



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 all Arab states, deposited with the Ministry of Foreign Affairs in the State of Kuwait. With headquarters in Kuwait and a regional office in Riyadh, **Dhaman** commenced its operations in mid-1975. In addition to all Arab States, **Dhaman** encompasses in its membership 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 20th, 2009, Standard & Poor's Rating Services affirmed its 'AA-' rating for **Dhaman**. The outlook is stable. Such rating was obtained on March 27, 2008, when **Dhaman** was assigned a rating for the first time by Standard & Poor's Rating Services. **Dhaman** obtained a long-term rating of "AA-/Stable" for its counterparty credit rating as well as its financial strength rating as an insurer.

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 authorities, 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 one of its members as Chairman.

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, sets the annual budget and presents the annual report including **Dhaman's** activities to the Shareholders' Council.

The current members of the Board of Directors:

H.E. Mr. Nassir Ben Mohamad Al Quhtani	Chairman
H.E. Mr. Adnan Issa Al-Khudair	Member
H.E. Mr. Ali Ramadan Ashnebish	Member
H.E. Mr. Jasem Rashed Al Shamsi	Member
H.E. Mr. Sultan Salim Saeed Alhabsi	Member
H.E. Dr. Ali Abdel Aziz Soliman	Member
H.E. Mr. Jabbar W. Hasan	Member
H.E. Mr. Mohamed Djahdou	Member

3. The Director General

H.E. Mr. Fahad Rashid Al Ibrahim

4. Professional and Administrative Staff



His Excellency the Chairman of the 36th 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 2008.

Please accept my highest consideration,

Nassir Ben Mohamad Al Quhtani

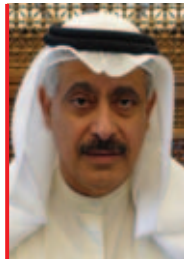
Chairman of the Board of Directors

Dead Sea, Jordan, April 2009

Dhahan's Board of Directors



H.E. Mr. Nassir Ben Mohamad Al Quhtani
Chairman of the Board
Saudi Arabia



H.E. Mr. Fahad Rashid Allbrahim
Director General
Kuwait



H.E. Mr. Adnan Issa Al-Khudair
Board Member
Kuwait



H.E. Mr. Ali Ramadan Ashnebish
Board Member
Libya



H.E. Mr. Jasem Rashed Al Shamisi
Board Member
United Arab Emirates



H.E. Mr. Sultan Salim Saeed Alhabsi
Board Member
Oman



H.E. Dr. Ali Abdel Aziz Soliman
Board Member
Egypt



H.E. Mr. Jabbar W. Hasan
Board Member
Iraq



H.E. Mr. Mohamed Djahdou
Board Member
Algeria



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Chapter One: Overview of Global and Arab Economic Developments

1. Global Economy

The world economy is now mired in the most severe unbalanced stage, resulting basically from the contagion of the mid-2007 U.S. sub-prime mortgage crisis, spreading across the worldwide financial systems. As a result, the world economy is decelerating quickly and is close to, or moving into recession. After years of strong growth, the global economy growth rate, according to preliminary estimates by the International Monetary Fund (IMF), witnessed a sharp drop in 2008, reaching 3.4%, compared to 5.2% in 2007. This drop is mainly attributable to a slowdown in the growth rate of the **advanced economies group** from 2.7% in 2007 to only 1.0%. On the other hand, although the **other emerging markets and developing economies** experienced slowdowns, their growth is projected to remain above the global economy growth rate, reaching, approximately, 6.3%, compared with 8.3% in 2007, supported by the relatively accelerating growth in countries such as China 9.0%, India 7.3% and Russia 6.2%. **Low-income economies** also witnessed a relatively high growth rate by still-high prices of raw materials and basic commodities exports. Global nominal GDP is estimated to reach approximately US\$ 62.0 trillion, rising from US\$ 54.6 trillion in 2007. As for the **inflation rate**, measured by the Consumer Price Index on an average annual basis, it went up, in the **advanced economies group** from 2.1% in 2007 to 3.5% in 2008 as well as in **other emerging markets and developing economies**, since it increased to 9.2%, from 6.4% in 2007, indicating more global inflationary pressure caused by a combination of a surge in the international foodstuff prices, along with a surge in the international prices of oil and some primary commodities.

Based on these preliminary indices, **the global economy** performance is still suffering from an increasing degree of uncertainty surrounding its future prospects. The financial crisis that first erupted with the U.S. sub-prime mortgage collapse in mid 2007 has deepened further and entered a tumultuous new phase in September 2008. The impact has been felt across the world financial system, including in emerging markets to an increasing extent.

Intensifying solvency concerns have led to extraordinary measures, including massive liquidation mechanisms for the failed U.S. and European major financial institutions, and/or merging with others. In an attempt to ensure adequate liquidity, the monetary authorities in most countries, worldwide, promptly intervened and placed huge amounts of liquidity in order to bail out weak financial institutions. In addition, the U.S. authority has recently issued a new legislation that allows U.S. government to use public funds to purchase troubled assets from the distressed financial institutions.

In addition to the direct impact of the financial crisis, global activity is increasingly being held back by increasing uncertainty, especially in the light of anticipated poor prospects for realizing profits and creating new jobs. As a result, households and firms are cutting back on consumption and investment. On the fiscal policy front, preliminary data indicate a massive deterioration, realized during the year, in terms of budget balance of both advanced and emerging economies. Such deterioration is attributed to the revenues slowdown, driven by a sharp drop in corporate and institutions' profits in advanced countries, and increased domestic prices of basic commodities in emerging economies. The year also witnessed, despite at a slower pace, sustained surpluses in current accounts in China, Canada, Japan, newly industrialized countries and oil



exporting countries. Such surpluses are typically at the expense of the counterpart increased deficits in most European countries, particularly the emerging ones, the UK and the USA.

Foreign direct investment (FDI) inflows in 2008

Based on preliminary estimates by the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) inflows are estimated to have fallen, after five years of consecutive growing, by 21% in 2008, amounting US\$ 1449 billion in 2008, against US\$ 1833 billion in 2007. Such drop is mainly attributable to the negative consequences of the current global financial crisis, featured notably by; a slowdown in economic growth in both advanced and developing countries, insolvency in important part of the world financial system associated with gloomy prospects and uncertainties for global economic growth, the liquidity crisis in the money and debt markets, indicating tighter credit conditions. In response, many companies have announced plans to curtail production, lay off workers, and cut capital expenditures, all of which tend to dampen cross-border mergers and acquisitions (M&As), which dramatically dwindling, postponing either the greenfield or expansions of existing investment decisions as corporate profits began to fall due to lower oil, gas and basic commodities prices, further depressing FDI flows.

The impact of the crisis varies widely depending on region and country, with consequently varying impacts on the geographic patterns and trends of FDI flows. Because the current crisis began first in the developed world, and then it is rapidly spreading to developing and transition economies, **developed countries group** have already been directly hit, resulted in an estimated decline of about 33% from flows in 2007, reaching US\$ 840 billion in 2008 comprising 58% of total world FDI inflows. While the effects of the crisis on developing economies, have so far been indirect in most cases, as the worst effects of crisis had still, at year's end, not to be fully transmitted to these countries. **The developing countries group** succeeded in maintaining a positive growth rate of FDI inflows at an estimated 4% in 2008, reaching US\$ 518 billion, equivalent to 36% of total world FDI inflows comparing to US\$ 500 billion and only 27% of the 2007 total. **Economies in transition (south-eastern Europe and Commonwealth of Independent States)** received around US\$ 91 billion comprising a share of 6%. Despite the slowdown in the U.S. economy caused by the sub-prime mortgage crisis, USA sustained its position as the leading host country for FDI (US\$ 220 billion), followed by France (US\$ 114 billion), the United Kingdom (US\$ 109 billion), China (US\$ 92 billion), Russia (US\$ 62 billion) and Spain (US\$ 57 billion).

According to the **Institute of International Finance (IIF)**, the net private capital flows to 30 developing countries dramatically dropped by 31% to reach US\$ 619 billion in 2008 compared to US\$ 899 billion in 2007. Such drop is an outcome of a massive decline in all types of international capital flows during the year, as follows:

- A drop in the FDI flows, on a net basis, by 5% reaching US\$ 288 billion in 2008 compared to US\$ 302 billion in 2007.
- A persistent outflow of the portfolio investment flows, on a net basis, from only US\$ 6 billion in 2007 to US\$ 69 billion in 2008.
- A decline in the net official flows, reaching US\$ 3 billion in 2008 from US\$ 20 billion in 2007.

As for the **international trade** performance, the world trade volume of goods and services increased despite at a slower pace than previous years. It grew by 5.0% in 2008 compared to a growth rate of 7.0% in 2007 and 9.0% in 2006. On the other hand, the value of world exports of goods and services increased from US\$ 17.1 trillion in 2007, to US\$ 20.8 trillion in 2008.

Raw material prices

The price index for raw materials (2005=100) hiked 37.3% during 2008. This increase is attributed to the rise in the price index of energy at a rate of 52.3 and foodstuffs, including beverages and industry inputs by 13.3%, on one hand, and a slight decrease in the price index for industry inputs and metals by 0.2% and 1.9% respectively, on the other. A decline in metals prices is an outcome of mixed effects; a sharp drop in some metals prices offsetting a massive rise in others price. The prices of nickel decreased by 39%, uranium by 33.8%, zinc by 38.5% and lead by 12.8%, meanwhile the prices of iron ore and tin increased by 66% and 45% respectively, as well as aluminum and copper, but at lower rates. All metals prices, without any exception, are expected to go down during 2009 due to the remarkable drop in global demand on raw materials resulted from the global economy slowdown.

Crude oil prices

Based on arithmetic average spot prices for Brent, Dubai and East Texas crude oil, the crude oil prices, for the first time after five years of unprecedented and strong upward trend, have fallen by 37.4% in 2008 against positive price growth of 13.9%, 36.0%, 12.2%, for the previous three years (2005-2007). The average annual price for spot OPEC crude basket during 2008 recorded US\$ 97.03/barrel, compared to US\$ 155, 136, 100/barrel, for the last three years. Such decline was driven by a massive drop in global demand on oil caused by moving most countries into recession, especially the OECD countries.

Foreign exchange markets

During the year 2008 the major currencies have largely continued trends observed in 2007. The US dollar has continued to weaken, particularly against the Euro, the Sterling Pound and the Japanese Yen, over the first three quarters of the year, but has returned to rise strongly in the last months of the year.

The export credit insurance and investment guarantee industry

As a matter of fact, the current financial crisis has influenced the global guarantee industry, with shrinking trade and investment flows worldwide. It derived most of investment guarantee & export credit insurance agencies, to play its role in the mainstream instead of margins, as lenders demand greater protection and businesses are looking for credit insurance and investment guarantee as a mean of maintaining liquidity. The global export credit insurance and investment guarantee market witnessed further expansion in its operations in terms of both, volume and value as well as a continuation of the pattern of strategic alliances. As the crisis continues to bite, the regular and timely exchange of updated and available information on credit, debt collection, accumulated experiences on particular countries, buyers and banks, among agencies, is essential. Such information could be exchanged either; through multilateral intranet or direct bilateral exchange, and should be in a manner that helps to cope correctly with the financial crisis. In the



face of current credit crunch and liquidity squeeze, and in order to play its crucial role in providing the necessary credit and investment insurance to keep trade and investment globally flowing, many investment guarantee & export credit insurance agencies, officially requested additional financial support from their governments to enlarge underwriting capacity, annual insurance limits, protection ratios in respect of insurance cover for small, medium and large exporters and bank advances submitted to them, besides the need for establishing a separate fund to provide additional reinsurance capacity with aiming at widening reinsurance risk-sharing capacity.

Hereby is the latest data available from the 51 members of the **International Union of Credit and Investment Insurers (The Berne Union)**, which was established in 1934 and includes international, regional and national agencies from 43 countries. Members are both private companies, offering risk management solutions, state-backed ECAs focusing upon the support of national export and investment flows. The members covered over US\$ 1.3 trillion worth of business at the end of 2007 (compared to US\$ 472 billion in 2001 and US\$ 1.1 trillion in 2006), which is equivalent to about 10% of total world export trade. This is primarily due to the continued growth of international trade at a rate exceeding that of the global economy in 2007 as well as increasing investment in the extractive industries, energy and raw materials as a result of the availability of capital resultant from the rise in international prices of oil, minerals and basic commodities.

2. Arab Economy

Arab economic developments

Preliminary estimates by the International Monetary Fund (IMF) reflect stable economic growth in the Arab countries during 2008 of 6.0%, maintaining similar levels achieved in 2007 and outpacing the global growth rate for the ninth year in row. Many Arab countries however recorded higher growth rates of between 6% and 16.8%. Despite, the Arab economy's growth rate is lower than that of developing countries group, the region still has been resilient against the negative implications of the current crisis.

Inflation in Arab countries, measured by **Consumer Price Index**, increased noticeably, on an average annual basis, to reach around 14.4% in 2008, compared to 9.2% in 2007. This was an outcome of the rise in domestic demand vis-à-vis a sharp limited supply side capacity, especially in foodstuff and real-estate sector, in most Arab countries particularly, the Gulf countries, as well as the depreciation of the dollar exchange rate over the first three quarters of 2008, a rise in public sector workers' wages and salaries, and ineffective tighten monetary policy given, capital mobility and fixed exchange rate regimes.

Budget deficits were improved and/or turned to a surplus in most Arab countries, **public domestic and external debt indicators** continued to remain comfortable along with the improvement in the **current account positions** particularly in those of oil exporting countries and those that have achieved high levels of expatriate remittances. The surplus was mainly used to accumulate levels of **international reserves** which are expected to grow at a rate of 31% reaching US\$ 974 billion at the end of 2008 comparing to US\$ 746 billion, a year earlier.

Foreign direct investment inflows to Arab Countries

The inflows to Arab countries, according to preliminary estimates available from the **United Nations Conference on Trade and Development (UNCTAD)**, are projected to decline reaching about US\$ 62 billion in 2008 compared to US\$ 72 billion in 2007; a negative growth rate of 14%. This decline is attributable to a slowdown in advanced economies group, representing one important FDI sources to Arab countries during the recent years, the turmoil in international and Arab securities markets, generating more uncertainty and further depressing and postponing the long-run investment decisions in respect with mega-projects in Arab region, especially in the field of infrastructure. On another front, the ongoing crisis led to a slower growth in global oil demand. Consequently, due to lower oil international prices, the oil export receipts dramatically shrunk which in turn led to a decline in the inter-Arab investment flows, further depressing total FDI received by Arab countries as it represents a relatively important component of the total.

The Pattern of Arab trade with the rest of the world

The growth of **Arab exports of goods and services** is projected to continue growing to reach US\$ 1295 billion in 2008, according to preliminary estimates from the **IMF**, compared with US\$ 891 billion a year earlier; a growth rate of 45%. The rise in export proceeds is an outcome of the sustained high prices of oil, metals and basic commodities on one hand, and Arab exports enhancement in terms of quality standards, making them internationally more competitive on the other. The imports growth rate is forecasted to reach 31%, up to US\$ 843 billion in 2008 from US\$ 642 billion in 2007. Such growth is attributable to a number of factors, headed by the relatively high economic growth rates of the majority of Arab countries, which associated with higher demand for imports of capital and intermediate goods, as well as the higher bill of oil imports paid by oil importing countries.

