

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



Annual Report 2015





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

OBJECTIVES:

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

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

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

In March 2016, Standard & Poor's Rating Services reaffirmed its "AA" rating of Dhaman with a revised Outlook to Stable from Negative, with respect to Dhaman's counterparty credit rating as well as its financial strength rating as an insurer, reflecting both Dhaman's very strong business profile and very strong financial profile. Dhaman has obtained the same long-term rating originally in 2008.

Headquarters

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Dhaman's Structure

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

1. The Shareholders' Council (General Assembly)

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

2. The Board of Directors

The Board of Directors consists of 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. Ahmed Mohammed H. Al-Ghannam	Chairman
2.	H.E. Mr. Ishaq A.M. Abdul karim	Member
3.	H.E. Mr. Abdulmagid Mohamed R.Emhamed	Member
4.	H.E. Mr. Khalid Ali AbdulReda Al Bustani	Member
5.	H.E. Mr. Ahmad Ali I. M. Bokshaisha	Member
6.	H.E. Mr. Adel Ahmad Ismail Al Sharkas	Member
7.	H.E. Mr. Sayed Mohamed Ahmed Hamadani	Member
8.	H.E. Mr. Atif Abdul-Khaleq Abdul-Hussen Al Yaseen	Member
9.	H.E. Dr. 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 43rd Session of the Shareholders' Council of the Arab Investment and Export Credit Guarantee Corporation (Dhaman),

In accordance with Article (121/) (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 2015.

Please accept my highest consideration,

Ahmed Mohammed H. Al-Ghannam

Chairman of the Board of Directors

Bahrain kingdom, April 2016.

Table of contents

Independent Auditor's Report.....	7
Statement of Financial Position	9
Statement of Income	10
Statement of Comprehensive Income	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

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The Arab Investment & Export
Credit Guarantee Corporation



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

Financial Statements and Independent Auditor's Report
For the year ended 31 December 2015



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

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

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 2015, and the related statement of income, 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.

Auditor's 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 auditor's 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 policies 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 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Kuwait, 1 March 2016



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

Statement of Financial Position as at 31 December 2015

(All amounts are in Kuwaiti Dinars)

	Note	2015	2014
Assets			
Cash and cash equivalents	5	11,538,280	17,154,508
Deposits and Wakala with financial insinuations	6	24,000,000	19,250,000
Investments at fair value through profit or loss	7	17,903,291	17,214,497
Available for sale investments	8	76,286,525	65,876,873
Recoverable claims		909,625	1,939,397
Accounts receivable and other assets		1,065,014	1,602,390
Property and equipment	9	1,251,312	1,330,684
Total assets		132,954,047	124,368,349
Liabilities and equity			
Liabilities			
Payables and other liabilities		433,279	431,464
Insurance technical reserves	10	1,448,343	1,385,946
Obligations under finance lease	9	1,806,781	1,856,447
Due to insurance and reinsurance companies		1,267,363	1,175,114
Employee savings and end of service benefits		2,717,092	2,885,362
Total liabilities		7,672,858	7,734,333
Equity			
Paid-up capital	11	82,229,594	75,283,067
General reserve	12	44,252,995	40,611,545
Cumulative changes in fair value		(1,201,400)	739,404
Total equity		125,281,189	116,634,016
Total liabilities and equity		132,954,047	124,368,349

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



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

Statement of Income for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars)

	Note	2015	2014
Revenues:			
Gross guarantee premiums subscribed		1,393,748	1,367,079
Less: net technical charges		(540,594)	(213,901)
Gross guarantee premiums		853,154	1,153,178
Less: guarantee premiums ceded		(347,982)	(308,406)
Net guarantee premiums		505,172	844,772
Unearned premiums reserve	10	18,393	81,090
Outstanding claims reserve	10	(101,891)	(86,429)
Net guarantee premiums earned		421,674	839,433
Revenues and other commissions		(30,143)	15,770
Guarantee results		391,531	855,203
Banks and bonds interest income		2,224,436	1,578,702
Net investments income	13	3,932,852	2,359,151
Gains/ (losses) from foreign currency differences		106,956	(47,599)
Other miscellaneous income		5,687	4,787
Total revenues		6,661,462	4,750,244
Expenses:			
Salaries, wages and benefits		(2,037,189)	(1,957,093)
Administration expense		(802,916)	(800,534)
Depreciation expense		(87,823)	(87,225)
Provisions and others		(42,084)	(40,588)
Total expenses		(2,970,012)	(2,885,440)
Net profit for the year		3,691,450	1,864,804

