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

Annual Report
2013

DHAMAN

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

The Arab Investment and Export Credit Guarantee Corporation (Dhaman) is an autonomous Arab regional organization established in 1974, in accordance with a multilateral convention signed by 21 Arab states, 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 April, 2014, 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.

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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 [(1)].

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. Khaled Ali Alboustani	Member
5.	H.E. Mr. Ahmad Ali Bokshaisha	Member
6.	H.E. Dr. Jawad Naji	Member
7.	H.E. Mrs. Shefaa Mohamed Omar Ben Mkhashen	Member
8.	H.E. Dr. Mohamed El Gholabzouri	Member

3. The Director-General

H.E. Mr. Fahad Rashid Al Ibrahim

4. Professional and Administrative Staff

(1) According to the Shareholders Council decision number (4) of the year 2013, paragraph (b) of Article (9) of the Establishment Convention relative to the members' number constituting the Board of Directors has been amended as follows: "The Board of Directors which shall be composed of nine part-time members being citizens country of the corporation to be nominated for a period of three years and shall be elected from among its members a president "; this amendment is effective is made and effective as of April 2014, date of expiry of the current Board mandate.

His Excellency the Chairman of the 41st 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 2013.

Please accept my highest consideration,

Nassir Ben Mohamad Al Quhtani
Chairman of the Board of Directors

Tunisia, Republic of Tunisia, April 2014.

Table of Contents

Independent Auditor's Report 7

Income Statement 9

Statement Of Comprehensive Income 10

Statement Of Financial Position 11

Statement Of Changes In Equity 12

Statement Of Cash Flows 13

Notes To The Financial Statements 14

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

www.dhaman.org

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

FINANCIAL STATEMENTS

31 DECEMBER 2013

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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 2013, 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 auditors consider 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 2013, 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 2013 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
EY
AL AIBAN, AL OSAIMI & PARTNERS

20 February 2014
Kuwait

INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 KD	*2012 KD*
REVENUES:			
Gross guarantee premiums	3	**1,146,482**	1,179,142
Guarantee premiums ceded		**(427,795)**	(224,641)
Net guarantee premiums		**718,687**	954,501
Unearned premiums reserve	11	**205,143**	13,392
Outstanding claims reserve	11	**(289,984)**	(312,642)
Net guarantee premiums earned		**633,846**	655,251
Revenues and other commissions		**55,565**	11,450
Guarantee results		**689,411**	666,701
Interest income		**1,131,359**	1,156,726
Net investment income	4	**2,394,294**	1,773,144
Foreign exchange gain		**14,485**	70,692
Other miscellaneous income		**1,003**	10,175
TOTAL REVENUES		**4,230,552**	3,677,438
EXPENSES	5	**(2,774,361)**	(2,598,984)
PROFIT FOR THE YEAR		**1,456,191**	1,078,454

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

For the year ended 31 December 2013

	Notes	2013 KD	*2012 KD*
Profit for the year		**1,456,191**	1,078,454
Other comprehensive income			
Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods:			
- Financial assets available for sale:			
Unrealized gain on investments available for sale		**2,371,684**	3,395,661
Realized gain transferred to income statement on sale of investments available for sale	4	**(3,048,480)**	(2,148,442)
Impairment loss on investments available for sale transferred to income statement	4 & 8	**1,517,733**	782,689
Other comprehensive income for the year		**840,937**	2,029,908
Total comprehensive income for the year		**2,297,128**	3,108,362

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 KD	2012 KD
ASSETS			
Cash and cash equivalents	6	**29,780,749**	6,883,960
Time deposits	6	**-**	17,500,000
Investments at fair value through income statement	7	**15,995,976**	1,928,837
Investments available for sale	8	**62,626,746**	68,283,911
Investments in an associate	9	**-**	1,368,617
Recoverable claims		**2,169,256**	583,261
Accounts receivable and other assets		**2,275,340**	647,519
Property and equipment	10	**1,377,891**	1,446,796
TOTAL ASSETS		**114,225,958**	98,642,901
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and other liabilities		**672,965**	445,174
Insurance technical reserves	11	**1,389,311**	1,307,484
Obligations under finance lease	12	**1,902,863**	1,946,243
Due to insurance and reinsurance companies		**835,389**	835,389
Employee savings and end of service benefits		**2,624,879**	2,397,788
TOTAL LIABILITIES		**7,425,407**	6,932,078
EQUITY			
Paid-up capital	13	**68,414,267**	55,621,667
General reserve	14	**38,796,741**	37,340,550
Cumulative changes in fair values		**(410,457)**	(1,251,394)
TOTAL EQUITY		**106,800,551**	91,710,823
TOTAL LIABILITIES AND EQUITY		**114,225,958**	98,642,901