The level of guarantee activity of the Arab national ECAs and regional export credit and investment guarantee agencies

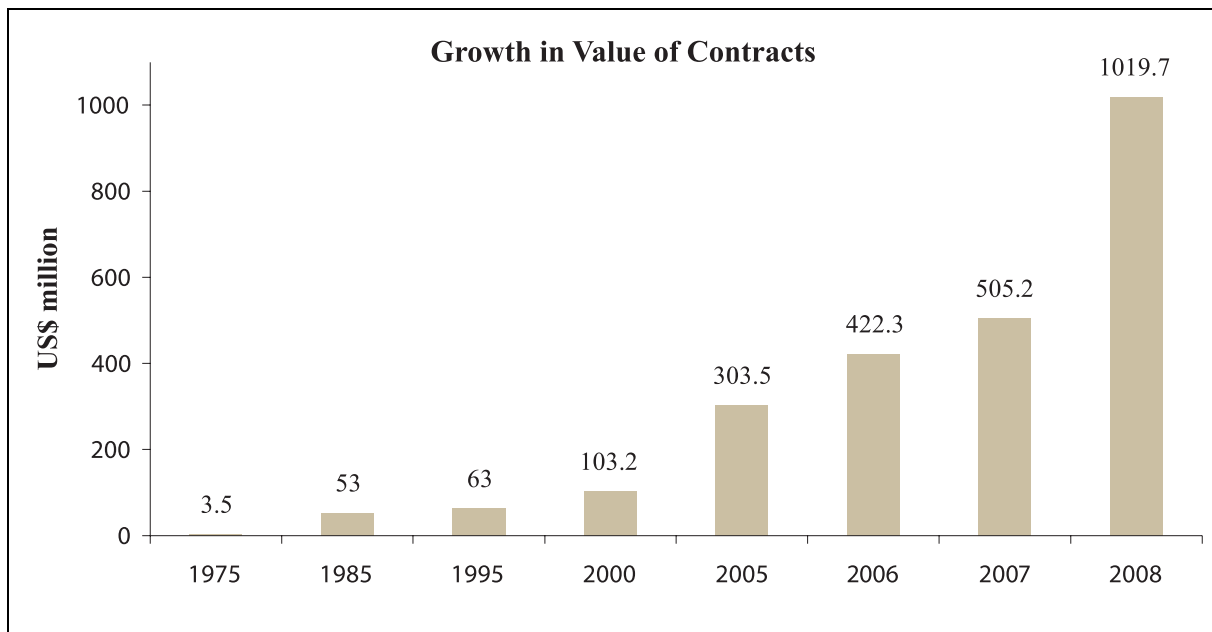
The total value of insurance contracts continued to grow for the fourth year in a row, reaching about US\$ 3.9 billion in 2007, (versus US\$ 2.9 billion in 2006). As for 2008, preliminary data indicate a growing volume of guarantee contracts concluded by these agencies to exceed a value of US\$ 3.5 billion. The agencies' activities have been growing during 2008 in the areas of; factoring as an export financing mechanism, pre-shipment insurance, cross-border financial leasing, and debt collection, in addition to the new contracts, such as, insurance on international syndicated loans. The year also witnessed the growing importance of re-insurance services in the region, with a continued concentration of more than 55% on total re-insurance with foreign companies.



Chapter Two: Guarantee Operations

2.1 Total Value of Operations:

The total value of guarantee contracts signed during 2008 reached approximately US\$ 1.019 billion (KD 281.8 million)¹, marking a 101.8% increase over that of 2007 which totaled US\$ 505.2 million (KD 138.2 million)² (see Table 1).



2.1.1 Guarantee Contracts:

Sixty contracts were signed during 2008, with a cumulative value of US\$ 829.4 million (KD 229.1 million). Six of these contracts were in connection with investment guarantee, in addition to an addendum covering an increase to an existing investment guarantee contract, the total of which reached US\$ 379.8 million (KD 104.9 million). The remaining 54 contracts refer to export credit insurance, plus one hundred twenty five addenda that increased the maximum insured values of existing export credit contracts, thus bringing total to US\$ 449.6 million (KD 124.2 million).

2.1.2 Reinsurance:

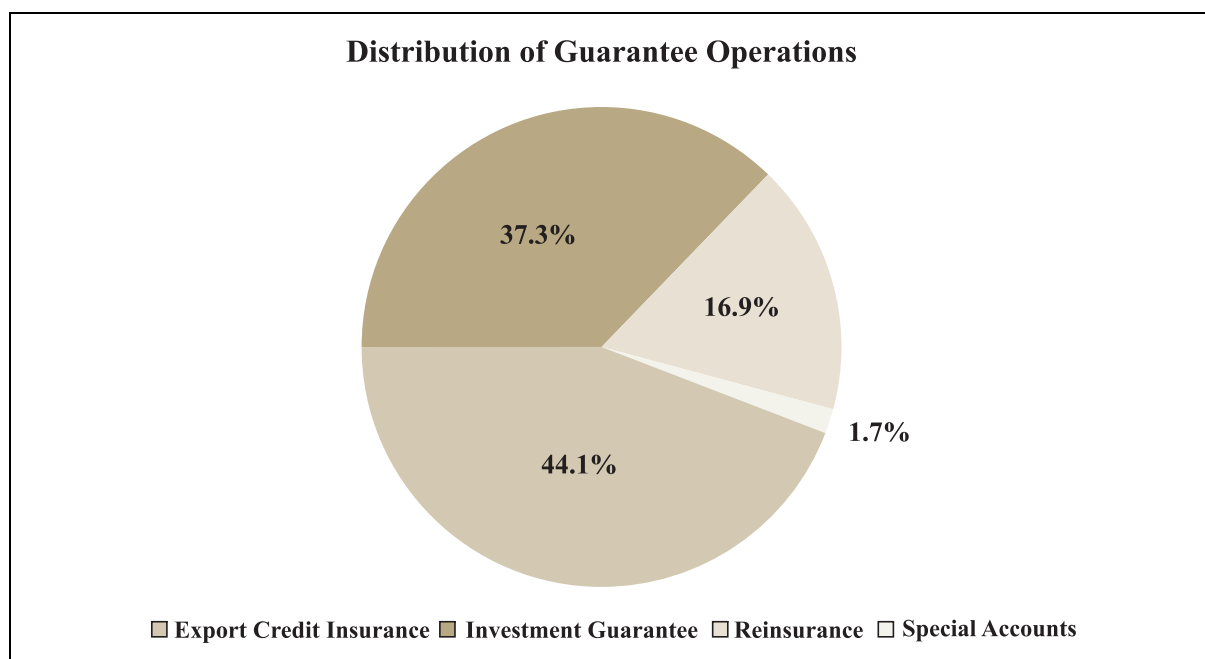
The value of transactions attributed to inward reinsurance treaties totaled approximately US\$ 172.8 million (KD 47.8 million), of which US\$ 135.7 million (KD 37.6 million) were facultative reinsurance treaties (total of eighteen treaties). On the other hand, **Dhamaan's** share of inward quota share treaties concluded with a number of Arab export credit insurance agencies reached approximately US\$ 37.1 million (KD 10.2 million).

(1) US\$ 1 = KD 0.2764 as at 31/12/2008

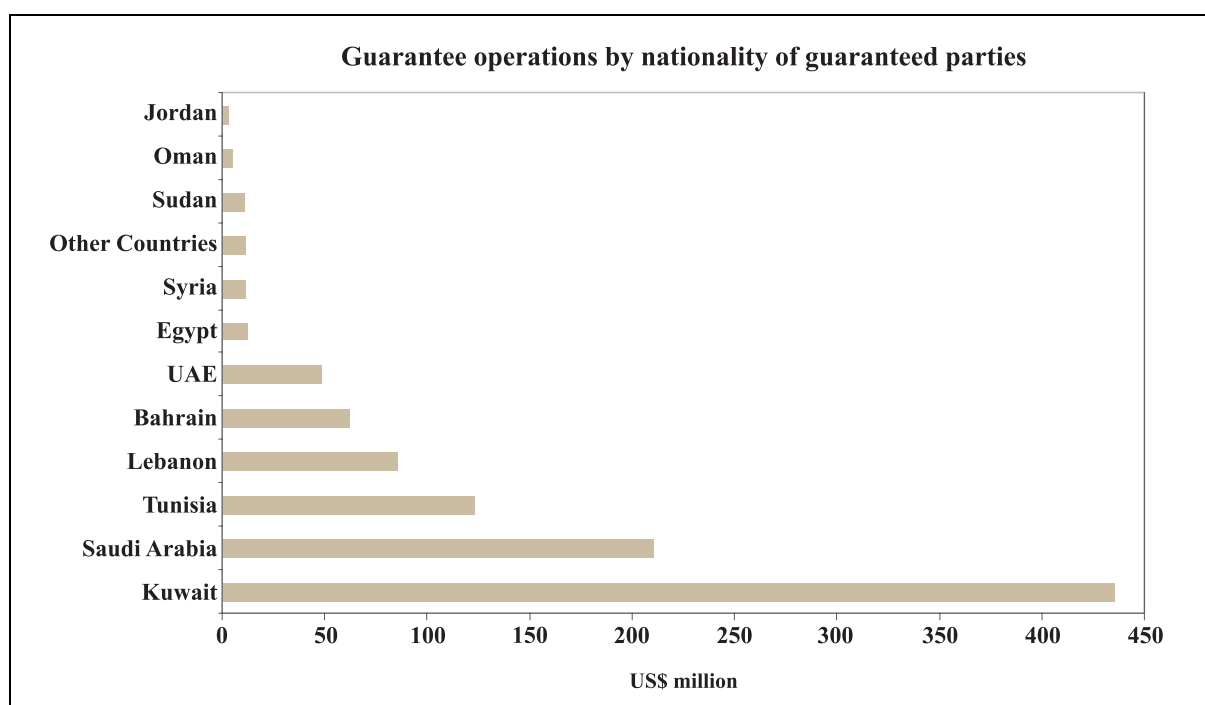
(2) US\$ 1 = KD 0.2735 as at 31/12/2007

2.1.3 Transactions assigned to Special Accounts:

The total value of these transactions reached US\$ 17.5 million (KD 4.8 million), of which US\$ 4 million (KD 1.1 million) were in connection with export credit insurance activities, whereas US\$ 13.5 million (KD 3.7 million) were in connection with investment guarantee activities.

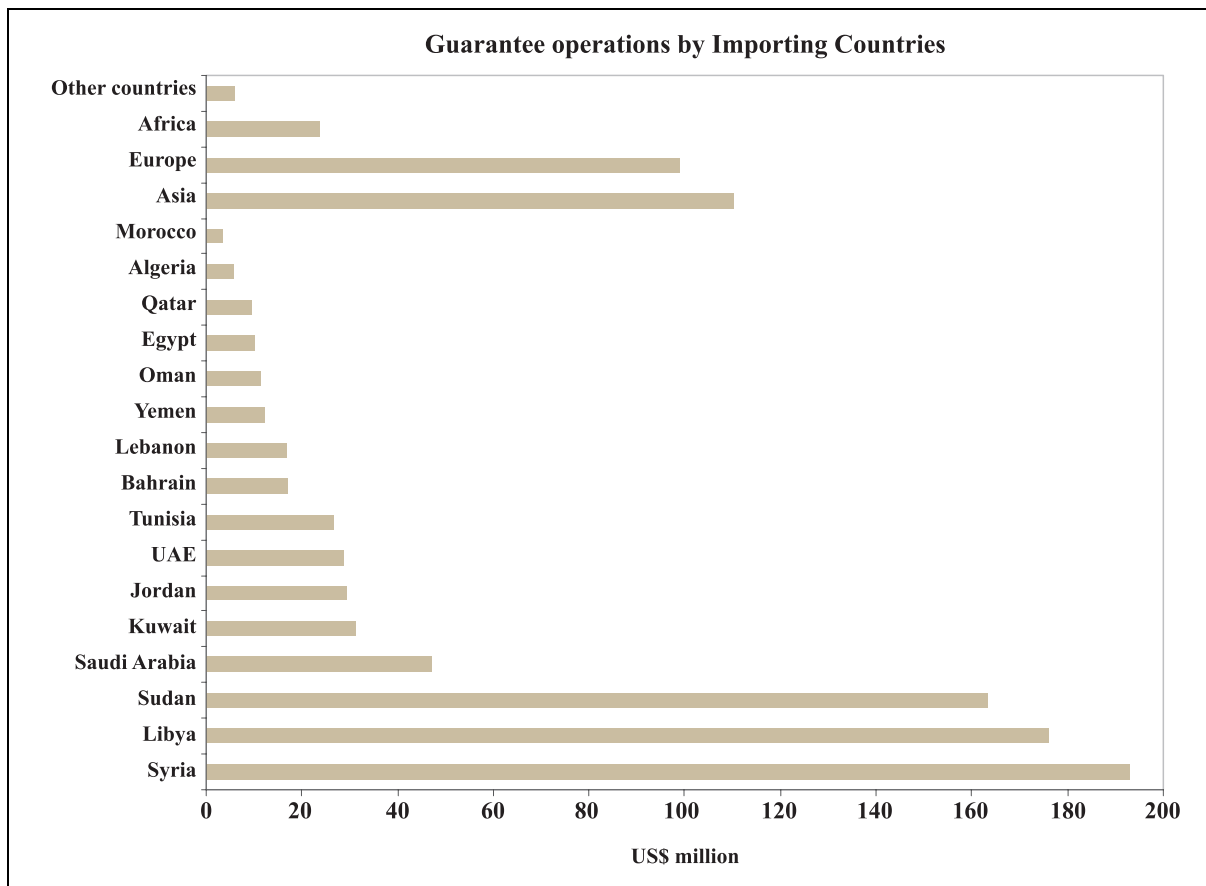


Overall, investors and exporters from twelve Arab countries benefited from Dhaman's guarantee services. At the lead was Kuwait with 42.7%, followed by Saudi Arabia (20.7%), Tunisia (12%), Lebanon (8.5%), Bahrain (6%), United Arab Emirates (4.8%), Egypt (1.2%), Syria (1.1%), Sudan (1%), Oman (0.5%) Jordan (0.3%) and other Arab countries (1.1%) (see Table 2).





The number of host and importing countries totaled seventy three, of which sixteen were Arab countries led by Syria (18.9%), Libya (17.3%), Sudan (16%), Saudi Arabia (4.6%), Kuwait (3.1%), Jordan (2.9%), United Arab Emirates (2.8%), Tunisia (2.6%), Bahrain (1.7%), Lebanon (1.6%), Yemen (1.2%), Oman (1.1%), Egypt (1%), Qatar (0.9%), Algeria (0.6%), Morocco (0.3%), other countries (23.4%) (see Table 3).



2.2 Details of Guarantee Operations:

2.2.1 Investment Guarantee Contracts:

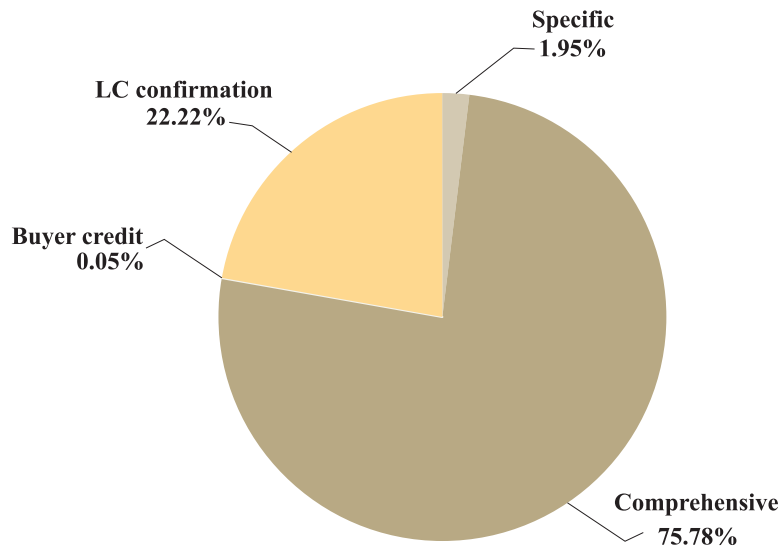
Six investment guarantee contracts were concluded during 2008, with a cumulative value of US\$ 393.3 million (KD 108.7 million) against US\$ 15.1 million for 2007.

2.2.2 Export Credit Insurance Contracts:

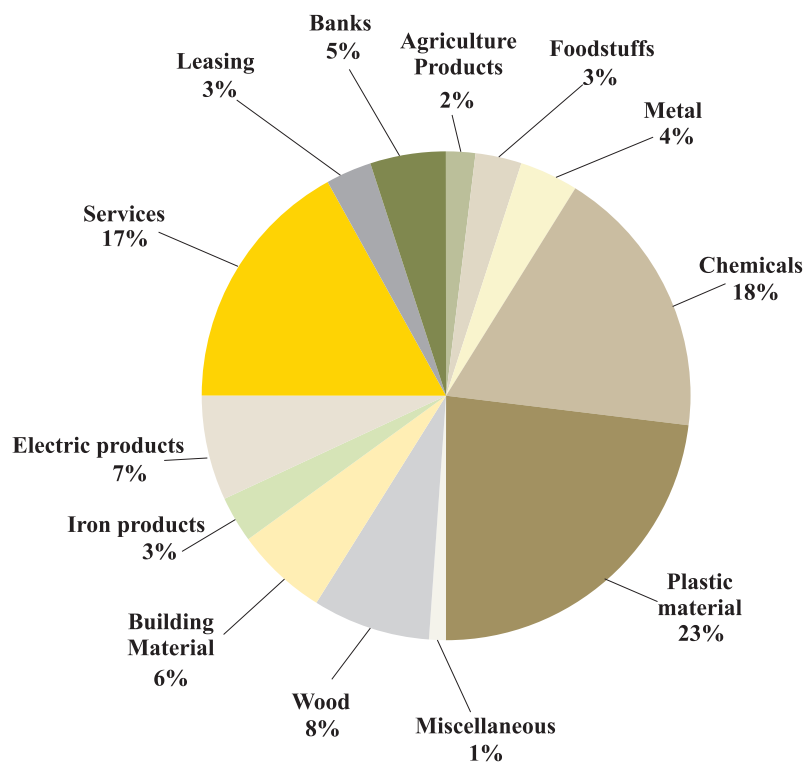
Fifty four export credit insurance contracts were signed during the year, in addition to one hundred twenty five addenda which raised the maximum limits of existing contracts, hence bringing the total value of export credit insurance contracts to US\$ 449.6 million (KD 124.3 million). This represents a 6.4% increase over 2007 total contracts worth then US\$ 423 million.