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

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

Statement of Comprehensive Income for the year ended 31 December 2015 (All amounts are in Kuwaiti Dinars)

	2015	2014
Net profit for the year	3,691,450	1,864,804
Other comprehensive income items		
<i>Items can reclassified to statement of income in subsequent periods:</i>		
Unrealized (losses)/ gains on available for sale investments	(496,095)	825,356
Transferred to statement of income on sale of available for sale investments	(1,853,748)	(1,456,797)
Impairment loss on available for sale investments	409,039	1,781,302
	(1,940,804)	1,149,861
Total comprehensive income for the year	1,750,646	3,014,665

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



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

Statement of Changes in Equity for the year ended 31 December 2015 (All amounts are in Kuwaiti Dinars)

	Paid-up capital	General reserve	Cumulative changes in fair value	Retained earnings	Total
Balance as at 1 January 2014	68,414,267	38,796,741	(410,457)	-	106,800,551
Net profit for the year	-	-	-	1,864,804	1,864,804
Other comprehensive income items	-	-	1,149,861	-	1,149,861
Transfer to general reserve	-	1,864,804	-	(1,864,804)	-
Share capital increase	6,868,800	(50,000)	-	-	6,818,800
Balance at 31 December 2014	75,283,067	40,611,545	739,404	-	116,634,016
Balance as at 1 January 2015	75,283,067	40,611,545	739,404	-	116,634,016
Net profit for the year	-	-	-	3,691,450	3,691,450
Other comprehensive income items	-	-	(1,940,804)	-	(1,940,804)
Transfer to general reserve	-	3,691,450	-	(3,691,450)	-
Share capital increase (note 11)	6,946,527	(50,000)	-	-	6,896,527
Balance at 31 December 2015	82,229,594	44,252,995	(1,201,400)	-	125,281,189

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

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

Statement of Cash Flows for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars)

	Note	2015	2014
Cash flows from operating activities			
Net profit for the year		3,691,450	1,864,804
Adjustments for:			
Depreciation		87,823	87,225
Net investments income		(4,002,167)	(2,439,333)
Banks and bonds interest income		(2,224,436)	(1,578,702)
Employees savings and end of service benefits		414,684	459,923
Allowance for impairment of recoverable claims		348,577	150,745
Finance lease charges		129,951	133,201
Gains from sale of property and equipment		(1,987)	-
Operating losses before changes in operating assets and liabilities		(1,556,105)	(1,322,137)
Accounts receivable and other assets		944,497	1,715,596
Investments at fair value through profit or loss		34,939	104,892
Recoverable claims		681,195	79,114
Payables and other liabilities		1,815	(241,501)
Insurance technical reserves		62,397	(3,365)
Due to insurance and reinsurance companies		92,249	339,725
Cash generated from operations activities		260,987	672,324
Paid of employees savings and end of service benefits		(582,954)	(199,440)
Net cash flows (used in)/ generated from operating activities		(321,967)	472,884
Cash flows from investing activities			
Deposits and Wakala with financial insinuations		(4,750,000)	(19,250,000)
Purchase of available for sale investments		(49,994,070)	(48,825,319)
Proceeds from sale of available for sale investments		39,327,360	45,885,749
Purchase of property and equipment		(8,451)	(40,018)
Proceeds from sale of property and equipment		1,987	-
Dividends income received		1,594,688	1,076,802
Banks and bonds interest income received		1,817,315	1,414,478
Net cash flows used in investing activities		(12,011,171)	(19,738,308)
Cash flows from financing activities			
Payment of finance lease obligations		(179,617)	(179,617)
Share capital increase		6,896,527	6,818,800
Net cash flows generated from financing activities		6,716,910	6,639,183
Decrease in cash and cash equivalents		(5,616,228)	(12,626,241)
Cash and cash equivalents at beginning of the year		17,154,508	29,780,749
Cash and cash equivalents at end of the year	5	11,538,280	17,154,508

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



The Arab Investment & Export Credit Guarantee Corporation

An Arab Corporation with a Special Independent Legal Status

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

1. Corporate activity and its nature

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

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

The financial statements were authorised for issue by the corporation's Board of directors on 1 March 2016.

2. Significant accounting policies

2.1 Basis of preparation

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

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

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) Amendments to IFRSs that are mandatory effective for the current year

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments should be applied retrospectively.

This amendment is not relevant to the corporation, since the corporation has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011-2013 Cycle

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements

The corporation has applied the amendments to IFRSs included in the annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle for the first time in the current year. The application of these amendments has had no impact on the disclosures or amounts recognized in the corporation's financial statements.

