المؤسسة العربية لضمان
الإستثمار وائتمان الصادرات

The Arab Investment & Export
Credit Guarantee Corporation

Annual Report 2007

Chapter One: Overview of Global and Arab Economic Developments, and Summary of the Corporation's Activities

1. Global Economy

The global economy growth rate, according to preliminary estimates by the International Monetary Fund (IMF), witnessed a slight decrease in 2007, reaching 4.9%, compared to 5.0% in 2006, but remained above its level of 4.4% in 2005. This decrease is attributable to a decrease in the growth rate of the advanced economies group from 3.0% in 2006 to 2.6%. Growth rate in **other emerging markets and developing economies** increased by, approximately, 8.1%, sustaining its level in 2006, supported by the accelerating growth in countries such as China 11.4%, India 8.9% and Russia 7.0%. **Low-income economies** also witnessed a relatively high growth rate resulting from continuing high prices of raw materials and basic commodities exports. Global nominal GDP is estimated to reach approximately US$ 53.4 trillion, rising from US$ 48.2 trillion in 2006. The **inflation** rate on the other hand, measured by the Consumer Price Index, maintained a low level in **the advanced economies group** of 2.1% in 2007, declining from 2.3% in 2006. Meanwhile, inflation rate in **other emerging markets and developing economies** increased to 5.9%, compared to 5.1 % in 2006.

Based on these preliminary indices, **the global economy** continued its expansion and robust growth in 2007 supported by generally sound economic fundamentals, and high performance in emerging markets and some developing countries. Despite some imbalances in global capital markets resulting from the sub-prime US mortgage crisis including the spike in yields on securities collateralized with such loans as well as other higher risk securities, volatility of stock markets and the drop in long term government bond yields, pushing investors towards more secure investment alternatives. In addition, lack of liquidity in some sectors of the capital markets made central banks in major advanced economies, substitute tight monetary policies with enormous liquidity, injected into open Market operations (OMOs), in order to stabilize short-term interest rate. In an attempt to balance the arising risks, the US Federal Reserve Council cut the interest rate three consecutive times since September 2007, settling at 4.25% as of December 2007. A number of central banks in emerging markets provided liquidity to ease the pressure on inter-bank lending rate. The performance of global economy remains risky. In the short term, imbalances in global capital markets may continue, leading to a slow economic growth rate, increasing inflation pressures, volatile oil prices and other risks caused by longer-term issues including healthcare & social services costs and global warming. In the meantime, a tangible progress, in terms of controlling public finances, in advanced and emerging countries, was achieved during the year. Such progress is attributed to the fast growing revenues, driven by increased profits in advanced countries, and increased prices of raw materials exports in emerging countries. The year also witnessed sustained surpluses in current accounts in China, Canada, Japan, newly industrialized countries and oil exporting countries, at the expense of increased deficits in most European countries, particularly the emerging ones, the UK and the US.

Foreign direct investment (FDI) developments in 2007

Preliminary estimates by the United Nations Conference on Trade and Development (UNCTAD) indicate the continued increase of flows for the fourth consecutive year. Global FDI inflows soared in 2007 to reach US$ 1538 billion, rising by 18% from their level in 2006, of around US$ 1306 billion. Such rise in global FDI flows was driven by continued strong economic performance in many parts of developed and developing world. Also, large cross-border M&As (mainly in extractive industries and its supporting services and the financial sector), as well as Greenfield investment played an important role in increasing FDI. Large expansions of existing projects as corporate profits continue to raise due to higher oil, gas and basic commodities prices. In addition, governments continue to adopt measures making host-country investment and business climate more favorable to FDI. FDI inflows to **developed countries** were estimated at around US$ 1002 billion comprising 65% of total world FDI inflows, while FDI inflows to **developing countries** were estimated at around US$ 438 billion comprising 29% of total FDI inflows. **Economies in transition (south-eastern Europe and Commonwealth of Independent States)** received around US$ 98 billion comprising a share of 6%. Despite the slowdown in the US economy it sustained its position as the leading host country for FDI (US$ 193 billion) thanks partially to the depreciation of the dollar exchange rate, followed by the United Kingdom (US$ 171 billion), France (US$ 123 billion), Netherlands (US$ 104 billion), China (US$ 67 billion) and Russia (US$ 49 billion). With the inability of banks to provide credit in the midst of the US sub-prime mortgage crisis the inflow of capital from various funds, of which sovereign wealth funds are the most significant, had eased the liquidity shortage in world markets.

According to the **Institute of International Finance (IIF),** the net private capital flows to 30 developing countries surged to US$ 620 billion in 2007 compared to US$ 573 billion in 2006. This increase can be explained by a slight increase of US$ 11 billion in net borrowing abroad, from commercial banks and other private firms (mainly borrowing from bond markets), that is expected to reach US$ 355 billion in 2007 compared to US$ 344 billion in 2006. Another contributing factor is the substantial increase in net FDI flows by 28% reaching US$ 213 billion in 2007 compared to US$ 167 billion in 2006. Also, the net official outflows of US$ 65 billion in 2006 reversed to net inflows of US$ 3.3 billion in 2007. On the other hand, the net portfolio investments declined from US$ 62 billion to around US$ 52 billion in 2007. According to the IIF report, emerging markets quickly recovered their high levels of inflows and have already demonstrated notable resilience in face of the US sub-prime mortgage crisis.

As to the **global trade,** the value of trade in goods and services increased despite at a slower pace than previous years. It grew by 6.6% in 2007 compared to a growth rate of 9.2% in 2006. On the other hand, the value of world exports of goods and services increased from US$ 14.7 trillion in 2006, to US$ 16.8 trillion in 2007.

Raw material prices

The price index for raw metals (1995=100) hiked 15.3% during 2007; this increase is attributed to the rise in the price index of industrial input at a rate of 14.5%, energy by 6.3% and food products including beverages by 12.2%. A sharp rise was observed in the prices of metals. The prices of uranium rose by 116%, lead by 86.3% and tin by 54.2% with other metals also seeing their prices rise but at lower rates. The unprecedented rise in metals prices is mainly accounted for by increasing demand in Asian countries like China and India as well as from fuel-exporting countries in the Middle East undergoing economic expansion.