The value of approved revolving limits amounted to US\$ 279.4 million (KD 77.2 million). These revolving limits represent **Dhaman's** maximum commitment at any point in time towards insured parties with respect to approved importers.

Distribution of export credit insurance contracts by type



Classification of goods under Export Credit Insurance



2.3 Value of Current Contracts & Outstanding Commitments:

The total value of current contracts as of 31/12/2008 reached US\$ 1.07 billion (KD 297.5 million), marking a growth of 47.9% over that of 31/12/2007, with investment guarantee contracts accounting for 47.8%, while export credit insurance contracts accounting for 52.2%.

The total value of **Dhman's** guarantee commitments vis-à-vis the guaranteed parties as of 31/12/2008 reached approximately US\$ 396.5 million (KD 109.6 million), representing 36.7% of the total current



contracts, and constituted an increase of 30.4% over that of 31/12/2007 which stood at US\$ 304 million (See table 4).

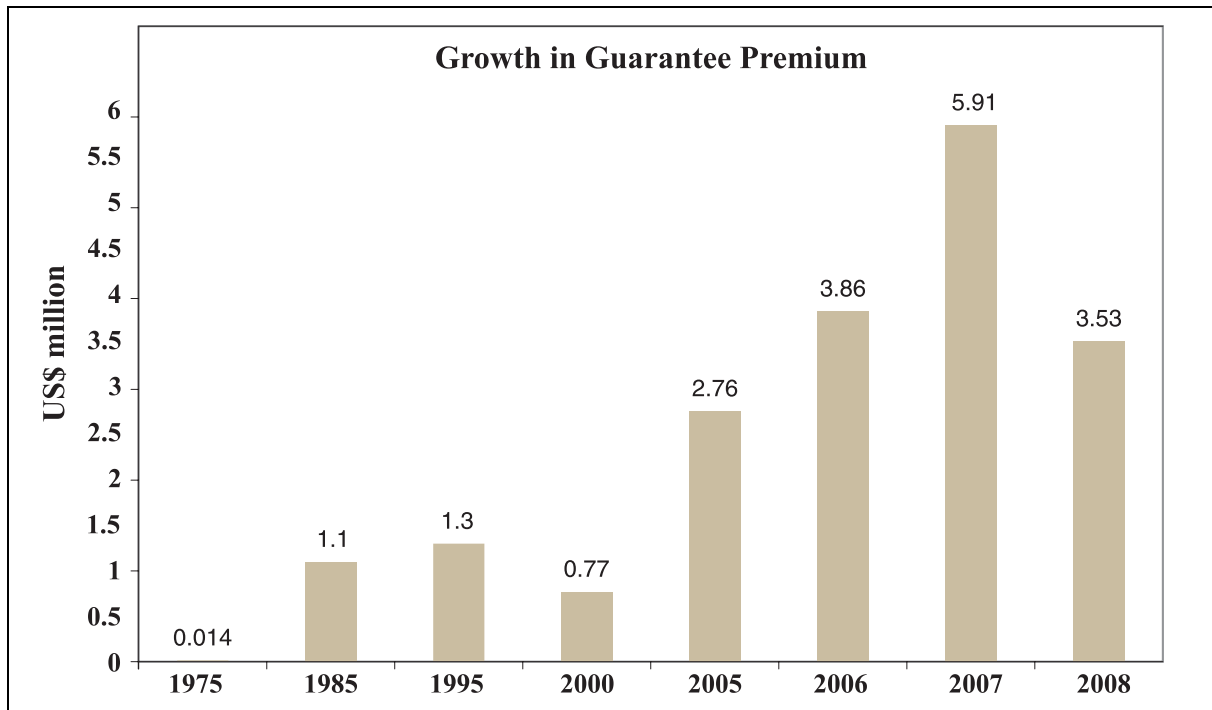
2.4 Results from Guarantee Operations:

Total revenue generated from guarantee operations at the end of 2008 totaled approximately US\$ 3.53 million (KD 0.977 million). Sources of **Dhaman's** revenue are:

- a. US\$ 3.29 million (KD 0.909 million), represents guarantee premium from contracts signed; 47.6% of which were from investment guarantee contracts and 52.4% from export credit insurance contracts.
- b. US\$ 142.9 thousand (KD 39.5 thousand) premium from Special Accounts.

The premium generated during 2008 witnessed a decline by 10.7% against that of 2007.

- c. US\$ 101.7 thousand (KD 28.1 thousand) represent **Dhaman's** share of income in connection with investment under Special Accounts' resources.



2.5 Compensation & Recovery

During the year, a claim of US\$ 269.7 thousand was paid against the realization of commercial risks. An Arab financial institution benefited from the compensation paid. On the other hand, **Dhaman** recovered US\$ 17 thousand for compensations paid against commercial risks incurred in two Arab countries.

The loss ratio of this year reached 0.08 compared to 0.03 in 2007.

During the year, a final settlement of a court case, pending since 1990, was reached in connection with a compensation for US\$ 816 thousand.

2.6 Reinsurance

During the year, a new inward quota share reinsurance treaty was signed with an Arab insurance agency, three similar reinsurance treaties were renewed with three Arab agencies and 18 inward facultative reinsurance treaties were also concluded.

The total value of reinsurance transactions concluded by **Dhaman** reached approximately US\$ 172.8 million (KD 47.8 million), as detailed in section 2.1.2.

2.7 Marketing Guarantee Services:

In addition to regular field visits in **Dhaman's** country of domicile, Kuwait, and in Saudi Arabia, through the Regional Office in Riyadh, **Dhaman** conducted a number of missions to eight other Arab countries where a vast number of exporters, investors, banks and financial institutions were called on.

Dhaman executed a mailing campaign to inform its business partners of its new name and logo as well as its new S&P credit rating of AA- with stable outlook. Furthermore, and in line with the implementation of its Strategic Plan (2007-2014), **Dhaman** executed other mailing campaigns targeting banks, insurance companies, foreign and Arab expatriate investors both in member countries as well as to a number of economic entities worldwide that are involved in investments in the Arab World by foreign and Arab expatriate investors.

Two cooperation agreements with Arab national ECAs and commissioning agreements with several parties were concluded aiming at marketing **Dhaman's** services in member countries.

2.8 Relationship with Export Credit Guarantee Agencies:

Several meetings were held with multi-lateral and national Arab export credit guarantee agencies aiming at strengthen and foster existing relationships, while exploring means and tools to better serve common objectives. In the context of its technical assistance program to the Arab export credit insurance agencies, **Dhaman** provided training to staff members of an Arab export credit insurance agency and an Arab export promotion center.

Within the framework of **Dhaman's** Strategic Plan (2007 - 2014), the **Arab Union of National Export Credit Insurance Agencies (ECAs)** was created and announced officially after ratification of its Statutes by a number of Arab guarantee agencies. Furthermore, **Dhaman** concluded a number of bilateral agreements for debt collection within a context of a strategic plan to implement and manage a debt collection system in member Countries. **Dhaman** also continued its efforts with respect to its contributions to the capital of a number of these Arab agencies, whereby negotiations with one national export credit guarantee agency reached an advanced stage.

Table (1)
Total Value of Guarantee Operations During 2008

1. Signed Contracts Under the Corporation's Own Resources			
		US\$	KD
	Investment	379,843,822	104,988,832
	Export Credit	449,584,473	124,265,148
	Reinsurance	172,796,065	47,760,832
	Total	1,002,224,360	277,014,813
2. Signed Contracts Under Special Accounts			
		US\$	KD
	Export Credit	4,000,000	1,105,600
	Investment	13,500,000	3,731,400
	Total	17,500,000	4,837,000
	Grand Total	1,019,724,360	281,851,813



Table (2)
Value of Contracts Signed During 2008 by Exporting Country & Type of Contract
(in US \$ and KD Equivalent)

Exporting Country	Investment Contracts			Export Credit Contracts			Total		% of
	US\$	KD	%	US\$	KD	%	US\$	KD	Total
1 Kuwait	381,823,239	105,535,943	97.07%	53,459,215	14,776,127	8.53%	435,282,454	120,312,070	42.69%
2 Saudi Arabia	-	-	0.00%	210,542,492	58,193,945	33.61%	210,542,492	58,193,945	20.65%
3 Tunisia	-	-	0.00%	122,936,991	33,979,784	19.63%	122,936,991	33,979,784	12.06%
4 Lebanon	-	-	0.00%	85,865,256	23,733,157	13.71%	85,865,256	23,733,157	8.42%
5 Bahrain	-	-	0.00%	61,800,000	17,081,520	9.87%	61,800,000	17,081,520	6.06%
6 UAE	-	-	0.00%	48,834,247	13,497,786	7.80%	48,834,247	13,497,786	4.79%
7 Egypt	-	-	0.00%	12,066,467	3,335,171	1.93%	12,066,467	3,335,171	1.18%
8 Syria	-	-	0.00%	11,780,000	3,255,992	1.88%	11,780,000	3,255,992	1.16%
9 Oman	-	-	0.00%	5,465,192	1,510,579	0.87%	5,465,192	1,510,579	0.54%
10 Sudan	-	-	0.00%	10,810,682	2,988,073	1.73%	10,810,682	2,988,073	1.06%
11 Jordan	-	-	0.00%	2,819,996	779,447	0.45%	2,819,996	779,447	0.28%
12 Other countries	11,520,582	3,184,288.97	2.93%	-	-	0.00%	11,520,582	3,184,289	1.13%
Total for the Year	393,343,822	108,720,232	100%	626,380,538	173,131,581	100%	1,019,724,360	281,851,813	100.00%
% of Total	38.57%			61.43%					100.00%

Table (3)

Value of contracts Signed During 2008 by Host/ Importing Country & Type of contract (in US\$ and KD Equivalent)

Host/ Importing Country	Investment Contracts			Export Credit Contracts			Total		% of
	US\$	KD	%	US\$	KD	%	US\$	KD	Total
1 Syria	149,000,000	41,183,600	37.88%	44,090,066	12,186,494	7.04%	193,090,066	53,370,094	18.94%
2 Libya	139,000,000	38,419,600	35.34%	36,888,740	10,196,048	5.89%	175,888,740	48,615,648	17.25%
3 Sudan	93,823,239	25,932,743	23.85%	69,374,463	19,175,102	11.08%	163,197,702	45,107,845	16.00%
4 Saudi Arabia	-	-	0.00%	47,013,842	12,994,626	7.51%	47,013,842	12,994,626	4.61%
5 Kuwait	-	-	0.00%	31,313,043	8,654,925	5.00%	31,313,043	8,654,925	3.09%
6 Jordan	-	-	0.00%	29,428,696	8,134,092	4.70%	29,428,696	8,134,092	2.89%
7 UAE	-	-	0.00%	28,902,646	7,988,691	4.61%	28,902,646	7,988,691	2.83%
8 Tunisia	11,520,582	3,184,289	2.93%	14,931,128	4,126,964	2.38%	26,451,711	7,311,253	2.59%
9 Bahrain	-	-	0.00%	17,201,571	4,754,514	2.75%	17,201,571	4,754,514	1.69%
10 Lebanon	-	-	0.00%	16,771,372	4,635,607	2.68%	16,771,372	4,635,607	1.64%
11 Yemen	-	-	0.00%	12,183,912	3,367,633	1.95%	12,183,912	3,367,633	1.19%
12 Oman	-	-	0.00%	11,242,094	3,107,315	1.79%	11,242,094	3,107,315	1.10%
13 Qatar	-	-	0.00%	9,327,070	2,578,002	1.49%	9,327,070	2,578,002	0.91%
14 Egypt	-	-	0.00%	10,014,374	2,767,973	1.60%	10,014,374	2,767,973	0.98%
15 Algeria	-	-	0.00%	5,605,207	1,549,279	0.89%	5,605,207	1,549,279	0.55%
16 Morocco	-	-	0.00%	3,571,249	987,093	0.57%	3,571,249	987,093	0.35%
Total (Arab Countries)	393,343,822	108,720,232	100.00%	387,859,474	107,204,359	61.93%	781,203,296	215,924,591	76.61%
Europe	-	-	-	99,027,433	27,371,182	15.81%	99,027,433	27,371,182	9.71%
Asia	-	-	-	110,175,878	30,452,613	17.59%	110,175,878	30,452,613	10.80%
Africa	-	-	-	23,688,564	6,547,519	3.78%	23,688,564	6,547,519	2.32%
North America	-	-	-	63,016	17,418	0.01%	63,016	17,418	0.01%
South America	-	-	-	100,981	27,911	0.02%	100,981	27,911	0.01%
Other countries	-	-	-	5,465,192	1,510,579	0.87%	5,465,192	1,510,579	0.54%
Total (Non-Arab Countries)	-	-	-	238,521,064	65,927,222	38.08%	238,521,064	65,927,222	23.39%
Grand Total	393,343,822	108,720,232	100.00%	626,380,538	173,131,581	100%	1,019,724,360	281,851,813	100%
% of Total	38.57%			61.43%					

Table (4)

**Value of Current Contracts & Outstanding commitments as at 31/12/2008 by Host/ Importing Country & Type of Contract
(In US\$ and its Equivalent in KD)**

Host/ Importing Country	Current Investment Contracts		Current Export Credit Contracts		Total Current Contracts		Outstanding Commitments for Investment Contracts		Outstanding Commitments for Export Credit Contracts		Total Outstanding Commitments		%
	US\$	KD	US\$	KD	US\$	KD	US\$	KD	US\$	KD	US\$	KD	
Jordan	-	-	23,267,254	6,431,069	23,267,254	6,431,069	-	-	1,548,678	428,055	1,548,678	428,055	0.39%
UAE	-	-	33,303,299	9,205,032	33,303,299	9,205,032	-	-	2,090,539	577,825	2,090,539	577,825	0.53%
Bahrain	-	-	26,286,801	7,265,672	26,286,801	7,265,672	-	-	1,484,909	410,429	1,484,909	410,429	0.37%
Tunisia	15,321,704	4,234,919	12,835,553	3,547,747	28,157,257	7,782,666	2,541,875	702,574	4,597,058	1,270,627	7,138,933	1,973,201	1.80%
Algeria	-	-	5,541,839	1,531,764	5,541,839	1,531,764	-	-	313,009	86,516	313,009	86,516	0.08%
Saudi Arabia	-	-	44,714,169	12,358,996	44,714,169	12,358,996	-	-	12,440,544	3,438,566	12,440,544	3,438,566	3.14%
Sudan	164,636,440	45,505,512	103,528,663	28,615,322	268,165,103	74,120,834	114,109,197	31,539,782	41,266,349	11,406,019	155,375,546	42,945,801	39.19%
Syria	150,373,000	41,563,097	42,536,657	11,757,132	192,909,657	53,320,229	45,045,376	12,450,542	7,401,432	2,045,756	52,446,808	14,496,298	13.23%
Oman	-	-	8,531,756	2,358,177	8,531,756	2,358,177	-	-	961,646	265,799	961,646	265,799	0.24%
Qatar	-	-	8,489,791	2,346,578	8,489,791	2,346,578	-	-	1,341,179	370,702	1,341,179	370,702	0.34%
Kuwait	-	-	28,032,066	7,748,063	28,032,066	7,748,063	-	-	1,968,486	544,090	1,968,486	544,090	0.50%
Lebanon	16,000,000	4,422,400	16,381,810	4,527,932	32,381,810	8,950,332	14,459,480	3,996,600	366,555	101,316	14,826,035	4,097,916	3.74%
Libya	139,000,000.00	38,419,600	35,062,429	9,691,255	174,062,429	48,110,855	59,502,401	16,446,464	2,922,211	807,699	62,424,612	17,254,163	15.74%
Egypt	-	-	13,831,291	3,822,969	13,831,291	3,822,969	-	-	8,054,094	2,226,152	8,054,094	2,226,152	2.03%
Morocco	-	-	3,449,009	953,306	3,449,009	953,306	-	-	1,787,150	493,968	1,787,150	493,968	0.45%
Yemen	30,000,000	8,292,000	9,538,056	2,636,319	39,538,056	10,928,319	29,491,481	8,151,445	1,141,553	315,525	30,633,034	8,466,971	7.73%
Asia	-	-	44,160,287	12,205,903	44,160,287	12,205,903	-	-	18,583,143	5,136,381	18,583,143	5,136,381	4.69%
Africa	-	-	21,508,564	5,944,967	21,508,564	5,944,967	-	-	1,537,560	424,982	1,537,560	424,982	0.39%
Europe	-	-	74,393,794	20,562,445	74,393,794	20,562,445	-	-	15,902,983	4,395,584	15,902,983	4,395,584	4.01%
North America	-	-	63,016	17,418	63,016	17,418	-	-	63,016	17,418	63,016	17,418	0.02%
South America	-	-	100,981	27,911	100,981	27,911	-	-	100,981	27,911	100,981	27,911	0.03%
Group of countries			5,465,192	1,510,579	5,465,192	1,510,579			5,465,192	1,510,579.07	5,465,192	1,510,579	1.38%
Total	515,331,144	142,437,528	561,022,278	155,066,558	1,076,353,422	297,504,086	265,149,810	73,287,407	131,338,268	36,301,897	396,488,078	109,589,305	100%