New and revised IFRSs in issue but not yet effective

The corporation has not applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The corporation is in the process of assessing the impact of IFRS 9 on its financial statements.

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The corporation is in the process of assessment the impact of IFRS 15 on its financial statements.

Amendments to IFRS 11 Accounting for Acquisitions of Interest in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*.

The amendments should be applied prospectively to acquisitions of interests in joint operations occurring from the beginning of annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the corporation.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the corporation.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisations

The Amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.

The Amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the corporation use the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the corporation believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets. These amendments are not expected to have any impact on the corporation.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the corporation.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. These amendments are not expected to have any impact on the financial statements of the corporation.

Annual Improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the corporation. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits



The Arab Investment & Export Credit Guarantee Corporation

An Arab Corporation with a Special Independent Legal Status

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.3 Significant Accounting Policies

The significant accounting policies adopted are set out below:

2.3.1 Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

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

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

Cash and cash equivalents

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

Receivables

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

Available for sale (AFS)

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

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

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

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

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

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Impairment

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

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

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

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

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

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

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

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

Derecognition

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

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

Financial liabilities

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

Derecognition

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

2.3.2 Recoverable claims

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



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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2.3.3 Property and equipment

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

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

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

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

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

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

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

2.3.4 Impairment of tangible assets

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

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

2.3.5 Unearned premiums reserve

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

2.3.6 Outstanding claims reserve

Estimates are made for the expected ultimate cost of claims reported at the reporting date. The provision for outstanding claims is based on estimates of the loss which will eventually be payable on each unpaid claim, established by management in the light of available information and on past experience and modified for changes in current conditions, increased exposure, rising claims cost and the severity and frequency of recent claims as appropriate.

2.3.7 Finance leases

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

2.3.8 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.

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

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

2.3.9 End of service indemnity

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

Employee benefits savings

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

2.3.10 Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

2.3.11 Revenue recognition

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

2.3.12 Contingent assets and liabilities

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

2.3.13 Provisions

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

3. Risk management

Risk is inherent in the corporation's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

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

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



The Arab Investment & Export Credit Guarantee Corporation

An Arab Corporation with a Special Independent Legal Status

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

3.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which potentially subject the corporation to credit risk, consist principally of bank balances, deposits and Wakala bonds, receivables and other debit balances. Cash is placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or governments.

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

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

	2015	2014
Bank balances	1,983,178	2,723,784
Time deposits	29,551,486	12,774,689
Wakala deposits investments	4,003,616	20,906,035
Available for sale investment (Bonds)	33,926,834	20,250,970
Recoverable claims	909,625	1,939,397
Accounts receivable and other assets	1,065,014	1,602,390
Total credit risk exposure	71,439,753	60,197,265

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

3.2 Liquidity risk

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

The table below summarises the maturity profile of the corporation's liabilities at 31 December 2015. The maturities of liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments at fair value through profit or loss and available for sale investments is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

<i>At 31 December 2015</i>	<i>Within 3 months</i>	<i>3 to 6 Months</i>	<i>6 to 12 Months</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Total</i>
Payables and other liabilities	181,657	-	251,622	-	-	433,279
Obligations under finance lease	-	-	53,143	182,807	1,570,831	1,806,781
Due to insurance and reinsurance companies	-	-	-	1,267,363	-	1,267,363
<i>At 31 December 2014</i>	<i>Within 3 months</i>	<i>3 to 6 Months</i>	<i>6 to 12 Months</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Total</i>
Payables and other liabilities	199,845	-	231,619	-	-	431,464
Obligations under finance lease	-	-	49,666	170,846	1,635,935	1,856,447
Due to insurance and reinsurance companies	-	-	-	1,175,114	-	1,175,114

3.3 Market risk

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

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

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

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

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	2015			2014		
	Change in currency rate %	Effect on profit	Effect on equity	Change in currency rate %	Effect on profit	Effect on equity
USD	+5%	1,056,577	2,856,472	+5%	893,084	2,974,380
GBP	+5%	2,429	152,632	+5%	783	138,817
Euro	+5%	1,441	51,941	+5%	44,480	-

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.