The rise in food prices

The price increases in wheat by 14.8% and corn by 28.3% are due to increased demand on both for production of bio-fuels. Meat prices rose by 6.9% and vegetable oil prices by 24.1%, meanwhile prices of sugar declined by 23.0% and sea food by 6.9%. The rise in beverage prices came as a result of increases in coffee and cocoa prices by 19.5% and 13.2% respectively, while tea prices declined by 17.3%. The higher price of agricultural raw materials was an outcome of the increasing price of many of their components such as wool prices up by 32.7% and those of construction wood by 9.6%.

Crude oil prices

For the fifth consecutive year prices (based on arithmetic average spot prices for Brent, Dubai and East Texas crude oil) have continued their upward trend. However, a decline in the rate of price growth is noticeable. In 2007 prices grew by 6.6%, compared to 20.5%, 15.8%, 30.7%, and 41.3% for the years 2006, 2005, 2004 and 2003 respectively. The average annual price for spot OPEC crude basket during 2007 recorded 68.5 US$ compared to US$ 64.3, 28.2, 36.0 and 53.4 for the last four years. This trend in oil prices is accounted for by an increase in demand in the face of worldwide refinery limitations and political instability of some of the main oil producing countries.

Foreign exchange markets

During the year 2007 the major currencies have largely continued trends observed in 2006. The US dollar has continued to weaken, particularly against the Euro, the Sterling Pound and the Japanese yen, which has returned to rise strongly in the last months of the year. This decline was partly perpetuated by the policy of most central banks of switching parts of their dollar-denominated international reserves to Euro.

The guarantee industry

The global guarantee market during 2007 witnessed further expansion in the volume of both operations and guarantee agencies. There has been a continuation of the pattern of strategic alliances, product innovation and the development of new mechanisms. Many agencies developed new tools to assess the creditworthiness of and the issuance of credit ratings to small and medium-sized projects with which they deal. Another upward trend is local currency cover for infrastructure projects whose currency cashflows can match the currency of the debt. Furthermore, increasing adherence to environmental and social standards markedly improved the environmental and social ratings for guaranteed projects. As for the new mechanisms, the guarantee agencies were concerned with maintaining a balanced portfolio by constantly diversifying operations between values and risks of ST business on one hand and MLT business on the other. This rebalancing policy strategy is to maintain the level of unexpected risk within acceptable limits using several methods of risk management, such as having significant liquidity, risk-sharing with customer, proper underwriting policies and reinsurance with other ECAs.

Below is the latest data available from members of **the International Union of Credit and Investment Insurers (The Berne Union)** which was founded in 1934 and includes 51 international, regional and national agencies from 43 countries. The parties indicated that the total guarantees at the end of 2006 reached about US$ 1224 billion (compared to US$ 1072 billion in 2005) equivalent to about 10% of total world exports. The guarantees are spread between US$ 1110 billion of export credit (compared to US$ 1036 billion in 2005), of which about 67% is for short term export credit, and US$ 114 billion for investment guarantee (compared to US$ 36 billion in 2005). This is primarily due to the continued growth of international trade at a rate exceeding that of the global economy 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, according to international data sources, reveal stable economic growth in the Arab countries during 2007 of 5.8%, maintaining similar levels achieved in 2006 and outpacing the global growth rate. Many Arab countries however recorded higher growth rates of between 6% and 14%. Inflation in Arab countries, measured by Consumer Price Index (Period Average), increased noticeably to reach around 8.6% in 2007, compared to 6.8% in 2006. This is primarily due to the rise in domestic demand vis-à-vis a limited short term production capacity in most Arab countries, in particular the oil-exporting countries, as well as the depreciation of the dollar exchange rate. The accumulation of oil revenues in oil producing countries contributed to continuous high levels of investment spending in projects aimed at improving infrastructure, private sector development, and human capital. Budget deficits were turned to a surplus in several Arab countries, 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 26% reaching US$ 660 billion.

Foreign direct investment

The inflows to Arab countries, according to preliminary estimates available from several sources, the most important of which is the **United Nations Conference on Trade and Development (UNCTAD),** are expected to reach about US$ 75 billion in 2007 compared to US$ 62.4 billion in 2006. This increase in the Arab countries' share of FDI is attributable to both internal (pull) and external (push) factors. Pull or internal factors include regulatory frameworks are becoming more relaxed in several countries of the region, particularly in the area of financial, construction, communication and tourism services. In addition, privatization of the state-owned enterprises and liberalization of most service sectors have also attracted more FDI by transnational corporations (TNCs). Another factor is the improved investment climates in several Arab countries which include eased or improved registration and fiscal procedures for various business start-ups, an increase in the number of one-stop shop for new business, the establishment of new public credit registries and/or private credit bureaus as credit information providers, the reduction of tax and customs duties, implementation of e-government programs, simplifying procedures for the technical inspection of imports and exports and improving the quality and accuracy of economic statistics. Furthermore, the continued rise in the prices of oil, metals, raw materials and basic commodities have attracted more investments to extractive industries and related services. On another front, the ongoing liberalization of the sub-sectors constituting the service sector such as the sectors of tourism, financial services, construction and communications to pave the way for FDI resulted in the service sector in the Arab countries claiming the largest share of FDI. There are also signs of increasing FDI in the Islamic finance sector through financial institutions within the region. There are also external factors driving towards investment in the Arab region, the foremost being the high rates of return on investment within the Arab region when compared to opportunities abroad, specifically in the field of extractive industries such as oil, gas and mining. In addition, some foreign companies' desire to acquire strategic assets led to the conclusion of many new deals in the context of cross-border M&As. The significantly growing inter-Arab investments during 2007 contributed to Arab countries' increased share of FDI. Investments were mainly in the financial services sector and in particular the banking sector. Many real estate investment companies (tourist and residential) as well as some communications companies continued their expansionist policies in the markets of other Arab countries either by acquiring existing companies, by entering into joint ventures, or Greenfield FDI projects.