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Paid-up capital KD	*General reserve KD*	*Cumulative changes in fair values KD*	*Retained earnings KD*	*Total KD*
Balance as at 1 January 2013	55,621,667	37,340,550	(1,251,394)	-	91,710,823
Profit for the year	-	-	-	1,456,191	1,456,191
Other comprehensive income	-	-	840,937	-	840,937
Total comprehensive income for the year	-	-	840,937	1,456,191	2,297,128
Transfer to general reserve	-	1,456,191	-	(1,456,191)	-
Share capital increase (Note 13)	12,792,600	-	-	-	12,792,600
Balance at 31 December 2013	**68,414,267**	**38,796,741**	**(410,457)**	**-**	**106,800,551**
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

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
OPERATING ACTIVITIES			
Profit for the year		**1,456,191**	1,078,454
Adjustments for:			
Depreciation	5	**86,618**	91,915
Net investment income	4	**(2,394,294)**	(1,773,144)
Interest income		**(1,131,359)**	(1,156,726)
Allowance for impairment of recoverable claims		**83,939**	-
Finance lease charges	12	**179,617**	179,617
		(1,719,288)	(1,579,884)
Changes in operating assets and liabilities:			
Accounts receivable and other assets		**(1,398,151)**	821,301
Recoverable claims		**(1,669,934)**	-
Accounts payable and other liabilities		**227,791**	(13,136)
Insurance technical reserves		**81,827**	228,523
Due to insurance and reinsurance companies		**-**	(13,953)
Employees savings and end of service benefits		**319,258**	155,336
Cash used in operations		**(4,158,497)**	(401,813)
Dividend income received		**762,671**	420,609
Interest income received		**901,689**	707,676
Employees end of service benefits		**(92,167)**	-
Net cash flows (used in) from operating activities		**(2,586,304)**	726,472
INVESTING ACTIVITIES			
Purchase of investment at fair value through income statement		**(14,013,965)**	(1,005,000)
Proceeds from sale of investment at fair value through income statement		**-**	300,000
Purchase of investments available for sale		**(51,813,633)**	-
Proceeds from sale of investments available for sale		**61,241,764**	(6,012,878)
Purchase of property and equipment		**(17,713)**	(40,217)
Dividends received from an associate		**17,037**	17,522
Time deposits		**17,500,000**	4,515,925
Net cash flows from (used in) investing activities		**12,913,490**	(2,224,648)
FINANCING ACTIVITIES			
Payment of finance lease obligations		**(222,997)**	(220,159)
Share capital increase	13	**12,792,600**	-
Net cash flows from (used in) financing activities		**12,569,603**	(220,159)
INCREASE (DECREASE) in cash and cash equivalents		**22,896,789**	(1,718,335)
Cash and cash equivalents at beginning of the year		**6,883,960**	8,602,295
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**29,780,749**	6,883,960

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

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 2014.

2 SIGNIFICANT ACCOUNTING POlICIES

Basis of preparation

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

he 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 following new and amended IFRS as of 1 January 2013:

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have a significant impact on the corporation's financial position or performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2012)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. These amendments did not have a significant impact on the corporation's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. These amendments did not have a significant impact on the corporation's financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Changes in accounting policies (continued)

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. These amendments did not have a significant impact on the corporation's financial position or performance.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified (for example, net loss or gain on available-for-sale financial assets). These amendments did not have a significant impact on the corporation's financial position or performance.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. These amendments did not have a significant impact on the corporation's financial position or performance.