Currency	2015		2014	
	Change in interest rate	Impact on profit	Change in interest rate	Impact on profit
USD	+5%	75,295	+5%	57,390
Euro	+5%	2,209	+5%	-
KD	+5%	33,692	+5%	21,545

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:

	2015			2014		
	Change in equity price %	Effect on profit	Effect on equity	Change in equity price %	Effect on profit	Effect on equity
Investment at fair value through profit or loss	+5%	895,165	-	+5%	860,725	-
Available for sale investments	+5%	-	2,040,772	+5%	-	2,225,200

3.4 Fair value of financial instruments

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

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

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

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

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



The Arab Investment & Export Credit Guarantee Corporation

An Arab Corporation with a Special Independent Legal Status

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Fair value hierarchy

As at 31 December 2015, 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

31 December 2015

Available for sale investments

Investments at fair value through profit or loss

Level 1	Level 2	Level 3	Total
32,580,414	30,006,282	6,441,982	69,028,678
1,764,000	16,139,291	-	17,903,291
34,344,414	46,145,573	6,441,982	86,931,969

31 December 2014

Available for sale investments

Investments at fair value through profit or loss

Level 1	Level 2	Level 3	Total
32,142,516	18,825,179	6,421,418	57,389,113
1,911,000	15,303,497	-	17,214,497
34,053,516	34,128,676	6,421,418	74,603,610

4. Accounting Estimates

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

Classification of investments

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

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

All other investments are classified as available for sale investments.

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.

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Guarantee contract liabilities

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

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

5. Cash and cash equivalents

	2015	2014
Cash on hand and at banks	1,983,178	2,723,784
Time deposits	5,551,486	9,774,689
Wakala investment with financial institutions	4,003,616	4,656,035
	11,538,280	17,154,508

The average interest rate on deposits range between 0.625% to 1.25% as at 31 December 2015 (0.35% to 1.30% - 2014).

The average interest rate on wakala deposits is 1.38% as at 31 December 2015 (1.35% - 2014).

6. Deposits and Wakala with financial instruments

Represents in deposits and Wakala with local financial instruments for periods more than three month. Interest rate range between 2% to 2.13% as at 31 December 2015 (1.25% to 2.25% - 2014).

7. Investments at fair value through profit or loss

	2015	2014
Investments in managed portfolios of quoted securities	1,764,000	1,911,000
Investments in funds units	16,139,291	15,303,497
	17,903,291	17,214,497

8. Available for sale investments

	2015	2014
Bonds	33,926,834	20,250,970
Managed funds	40,815,429	43,625,128
Investment in Arab Trade Finance Program	601,493	601,493
Investment in Tunisian External Trade Insurance Company	942,769	1,399,282
	76,286,525	65,876,873

- Available for sale investments include investments of KD 7,257,847 as at 31 December 2015 (KD 8,487,760 - 2014) carried at cost less impairment in value, due to unavailability of appropriate methods to reliably measure the fair value of such investments. Based on the information available to the management there are no indicate of any additional impairment for these investments.
- Impairment losses of KD 409,039 was recorded during the current year (KD 1,781,302 - 2014).
- Certain available for sale investments carry an interest rate ranges between 2% to 9.75% as at 31 December 2015 (5.45% to 9.75% - 2014).
- Investments in Arab Trade Finance Program represent 0.25% of the capital of the Arab Trade Finance Program (0.25% - 2014), which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. Due to the unpredictable nature of future cash flows 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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

9. Property and equipment

Property and equipment are substantially represented in the carrying amount of the corporation's premises, which were acquired under a finance lease based on the space allocated to and occupied by the corporation in the Joint Building of the Arab Organisations. The premises are being depreciated over the 40-year lease term and the related depreciation charge for the year amounted to KD 67,648 (KD 67,648 - 2014).

The obligations under the finance lease are mature as follows:

	2015	2014
Within one year	179,617	179,617
From one year to five years	898,085	898,085
Over five years	2,155,404	2,335,021
Due to Arab Fund For Economic And Social Development	3,233,106	3,412,723
Less: Finance charges allocated to future periods	(1,426,325)	(1,556,276)
	1,806,781	1,856,447

10. Insurance technical reserves

	2015	2014
Unearned premium reserve movement:		
Unearned premiums reserve at the beginning of the year	210,133	291,223
Unearned premiums reserve at the end of the year	(191,740)	(210,133)
	18,393	81,090
Outstanding claims reserve movement:		
Outstanding claims reserve at the beginning of the year	1,175,813	1,098,088
Claims paid during the year	(21,101)	(8,704)
Outstanding claims reserve at the end of the year	(1,256,603)	(1,175,813)
	(101,891)	(86,429)
As at 31 December:		
Unearned premiums reserve	191,740	210,133
Outstanding claims reserve	1,256,603	1,175,813
	1,448,343	1,385,946

As at 31 December 2015, 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.