The Pattern of Arab trade

Improvements in the growth of Arab exports of goods and services is expected to continue reaching US$ 825 billion in 2007, according to preliminary estimates from the **International Monetary Fund**, compared with US$ 750 billion; a growth rate of 10%. The rise in export proceeds is attributed to the sustained high prices of oil, metals and basic commodities as well as improved quality standards of Arab exports making them more competitive and furthering their access into world markets. The rate of growth of imports is expected to reach 20% with the value of imports reaching US$ 618 billion dollars in 2007 compared to about US$ 517 billion dollars in 2006. The persistent growth of these figures is attributed to a number of factors the most important of which is the high economic growth rates enjoyed in most Arab countries and the consequent increased demand for imports of capital goods, as well as the rising oil import bill of the Arab countries importing oil.

The level of guarantee activity of the Arab and regional guarantee agencies

The total value of insurance contracts continued to grow for the third consecutive year reaching about US$ 2.9 billion in 2006, (versus US$ 2.2 billion in 2005), of which US$ 2.8 billion represents the value of export credit insurance contracts (versus US$ 2.1 billion in 2005), while the value of contracts to guarantee investments was limited to US$ 120 million (versus US$ 102 million for 2005). The insurance premiums increased significantly during the year 2006 to US$ 19.9 million, with a growth rate of 46% in comparison to the previous year's figure. Of This US$ 19.9 million, US$19.06 million were premiums for insurance of exports contracts, and about US$ 0.908 million were premiums for investment guarantees. While compensation remained at high levels during the past two years, the recovery rate has improved significantly during the year 2006 and increased to 53% compared to 26% for 2005, however it has not yet reached the desirable level. The year also witnessed the growing importance of re-insurance services in the region, with a continued focus on re-insurance with foreign companies who claim 56% of the re-insurance market according to data from 2006.

Preliminary data for the year 2007 indicate the 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 2007 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 medium-term, simplified and tailored insurance contracts, exploring overseas markets, and insurance on inter-institution loans. The volume of insurance activity provided by Arab Banc-assurance, where legislation allows banks to carry out such operations, also has increased.

3. Summary of the Corporation's Activities:

- Arab Investment and Export Credit Guarantee Corp. Rated 'AA-';

Ratings List

1- Counterparty credit rating 'AA-/ Stable'
2- Insurer financial strength rating 'AA-/ Stable'

Rationale

On March 27, 2008, Standard & Poor's Ratings Services assigned its long-term 'AA-' counterparty credit and insurer financial strength ratings, to Kuwait-based Arab Investment and Export Credit Guarantee Corporation (AIECGC). The outlook is stable.

The ratings on AIECGC reflect its very strong capitalization, strong financial flexibility derived from its status as a supranational entity, and strong liquidity. A constraint on the rating is the undeveloped nature of the credit insurance markets in the region. AIECGC's key objective is to promote the flow of Arab investments among member countries and Arab exports worldwide.

Major rating factors:

- **Very strong capitalization:**
  As is typical of highly rated supranationals, AIECGC is very strongly capitalized, with very high quality of capital, which excludes any debt finance. Current capital adequacy is extremely strong, with net worth at Dec. 31, 2007, equivalent to 70% of total annual gross insured exposure. Although capitalization will weaken as transaction volume grows, it will remain very strong.

- **Strong financial flexibility:**

  As a supranational institution, AIECGC has strong financial flexibility, with the ultimate beneficiaries of its core business activities of political (investment) risk insurance and export credit guarantees being its member government states. The six Gulf Cooperation Council countries (with sovereign ratings ranging from 'A/ Stable' to 'AA-/ Stable') hold 23% of the corporation's shares directly, and sovereign-owned pan-Arab funds held 52% , at year-end 2007. Its members are expected to respond to future capital and liquidity needs. AIECGC is able to demonstrate favorable creditor status in its shareholder relationships, aiding recoveries of claims from some of AIECGC's less creditworthy clients and member states.

- **Strong liquidity**:
  At year-end 2007, available liquid assets covered almost 90% gross outstanding insured exposures, which is an extremely strong level of cover. However, it is expected to decline as business volume increases, but to remain strong.

- **Other factor**s:
  The rating is to some extent constrained by the immaturity of Arab region trade markets for the corporation's services as a political and export credit risk insurer. The potential for adverse economic conditions in some of the target (shareholder) markets is balanced by the structures within AIECGC's convention that provide supranational support and loss recovery.

`Outlook
The stable outlook reflects Standard & Poor's expectation that AIECGC will continue to be very strongly capitalized as business volume increases, as it meets its primary goal of servicing regional economic growth. It will continue to benefit from shareholder support. Although not a key rating driver, adequate profitability will be used to support the expansion. Liquidity will continue to be strong, but will diminish in absolute terms as volume rises.

www.standardandpoors.com/ratingdirect

- **Financial resources**

The Corporation's Shareholders' equity increased during 2007 by 8.7% as compared to 2006, totaling approximately US$ 373 million, compared to US$ 343 million in 2006. Paid-up capital amounted to US$ 197 million, compared to US$ 175 million in 2005. This increase was generated by the partial fulfillment of member Arab financial institutions' shares in the effort to augment total capital. Capital reserves reached US$ 172 million, compared to US$ 158 million in 2006. The Corporation's net profits exceeded those achieved in 2006, totaling approximately US$ 15 million. While the Corporation's total assets, increased during the year to US$ 409 million, compared to US$ 379 million in 2006, or by 7.8%.

- **Investments**

In view of the developments in the Arab and international financial markets, the Corporation proceeded to invest in those same markets seeking the best returns. Despite the pressures on the international capital markets by the mortgage crisis, particularly during the last quarter of 2007, the Corporation's investment revenue has been stable and similar to 2006 levels, bringing in about US$ 21 million.

- **Guarantee operations**

The Corporation further expanded its activities and introduced new services during the year leading to an increase in guarantee operations by 19.6%. Guarantee contracts totaled approximately US$ 505 million compared to approximately US$

422 million in 2006. Guarantee operations covered 46 export credit guarantee contracts (in addition to 81 addendums which increased the maximum guaranteed amounts of a number of previously signed contracts), totaling approximately US$ 423 million, two investment guarantee contracts totaling US$ 15 million, re-insurance operations totaling US$ 58.6 million, and special accounts operations totaling approximately US$ 8.5 million. Guarantee revenues increased by 53%, totaling approximately US$ 5.9 million. The Corporation paid compensations totaling approximately US$ 106,705, for two export guarantee contracts and around US$ 11,404 were recovered from compensation paid previously.