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 of standards and interpretations issued are those that the corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.The corporation's intends to adopt these standards when they become effective. The corporation is currently considering the implications of the new IFRSs which are effective for future accounting periods and has not early adopted any of the new standards as listed below:

Standard	Title
IFRS 9	Financial Instruments: Classification and Measurement (Effective 1 January 2015)
IAS 32	Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (Effective 1 January 2014)
IAS 36	Recoverable Amount Disclosures for Non- Financial Assets (Effective 1 January 2014)

b) Summary of significant accounting policies

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, deposits and wakalas with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Summary of significant accounting policies (continued)

Investments

An instrument is classified at fair value through income statements 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 income statement are measured initially at fair value. Transaction costs on financial instruments through income statement are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through income statement 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 income statement 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 investments available for sale 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 income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement.

The fair value of financial assets classified as investments at fair value through income statement and investments available for sale is their quoted market price at the reporting date.

Investments at fair value through income statement and investments available for sale are recognised or derecognised on the trade date i.e., on the date the corporation 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Summary of significant accounting policies (continued)

PAYABLE

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

3 - GROSS GUARANTEE PREMIUMS

	2013 KD	2012 KD
Gross guarantee premiums written	**1,402,672**	1,368,280
Less: commission expenses	**(256,190)**	(189,138)
	1,146,482	1,179,142

4 - NET INVESTMENT INCOME

	2013 KD	2012 KD
Unrealized gain (loss) on investments at fair value through income statement	**53,174**	(54,021)
Realized gain on sale of investments available for sale	**3,048,480**	2,148,442
Dividend income	**762,671**	420,609
Share of results of an associate company	**47,702**	40,803
Impairment loss on investments available for sale (Note 8)	**(1,517,733)**	(782,689)
	2,394,294	1,773,144

5 - EXPENSES

	2013 KD	2012 KD
First Chapter - Salaries, wages and bonuses	**1,850,626**	1,678,706
Second Chapter - General and administrative expenses	**787,951**	800,349
Third Chapter - Depreciation expenses	**86,618**	91,915
Fourth Chapter - Provisions and others	**49,166**	28,014
	2,774,361	2,598,984

6 - CASH AND CASH EQUIVALENTS

	2013 KD	2012 KD
Cash in hand and at banks	**4,427,763**	3,441,158
Time deposits	**6,826,322**	19,252,302
Wakala deposits	**18,526,664**	1,690,500
	29,780,749	24,383,960
Less: Time deposits maturing after three months	-	(17,500,000)
	29,780,749	6,883,960

The average interest rate on time deposits range between 0.25% to 1.00% (2012: 0.125% to 10.71%)
The average interest rate on wakala deposits range between 0.113% to 0.90% (2012: 0.32%)
The corporation's exposure to interest rate risk and a sensitivity analysis for assets is disclosed in Note 17.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

7 - INVESTMENT CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2013 KD	*2012 KD*
Held for trading:		
Investment in managed portfolios of quoted securities	**1,865,348**	1,928,837
Managed funds	**14,130,628**	-
	15,995,976	1,928,837

8 - INVESTMENTS AVAILABLE FOR SALE

	2013 KD	*2012 KD*
Bonds	**18,294,924**	9,419,230
Managed funds	**42,566,809**	58,498,950
Investment in Arab Trade Finance Program*	**365,731**	365,731
Investment in Tunisian External Trade Insurance Company (Note 9)	**1,399,282**	-
	62,626,746	68,283,911

Investments available for sale comprises investments of KD1,433,899 (2012: KD 1,680,828) 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% (2012: 5.25% to 9.75%).

An impairment loss of KD 1,517,733 (2012: KD 782,689) 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 (2012: 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.

9 - INVESTMENT IN AN ASSOCIATE

The corporation has the following investment in an associate:

	Country of incorporation	*Percentage of ownership*		*Principal Activity*
		2013	2012	
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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

9 - INVESTMENT IN AN ASSOCIATE (continued)

	2013 KD	2012 KD
Share of associate's statement of financial position:		
Net assets	**5,474,468**	5,381,344
Percentage of ownership	**25 %**	25 %
Share of net assets	**1,368,617**	1,345,336
Share of associate's results	**47,702**	40,803
Dividend received	**(17,037)**	(17,522)
Net assets value of the associate	**1,399,282**	1,368,617
Transferred to investments available for sale	**(1,399,282)**	-
	-	1,368,617

During the year ended 31 December 2013, the Corporation has lost its significant influence over its associate "Tunisian External Trade Insurance Company", accordingly the management of the Corporation has decided to reclassify its investment in associate to investments available for sale, the carrying value of the associate is considered equivalent to the fair value. (Note 8).