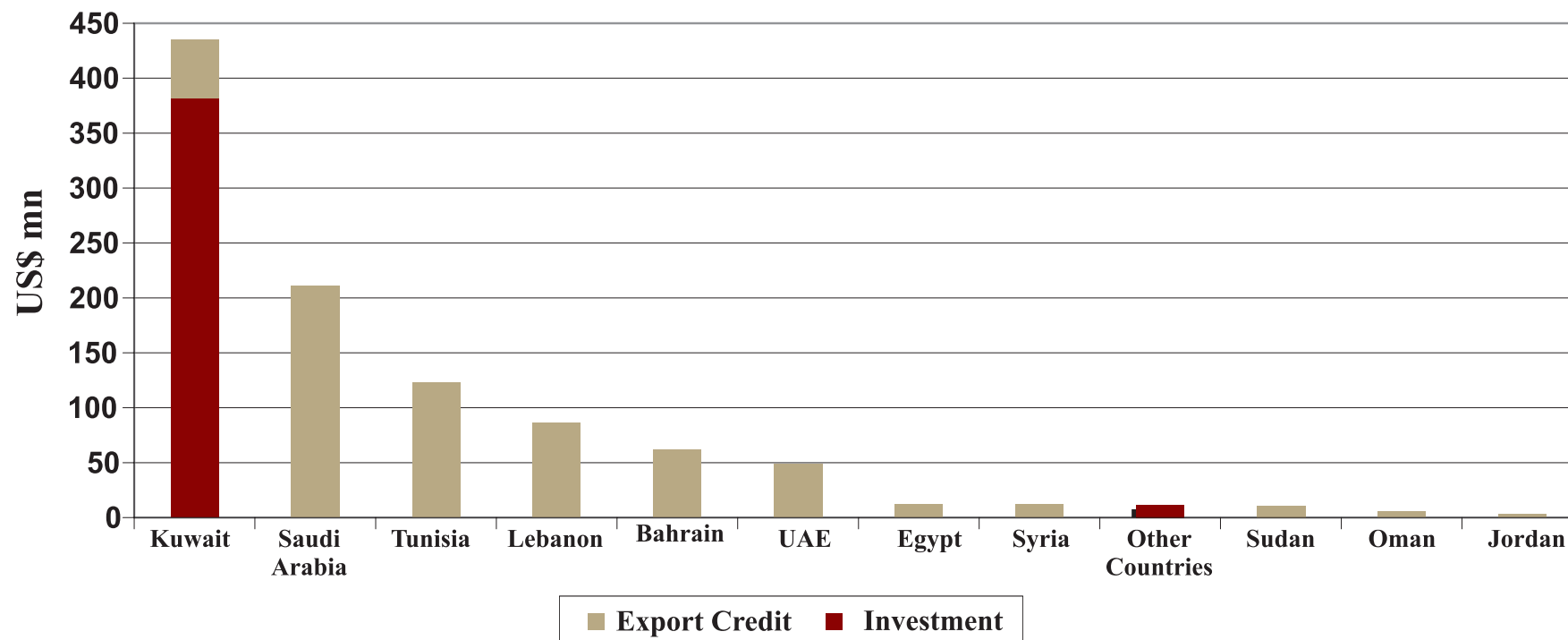
Current contracts represent the value of guarantee contracts, whether executed or not

The outstanding Guarantee commitments represents the following:

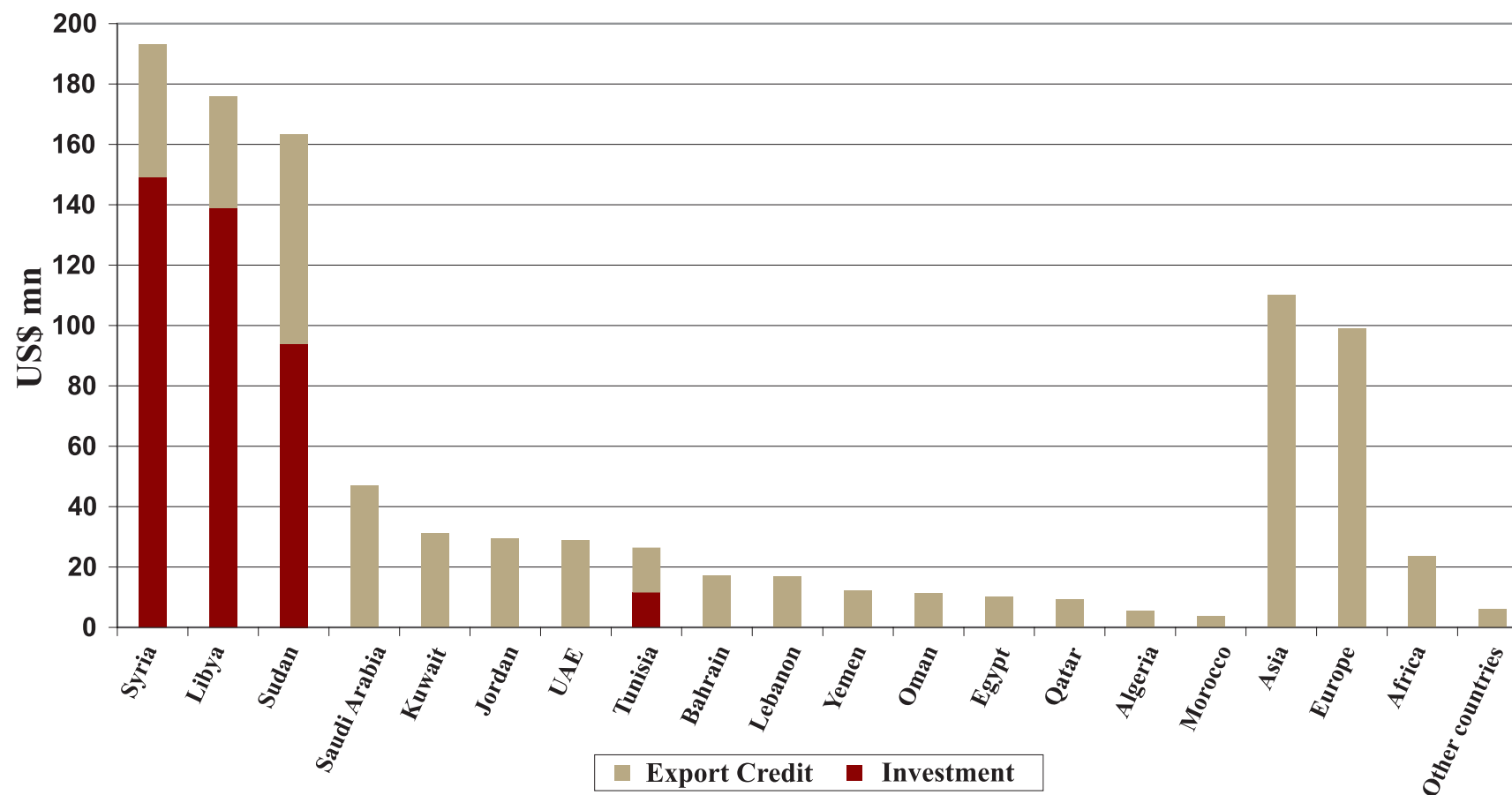
For Investment Guarantee contracts: the value of investments executed.

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

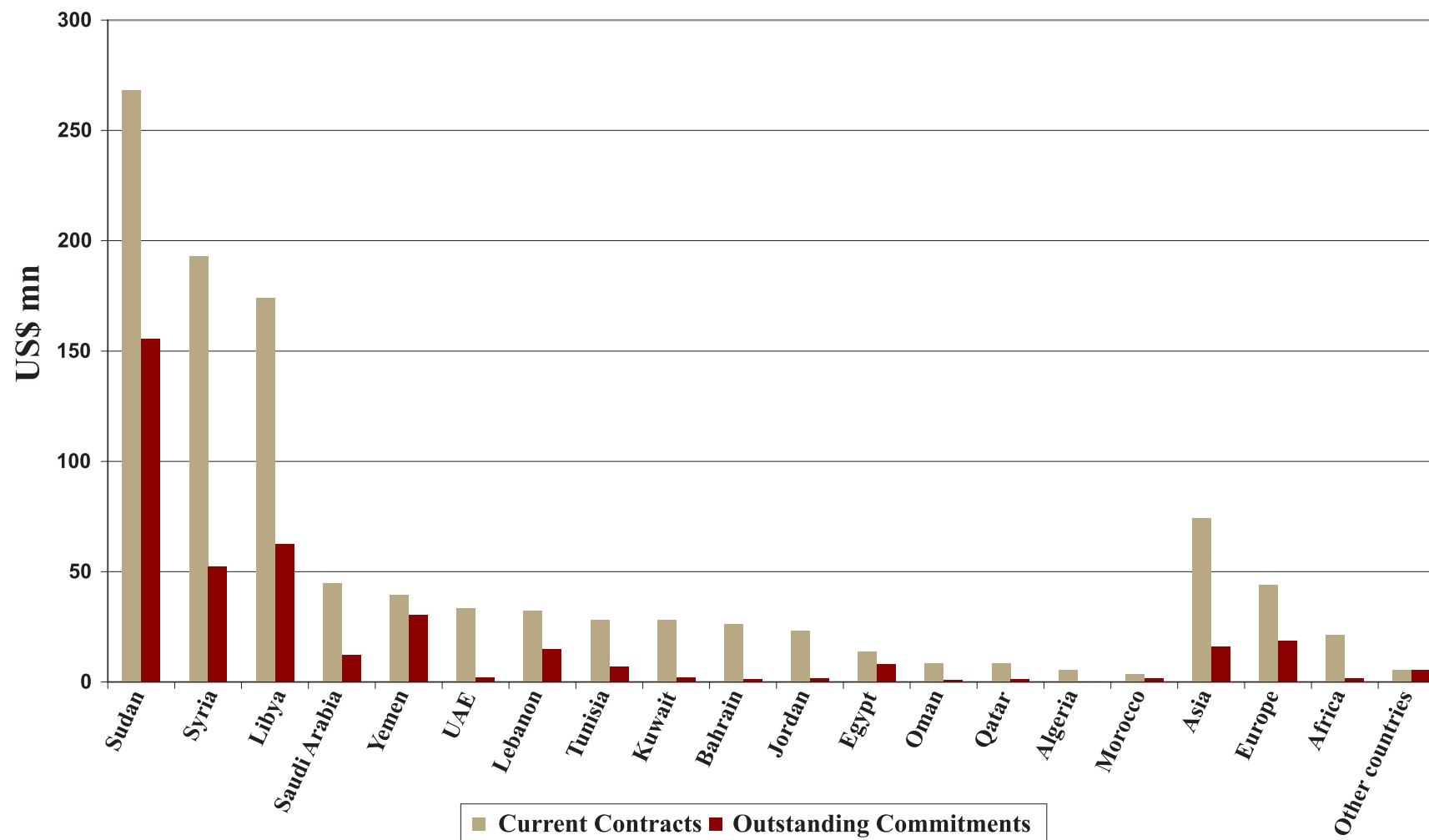
(Chart 1)
Guarantee contracts signed during 2008 by nationality of guaranteed parties



(Chart 2)
Guarantee contracts signed during 2008 by host/importing countries



(Chart 3)
Total current contracts & outstanding commitments by host/importing countries
as at 31 December 2008



Chapter Three: Complementary Activities & Support Services

3.1. Publications and Introductory Papers

As one of its main goals stipulated in its establishment convention, the Arab Investment and Export Credit Guarantee Corporation (**Dhaman**) devoted considerable attention to achieve disseminating information and raising investment awareness amongst investors and businessmen in Arab countries, as reflected in its following complementary activities and support services:

3.1.1. “Investment Climate in Arab Countries”:

- In 2008, **Dhaman** published the annual report “**Investment Climate in Arab Countries 2007**”, in its new form, which included a **new name and logo**, alongside a new cover design, which expresses the overhaul stage **Dhaman** has experienced during the past five years. The report also includes, for the second year in a row, “**FDI at a Glance in Arab Countries**”, which mainly focused on indicators of inward and outward foreign direct investment and Inter-Arab investment flows in 2007.
- Approximately **1349 copies** of this report were distributed by mail to concerned parties in member countries, regional organizations, Arab investors and businessmen, Arab media, and many research and study centers. **Dhaman** has received numerous requests for additional copies of the report, from different sites in Arab countries, especially researchers and post-grad students, within and outside the Arab countries, whose majors and specializations are related to **Dhaman**’s area of expertise. An English translated copy of the report’s summary was made available online through **Dhaman**’s website (www.dhaman.org).

3.1.2. “Daman Al-Istithmar”:

- **Dhaman** has published four quarterly issues of the Bulletin “**Daman Al-Istithmar**”, which covered many topics in relation to Investment and export credit guarantees. In addition to the regular topics, a number of important working papers and studies focused on economic debates relevant to FDI and trade, were included in the bulletin. The bulletin’s first quarterly introduction, announced the **launch of the new website**, after it was updated, revised and became available in both Arabic and English. The bulletin also included a short “how-to-use” guide of the website. The following releases covered many important topics, including the 12th Conference of Arab Businessmen and Investors (MARAM), the Shareholder’s Council Annual Meeting, and the Board of Directors Periodical Meetings for 2008, in addition to a sufficient coverage of **Dhaman**’s activities throughout the year. With this sequence, the quarterly bulletins also covered the developments of a number of international indices reflecting the Arab countries performance, ratings and rankings, which plays a major role in the investment climate and doing business environment, and therefore attracts a larger share of FDIs. These topics are generally brief and written in nontechnical language, with aiming not only at a broad audience interested in FDI and international trade policy issues but also at Arab businessmen and policy makers.
- Approximately **4525 copies** of each quarterly issue of the bulletin were distributed by mail to concerned government and private sites, banks, institutions, investment companies, research centers, and individuals who are concerned with the investment and export credit



guarantees in the region, besides **Dhaman's** clients. In addition, approximately 400 soft copies of each quarterly issue were automatically sent to the online members of **Dhaman's** website.

- **Dhaman** ensures that its annual **“Investment Climate in Arab countries”** report and the quarterly **“Daman Al-Istithmar”** bulletins are made available through its new website (www.dhaman.org), in order to achieve its goal of spreading knowledge and raising investment awareness in the Arab countries.

3.1.3. Studies and Introductory Papers:

The Director General of **Dhaman** presented eight studies and introductory papers in local and international economic events throughout the year, in addition to a speech presented by him during the 12th MARAM Conference, and a working paper by **Dhaman** published in one of the volumes issued by the Arab Planning Institute (API), which focused on the following topics:

- **“Practical Proposals for Enhancing Inter Arab Direct Investments Flows”**, this was presented in a high-status meeting which was hosted by the Arab League in Egypt through 9th-10th January 2008, with the goal of investigating the current investment conditions in the Arab countries, and having practical proposals as an outcome to be presented in the next Arab Summit.
- **“The Recent Economic, Political and Social Developments Witnessed by the Egyptian Economy”**, which was presented during the 2nd Conference on the Investment and Exports Credit Insurance and Finance Mechanism, held in Cairo on January 28th, 2008.
- **“Tourism in Arab Countries: its Structure and Competitiveness”**, was published in the **“Journal of Development and Economic Policies”**, Arab Planning Institute, volume 10-No.1, January 2008.
- **“Dhaman's Role in Promoting Inter Arab Investments”**, was presented in the **Expatriate Arab Engineers 1st International Conference**, held in Tunisia on April 28th - 30th, 2008.
- **“Dhaman's Role in Promoting Inter Arab Investments through its Investment Insurance Services”**, was presented in the **Kuwait Insurance Forum**, held in Kuwait on 28th and 29th May 2008.
- **“The Economic Development in the Arab Countries”** was presented in the first **Turkish-Arab Economic Forum**, held in Istanbul, Turkey from 12th - 13th June 2008.
- **“The Investment Climate and Doing Business Performance Environment in Arab Countries and its Desired Reforms”** was presented during the 12th Arab Businessmen and Investors Conference, which was organized by the **Dhaman** in collaboration with The League of Arab States, and The General Union of Chambers of Commerce, Industry, and Agriculture for Arab Countries, held in Beirut on 19th and 20th June 2008.
- **“The Arab Businessmen and Investors Conference's Historical Developments and Accomplishments since its launch in Al-Taif in 1982, and Dhaman's role in organizing it”** was presented during the opening session of the 12th Arab Businessmen and Investors Conference, held in Beirut on 19th and 20th June 2008.
- **“Dhaman's Role in Guaranteeing the French Investments and Exports to Arab Countries”**

was presented during the first **French-Gulf Economic Forum**, held in Paris, France from 28th - 29th October 2008.