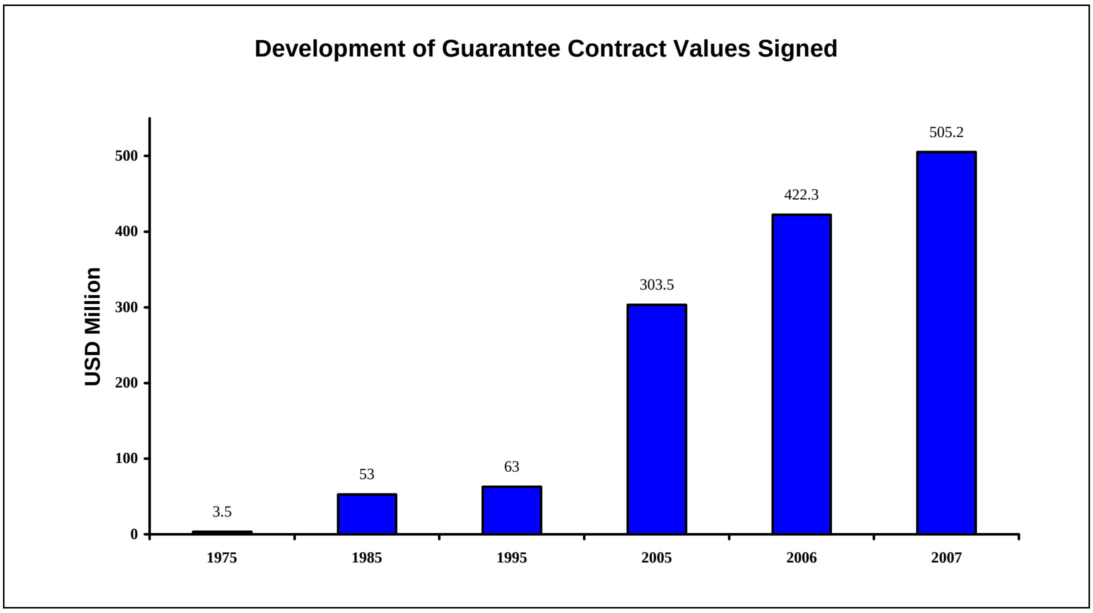
- **Adoption of the new strategic plan for the Corporation (2007-2014)**

A strategic plan was put together by management in February 2006. The aim of the plan is to effect a concrete improvement in the Corporation's strategic position and regional role during the period 2007-14. The plan identifies fundamental prerequisites for its implementation, the first of which is its adoption by the board of directors and the shareholders' council. The board of directors in turn has recommended the presentation of the plan to the shareholders' council by decree (2007-1/3) passed on the 8th of March. The shareholders' council have since adopted the plan unanimously by decree number 4 for the year 2007 dated the 11th of April 2007. Accordingly, the Corporation's management began preparing a action plan for the implementation of the approved strategic plan in three stages; short, medium and long term. It has also taken the initial steps and procedures as stipulated in this action plan.

Chapter Two: Guarantee Operations

2.1 Total Value of Operations:

Total value of guarantee contracts signed during 2007 reached approximately USD 505.2 million (KD 138.2 million)[1], registering a 19.6% increase in comparison to the value of contracts signed during 2006 which totaled USD 422.3 million (KD 122.3 million)[2] (see table 1).



2.1.1 Guarantee Contracts:

Forty-eight contracts were signed during 2007, with a cumulative value totaling approximately USD 438.1 million (KD 119.8 million); of which two of those contracts were investment guarantee totaling approximately USD 15.1 million (KD 4.1 million). Forty-six export credit insurance contracts were also signed (in addition to eighty-one addendums which increased the maximum guaranteed amounts of a number of previously signed contracts), totaling a value of approximately USD 423.0 million (KD 115.7 million).

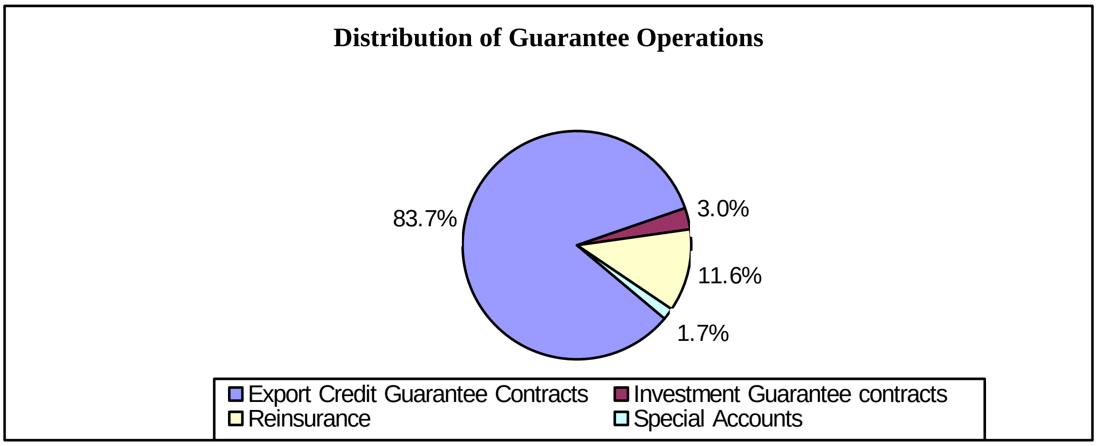
2.1.2 Reinsurance:

The value of transactions attributed to the Corporation through reinsurance agreements totaled approximately USD 58.6 million (KD 16.1 million), which include seven facultative reinsurance treaties, in addition to the Corporation's portion of a quota share treaty signed with a number of Arab national export credit guarantee agencies.