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 (2012: KD 67,648).

11 - INSURANCE TECHNICAL RESERVES

	2013 KD	2012 KD
Unearned premium reserve movement:		
Unearned premiums reserve at the beginning of the year	**496,366**	509,758
Unearned premiums reserve at the end of the year	**(291,223)**	(496,366)
	205,143	13,392
Outstanding claims reserve movement:		
Outstanding claims reserve at the beginning of the year	**811,118**	569,203
Claims paid during the year	**(3,014)**	(70,727)
Outstanding claims reserve at the end of the year	**(1,098,088)**	(811,118)
	(289,984)	(312,642)
As at 31 December:		
Unearned premiums reserve	**291,223**	496,366
Outstanding claims reserve	**1,098,088**	811,118
	1,389,311	1,307,484

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

12 - OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2013	*2012*
	KD	*KD*
Within one year	**179,617**	179,617
From the first to the fifth years inclusive	**898,085**	898,085
Over five years	**2,514,638**	2,694,255
Due to Arab Fund For Economic And Social Development	**3,592,340**	3,771,957
Less: Finance charges allocated to future periods	**(1,689,477)**	(1,825,714)
	1,902,863	1,946,243

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:

	Issued		*Paid*	
	2013	*2012*	**2013**	*2012*
	KD	*KD*	**KD**	*KD*
A. Member State:				
The Hashemite Kingdom of Jordan	**788,000**	525,000	**577,600**	525,000
United Arab Emirates	**3,525,000**	2,350,000	**2,350,000**	2,350,000
Kingdom of Bahrain	**750,000**	500,000	**550,000**	500,000
The Republic of Tunisia	**1,875,000**	1,250,000	**1,250,000**	1,250,000
Peoples' Democratic Republic of Algeria	**1,875,000**	1,250,000	**1,250,000**	1,250,000
Republic of Djibouti	**300,000**	200,000	**200,000**	200,000
Kingdom of Saudi Arabia	**8,610,000**	3,750,000	**6,735,000**	3,750,000
Republic of Sudan	**1,826,932**	1,217,932	**1,217,932**	1,217,932
Syrian Arab Republic	**750,000**	500,000	**500,000**	500,000
Somali Democratic Republic	**87,735**	58,735	**58,735**	58,735
Republic of Iraq	**750,000**	500,000	**500,000**	500,000
Sultanate of Oman	**1,125,000**	750,000	**750,000**	750,000
State of Palestine	**750,000**	500,000	**500,000**	500,000
State of Qatar	**5,985,000**	2,000,000	**5,185,000**	2,000,000
State of Kuwait	**7,485,000**	3,000,000	**6,285,000**	3,000,000
Republic of Lebanon	**750,000**	500,000	**500,000**	500,000
State of Libya	**6,735,000**	2,500,000	**5,735,000**	2,500,000
Arab Republic of Egypt	**1,875,000**	1,250,000	**1,250,000**	1,250,000
Kingdom of Morocco	**3,000,000**	2,000,000	**2,000,000**	2,000,000
The Islamic Republic of Mauritania	**750,000**	500,000	**500,000**	500,000
The Republic of Yemen	**1,500,000**	1,000,000	**1,000,000**	1,000,000
	51,092,667	26,101,667	**38,894,267**	26,101,667
B. Arab Financial Authorities:				
Arab Fund for Economical and Social Development	**22,804,800**	15,202,800	**15,202,800**	15,202,800
Arab Monetary Fund	**12,177,000**	8,118,000	**8,118,000**	8,118,000
BADEA	**7,659,960**	5,106,960	**5,106,960**	5,106,960
Arab Authority for Agricultural Investment and Development	**1,638,240**	1,092,240	**1,092,240**	1,092,240
	95,372,667	55,621,667	**68,414,267**	55,621,667

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

13 - PAID-UP CAPITAL (continued)

At the Members' Council annual meeting held on 2-3 April 2013, it was approved to increase the issued capital by 50% to be allocated proportionally to each member's percentage of ownership in the issued capital as of 31 December 2012. The amounts are to be paid in five equal annual instalments starting from the date of the meeting. Five of the states settled the first instalment which is equivalent to 852,600 KD.