- **FDI's Incentives in Arab Countries, and the Necessary Legislation and Policies Needed to Remove Obstacles Hindering Arab Economic Integration**", was presented during the "**Arab Economic Integration from the Perspective of the Private Sector Conference**", held in Kuwait on 11th and 12th November 2008.

3.2. Events organized or co-organized by Dhaman:

Dhaman organized and co-organized four economic events throughout the year:

- **Investment and Exports Credit Insurance and Finance Mechanisms 2nd Forum**, held in Cairo on 28th January 2008, hosted by the Egyptian Minister of Trade and Industry, in Egypt, in cooperation with the Arab Investment Company, Export Development Bank of Egypt, and the Egyptian Businessmen Association. The objective being to introduce its services to businessmen and various economic entities in Egypt. Around 200 participants were reported, representing export companies, businessmen, commercial banks, and a few ministries and public institutions.
- A Seminar on **Insurance Services provided by Dhaman**, in collaboration with the National Agency for Insurance and Finance of Exports (NAIFE) of Sudan, on 16th March 2008, with the aim of introducing these services to active Sudanese and Arab economic activities in Sudan.
- **The 12th Arab Businessmen and Investors Conference**, held in Beirut on 19th and 20th June 2008, in cooperation with The League of Arab States, and The General Union of Chambers of Commerce, Industry, and Agriculture for Arab Countries, under the title "**Promoting Arab and Inter-Arab investments in the Midst of the Oil Boom**", where H.E **Dhaman's** Director General gave a welcoming speech in the opening session, and presented an introductory paper. **Dhaman** also participated in conference's annual exhibition, which attracted more than 500 participants. **Dhaman** presented its services to support and promote Inter Arab Investments, including direct investments insurance, loan insurance, export credit insurance, financial leasing insurance and documentary letters of credit insurance. In addition to introducing the audience to the latest updates to these services.
- Workshop on **Dhaman's Investment and Export Credit Insurance Services in the Arab Countries**, with the cooperation of the Arab Company for Livestock, and Arab Investment Company, held in Dubai, UAE during November 2008.

3.3. Cooperation with Arab Institutions and Agencies:

Dhaman was active during the year 2008 in promoting its insurance services by:

- Numerous mail campaigns, this was a part of a new strategy plan, which targeted banks, active insurance companies in the member Arab countries, and a number of economic entities involved in foreign and expatriate Arabs in Arab countries.
- Mail campaign, which targeted numerous exporters with whom **Dhaman** has previously worked with, to update them on **Dhaman's** services, especially in the field of export credit.



- **Dhaman's** delegation held a meeting with the Committee on Finance and Investment in Kuwait Chamber Commerce Trade Industry's, on 10th March 2008. The delegation presented **Dhaman's** new strategy, which will allow it to advance in the pursuit of its goals within the next few years. This meeting was held within the framework of the cooperation between **Dhaman** and the Chamber with the aim of enlightening Kuwaiti businessmen, exporters and investors about the advantages of insurance services provided by **Dhaman** in various economic sectors.
- Another landmark achievement of 2008 was the creation of "The Arab Union of National Export Credit Insurance Agencies (ECAs)" on November 5th, with its internal bylaw ratified by six Arab National Export Credit Insurance Agencies (ECAs) from Jordan, Egypt, Tunisia, Oman, Lebanon and Sudan, in addition to the Islamic Corporation for the Insurance of Investment & Export Credit (ICIEC) and **Dhaman**. Such intention was created after a recommendation in the 12th Conference for Arab Insurance Bodies, held in Kuwait December 2007. The role of Secretary General will be given to **Dhaman's** Director General; the Union will also assume **Dhaman's** head office as its headquarters. The Union aims at developing the members' work in the field of developing Arab exports and encouraging FDI and Inter-Arab investment flows, through its insurance coverage provided. The Union's activities are going to focus on enhancing credit risk management skills, increasing joint insurance operations value and reinsurance exchange. The Union will also conduct studies and technical research in relation with the insurance industry and providing technical support to Arab countries interested in establishing a national investment and export credit insurance scheme, plus other essential activities.
- A delegation from Libya representing the Export Promotion Center and the Libyan Insurance Company paid a visit to **Dhaman** on 23rd and 24th November 2008 to discuss possible ways of cooperation. **Dhaman** will provide technical assistance to help Libya establish a national investment and export credit insurance scheme. A Memorandum of Understanding will be signed in this respect.
- A delegation of **Dhaman** met on 30th November 2008 in Dubai with a delegation of the Export Credit Insurance Company of the Emirates. During this meeting, some technical cooperation issues were discussed, particularly reinsurance and marketing issues. It was also agreed that the two parties will prepare a joint business plan to be implemented in 2009.
- Furthermore, **Dhaman** concluded six agreements and two understanding memorandums during 2008, as follows:
 - Two agreements on commission production to promote investment and export credit guarantee in Syria.
 - Two joint cooperation agreements with two governmental institutions which specialize in promoting and guaranteeing national exports, in both Oman and Kuwait.
 - Understanding memorandum with the State of Kuwait, represented by its Public Authority for Industry- the Industrial Export Development Center in the state of Kuwait, to counter commercial and noncommercial risks in export operations, on 7th February 2008. The memorandum places a cooperation framework between **Dhaman** and the Center, which provides the opportunity for Kuwaiti exporters to take

advantage of the competitive benefits, such as getting a discount on export costs, and the opportunity for Kuwaiti products to enter new markets and reinforce their positions in current markets.

- Commission based agreement with an insurance producer in the Kingdom of Bahrain, its activities target the financial sector.
- Joint Cooperation agreement with the National Agency for Insurance and Finance of Exports (NAIFE) of Sudan, during May 2008.
- Understanding memorandum for joint cooperation with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), signed on 10th September 2008, which aims at establishing cooperation techniques in promoting and marketing, exchanging information, joint insurance, reinsurance, training and expertise exchange.

3.4. Dhaman's Local, Regional, and International Presence:

Dhaman's delegations participated in numerous local, regional and international forums and conferences during the year:

- **Abu Dhabi 2nd Economic Forum**, held on 3rd and 4th February 2008. It aimed at introducing one of the Gulf's fastest ever growing economies, and giving a chance to network with policy makers and corporate leaders from Abu Dhabi and the other emirates of UAE and many other countries in the region. Also, to encourage and develop new joint investment and economic relations.
- **Investment conference**, held in Deir Ezzor City located in Syria's Eastern Region, on 2nd and 3rd March 2008. This conference aimed at promoting promising investment opportunities in the region for both Arab and Foreign investors.
- **Credit Risk Management Seminar**, held in Egypt on 17th and 19th March 2008.
- **Oman Economic Forum**, held in Muscat, Oman from 13th - 14th April 2008, which focused on recent economic and institutional developments of the Omani economy especially in the infrastructure sector, the investment environment, opportunities in various economic sectors, and the needs and future plans concerning energy and ties with neighboring countries.
- **Kuwait Chamber of Commerce and Industry Meeting with the Romanian Economic Delegation**, held in Kuwait on 27th April 2008. On this same date another **Dhaman** delegation participated in the **Meeting of the Czech-Saudi Joint Chamber of Commerce**, held in Riyadh, K.S.A.
- **The 4th World Islamic Economic Forum**, held in Kuwait on 28th April 2008.
- **Arab Economic Forum**, held in Beirut on 2nd and 3rd May 2008. Many topics were discussed, including, "The Continuing Oil Boom and its Implications for the Future Arab Economy", "Living with the Weak Dollar: What is the Ideal Peg for Arab Currencies?", and "Mega Real estate Projects and their Impact on the Real Estate Market in the Arab Region".
- **Prague Club Annual Meeting for Export Credit Insurance Agencies (ECAs) in member**



countries, which was held in Amman, Jordan in May 2008. It aimed at enhancing the cooperation with expertise and information exchange between member states.

- **Kuwait Insurance Forum**, held in Kuwait on 28th and 29th May 2008, many topics were discussed, but most importantly, risk integrated management, investing insurance resources pool, corporate governance, cross-border merger & acquisitions (M&As), insurance legislations, the gradual development of international standards in insurance supervision and the factors that may contribute to development of insurance industry in the Arab World.
- **The 3rd Turkish-Arab Economic Forum**, held in Istanbul on 12th and 13th June 2008. This edition acquired a special importance as it was attended by many distinguished guests, including cabinet ministers, government officials, head of banks, and financial, commercial and manufacturing organizations, along with businessmen and investors from Arab, European and Asian countries. It witnessed a detailed discussion of the future of Turkish-Arab finance and investment relations.
- **The Annual Credit Alliance Meeting**, held in Paris, France during July 2008.
- **The 1st French-Gulf Economic Forum**, held in Paris, France during October 2008.
- **Arab Financial Institution's and Fund's Representatives Meeting**, held in Kuwait during October 2008.
- **The 6th International Financial and Investment Institutions Forum**, held in Damascus, Syria during November 2008.

3.5. Development of Human Resources:

Dhahran continued pursuing its objective of enhancing the staff's technical skills & abilities, and improving the HR's performance levels.

A training course named "Trade Finance Master Class Training 2008" organized by Marcus Evans FZE Company was held in Dubai, UAE on 25th and 26th June 2008. This training was attended by employees from **Dhahran's** Operations Department.

3.6. Information Technology:

3.6.1. Applications and Development:

Dhahran has relied on developing its technological systems internally, which allows the system to satisfy the work needs, and gives it the flexibility which allows easier modifications and application switching if necessary. Therefore, many applications and programs were developed and implemented within the work place, including Portfolio Management Systems "PMS", Accounting Ledger System "CSH", Human Resource Management Systems "eHR", and many other systems, keeping in mind that when developing these systems, it is essential to remember that these systems must interact between each other in the work place in an effective and efficient manner, maintaining an easy and quick flow of information while reducing time, effort and costs.

3.6.2. Infrastructure:

In the context of staying up-to-date with the rapid developing technology trends and equipment, many computers were updated in **Dhaman**.

3.6.3. Dhaman's Website:

As part of its strategic plan (2007 - 2014), **Dhaman** is increasingly shifting to web-based marketing, dealing and communicating with its current and potential clients, as it reflected in its new website launched, early 2008, in its new design, and complimented its new name and logo. Another landmark achievement in 2008 was a new website of The Arab Union of National Export Credit Insurance Agencies (ECAs), which is currently being developed and is set to launch mid 2009.

3.7. Media Activities:

A total of 80 news articles were detected on **Dhaman's** activities, participations in conferences and forums in 2008. Topping the list of these articles were; the Shareholder's Council approval of the annual report and the end-of-year financial statements, announced in Sana'a, Yemen between 3rd and 5th April 2008. Also **Dhaman's** credit ranking of "**AA-, Stable**" earned from Standard & Poor's (S&Ps) Agency in March 2008, the launching of UNCTAD's world Investment Report 2008, and the constitution of "The Arab Union of National Export Credit Insurance Agencies (ECAs)" in November 2008. Furthermore, many news papers discussed numerous topics from within **Dhaman's** 2008 annual and quarterly publications.



Chapter Four: Financial Report

Dhamans' financial statements for the year 2008, mirrored a limited effect of the current financial crisis that intensified in mid September 2008, on certain components. However, its balance sheet as a whole reveals total assets of K.D 96,224,279 (US\$ 348,071,185) at end of December 2008. A detailed breakdown of such assets is displayed in figure (1) as at 31 December 2008.

The stock of **Dhaman's** cash assets amounted to K.D 67,771,506 (US\$ 245,149,235) at end of December 2008. It continued to have a diversified profile, with 36% of which representing funds, 30% as cash & cash equivalents, followed by portfolios carrying 17% and bonds accounting for 16% of the total. The remaining share refers to **Dhaman's** participation in the **Arab Trade Finance Program** equity. Such composition of cash assets is illustrated in figure (2) below, as at 31 December 2008.

The stock of shareholders' equity as at 31 December 2008 stood at K.D 86,394,476 (US\$ 312,513,930) and it is composed of paid up capital of K.D 55,512,443 (US\$ 200,804,641), the general reserve of K.D 34,119,905 (US\$ 123,421,613) and the decline in changes in fair value reserve which reached K.D 3,237,872 (US\$ 11,712,324).

With regard to the income side, **Dhaman** received income in form of insurance premiums, interest on bonds, interest on deposits & call accounts, dividends of funds and others, which totaled altogether K.D 3,485,980, representing the total income at end of 2008 (see income statement, note 20).

On the other hand, the investments results showed unrealized loss of K.D 8,943,740 and foreign exchange loss of K.D 1,576,215.

Figure (1): Breakdown of Total Assets (Kuwaiti Dinar)

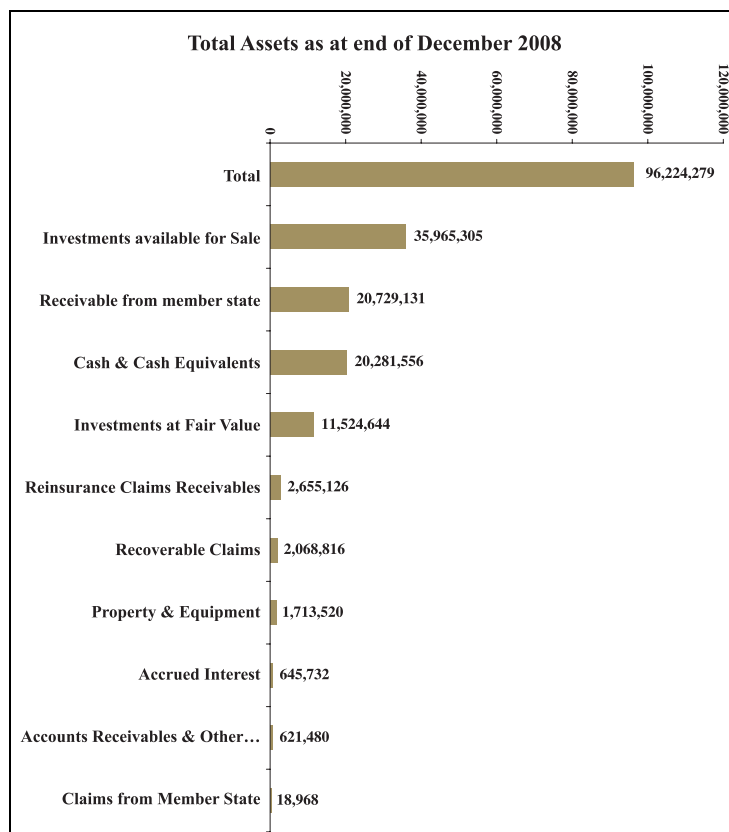
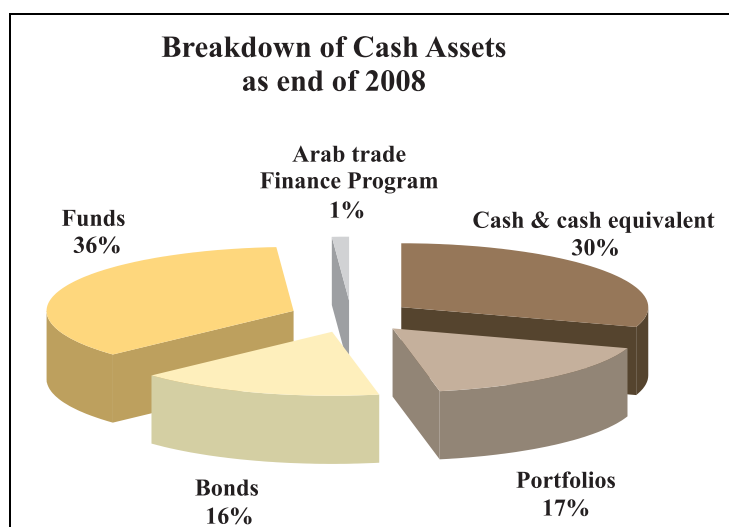


Figure (2): The Components of Cash Assets (%)



Accordingly, the operating losses on a net basis reached K.D 7,033,975 (see income statement, note 20).