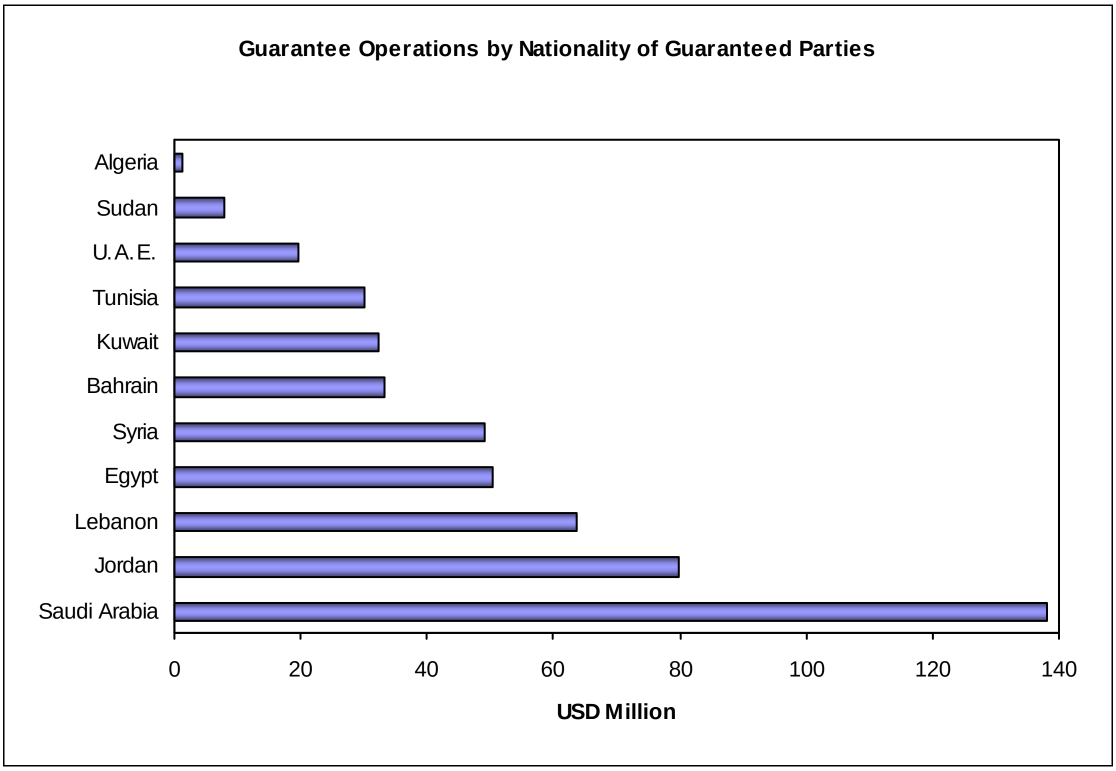
2.1.3 Operations signed within the context of the special accounts:

The total value of these operations totaled approximately USD 8.5 million (KD 2.3 million).

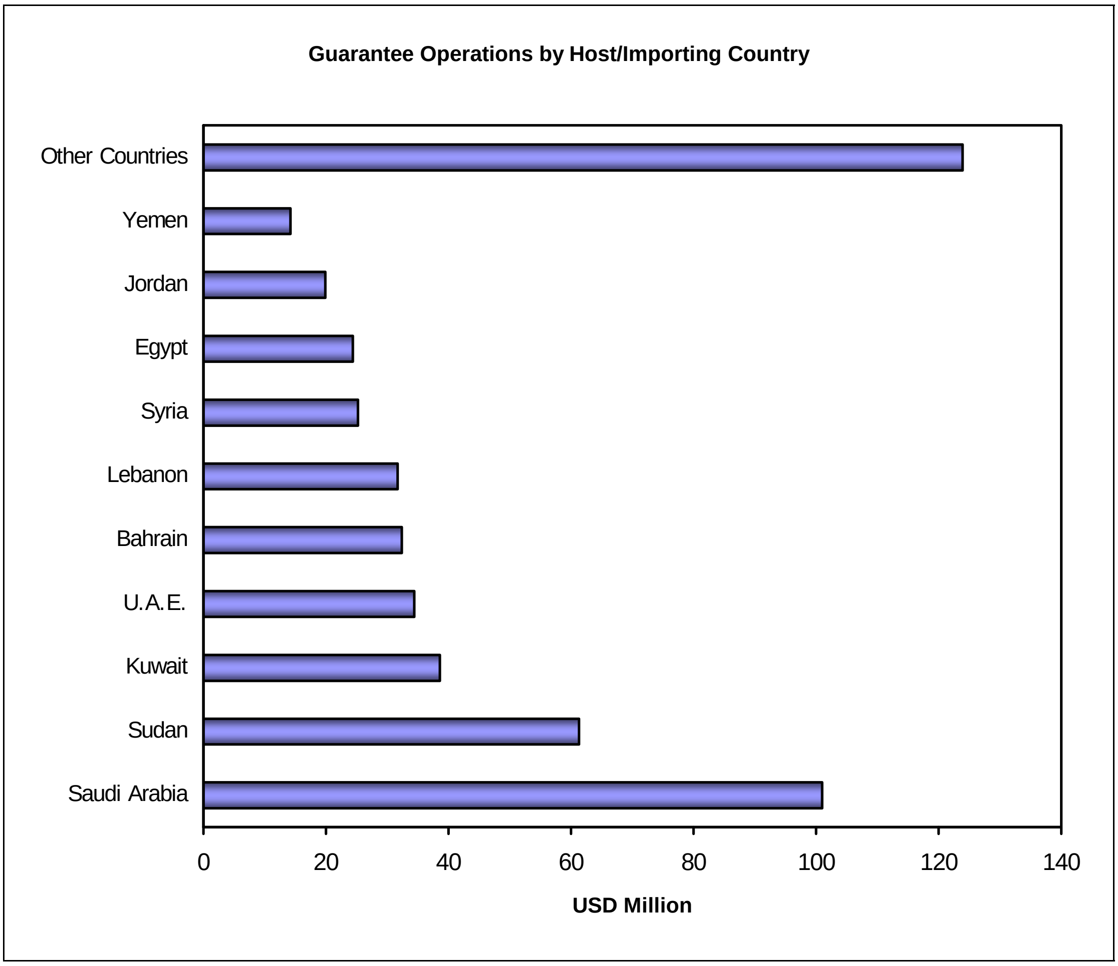
[1] USD 1 = KD 0.2735 as at 31/12/2007
[2] USD 1 = KD 0.28964 as at 31/12/2007



Investors and exporters from eleven Arab countries benefited from the Corporation's guarantee. Leading these countries was Saudi Arabia (27.3%), after which came Jordan (15.8%), Lebanon (12.6%), Egypt (10.0%), Syria (9.7%), Bahrain (6.6%), Kuwait (6.4%), Tunisia (5.9%), the United Arab Emirates (3.9%), Sudan (1.6%), and Algeria (0.2%) (see Table 2).