Moreover, the Members' Council acknowledged the intent of five of the member states to voluntarily increase their share in the issued capital to maintain a permanent seat in the Board of Directors. Four of these states paid their shares and the total was equivalent to KD 11,940,000.

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.

15 - CONTINGENT AND UNRECORDED LIABILITIES

The underlying value of written guarantee contracts in force as of 31 December 2013 is equivalent to KD 111,924,070 (2012: KD 98,226,446).

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 (2012: Nil). 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

17 - RISK MANAGEMENT (continued)

17.1 Credit risk (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).

	Gross maximum exposure 2013 KD	*Gross maximum exposure 2012 KD*
Bank balances	**4,427,763**	3,441,145
Time deposits	**6,826,322**	19,252,302
Wakala deposits	**18,526,664**	1,690,500
Investment available for sale (Bonds)	**18,294,924**	9,419,230
Recoverable claims	**2,169,256**	583,261
Accounts receivable and other assets	**2,275,340**	647,519
Total credit risk exposure	**52,520,269**	35,033,957

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 2013. 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.

17.2 Liquidity risk (continued)

At 31 December 2013	***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***
Accounts payable and accruals	463,109	-	209,856	-	-	**672,965**
Insurance technical reserves	-	-	-	1,389,311	-	**1,389,311**
Obligation under finance lease	-	92,678	-	463,391	1,346,794	**1,902,863**
Due to insurance and reinsurane companies	-	-	-	835,389	-	**835,389**
Employees savings and end of service benefits	-	-	-	-	2,624,879	**2,624,879**
TOTAL LIABILITIES	**463,109**	**92,678**	**209,856**	**2,688,091**	**3,971,673**	**7,425,407**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

17.2 Liquidity risk (continued)

At 31 December 2012	*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*
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 reinsurance companies	-	-	-	835,389	-	835,389
Employees saving 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

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

The corporation is exposed to market risk with respect to its investments.

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

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.

	2013			*2012*		
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%**	**1,029,358**	**2,825,877**	± 5%	239,346	3,257,757
GBP	**± 5%**	**754**	**66,729**	± 5%	276	67,533
Euro	**± 5%**	**847**	**68,938**	± 5%	2,880	75,625

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

17 - RISK MANAGEMENT (continued)

17.3 Market risk (continued)

17.3.2 Interest rate risk (continued)

Currency	***2013*** Change in variables	***2013*** Impact on profit KD	*2012* Change in variables	*2012* Impact on profit KD
USD	**± 5%**	**44,904**	± 5%	35,850
Euro	**± 5%**	**101**	± 5%	740
KD	**± 5%**	**11,269**	± 5%	14,439

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:

	2013			*2012*		
	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%**	**799,799**	**-**	± 5%	96,442	-
Investments available for sale	**± 5%**	**-**	**2,128,343**	± 5%	-	2,924,948

18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Fair value hierarchy

As at 31 December 2013, 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Level 1	***Level 2***	***Level 3***	***Total***
	KD	***KD***	***KD***	***KD***
31 December 2013				
Investments available for sale	**33,259,368**	**18,660,659**	**7,873,538**	**59,793,565**
Investment at fair value through income statement	**1,865,348**	**14,130,628**	**-**	**15,995,976**
	35,124,716	**32,791,287**	**7,873,538**	**75,789,541**

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
31 December 2012				
Investments available for sale	53,268,747	9,784,961	3,549,375	66,603,083
Investment at fair value through income statement	1,928,837	-	-	1,928,837
	55,197,584	9,784,961	3,549,375	68,531,920

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

	At 1 January 2013	***Additions***	**Change in fair value**	**At 31 December 2013**
	KD	**KD**	**KD**	**KD**
Investments available for sale:				
Managed funds	**3,549,375**	**4,259,580**	**64,583**	**7,873,538**

	At 1 January 2012	*Additions*	*Change in fair value*	*At 31December 2012*
	KD	*KD*	*KD*	*KD*
Investments available for sale:				
Managed funds	1,935,231	-	1,614,144	3,549,375

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 is KD 24,689,149 (2012: KD 24,379,890), which represents investments managed on behalf of a member states.

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