089,051
EXPENSES	5	(2,598,984)	(2,470,838)
PROFIT FOR THE YEAR		1,078,454	1,618,213

The attached notes 1 to 19 form 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

Year ended 31 December 2012

	Notes	2012 KD	2011 KD
Profit for the year		1,078,454	1,618,213
Other comprehensive income (loss)			
Unrealized gain (loss) on investments available for sale		3,395,661	(1,636,716)
Realized gain transferred to income statement on sale of investments available for sale	4	(2,148,442)	(964,237)
Impairment loss on investments available for sale transferred to income statement	4 & 8	782,689	276,900
Other comprehensive income (loss) for the year		<u>2,029,908</u>	<u>(2,324,053)</u>
Total comprehensive income (loss) for the year		<u><u>3,108,362</u></u>	<u><u>(705,840)</u></u>

The attached notes 1 to 19 form part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Notes</i>	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
ASSETS			
Cash and cash equivalents	6	6,883,960	8,602,295
Time deposits	6	17,500,000	22,015,925
Investment at fair value through income statement	7	1,928,837	1,277,858
Investments available for sale	8	68,283,911	58,875,372
Investments in an associate	9	1,368,617	1,345,336
Recoverable claims		583,261	583,261
Accounts receivable and other assets		647,519	1,019,770
Property and equipment	10	1,446,796	1,498,494
		<hr/>	<hr/>
Total assets		98,642,901	95,218,311
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and other liabilities		445,174	458,310
Insurance technical reserves	11	1,307,484	1,078,961
Obligations under finance lease	12	1,946,243	1,986,785
Due to insurance and reinsurance companies		835,389	849,342
Employee savings and end of service benefits		2,397,788	2,242,452
		<hr/>	<hr/>
TOTAL LIABILITIES		6,932,078	6,615,850
		<hr/>	<hr/>
EQUITY			
Paid-up capital	13	55,621,667	55,621,667
General reserve	14	37,340,550	36,262,096
Cumulative changes in fair values		(1,251,394)	(3,281,302)
		<hr/>	<hr/>
TOTAL EQUITY		91,710,823	88,602,461
		<hr/>	<hr/>
Total liabilities and equity		98,642,901	95,218,311
		<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 19 form part of these financial statements.



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 2012

	<i>Paid-up capital KD</i>	<i>General reserve KD</i>	<i>Cumulative changes in fair values KD</i>	<i>Retained earnings KD</i>	<i>Total KD</i>
Balance as at 1 January 2012	55,621,667	36,262,096	(3,281,302)	-	88,602,461
Profit for the year	-	-	-	1,078,454	1,078,454
Other comprehensive income	-	-	2,029,908	-	2,029,908
Total comprehensive income for the year	-	-	2,029,908	1,078,454	3,108,362
Transfer to general reserve	-	1,078,454	-	(1,078,454)	-
Balance at 31 December 2012	55,621,667	37,340,550	(1,251,394)	-	91,710,823
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

The attached notes 1 to 19 form part of these financial statements.



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

STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 KD	2011 KD
OPERATING ACTIVITIES			
Profit for the year		1,078,454	1,618,213
Adjustments for:			
Depreciation	5	91,915	76,361
Net investment income	4	(1,773,144)	(1,189,062)
Interest income		(1,156,726)	(1,445,111)
Finance lease charges	12	179,617	179,617
		<u>(1,579,884)</u>	<u>(759,982)</u>
Changes in operating assets and liabilities:			
Recoverable claims		-	10,288
Due from insurance and reinsurance companies		-	2,172,054
Accounts receivable and other assets		821,301	821,000
Accounts payable and other liabilities		(13,136)	(387,198)
Insurance technical reserves		228,523	281,345
Due to insurance and reinsurance companies		(13,953)	(3,656,653)
Employees savings and end of service benefits		155,336	76,189
Cash used in operations		<u>(401,813)</u>	<u>(1,442,957)</u>
Dividend received		420,609	577,572
Interest income received		707,676	737,818
Net cash from (used in) operating activities		<u>726,472</u>	<u>(127,567)</u>
INVESTING ACTIVITIES			
Purchase of investment at fair value through income statement		(1,005,000)	-
Proceeds from sale of investment at fair value through income statement		300,000	-
Purchase of investments available for sale		-	(31,844,975)
Proceeds from sale of investments available for sale		(6,012,878)	35,059,059
Purchase of property and equipment		(40,217)	(5,210)
Dividends received from an associate		17,522	-
Time deposits		4,515,925	(5,015,925)
Net cash used in investing activities		<u>(2,224,648)</u>	<u>(1,807,051)</u>
FINANCING ACTIVITIES			
Payment of finance lease obligations		(220,159)	(217,507)
Net cash used in financing activities		<u>(220,159)</u>	<u>(217,507)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(1,718,335)</u>	<u>(2,152,125)</u>
Cash and cash equivalents at beginning of the year		8,602,295	10,754,420
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	<u>6,883,960</u>	<u>8,602,295</u>