The number of host countries for investment and importing countries totaled 96, of which 17 are Arab led by Saudi Arabia (20%), Sudan (12.1%), Kuwait (7.3%), the United Arab Emirates (6.8%), Bahrain (6.4%), Lebanon (6.3%), Syria (5%), Egypt (4.8%), Jordan (3.9%), Yemen (2.8%), while 86 other countries accounted for 24.6% of the value of these contracts (see Table 3).



2.2 Details of Guarantee Operations:

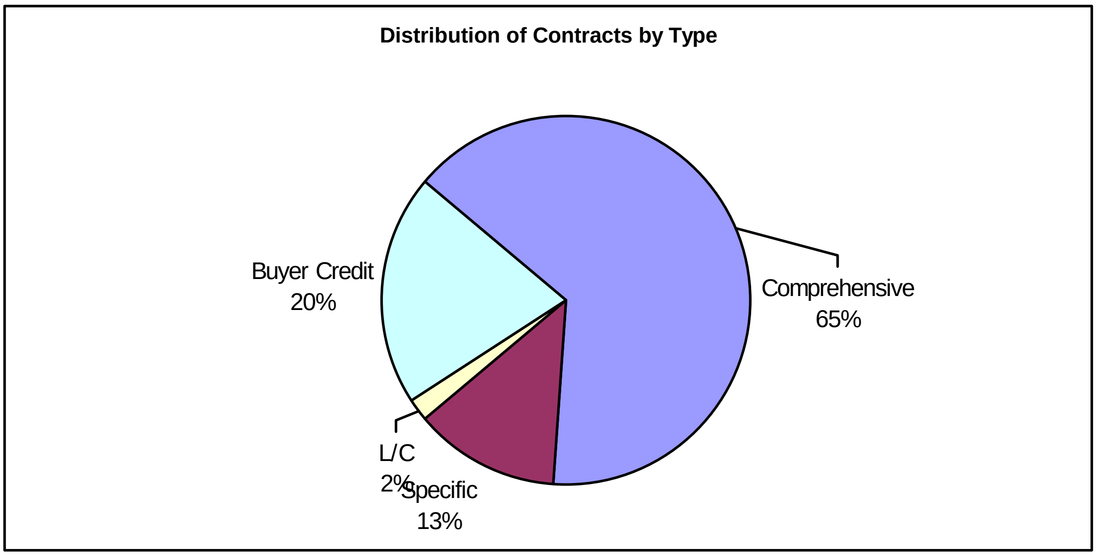
2.2.1 Investment Guarantee Contracts:

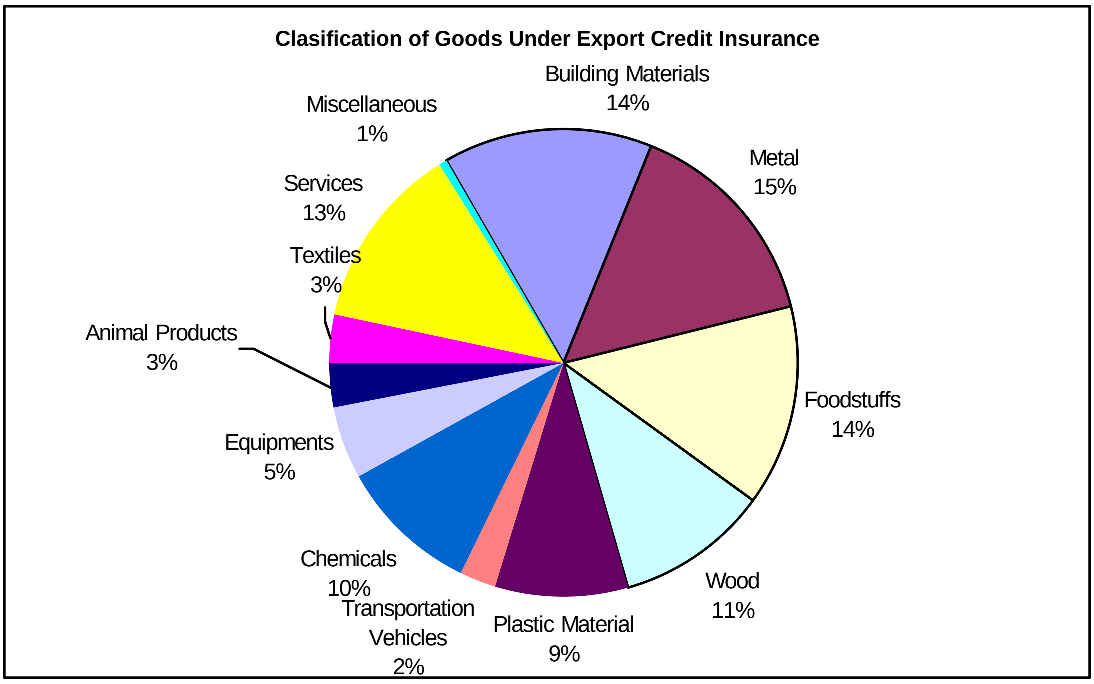
During the year, two investment guarantee contracts were signed, totaling approximately USD 15.1 million (KD 4.1 million), registering a 84.2% decrease in comparison to the value of contracts signed during 2006 which totaled USD 95.7 million.

2.2.2 Export Credit Insurance Contracts:

Forty-six export credit insurance contracts were signed during the year, in addition to eighty-one addendums which raised the maximum limits of previously signed contracts, and which brings the total value of contracts and addendums to approximately USD 423 million (KD 115.7 million). This represents a 69.4% increase in comparison to export credit insurance contracts signed in 2006, which totaled approximately USD 249.7 million.