On the expenditure side, the end of the year total expenditures amounted to K.D 2,357,431 (US\$ 8,527,513), short of the budgetary planned expenditures item for 2008, with an amount of K.D 187,569 (US\$ 678,492), or down by a rate of 7.40%. Such decline was mainly attributed to an expenditure rationalization policy adopted by top management during the last quarter of 2008, through calling off several activities proposed to be carried out in the 2008 agenda.

With regard to the net results of the year, it reflected a loss of K.D 9,391,406 before calculating the impairment loss on available-for-sale investments of K.D 3,170,374 which transferred to the income statement from changes in fair value reserve (note 7) and thus the year results shows a net loss amounted to K.D 12,561,780.

The unrealized losses in investment portfolios and the decline in value of available-for-sale investments reflected the mid-2007 U.S. sub-prime mortgage crisis developed across international financial markets around the globe, causing collapse and highly volatile prices. Accordingly, a series of bankruptcies were declared for a group of international financial institutions such as **Lehman brothers, Bear Sterns** and others. In response, aggressive monetary policy actions taken in the United States, Europe and other countries in addition to massive liquidity injections by central banks to bailout these institutions and thereby avoid their economies the turmoil erupted by this crisis.



The Arab Investment and Export Credit Guarantee Corporation

An Arab Corporation with a special independent legal status

**Independent auditors' report and financial statements for the year ended 31
December 2008**



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The Chairman and Members of the Shareholders' Council of The Arab Investment and Export Credit Guarantee Corporation
An Arab Corporation with a special independent legal status
State of Kuwait

Independent auditors' report

Report on the financial statements

We have audited the accompanying financial statements of The Arab Investment and Export Credit Guarantee Corporation ("the Corporation") formerly known as The Inter-Arab Investment Guarantee Corporation, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in members' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we 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 principles 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other matters

We further report that proper accounting records have been maintained by the Corporation and the financial statements for the year ended 31 December 2008 agree with the accounting records.



Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 1 March 2009



The Arab Investment and Export Credit Guarantee Corporation
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Balance Sheet

as at 31 December 2008

	Note	2008 KD	2007 KD
Assets			
Cash on hand and at banks	5	2,581,556	9,088,166
Term deposits	5	17,700,000	10,000,000
Investments at fair value through profit or loss	6	11,524,644	17,392,836
Available-for-sale investments	7	35,599,575	43,179,209
Investment in Arab Trade Finance Program	8	365,731	365,731
Receivable from member state	9	20,729,131	20,507,930
Recoverable claims	10	2,068,816	1,773,681
Accrued interest	11	645,732	761,280
Due from insurance and reinsurance companies	12	2,655,126	2,787,709
Accounts receivable and other assets	13	621,480	4,118,141
Claim from member state	14	18,968	18,968
Property and equipment	15	1,713,520	1,774,126
Total assets		<u>96,224,279</u>	<u>111,767,777</u>
Liabilities and members' equity			
Liabilities			
Accounts payable and other liabilities	16	563,636	541,411
Obligations under finance lease	17	2,093,180	2,124,109
Due to insurance and reinsurance companies	12	5,651,100	5,568,851
Employee savings and end of service benefits	18	1,521,887	1,613,968
Total liabilities		<u>9,829,803</u>	<u>9,848,339</u>
Members' equity			
Paid up capital	19	55,512,443	54,006,827
General reserve	19	34,119,905	47,099,291
Change in fair value reserve		(3,237,872)	813,320
Total members' equity		<u>86,394,476</u>	<u>101,919,438</u>
Total liabilities and members' equity		<u>96,224,279</u>	<u>111,767,777</u>

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



The Arab Investment and Export Credit Guarantee Corporation
An Arab Corporation with a special independent legal status

Income Statement

for the year ended 31 December 2008

	Note	2008 KD	2007 KD
Income			
Gross guarantee premiums		908,364	1,049,945
Guarantee premiums ceded to reinsurers		(75,043)	(53,889)
Net guarantee premiums earned		833,321	996,056
Expenses and other commission		(49,562)	(18,141)
Net guarantee results		783,759	977,915
Commission income		28,104	563,994
		811,863	1,541,909
Bank interest		1,047,742	1,260,220
Interest on bonds		800,019	694,637
Net investment (loss)/ gain	20	(8,123,292)	2,991,154
Foreign exchange loss		(1,576,215)	(21,767)
Other income		5,908	7,164
Net operating (loss)/ income		(7,033,975)	6,473,317
Expenses			
First Chapter - Salaries, wages and bonuses		1,469,229	1,399,526
Second Chapter - General and administrative expenses		758,232	744,883
Third Chapter - Capital expenditures		81,547	87,300
Fourth Chapter - Provisions and others		48,423	65,548
Total expenses		2,357,431	2,297,257
(Loss) / profit for the year before impairment loss on available-for-sale investments		(9,391,406)	4,176,060
Impairment loss on available-for-sale investments	7	(3,170,374)	-
Net (loss) / profit for the year		(12,561,780)	4,176,060

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

Statement of changes in members' equity

for the year ended 31 December 2008

	Paid up capital KD	General reserve KD	Change in fair value reserve KD	Retained earnings KD	Total KD
Balance as at 1 January 2007	47,977,827	43,295,588	2,489,936	-	93,763,351
Changes in members' equity for the year ended 31 December 2007					
Available-for-sale investments:					
Changes in fair values of available-for-sale investments	-	-	335,783	-	335,783
Transferred to profit and loss on sale	-	-	(2,012,399)	-	(2,012,399)
Net loss recognised directly in equity	-	-	(1,676,616)	-	(1,676,616)
Net profit for the year	-	-	-	4,176,060	4,176,060
Total recognised income and expense for the year	-	-	(1,676,616)	4,176,060	2,499,444
Additional capital introduced during the year	6,029,000	-	-	-	6,029,000
Contribution to support the people of Palestine (refer note 21)	-	-	-	(372,357)	(372,357)
Transfer to general reserve	-	3,803,703	-	(3,803,703)	-
Restated balance as at 31 December 2007	54,006,827	47,099,291	813,320	-	101,919,438
Balance as at 1 January 2008	54,006,827	47,099,291	813,320	-	101,919,438
Changes in members' equity for the year ended 31 December 2008					
Available-for-sale investments:					
Changes in fair values of available-for-sale investments	-	-	(6,925,754)	-	(6,925,754)
Transferred to profit and loss on sale	-	-	(295,812)	-	(295,812)
Impairment loss on available-for-sale investments transferred to income statement (refer note 7)	-	-	3,170,374	-	3,170,374
Total loss recognised directly in equity	-	-	(4,051,192)	-	(4,051,192)
Net loss for the year	-	-	-	(12,561,780)	(12,561,780)
Total recognised income and expense for the year	-	-	(4,051,192)	(12,561,780)	(16,612,972)
Additional capital introduced during the year	1,505,616	-	-	-	1,505,616
Contribution to support the people of Palestine (refer note 21)	-	(417,606)	-	-	(417,606)
Transfer to general reserve	-	(12,561,780)	-	12,561,780	-
Balance as at 31 December 2008	55,512,443	34,119,905	(3,237,872)	-	86,394,476

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



The Arab Investment and Export Credit Guarantee Corporation
An Arab Corporation with a special independent legal status

Statement of cash flows

for the year ended 31 December 2008

	Note	2008 KD	2007 KD
Cash flows from operating activities:			
Net (loss)/ profit for the year		(12,561,780)	4,176,060
<i>Adjustments for:</i>			
Depreciation		81,547	87,300
Net investment loss/ (gain)		8,123,292	(2,991,154)
Impairment loss on available-for-sale investments		3,170,374	-
Interest income		(1,847,761)	(1,954,857)
Finance lease charges		179,617	150,711
		(2,854,711)	(531,940)
Changes in operating assets and liabilities:			
(Increase)/ decrease in investments at fair value through profit or loss		(3,075,548)	6,523,828
(Increase)/ decrease in receivable from member state		(221,201)	1,210,230
(Increase) in recoverable claims		(295,135)	(11,248)
Decrease in due from insurance and reinsurance companies		132,583	-
Decrease/ (increase) in accounts receivable, accrued interest and other assets		3,612,209	(3,541,560)
Increase/ (decrease) in accounts payable and other liabilities		22,225	(401,459)
Increase in due to insurance and reinsurance companies		82,249	-
(Decrease)/ increase in employees' savings and end of service benefits		(92,081)	355,659
Cash flow from operations		(2,689,410)	3,603,510
Dividends received		515,546	213,255
Interest received		1,847,761	1,954,857
Payment to support the people of Palestine	21	(42,606)	(247,357)
Net cash flows (used in)/generated from operating activities		(368,709)	5,524,265
Cash flows from investing activities:			
Purchase of available-for-sale investments		(14,067,157)	(33,470,040)
Proceeds from sale of available-for-sale investments		14,730,127	20,558,924
Purchase of property and equipment		(20,941)	(14,561)
Term deposits		(7,700,000)	(10,000,000)
Net cash flows used in investing activities		(7,057,971)	(22,925,677)
Cash flows from financing activities:			
Payment of finance lease obligations		(210,546)	(179,617)
Proceeds from issue of paid up capital		1,130,616	5,904,000
Net cash flows generated from financing activities		920,070	5,724,383
Net decrease in cash on hand and at banks		(6,506,610)	(11,677,029)
Cash on hand and at banks at beginning of the year		9,088,166	20,765,195
Cash on hand and at banks at end of the year	5	2,581,556	9,088,166

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



Notes to the Financial Statement for the year ended 31 December 2008

1. Status and activities

The Arab Investment and Export Credit Guarantee Corporation (“the Corporation”) (formerly known as The Inter-Arab Investment Guarantee Corporation is an Arab Corporation with a special independent legal status. It was established in accordance with an agreement between Arab member states on April 1974. Its main objectives are to provide guarantees for Inter-Arab investments against non-commercial risks and trade financing between member countries for both commercial and non-commercial risks as defined in its Convention. The Corporation also promotes investments and trade between its member states.

The Corporation is domiciled in Kuwait and its registered address is at Shuwaikh Area, P.O. Box 23568 Safat, 13096 - State of Kuwait.

The financial statements were authorised for issue by the Board of Directors on 1 March 2009. The members of the Corporation have the power to amend these financial statements at the annual meeting of the Shareholder’s Council.

2. Basis of preparation

a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets and liabilities held for trading and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

c) Functional and presentation currency

The financial statements are presented in Kuwaiti Dinars which is the Corporation’s functional currency. All amounts in the notes are shown in Kuwaiti Dinars, unless otherwise stated.

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to



accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Corporation.

a) Investments

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

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

Investments which are not held-to-maturity or financial assets at fair value through profit or loss are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses. Unlisted equity securities and non-fixed income securities classified as available-for-sale investments whose fair value cannot be reliably determined are carried at cost, less impairment losses (note 3 (f)). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

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

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

b) Recoverable claims

In accordance with the Corporation's Convention, claims incurred and paid by the Corporation in compensating insured individuals and entities against non-commer-

cial risks are reimbursable from the respective member states. 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 amortised cost less any impairment losses (note 3 (f)).

c) Receivables

Accounts receivable are stated at amortised cost, less any impairment losses (note 3 (f)).

d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (note 3 (f)). Depreciation is calculated to write off the cost of property and equipment by equal installments over their estimated useful lives as follows:

Buildings	40 years
Office equipment	1 year
Motor vehicles	5 years
Computers	1 year
Others	1 year

The useful lives and depreciation methods 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.

e) Cash and cash equivalents

Cash and cash equivalents, for the purpose of preparing the statement of cash flows, comprise of cash, short term balances with banks and time deposits with original maturities of less than three months.

f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in the income statement.

Available-for-sale investments

The recoverable amount of an available-for-sale investment is its fair value.

Where a write down was previously recognised in members' equity, the write down is transferred to the statement of income and recognised as part of the impairment loss. Where an increase in fair value was previously recognised in members' equity, the



increase in fair value of the asset recognised in members' equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the statement of income.

If in a subsequent period the amount of an impairment loss of a debt instrument decreases and the decrease can be linked to an event occurring after the impairment loss was recognised, the impairment is reversed through the statement of income.

Impairment losses recognised on an equity instrument are not reversed through the statement of income.

Receivables

Specific provision for impairment is established if there is objective evidence that the Corporation will not be able to collect all amounts due. The amount of provision is determined as the difference between the carrying value and the recoverable amount of the asset. The recoverable amount is calculated as the present value of the expected future cash flows, discounted at the asset's original effective interest rate. Short-term balances are not discounted.

An impairment is reversed through the statement of income if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying value of the Corporation's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined if no impairment loss had been recognised.

g) Accounts payable

Accounts payable are stated at amortized cost.

h) Finance leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases.

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

i) Reinsurance contracts

Reinsurance contracts are contracts entered into by the Corporation with reinsurers under which the Corporation is compensated for losses on insurance contracts issued.

The benefits to which the Corporation is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of reinsurance claims receivable and the reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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. Amounts recoverable from reinsurance companies are estimated in a manner consistent with the related claim liability.

The carrying value of reinsurance receivables is reviewed periodically for impairment (note 3 (f)).

j) Employees 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. In accordance with article 31 of the employees' internal policy, indemnity is paid together with the employee savings.

k) Provisions

Provisions other than provision for impairment (note 3 (f)) are recognised in the balance sheet when the Corporation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be



required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

l) Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Corporation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments.

m) Revenue recognition

Gross guarantee premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Premiums ceded to reinsurers are deducted from gross premiums to arrive at net guarantee premiums.

Dividend income is recognised when the right to receive payment is established.

Interest income from bonds and deposits is recognised on a time proportion basis.

Interest on doubtful or overdue accounts is suspended and recognised in the statement of income as and when received.

Revenue arising from asset management and other related services offered by the Corporation are recognised in the accounting period in which the services are rendered. The Corporation recognises these fees on a straight-line basis over the estimated life of the contract.

Other revenues and expenses are recognised on an accrual basis.

n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- IAS 1(Revised) *Presentation of Financial Statements* - Comprehensive revision including requiring a statement of comprehensive income
- Effective for annual periods beginning on or after 1 January 2009



The Arab Investment and Export Credit Guarantee Corporation
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- IAS 1(Revised) *Presentation of Financial Statements* and Amendments to IAS 32 *Financial Instruments: Presentation - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation* Effective for annual periods beginning on or after 1 January 2009
- IAS 23 (Revised) *Borrowing Costs* - Comprehensive revision to prohibit immediate expensing Effective for annual periods beginning on or after 1 January 2009
- IAS 27 *Consolidated and separate financial statements* - Consequential amendments arising from amendments to IFRS 3 Effective for annual periods beginning on or after 1 July 2009
- IAS 28 *Investment in associates*-Consequential amendments arising from amendments to IFRS 3 Effective for annual periods beginning on or after 1 July 2009
- IAS 31 *Investment in joint ventures* - Consequential amendments arising from amendments to IFRS 3 Effective for annual periods beginning on or after 1 July 2009
- IAS 39 *Financial instruments: Recognition and measurement - Amendments for eligible hedged items* Effective for annual periods beginning on or after 1 July 2009
- IFRS 1 *First time adoption of International Financial Reporting Standards* - Amendments relating to cost of an investment on first time adoption Effective for annual periods beginning on or after 1 January 2009
- IFRS 2 *Share-based payments* - Amendment relating to vesting conditions and cancellations Effective for annual periods beginning on or after 1 January 2009
- IFRS 3 *Business combinations* - Comprehensive revision on applying the acquisition method Effective for annual periods beginning on or after 1 July 2009
- IFRS 8 *Operating Segments* Effective for annual periods beginning on or after 1 January 2009
- IFRIC 15 *Agreements for the construction of real estate* Effective for annual periods beginning on or after 1 January 2009
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* Effective for annual periods beginning on or after 1 July 2009



4. Use of estimates and judgments

Key sources of estimation uncertainty

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from the claims made under insurance contract is the Corporation's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Corporation will ultimately pay for such claims.

Estimation of the ultimate cost of certain claims is a complex process and cannot be done using conventional techniques.

The Corporation believes that the liability for insurance claims carried at year end is adequate.