The attached notes 1 to 19 form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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 20 February 2013.

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 of the corporation.

a) Changes in accounting policies

There were no changes in the accounting policies of the corporation during the year, except for the adoption of the amendment to IFRS 7 effective as of 1 January 2012:

IFRS 7 Financial Instruments — Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

The significant accounting policies adopted are set out below:

Revenue 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.

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.

The attached notes 1 to 19 form part of these financial statements.



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

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value.

The amount of each class of investments that has been designated at fair value through profit or loss is described in Note 7.

Financial instruments at fair value through profit or loss are measured initially at fair value. Transaction costs on financial instruments through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through profit or loss are measured at fair value with changes in their fair value recognized in profit or loss.

Investments which are not held to maturity or financial assets at fair value through profit or loss are classified as being available for sale and are stated at fair value, with any resultant gain or loss being recognised in other comprehensive income and presented within equity in the fair value reserve, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses.

Unquoted equity securities and non-fixed income securities classified as available-for-sale investments whose fair value cannot be reliably determined are carried at cost, including transaction costs less impairment losses. When these investments are derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

The fair value of financial assets classified as financial assets at fair value through profit or loss and available for sale assets is their quoted market price at the reporting date.

Financial assets at fair value through profit or loss and available-for-sale investments are recognised or derecognised on the trade date i.e., on the date the Fund commits to purchase or sell the investments.

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.

The attached notes 1 to 19 form part of these financial statements.



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

Investment in an associate

The associate is an entity in which the Fund has significant influence, but not control, over the financial and operating policies. The investment in the associated entity is equity accounted.

Receivables

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

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 amortised 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.

The attached notes 1 to 19 form part of these financial statements.



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

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 recognised 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.

The attached notes 1 to 19 form part of these financial statements.



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

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Judgments (continued)

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.

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.

The attached notes 1 to 19 form part of these financial statements.



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

3 - GROSS GUARANTEE PREMIUMS

	2012	2011
	KD	KD
Gross guarantee premiums written	1,368,280	1,369,370
Less: commission expenses	(189,138)	(177,657)
	<u>1,179,142</u>	<u>1,191,713</u>

4 - NET INVESTMENT INCOME

	2012	2011
	KD	KD
Unrealized loss on investments at fair value through income statement	(54,021)	(184,367)
Realized gain on sale of investments available for sale	2,148,442	964,237
Dividend income	420,609	577,572
Commission income on guarantee funds	-	116,810
Share of results of an associate company	40,803	(8,290)
Impairment loss on investments available for sale (Note 8)	(782,689)	(276,900)
	<u>1,773,144</u>	<u>1,189,062</u>

5 - EXPENSES

	2012	2011
	KD	KD
First Chapter - Salaries, wages and bonuses	1,678,706	1,640,361
Second Chapter - General and administrative expenses	800,349	713,607
Third Chapter - Depreciation expenses	91,915	76,361
Fourth Chapter - Provisions and others	28,014	40,509
	<u>2,598,984</u>	<u>2,470,838</u>

The attached notes 1 to 19 form part of these financial statements.

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

6 - CASH AND CASH EQUIVALENTS

	2012	2011
	KD	KD
Cash in hand and at banks	3,441,158	2,128,966
Time deposits	20,942,802	28,489,254
	<u>24,383,960</u>	<u>30,618,220</u>
Less: Time deposits maturing after three months	(17,500,000)	(22,015,925)
	<u>6,883,960</u>	<u>8,602,295</u>

The average interest rate on deposits range between 0.125% to 10.71% (2011: 0.35% to 7.0%).