Taking these contracts into account, the value of approved revolving credit limits totaled approximately USD 178.8 million (KD 48.9 million), which represents the Corporation's maximum commitment at any one point in time for approved importers towards insured parties.





2.3 Value of Current Contracts & Outstanding Commitments:

The value of current guarantee contracts as at 31/12/2007 totaled approximately USD 727.3 million (KD 198.9 million), which represents a 48.2% increase compared to the value of current contracts as at 31/12/2006, distributed between 27% for investment guarantee contracts and 73% for export credit insurance contracts.

The total value of the Corporation's guarantee commitments vis-à-vis the guaranteed parties as at 31/12/2007 reached approximately USD 304 million (KD 83.1 million), representing 41.8% of the total current contracts, in comparison to the total value of the Corporation's commitments as at 31/12/2006 which totaled USD 198 million, constituting a 53.6% increase (see Table 3).

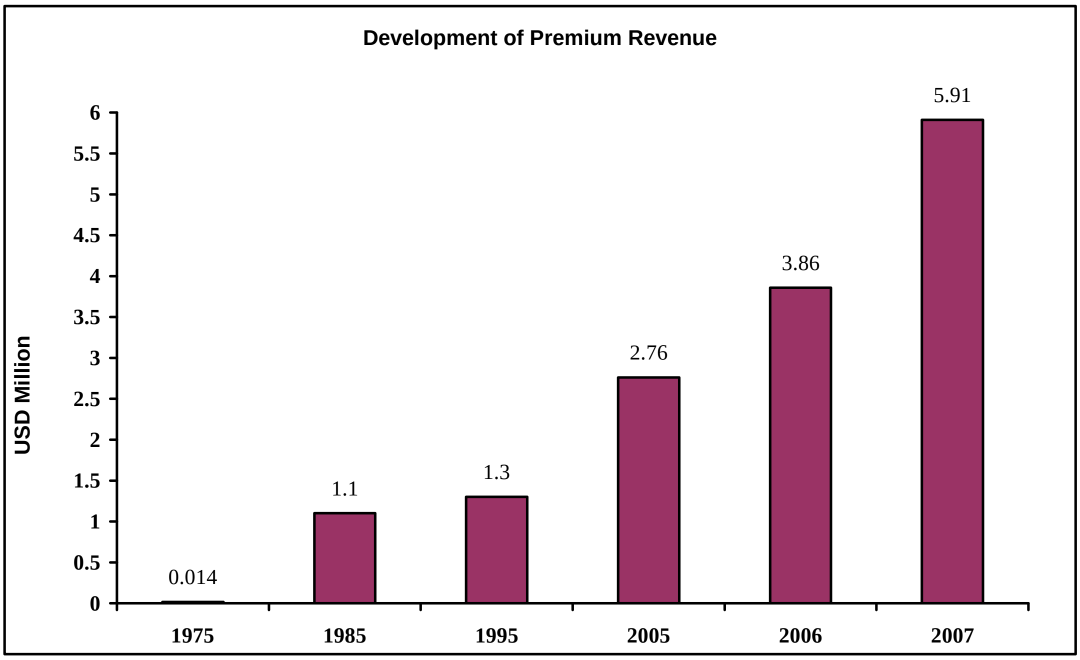
2.4 Results from Guarantee Operations:

Total revenue generated from guarantee operations at the end of the year totaled approximately USD 5.91 million (KD 1.62 million), representing a 53.1% increase on the revenue generated in 2006. The revenue was generated from the following:

a. USD 3.78 million (KD 1.03 million) generated by guarantee premium from contracts signed; 17% of which were from investment guarantee contracts and 83% of which were from export credit insurance contracts.
b. USD 65,000 (KD 17,100) representing the Corporation's share of premiums generated from contracts signed under the special accounts.

The rate of generated premium therefore increased by 71%, compared with the generated premium of 2006.

c. USD 2.06 million (KD 564,000) which represents the Corporation's share of income generated from investing in the resources of the special accounts.



2.5 Compensation & Recovery

During the year, two compensations totaling USD 106,705 were paid to exporters against the realization of commercial risks. Exporters from two Arab countries benefited from the compensations paid. The Corporation also recovered USD 11,404 for compensations paid against commercial losses incurred in one Arab country.

2.6 Reinsurance

During the year, inward quota share reinsurance treaties signed with four Arab national export credit insurance agencies were renewed, whereby the value of operations reinsured by the Corporation totaled approximately USD 58.5 million (KD 16 million), details of which can be found in section 2.1.2 above.

Furthermore, the Corporation renewed an existing quota share reinsurance treaty signed with a global reinsurance company.

2.7 Marketing Guarantee Services:
The Corporation continued to develop its introductory literature in the Arabic, English and French languages, while continuing its efforts in marketing its guarantee services through several marketing means, such as the advertisement of its insurance services in publications and specialized Arabic magazines.

The Corporation organized in February, in association with the Multilateral Investment Guarantee Agency (MIGA) and the Kuwait Chamber of Commerce and Industry, a conference revolving around cross-border investment guarantee. In May, the Corporation also organized in cooperation with The Arab Investment Company and the Commercial Bank of Syria a meeting revolving around guarantee mechanisms and investment and export finance in the Syrian Arab Republic.

On another note, the Corporation organized a specialized conference entitled “Cross-Border Factoring” during December 2007 in the State of Kuwait, during which it presented a collection of working papers, while a discussion took place about the experience of leading international companies in cross-border factoring and its relationship with export credit.

2.8 Relationship with Guarantee Agencies:
The Corporation organised the Eleventh Annual Meeting for Arab guarantee agencies during the month of December 2007 in the State of Kuwait. Eleven guarantee agencies participated, as well as a number of international companies specializing in the topics which were pertinent to the Meeting. During the Meeting, six sessions took place, focusing on three main topics: Firstly, the drawbacks and disadvantages faced by guarantee agencies while displaying the results of a study comparing the performance of the participating Agencies. Second, credit information and the relationship of information companies with guarantee agencies. Third, the proposed establishment of a union of Arab guarantee agencies.

The Corporation also organized and took part in several workshops with a number of Arab national export credit insurance agencies, for the purpose of corroborating the existing cooperation and widening its avenues to realize the joint objectives for servicing Arab trade. And in the context of providing expertise and technical support to Arab guarantee agencies, the Corporation organized a training seminar for two employees of an Arab national export insurance agency.