Allowances for receivables

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Determining fair values

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Corporation's accounting policies

Critical accounting judgments made in applying the Corporation's accounting policies include:

Financial asset and liability classification

The Corporation's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In designating financial assets or liabilities as at fair value through profit or loss, the Corporation has determined that it has met the criteria for this designation set out in accounting policy 3(a).

Details of the Corporation's classification of investments are given in notes 6 and 7.

Impairment of available-for-sale investments

The Corporation treats 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 in the light of current market conditions, including normal volatility in share price for quoted equities with benchmark indices and the future cash flows, discount factors for unquoted equities.

5. Cash on hand and at banks

	2008 KD	2007 KD
Cash on hand and at banks	1,331,556	1,746,867
Deposits with banks	18,950,000	17,341,299
	20,281,556	19,088,166
Deposits maturing over three months	(17,700,000)	(10,000,000)
	2,581,556	9,088,166

The effective interest rate on deposits was 6.25% (2007: 6.875 %).

The Corporation’s exposure to interest rate risk and a sensitivity analysis for assets is disclosed in note 25.

6. Investments at fair value through profit or loss

These represent quoted investment portfolios held for trading and managed by specialised investment managers.

The Corporation’s exposure to credit, currency and interest rate risks related to investments at fair value through profit or loss is disclosed in note 25.

7. Available-for-sale investments

	2008 KD	2007 KD
Bonds	11,064,451	11,110,382
Managed funds	24,535,124	32,068,827
	35,599,575	43,179,209

All investments within this category are managed by specialised fund managers.

Fair value of certain unquoted available-for-sale investments, with a carrying value of KD 1,382,250 (2007: KD 1,641,000) cannot be reliably determined. Therefore, these investments are carried at cost less any impairment losses.

Interest-bearing available-for-sale investments, with a carrying value of KD 11,064,451 as at 31 December 2008 (2007: KD 11,110,382) have stated interest rates that range between 4% to 9.75% (2007: 4% to 9.7%) and mature in 1 to 23 years.



During the current year, there was a significant decline in the fair value of certain managed funds due to the global credit crisis and considered the impact on its investment portfolios. Accordingly, an impairment loss amounting to KD 3,170,374 was recognised within the income statement.

The Corporation's exposure to credit, currency and interest rate risks related to available-for-sale investments is disclosed in note 25.

8. Investment in Arab Trade Finance Program

The Corporation owns 0.25% (2007: 0.25%) of the share capital of the Arab Trade Finance Program, an Arab regional organization (Abu Dhabi, United Arab Emirates) which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. In the opinion of the management, there is no reliable measure to assess the fair value of this investment and therefore the investment is carried at cost.

The Corporation's exposure to credit, currency and interest rate risks related to available-for-sale investments is disclosed in note 25.

9. Receivable from Member State

This represents an amount of US\$ 74,983,290 (KD equivalent 20,729,131) owed to the Corporation by a member state that was unable, due to difficult political and economic conditions, to settle its obligations on the due dates.

As per the terms of an agreement dated 15 December 2005, the member state rescheduled the debt to five annual installments starting from 31 December 2006 at an interest rate of 2% per annum, in addition to an advance payment of US\$ 46 million which was received during 2006.

The first three installments were due on 31 December 2006, 31 December 2007 and 31 December 2008 respectively, but not received yet. As per the letter dated 31 December 2008 and 13 January 2009, received from the member state, the member state honoured its obligation to settle the amount due to the Corporation subject to the shareholders approval to waive the interest on the receivable from member state amounting to US\$ 25,086,166. The Corporation's Board of Directors resolved in their meeting held on 6 November 2008 to waive the interest and recommended that the Shareholders Council approve the waiver in their next meeting in April 2009. In the opinion of the Management, the amount owed is deemed recoverable and accordingly no provision has been made in the accompanying financial statements for the amount due from the member state.

The Corporation's exposure to credit, currency and interest rate risks related to receivables is disclosed in note 25.

10. Recoverable claims

	2008 KD	2007 KD
Balance at beginning of the year	3,776,715	3,765,467
Net claims paid during the year	297,449	30,865
Claims recovered during the year	(5,961)	(3,283)
Foreign currency exchange differences	3,647	(16,334)
	4,071,850	3,776,715
Provision for impairment	(2,003,034)	(2,003,034)
Balance at end of the year	2,068,816	1,773,681

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

Included in recoverable claims two claims amounting to KD 1,440,235 and KD 562,799 which have been outstanding since 2000 and 2001 respectively and relate to importers in two member states. The Corporation's management has taken the necessary legal actions to pursue these debts. The court has ruled in favor of the Corporation, and hearings and discovery proceedings are in progress at the relevant courts. The Corporation's management has made a provision for impairment on these claims.

The Corporation's exposure to credit, currency and interest rate risks related to recoverable claims is disclosed in note 25.

11. Accrued interest

	2008 KD	2007 KD
Balance at beginning of the year	1,106,547	622,388
Interest received during the year	(571,453)	-
Interest accrued during the year	260,074	484,159
Balance at end of the year	795,168	1,106,547
Less: interest suspended	(149,436)	(345,267)
	645,732	761,280

Interest suspended represents delay interest accrued on recoverable claims from third parties and member states due to delays in honoring their obligations towards these claims within the set timeframe.

The Corporation's exposure to credit, currency and interest rate risks related to accrued interest is disclosed in note 25.



12. Due from/to insurance and reinsurance companies

Due from insurance and reinsurance companies represents the reinsurance companies' share of claims incurred and paid by the Corporation under the respective reinsurance contracts. Due to insurance and reinsurance companies represent amounts refundable to the reinsurance companies upon reimbursement by the counter party or member state. During the course of settlement with a given reinsurance company, the Corporation will consider amounts owed by the reinsurance companies and settle on a net basis.

The Corporation's exposure to credit, currency and interest rate risks related to reinsurance claims is disclosed in note 25.

13. Accounts receivable and other assets

	2008 KD	2007 KD
Accrued income from forward contract	27,092	3,020,984
Commission income	-	561,530
Receivables from staff	118,011	332,792
Guarantee premiums receivable	434,246	166,587
Other debit balances	42,131	36,248
	<u>621,480</u>	<u>4,118,141</u>

The Corporation's exposure to credit, currency and interest rate risks related to accounts receivable and other assets is disclosed in note 25.

14. Claim from member state

This represents amounts due from a member state in respect of its unpaid share of capital, in addition to interest suspended on the amount due, in accordance with resolutions of the Corporation's Council and agreements between the Corporation and the member state.

The Corporation's exposure to credit, currency and interest rate risks related to the claim from member state is disclosed in note 25.

15. Property and equipment

Property and equipment mainly comprises of the carrying value 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).

	Building KD	Office equipment KD	Motor vehicles KD	Computers KD	Others KD	Total KD
Cost						
Balance as at 31 December 2006	2,303,786	30,080	60,810	65,469	83,986	2,544,131
Additions	-	236	-	6,006	8,319	14,561
Disposals	-	-	-	-	(11,765)	(11,765)
Balance as at 31 December 2007	2,303,786	30,316	60,810	71,475	80,540	2,546,927
Additions	-	149	15,180	5,612	-	20,941
Disposals	-	-	(6,975)	-	-	(6,975)
Balance as at 31 December 2008	2,303,786	30,465	69,015	77,087	80,540	2,560,893
Accumulated depreciation and impairment losses						
Balance as at 31 December 2006	477,278	30,080	40,453	65,469	83,986	697,266
Charge for the year	67,650	236	5,089	6,006	8,319	87,300
Written off during the year	-	-	-	-	(11,765)	(11,765)
Balance as at 31 December 2007	544,928	30,316	45,542	71,475	80,540	772,801
Charge for the year	67,650	149	8,136	5,612	-	81,547
Written off during the year	-	-	(6,975)	-	-	(6,975)
Balance as at 31 December 2008	612,578	30,465	46,703	77,087	80,540	847,373
Carrying Value						
As at 31 December 2008	1,691,208	-	22,312	-	-	1,713,520
As at 31 December 2007	1,758,858	-	15,268	-	-	1,774,126



16. Accounts payable and other liabilities

	2008 KD	2007 KD
Due to reinsurance companies	14,430	10,014
Accrued staff leave	160,023	161,985
Other liabilities	389,183	369,412
	<u>563,636</u>	<u>541,411</u>

The Corporation's exposure to credit, currency and interest rate risks related to accounts payables and other liabilities is disclosed in note 25.

17. Obligations under finance lease

The obligations under the finance lease are payable as follows:

	2008 KD	2007 KD
Less than one year	179,617	179,617
From one to five years	898,085	898,085
More than five years	<u>3,412,723</u>	<u>3,592,340</u>
Due to Arab Fund for Economic And Social Development	4,490,425	4,670,042
Less: finance charges allocated to future periods	<u>(2,397,245)</u>	<u>(2,545,933)</u>
	<u>2,093,180</u>	<u>2,124,109</u>

The Corporation's exposure to liquidity risk and sensitivity analysis of financial assets and liabilities in note 25.

18. Employee savings and end of service benefits

Under the savings scheme in the Corporation, the employee is entitled to the following:

- End of service indemnity under the Corporation's by-laws;
- An amount deducted from the employees at a rate of 7% of the monthly salary;
- An award from the Corporation of 5% per annum of the aggregate of (a) and (b) above less amounts advanced to the employee, at the discretion of the General Manager based on employee performance.

19. Members equity

- In accordance with the Corporation's convention, the net profit realised from the Corporation's operations net of provisions in accordance with the last amendment to the Corporation's Convention, is to be accumulated to establish a reserve equal to three times the capital. The Shareholders Council shall decide the manner of utilisation or distribution of the realised 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.

- b) In accordance with the Corporation's convention, the Shareholders Council may decide, upon recommendation of the Board of Directors to transfer a portion of the reserve to capital provided that this capital increase shall be distributed to the members based on the proportion of shares held by each respective member state.

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

	<i>Authorised and Issued</i>		<i>Paid</i>	
	2008 KD	2007 KD	2008 KD	2007 KD
<i>A) Member States:</i>				
The Hashemite Kingdom of Jordan	525,000	525,000	525,000	525,000
United Arab Emirates	2,350,000	2,350,000	2,350,000	2,350,000
Kingdom of Bahrain	500,000	500,000	500,000	500,000
The Republic of Tunisia	1,250,000	1,250,000	1,250,000	1,250,000
Peoples Democratic Republic of Algeria	1,250,000	1,250,000	1,250,000	1,250,000
Republic of Djibouti	200,000	200,000	200,000	200,000
Kingdom of Saudi Arabia	3,750,000	3,750,000	3,750,000	3,750,000
Republic of Sudan	1,217,932	1,217,932	1,217,932	1,217,932
Syrian Arab Republic	500,000	500,000	500,000	500,000
Somali Democratic Republic	58,735	58,735	58,735	58,735
Republic of Iraq	500,000	500,000	500,000	500,000
Sultanate of Oman	750,000	750,000	750,000	750,000
State of Palestine	500,000	500,000	500,000	125,000
State of Qatar	2,000,000	2,000,000	2,000,000	2,000,000
State of Kuwait	3,000,000	3,000,000	3,000,000	3,000,000
Republic of Lebanon	500,000	500,000	500,000	500,000
The Great Socialist Peoples Libyan Arab Jamahiriya	2,500,000	2,500,000	2,500,000	2,500,000
Arab Republic of Egypt	1,250,000	1,250,000	1,250,000	1,250,000
Kingdom of Morocco	2,000,000	2,000,000	2,000,000	2,000,000
The Islamic Republic of Mauritania	500,000	500,000	500,000	500,000
The Republic of Yemen The Republic of Yemen	1,000,000	1,000,000	1,000,000	1,000,000
	<u>26,101,667</u>	<u>26,101,667</u>	<u>26,101,667</u>	<u>25,726,667</u>
<i>B) Arab Financial Authorities:</i>				
Arab Fund for Economic and Social Development	15,202,800	15,202,800	15,202,800	15,202,800
Arab Monetary Fund	8,118,000	8,118,000	8,118,000	8,118,000
Arab Bank for Economic Development in Africa ("BADEA")	5,106,960	5,106,960	5,106,960	4,085,568
Arab Authority for Agricultural Investment and Development	1,092,240	1,092,240	983,016	873,792
	<u>55,621,667</u>	<u>55,621,667</u>	<u>55,512,443</u>	<u>54,006,827</u>



During the current year, the Corporation had the following transactions in respect of the paid-up capital with its member states:

- a) On 3 April 2008, the Shareholders approved a contribution of KD 375,000 towards payment of the remaining unpaid capital to increase the paid-up capital of the State of Palestine from KD 125,000 to KD 500,000 (see note 21).
- b) On 27 April 2008, the Corporation called up and received 50% of the fifth instalment from Arab Authority for Agricultural Investment and Development amounting to KD 109,224 towards increase in the paid-up capital.
- c) On 11 May 2008, the Corporation called up and received the final instalment of the remaining unpaid capital from BADEA amounting to KD 1,021,392, resulting in fully paid-up capital of KD 5,106,960.

20. Net investment (loss)/ gain

	2008 KD	2007 KD
Realised gains on investments held for trading	-	738,527
Unrealised losses on investments held for trading	(8,943,740)	(381,374)
Net (loss)/ gains on investments at fair value through profit or loss	(8,943,740)	357,153
Realised gains on sale of available-for-sale investments	304,902	2,420,746
Dividends from funds	499,147	195,399
Dividends from Arab Trade Finance Program	16,399	17,856
	<u>(8,123,292)</u>	<u>2,991,154</u>

21. Contribution to support the people of Palestine

In accordance with the Shareholders Council resolution no. 11 of 2008, 10% of the net profit for 2007 amounting to KD 417,606 was transferred as a contribution to support the people of Palestine. The Shareholders decided to make this contribution towards the unpaid capital of the State of Palestine amounting to KD 375,000 in 2008, which represents the fully paid up capital of the State of Palestine (refer note 19). Further, it was resolved that the balance amount of KD 42,606 was paid in coordination with Al-Aqsa fund.

22. Commitments and contingent liabilities

The underlying value of written guarantee contracts as at 31 December 2008 amounted to KD291,226,720 (2007: KD 83,152,991). At the balance sheet date, the written guarantee contracts reinsured against commercial and non-commercial risks amounted to KD 11,666,496 (2007: KD 2,068,788).

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.



23. Management of insurance risk

Insurance risk

Insurance risk comprises the possibility that an insured event occurs, and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The primary risk that the Corporation faces under such contracts is that the actual claims and benefits payments exceed the carrying value of insurance liabilities. The primary risk control measure in respect of insurance risk is the cession of the risk to third parties through reinsurance. Reinsurance business is ceded to a number of local and international reputable third party insurers on a proportional basis with retention limits. The Corporation is not dependent on a single reinsurer or a reinsurance contract.

In addition, insurance risk is mitigated by:

- a) The Corporation's diverse portfolio of insurance contracts. Accordingly, the Corporation is less likely to be adversely affected by a single unexpected event.
- b) Binding underwriting and retention guidelines and limits, and clear underwriting authorities control over who is authorised and accountable for concluding insurance and reinsurance contracts. Compliance with these guidelines is closely monitored by the Operations Department. Developments in the markets of member countries are also monitored closely and where necessary appropriate changes are made to the Corporation's policy and guidelines to reflect current best practice.
- c) All the Corporation's reinsurance contracts contain specific liability limits and clauses, which enables the Corporation to settle its reinsurance liabilities only upon receiving payments from corresponding reinsurance receivables from the underlying reinsurance guarantee contracts.

Reinsurance risk

Although the Corporation has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its obligations under such reinsurance arrangements. The Corporation reinsures business only with parties that have good credit ratings and such credit ratings are reviewed on a regular basis.

The Corporation uses reinsurance policy as a method to distribute risks arising from exports reinsurance contracts which relate to commercial risks through entering into reinsurance contracts on a proportional basis with three re-insurers in the international market.

The Corporation provides guarantee to 50% of the operations while the remaining 50% are ceded to reinsurers. When risk arises, the Corporation is responsible only for 50% of the loss.

24. Related party transactions

Related parties represent member states. In the normal course of business and upon the management approval, fees of KD 28,104 were received for management of fiduciary assets



in favour of one member state (2007: KD 563,994) (Note 27). Non commercial risks related to guarantees granted by the Corporation are guaranteed by member states.

25. Financial risk management

a) Introduction and overview

The Corporation has exposure to the following risks as a result of its use of financial instruments:

- credit risk
- liquidity risk
- market risk and
- operational risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Corporation's management.

b) Credit risk

Credit risk is the risk of financial loss to the Corporation if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables, reinsurance contracts and available-for-sale investments. The Corporation cedes a portion of the risk with other reinsurance companies based on underlying contracts. 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.

For risk management purposes, the Corporation considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).