The corporation's exposure to interest rate risk and a sensitivity analysis for assets is disclosed in Note 17.

7 - INVESTMENT CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2012	2011
	KD	KD
Held for trading:		
Investment in managed portfolios of quoted securities	1,928,837	1,277,858
	<u>1,928,837</u>	<u>1,277,858</u>



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

8 - INVESTMENTS AVAILABLE FOR SALE

	2012	2011
	KD	KD
Bonds	9,419,230	7,757,757
Managed funds	58,498,950	50,751,884
Investment in Arab Trade Finance Program	365,731	365,731
	<hr/>	<hr/>
	68,283,911	58,875,372
	<hr/> <hr/>	<hr/> <hr/>

Investments available for sale comprises investments of KD 1,680,828 (2011: KD 1,639,609) carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments.

Interest-bearing investments available for sale have stated interest rates that range between 5.25% to 9.75% (2011: 5.25% to 13.5%).

An impairment loss of KD 782,689 (2011: KD 276,900) has been recorded in respect of the managed funds on which there has been a significant or prolonged decline in value (Note 4).

Investments in Arab Trade Finance Program represent 0.25% of the capital of the Arab Trade Finance Program (2011: 0.25%), 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.

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

9 - INVESTMENT IN AN ASSOCIATE

The corporation has the following investment in an associate:

	Country of incorporation	Percentage of ownership		Principal Activity
		2012	2011	
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.

	2012 KD	2011 KD
Share of associate's statement of financial position:		
Net assets	5,311,256	5,414,504
Percentage of ownership	25 %	25 %
Share of net assets	1,327,814	1,353,626
Share of associate's (loss) profit	40,803	(8,290)
Net assets value of the associate	1,368,617	1,345,336

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 (2011: KD 67,648).



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

11 - INSURANCE TECHNICAL RESERVES

	2012	2011
	KD	KD
<u>Unearned premium reserve movement:</u>		
Unearned premiums reserve at the beginning of the year	509,758	555,530
Unearned premiums reserve at the end of the year	(496,366)	(509,758)
	<hr/>	<hr/>
	13,392	45,772
	<hr/> <hr/>	<hr/> <hr/>
<u>Outstanding claims reserve movement:</u>		
Outstanding claims reserve at the beginning of the year	569,203	242,086
Claims paid during the year	(70,727)	(39,977)
Outstanding claims reserve at the end of the year	(811,118)	(569,203)
	<hr/>	<hr/>
	(312,642)	(367,094)
	<hr/> <hr/>	<hr/> <hr/>
<u>As at 31 December:</u>		
<u>Unearned premiums reserve</u>	496,366	509,758
<u>Outstanding claims reserve</u>	811,118	569,203
	<hr/>	<hr/>
	1,307,484	1,078,961
	<hr/> <hr/>	<hr/> <hr/>

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.

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

12 - OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2012	2011
	KD	KD
Within one year	179,617	179,617
From the first to the fifth years inclusive	898,085	898,085
Over five years	2,694,255	2,873,872
	<hr/>	<hr/>
Due to Arab Fund For Economic And Social Development	3,771,957	3,951,574
Less: Finance charges allocated to future periods	(1,825,714)	(1,964,789)
	<hr/>	<hr/>
	1,946,243	1,986,785
	<hr/> <hr/>	<hr/> <hr/>

13 - PAID-UP CAPITAL

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

	<i>Issued</i>		<i>Paid</i>	
	2012	2011	2012	2011
	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



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

13 - PAID-UP CAPITAL (continued)

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
State of Kuwait	3,000,000	3,000,000	3,000,000	3,000,000
Republic of 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
	<u>26,101,667</u>	<u>26,101,667</u>	<u>26,101,667</u>	<u>26,101,667</u>
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
	<u>55,621,667</u>	<u>55,621,667</u>	<u>55,621,667</u>	<u>55,621,667</u>

14 - GENERAL RESERVE

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

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

15 - CONTINGENT AND UNRECORDED LIABILITIES

The underlying value of written guarantee contracts in force as of 31 December 2012 is equivalent to KD 98,226,446 (2011: KD 99,016,095).

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.

16 - RELATED PARTY TRANSACTIONS

Related parties represent member states. In the normal course of business and upon the management approval, No fees were received for management of fiduciary assets in favour of one member state (2011: KD 116,810). Non commercial risks related to guarantees granted by the corporation are guaranteed by member states.