11. Paid-up capital

- As per the decision of the council of the shareholders in the annual meeting held on 2-3 April 2013, it has been approved to increase the issued share capital by 50% to be allocated over the member states and authorities on a pro-rata basis, each as per his share as at 31 December 2012. Such increase shall be settled in five equal annual installments starting from the date of the meeting. In addition, the council of the shareholders has been notified of the desire of five member states to make an optional increase of their shares by KD 14,925,000 in the corporation's capital in order to maintain a permanent seat for them in the Board of Directors.
- During the year ended 31 December 2015, an amount of KD 6,896,527 was collected in cash out of the share capital increase. During the current year, and based on the Board of Directors' decision No. 5/3 dated 19 June 2014, the State of Palestine's share has been increased by KD 50,000 through deduction from the general reserve during 2015 (KD 50,000 – 2014).

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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

- At 31 December 2015, the capital of the corporation and the share of each member state and other authorities are as follows:

	Issued	Paid	
	2015/2014	2015	2014
A. Member State:			
The Hashemite Kingdom of Jordan	788,000	682,800	630,200
United Arab Emirates	6,510,000	5,805,000	5,570,000
Kingdom of Bahrain	750,000	650,000	600,000
Republic of Tunisia	1,875,000	1,625,000	1,500,000
Peoples' Democratic Republic of Algeria	1,875,000	1,625,000	1,500,000
Republic of Djibouti	300,000	200,000	200,000
Kingdom of Saudi Arabia	8,610,000	7,860,000	7,485,000
Republic of Sudan	1,826,932	1,592,659	1,217,932
Syrian Arab Republic	750,000	500,000	500,000
Somali Democratic Republic	87,735	58,735	58,735
Republic of Iraq	750,000	650,000	550,000
Sultanate of Oman	1,125,000	900,000	825,000
State of Palestine	750,000	600,000	550,000
State of Qatar	5,985,000	5,585,000	5,385,000
State of Kuwait	7,485,000	6,885,000	6,285,000
Republic of Lebanon	750,000	500,000	500,000
State of Libya	6,735,000	6,235,000	5,985,000
Arab Republic of Egypt	1,875,000	1,625,000	1,500,000
Kingdom of Morocco	3,000,000	2,600,000	2,400,000
The Islamic Republic of Mauritania	750,000	500,000	500,000
The Republic of Yemen	1,500,000	1,000,000	1,000,000
	54,077,667	47,679,194	44,741,867
B. Arab Financial Authorities:			
Arab Fund for Economical and Social Development	22,804,800	17,483,400	15,202,800
Arab Monetary Fund	12,177,000	9,336,000	8,118,000
BADEA	7,659,960	6,638,760	6,128,160
Arab Authority for Agricultural Investment and Development	1,638,240	1,092,240	1,092,240
	98,357,667	82,229,594	75,283,067

- As at 31 December 2015, the uncollected portion of required installments was amounted to KD 5,003,401 (KD 6,387,832 as at 31 December 2014).

12. General reserve

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

13. Net investments income

Investments at fair value through profit or loss:

	2015	2014
Unrealized (losses)/ gains	(251,394)	1,307,347
Realized gains on sale of investments	975,127	16,066
Cash dividends	63,000	63,000
Portfolio management fees	(6,538)	(39,954)
	780,195	1,346,459

Available for sale investments:

Realized gains on sale of investments	2,092,785	1,820,420
Cash dividends	1,531,688	1,013,802
Impairment losses (note 8)	(409,039)	(1,781,302)
Funds management fees	(62,777)	(40,228)
	3,152,657	1,012,692
	3,932,852	2,359,151



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

Notes to the Financial Statements for the year ended 31 December 2015

(All amounts are in Kuwaiti Dinars unless otherwise stated)

14. Contingent and unrecorded liabilities

As at 31 December 2015, the total executed guarantee contracts were amounted to KD 132,762,104 (KD 98,586,688 - 2014).

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

15. Related parties' transactions

Related parties represent member states. In the normal course of business an amount of KD 2,137 was received during the financial year ended 31 December 2015 against management fees of fiduciary assets in favour of member states (KD 2,022 - 2014). Non commercial risks related to guarantees granted by the corporation are guaranteed by member states.

16. Fiduciary assets

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

Total fiduciary assets managed by the corporation is KD 29,681,563 as at 31 December 2015 (KD 25,272,255 - 2014).

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The Arab Investment & Export
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