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Exposure to credit risk

The carrying value of financial assets represents the maximum credit exposure at the balance sheet date. The maximum exposure to credit risk at the balance sheet date is shown below:

31 December 2008	Total carrying value KD	Past due but not impaired KD	Neither past due nor impaired KD
Financial assets			
Cash on hand and at banks	2,581,556	-	2,581,556
Term deposits	17,700,000	-	17,700,000
Investments at fair value through profit or loss	11,524,644	-	11,524,644
Available-for-sale investments	35,599,575	-	35,599,575
Investment in Arab Trade Finance Program	365,731	-	365,731
Receivable from member state	20,729,131	12,190,419	8,538,712
Recoverable claims	2,068,816	-	2,068,816
Accrued interest	645,732	-	645,732
Due from insurance and reinsurance companies	2,655,126	2,655,126	-
Accounts receivable and other assets	621,480	-	621,480
Claim from member state	18,968	18,968	-
Total assets	<u>94,510,759</u>	<u>14,864,513</u>	<u>79,646,246</u>

31 December 2007	Total carrying value KD	Past due but not impaired KD	Neither past due nor impaired KD
Financial assets			
Cash on hand and at banks	9,088,166	-	9,088,166
Term deposits	10,000,000	-	10,000,000
Investments at fair value through profit or loss	17,392,836	-	17,392,836
Available-for-sale investments	43,179,209	-	43,179,209
Investment in Arab Trade Finance Program	365,731	-	365,731
Receivable from member state	20,507,930	8,701,859	11,806,071
Recoverable claims	1,773,681	-	1,773,681
Accrued interest	761,280	-	761,280
Due from insurance and reinsurance companies	2,787,709	2,787,709	-
Accounts receivable and other assets	4,118,141	-	4,118,141
Claim from member state	18,968	-	18,968
Total assets	<u>109,993,651</u>	<u>11,489,568</u>	<u>98,504,083</u>



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Management does not hold any collateral for investment and reinsurance contracts as at 31 December 2008.

	Maximum exposure 2008 KD	Maximum exposure 2007 KD
Cash on hand and at banks	2,581,556	9,088,166
Term deposits	17,700,000	10,000,000
Investments at fair value through profit or loss	11,524,644	17,392,836
Available-for-sale investments	35,599,575	43,179,209
Investments in Arab Trade Finance Program	365,731	365,731
Receivable from member state	20,729,131	20,507,930
Recoverable claims	2,068,816	1,773,681
Accrued interest	645,732	761,280
Due from insurance and reinsurance companies	2,655,126	2,787,709
Accounts receivable and other assets	621,480	4,118,141
Claim from member state	18,968	18,968
	<u>94,510,759</u>	<u>109,993,651</u>

The Corporation monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the balance sheet date is shown below:

	Receivables		Investments	
	2008 KD	2007 KD	2008 KD	2007 KD
Concentration by geographic location				
Kuwait	476,278	700,903	5,589,310	7,981,780
Other Middle East countries and Africa	26,235,883	26,245,822	8,822,053	5,276,260
Europe	-	-	13,191,136	13,130,066
North America	27,092	3,020,984	19,896,451	34,549,670
	<u>26,739,253</u>	<u>29,967,709</u>	<u>47,498,950</u>	<u>60,937,776</u>

Concentration by location for receivables is measured based on the location of the debtor. Concentration by location for investment in financial securities is measured based on the location of the issuer of the financial security.

Settlement risk

The Corporation's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Commitments and contingencies related credit risk

Information on credit risk relating to off balance sheet financial instruments is provided in note 22.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Corporation's objective form managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

The executive management receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The executive management then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Corporation as a whole. All liquidity policies and procedures are subject to review and approval by the management. Regular reports cover the liquidity position of the Corporation.

Exposure to liquidity risk

The key measure used by the Corporation for managing liquidity risk is the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity.

Details of the Corporation's net liquid assets is summarised in the table below by the maturity profile of the Corporation's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The actual maturities may differ from the maturities shown below. The maturity profile is monitored by management to ensure adequate liquidity is maintained.



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The maturity profile at 31 December 2008 as follows:

	Total KD	Less than one year KD	From one year to five years KD	Over five years KD
Assets				
Cash on hand and at banks	2,581,556	2,581,556	-	-
Term deposits	17,700,000	17,700,000	-	-
Investments at fair value through profit or loss	11,524,644	-	11,524,644	-
Available-for-sale investments	35,599,575	-	35,599,575	-
Investments in Arab trade finance pro- gram	365,731	-	-	365,731
Receivable from member state	20,729,131	12,190,419	8,538,712	-
Recoverable claims	2,068,816	-	-	2,068,816
Accrued interest	645,732	645,732	-	-
Due from insurance and reinsurance companies	2,655,126	-	-	2,655,126
Accounts receivable and other assets	621,480	81,391	540,089	-
Claim from member state	18,968	-	-	18,968
Property and equipment	1,713,520	-	-	1,713,520
Total assets	<u>96,224,279</u>	<u>33,199,098</u>	<u>56,203,020</u>	<u>6,822,161</u>
Liabilities and members equity				
Accounts payable and other liabilities	563,636	311,337	252,299	-
Obligations under finance lease	2,093,180	179,617	898,085	1,015,478
Due to insurance and reinsurance compa- nies	5,651,100	-	-	5,651,100
Employee savings and end of service benefits	1,521,887	-	-	1,521,887
Members equity	86,394,476	-	-	86,394,476
Total liabilities and members equity	<u>96,224,279</u>	<u>490,954</u>	<u>1,150,384</u>	<u>94,582,941</u>



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The maturity profile at 31 December 2007 as follows:

	Total KD	Less than one year KD	From one year to five years KD	Over five years KD
Assets				
Cash on hand and at banks	9,088,166	9,088,166	-	-
Term deposits	10,000,000	10,000,000		
Investments at fair value through profit or loss	17,392,836	-	17,392,836	-
Available-for-sale investments	43,179,209	-	43,179,209	-
Investments in Arab trade finance program	365,731	-	-	365,731
Receivable from member state	20,507,930	8,701,859	11,806,071	-
Recoverable claims	1,773,681	-	-	1,773,681
Accrued interest	761,280	-	761,280	-
Due from insurance and reinsurance companies	2,787,709	-	-	2,787,709
Accounts receivable and other assets	4,118,141	3,809,093	309,048	-
Claim from member state	18,968	-	-	18,968
Property and equipment	1,774,126	-	-	1,774,126
Total assets	<u>111,767,777</u>	<u>31,599,118</u>	<u>73,448,444</u>	<u>6,720,215</u>
Liabilities and members equity				
Accounts payable and other liabilities	541,411	89,960	451,451	-
Obligations under finance lease	2,124,109	179,617	898,085	1,046,407
Due to insurance and reinsurance companies	5,568,851	-	-	5,568,851
Employee savings and end of service benefits	1,613,968	-	-	1,613,968
Members equity	101,919,438	-	-	101,919,438
Total liabilities and members equity	<u>111,767,777</u>	<u>269,577</u>	<u>1,349,536</u>	<u>110,148,664</u>



The previous table shows the undiscounted cash flows on the Corporation's financial liabilities and unrecognised commitments on the basis of their earliest possible contractual maturity. The Corporation's expected cash flows may vary from this analysis.

d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Commercial portfolios are managed by international financial institutions and include positions arising from market making in addition to financial assets and liabilities which are managed on fair value basis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Corporation is exposed to interest rate risk as a result of mismatches on gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying value of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The following table details the Corporation's exposure to interest rate risk. The financial instruments are reported based on the earlier of their contractual repricing date or maturity date.



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	Total KD	Less than a year KD	1 to 5 Years KD	Non interest bearing items KD	Effective interest rate or range KD
31 December 2008					
Assets					
Cash on hand and at banks	2,581,556	2,580,342	-	1,214	6.25%
Term deposits	17,700,000	17,700,000	-	-	6.25%
Investments at fair value through profit or loss	11,524,644	-	-	11,524,644	
Available-for-sale investments	35,599,575	-	11,064,451	24,535,124	9.75% - 4%
Investments in Arab Trade Finance Program	365,731	-	-	365,731	
Receivable from member state	20,729,131	-	-	20,729,131	
Recoverable claims	2,068,816	-	-	2,068,816	
Accrued interest	645,732	-	-	645,732	
Due from insurance and reinsurance companies	2,655,126	-	-	2,655,126	
Accounts receivable and other assets	621,480	-	-	621,480	
Claim from member state	18,968	-	-	18,968	
Property and equipment	1,713,520	-	-	1,713,520	
Total assets	<u>96,224,279</u>	<u>20,280,342</u>	<u>11,064,451</u>	<u>64,879,486</u>	
Liabilities and members equity					
Accounts payable and other liabilities	563,636	-	-	563,636	
Obligations under finance lease	2,093,180	-	-	2,093,180	7%
Due to insurance and reinsurance companies	5,651,100	-	-	5,651,100	5%
Employee savings and end of service benefits	1,521,887	-	-	1,521,887	
Members equity	86,394,476	-	-	86,394,476	
Total liabilities and members equity	<u>96,224,279</u>	<u>-</u>	<u>-</u>	<u>96,224,279</u>	



The Arab Investment and Export Credit Guarantee Corporation
An Arab Corporation with a special independent legal status

	Total KD	Less than a year KD	1 to 5 Years KD	Non interest bearing items KD	Effective interest rate or range KD
31 December 2007					
Assets					
Cash on hand and at banks	9,088,166	9,086,876	-	1,290	6.875%
Term deposits	10,000,00	10,000,000	-	-	6.875%
Investments at fair value through profit or loss	17,392,836	-	-	17,392,836	
Available-for-sale investments	43,179,209	-	11,110,387	32,068,822	4% - 9.75%
Investments in Arab Trade Finance Program	365,731	-	-	365,731	
Receivable from member state	20,507,930	-	-	20,507,930	
Recoverable claims	1,773,681	-	-	1,773,681	
Accrued interest	761,280	-	-	761,280	
Due from insurance and reinsurance companies	2,787,709	-	-	2,787,709	
Accounts receivable and other assets	4,118,141	-	-	4,118,141	
Claim from member state	18,968	-	-	18,968	
Property and equipment	1,774,126	-	-	1,774,126	
Total assets	<u>111,767,777</u>	<u>19,086,876</u>	<u>11,110,387</u>	<u>81,570,514</u>	
Liabilities and members equity					
Accounts payable and other liabilities	541,411	-	-	541,411	
Obligations under finance lease	2,124,109	-	-	2,124,109	7%
Due to insurance and reinsurance companies	5,568,851	-	-	5,568,851	5%
Employee savings and end of service benefits	1,613,968	-	-	1,613,968	
Members equity	101,919,438	-	-	101,919,438	
Total liabilities and members equity	<u>111,767,777</u>	<u>-</u>	<u>-</u>	<u>111,767,777</u>	

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Corporation assumes a fluctuation in interest rates of 25 basis points, and estimates the impact on the net profit for the year and members equity at as follows:

	Equity KD	Net profit KD
As at 31 December 2008	78,362	50,701
As at 31 December 2007	75,493	47,718

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The calculation is based on KD 31,345 thousand (2007: KD 30,197 thousand) interest bearing assets and KD Nil (2007: KD Nil) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Foreign currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates, and arises from financial instruments denominated in foreign currencies. The Corporation manages its foreign currency risk by taking derivative positions and ensuring that foreign currency positions are within acceptable limits.

The Corporation had the following significant net exposures denominated in foreign currencies as of 31 December:

	2008 Equivalent Long/ (short) Position	2007 Equivalent Long/ (short) Position
US Dollar	63,868,290	79,973,778
Euro	1,560,001	1,633,940
Japanese Yen	700	560
Pound Sterling	2,989	4,094
Other	48,823	29,300

Sensitivity analysis

The Corporation is exposed to currency risk mainly with respect to US dollar.

A 5 percent strengthening/weakening of the KD against US\$ as at 31 December would have increased/(decreased) members equity by KD 882,819 (2007: KD 1,093,641). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as 2007.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The



Corporation manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The investments at fair value through profit or loss and available-for-sale investments are managed by external fund managers who actively monitor and manage the investment portfolios on a fair value basis.

For the majority of the Corporation's equity investments, quoted market prices are readily available. For such investments classified as available-for-sale, a three percent increase or decrease in stock prices at the reporting date would have increased/(decreased) members equity by KD 1,078,959 (2007: KD 1,306,348). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase or decrease of KD 345,739 (2007: KD 521,785). The analysis is performed on the same basis as 2007.

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of Corporation-wide standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified requirements for the reporting of operational losses and proposed remedial action
- training and professional development
- ethical and business standards
- risk mitigation.

Compliance with the Corporation's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Corporation.



f) Capital management

The Corporation's Management policy is to maintain a strong capital base so as to maintain members and market confidence and to sustain future development of the operations. The Board of Directors monitor the return on capital, which the Corporation defines as net operating income divided by total members equity.

There were no changes in the Corporation's approach to capital management during the year. The Corporation is not subject to externally imposed capital requirements.

The table below sets out the Corporation's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2008

	At fair value through profit or loss KD	Loans and re- ceivables KD	Available-for- sale KD	Other amor- tised cost KD	Total carrying value KD	Fair value KD
Cash on hand and at banks	-	2,581,556	-	-	2,581,556	2,581,556
Term deposits	-	17,700,000	-	-	17,700,000	17,700,000
Investments at fair value through profit or loss	11,524,644	-	-	-	11,524,644	11,524,644
Available-for-sale investments	-	-	35,599,575	-	35,599,575	35,599,575
Investment in Arab Trade Finance Program	-	-	365,731	-	365,731	365,731
Receivable from member state	-	20,729,131	-	-	20,729,131	20,729,131
Recoverable claims	-	2,068,816	-	-	2,068,816	2,068,816
Accrued interest	-	645,732	-	-	645,732	645,732
Due from insurance and reinsurance companies	-	2,655,126	-	-	2,655,126	2,655,126
Accounts receivable and other assets	-	621,480	-	-	621,480	621,480
Claim from member state	-	18,968	-	-	18,968	18,968
	<u>11,524,644</u>	<u>47,020,809</u>	<u>35,965,306</u>	<u>-</u>	<u>94,510,759</u>	<u>94,510,759</u>
Accounts payable and other liabilities	-	563,636	-	-	563,636	563,636
Obligations under finance lease	-	-	-	2,093,180	2,093,180	2,093,180
Due to insurance and reinsurance companies	-	5,651,100	-	-	5,651,100	5,651,100
	<u>-</u>	<u>6,214,736</u>	<u>-</u>	<u>2,093,180</u>	<u>8,307,916</u>	<u>8,307,916</u>

The table below sets out the Corporation's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2007.

	At fair value through profit or loss KD	Loans and re- ceivables KD	Available-for- sale KD	Other amor- tised cost KD	Total carrying value KD	Fair value KD
Cash on hand and at banks	-	9,088,166	-	-	9,088,166	9,088,166
Term deposits	-	10,000,000	-	-	10,000,000	10,000,000
Investments at fair value through profit or loss	17,392,836	-	-	-	17,392,836	17,392,836
Available-for-sale investments	-	-	43,179,209	-	43,179,209	43,179,209
Investment in Arab Trade Finance Program	-	-	365,731	-	365,731	365,731
Receivable from member state	-	20,507,930	-	-	20,507,930	20,507,930
Recoverable claims	-	1,773,681	-	-	1,773,681	1,773,681
Accrued interest	-	761,280	-	-	761,280	761,280
Due from insurance and reinsurance companies	-	2,787,709	-	-	2,787,709	2,787,709
Accounts receivable and other assets	-	4,118,141	-	-	4,118,141	4,118,141
Claim from member state	-	18,968	-	-	18,968	18,968
	<u>17,392,836</u>	<u>49,055,875</u>	<u>43,544,940</u>	<u>-</u>	<u>109,993,651</u>	<u>109,993,651</u>
Accounts payable and other liabilities	-	-	-	541,411	541,411	541,411
Obligations under Finance lease	-	-	-	2,124,109	2,124,109	2,124,109
Due to insurance and reinsurance companies	-	-	-	5,568,851	5,568,851	5,568,851
	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,234,371</u>	<u>8,234,371</u>	<u>8,234,371</u>



26. Fair value of financial instruments

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable parties in an arms length transaction. Underlying the definition of fair value is the presumption that the Corporation is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2008, the fair value of financial assets and financial liabilities that were carried at fair value were not significantly different from their carrying values shown in the balance sheet.

27. Fiduciary assets

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

Total fiduciary assets managed by the Corporation as at the balance sheet date was KD 27,156,163 (2007: KD 20,230,401), which represent investments managed on behalf of a member state.

28. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.