17 - 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:

17.1 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, time deposits, investments available for sale "bonds", accounts receivable and other assets. Cash is placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or governments.



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

17 - RISK MANAGEMENT (continued)

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).

	<i>Gross maximum exposure 2012 KD</i>	<i>Gross maximum exposure 2011 KD</i>
Bank balances	3,441,145	8,597,277
Time deposits	20,942,802	22,015,925
Investment available for sale (Bonds)	9,419,230	7,757,757
Accounts receivable and other assets	1,230,780	1,603,031
	<hr/>	<hr/>
Total credit risk exposure	35,033,957	39,973,990
	<hr/> <hr/>	<hr/> <hr/>

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.

The corporation does not have any exposure to past due financial assets except as disclosed in Note 8.

17.2 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 liabilities at 31 December 2012. 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 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.

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

17 - RISK MANAGEMENT (continued)

At 31 December 2012	<i>Within 3 months KD</i>	<i>3 to 6 Months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
Accounts payable and accruals	253,749	-	191,425	-	-	445,174
Insurance technical reserves	-	-	-	1,307,484	-	1,307,484
Obligation under finance lease	-	92,678	-	463,391	1,390,174	1,946,243
Due to insurance and reinsurane companies	-	-	-	835,389	-	835,389
Employees savings and end of service benefits	-	-	-	-	2,397,788	2,397,788
TOTAL LIABILITIES	253,749	92,678	191,425	2,606,264	3,787,962	6,932,078

At 31 December 2011	<i>Within 3 months KD</i>	<i>3 to 6 Months KD</i>	<i>6 to 12 Months KD</i>	<i>1 to 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
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	-	199,104	3,784,750	2,372,790	6,615,850

17.3 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 cause 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 firms.

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

17 - RISK MANAGEMENT (continued)

17.3 Market risk (continued)

17.3.1 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.

Currency	2012			2011		
	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%	239,346	3,257,757	± 5%	228,965	2,800,756
GBP	± 5%	276	67,533	± 5%	163	-
Euro	± 5%	2,880	75,625	± 5%	12,535	73,381

17.3.2 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.

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

17 - RISK MANAGEMENT (continued)

17.3.2 Interest rate risk

Currency	2012		2011	
	Change in variables	Impact on profit KD	Change in variables	Impact on profit KD
USD	± 5%	35,850	± 5%	39,527
Euro	± 5%	740	± 5%	1,585
KD	± 5%	14,439	± 5%	96,180
Others	± 5%	-	± 5%	5,756

17.3.3 Equity price risk

Equity price risk arises from the change in the fair values of equity investments. The corporation manages this risk through diversification of investments in terms of geographical distribution and industry concentrations.

The equity price risk sensitivity is determined on the following assumptions:

	2012			2011		
	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%	96,442	-	± 5%	63,893	-
Investments available for sale	± 5%	-	2,924,948	± 5%	-	2,943,769

18 - 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 8.

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

18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

As at 31 December 2012, 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

	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
31 December 2012				
Investments available for sale	66,603,083	54,949,575	9,784,961	3,549,375
Investment at fair value through income statement	1,928,837	1,928,837	-	-
	<u>68,531,920</u>	<u>56,878,412</u>	<u>9,784,961</u>	<u>3,549,375</u>

	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
31 December 2011				
Investments available for sale	57,235,763	46,538,258	8,762,274	1,935,231
Investment at fair value through income statement	1,277,858	1,277,858	-	-
	<u>58,513,621</u>	<u>47,816,116</u>	<u>8,762,274</u>	<u>1,935,231</u>

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

18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	<i>At 1 January 2012</i>	<i>Change in fair value</i>	<i>At 31 December 2012</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Investments available for sale:			
Managed funds	1,935,231	1,614,144	3,549,375
	<u> </u>	<u> </u>	<u> </u>

	<i>At 1 January 2011</i>	<i>Change in fair value</i>	<i>At 31 December 2011</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Investments available for sale:			
Managed funds	3,099,097	(1,163,866)	1,935,231
	<u> </u>	<u> </u>	<u> </u>

19 - 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 24,379,890 (2011: KD 29,001,390), which represent investments managed on behalf of a member state.