Chapter Three: Complementary Activities & Support Services

3.1 Publications and Introductory Papers

In the context of its sought to disseminate information and raise investment awareness in Arab countries, the Arab Investment and Export Credit Guarantee Corp. AIECGC pursued its ancillary activities including; publications, introductory papers, specialized conferences and seminars as follows:

3.1.1 “Investment Climate in Arab Countries”:

- The annual report “**Investment Climate in the Arab Countries 2006”,** was issued during the year 2007, covering political and economic key components of investment climate, inter-Arab direct investments, FDI legislations, country promotional activities and international ranking of Arab countries in a number of international indices. The main theme of the report was” **Tourism performance and its Impact on foreign direct investments in Arab countries**”. The report also included a new addition "FDI at a Glance” focusing on foreign direct investment performance in each Arab country. Around 2000 copies were distributed to concerned parties in member countries, regional organizations, Arab investors and businessmen, Arab media and research centers. The report was also made available on the AIECGC’s website www.dhaman.org.

3.1.2 "Daman Al-Istithmar":

- Four quarterly issues of **"Daman Al-Istithmar"** bulletin were issued during 2007, covering; key topics related to guarantee industry international trade and investment, a number of significant related studies, the AIECGC new strategy (2007-2014), in addition to regular items including; the Shareholders' Council annual meetings, the Board of Directors periodical meetings, the AIECGC’s activities, regional FDI trends, and a number of international indices reflecting Arab countries’ performance.

- As many as 15000 copies were distributed to government and private concerned parties, banking and investment institutions, research centers and other interested individuals, throughout the year. The bulletin was also made available on the AIECGC’s website www.dhaman.org.

3.1.3 Studies and Introductory Papers:

Nine introductory papers and one proposed training program were prepared by AIECGC during the year, including:

- **"Cross-border Investment Guarantee Mechanism”** presented during an introductory seminar co-organized in Kuwait by the Multilateral Investment Guarantee Agency **(MIGA)**, and Kuwait Chamber of Commerce and Industry, Feb. 2007.

- **“FDI Promotion Techniques and Methods”** and **a proposed training program** were presented during the IAIGC’s experts visit to Libya, 20-21 Feb. 2007.

- **“**AIECGC**’s Services and the Significance of Investment Guarantee to Economic Development”** presented during **Exploring Yemen’s Investment Opportunities Conference**, organized in Sana’a, by Yemen Chamber of Industry and Commerce, 22-23 Apr. 2007.

- **“Investment in Arab Countries: Incentives and Prospective”** presented during the 39th. Meeting of the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, organized in Abu Dhabi, 2-3 May. 2007.

- “**Tunisian Economy Profile and Recent Economic Developments**” presented during the **Collaboration Mechanisms among Arab Guarantee Agencies**, **Moroccan Banks, Financial and Export Institutions Conference**, co-organized in Tunis by Tunisian Foreign Trade Insurance Company, and Tunisian Banks’ Association, 26 Jun. 2007.

- **“Investment Economies - Theories and Tools of Determinants”**, published in Nov. 2007 issue of the Monthly series issued by the Arab Planning Institute in Kuwait.

- **“Investment Climate and Doing Business in Egypt and Arab Countries”** presented during the **2nd. Cairo Investment Conference**, co-organized in Cairo by the Ministry of Investment, General Authority for Investment & Free Zones, and Al-Iktissad Wal-Aamal Group, 9-10 Dec. 2007.

- **“**AIECGC**’s Role in Fostering Arab Economic Collaboration”** presented during the **11th. Conference for Arab Business Society**, co-organized in Syria by the Arab Businessmen Union and the Syrian Business Men and Women Community, 14-16 Dec. 2007.

- **“Practical Proposals for Enhancing Inter Arab Direct Investments Flows”** to be presented during **the Ministerial Meeting** that will be organized in Cairo by the Arab League, 9-10 Jan. 2008.

3.2 Investment Promotion

In the context of AIECGC’s activities of investment promotion:

- Arab Guarantee Organizations were posted on the Arabic version co-launching of MIGA’s electronic FDI Promotion Centre, by the AIECGC and MIGA, during WAIPA’s 2nd. Regional Conference, held November 2006.

- Two conferences on the **“Investment and Exports Credit Insurance and Finance Mechanisms”** were held in Damascus and Aleppo, 14-16 May. 2007, during which a presentation on AIECGC’s guarantee services was delivered.

- A presentation on inter Arab investments guarantee services and privileges of the guarantee system adopted by the AIECGC, was delivered during **Syria Business Conference,** held in Kuwait Jun. 2007.

- On behalf of the assistant secretary general of the UNCTAD, the AIECGC organized a press conference launching the **World Investment Report 2007**, 22 October 2007. The conference was attended by reporters representing local and Arab daily newspapers, news agencies and T.V. stations. A press kit, covering the world FDI developments, and Arab countries’ share of world FDI flows, was distributed during the conference.

- An introductory paper on **“**AIECGC**’s Role in Fostering Arab Collaboration”** was delivered during the 11th. Conference for Arab Business Society, co-organized in Syria by the Arab Businessmen Union and the Syrian Business Men and Women Community, 14-16 Dec. 2007.

3.3 Conferences and Seminars:

The IAIGC took part in (16) conferences and meetings organized by international, regional and Arab organizations. AIECGC’s participation aimed at; introducing and marketing its various insurance services, fostering established collaboration with Arab and international agencies, enhancing mutual technical support, discussing exports insurance issues and updates of inter Arab trade finance, exchanging expertise and knowledge, exploring prospects of inter Arab investments and promoting FDI opportunities.

4.3 Cooperation with Regional and International Agencies:

IAIGC‘s co-operation with regional and international agencies included:

- An introductory seminar on the **"Cross-border Investment Guarantee Mechanism”** co-organized by the AIECGC, Multilateral Investment Guarantee Agency **(MIGA)**, and Kuwait Chamber of Commerce and Industry, held in Kuwait, Feb. 2007.

- A conference on the **“Investment and Exports Credit Insurance and Finance Mechanisms”** co-organized in Syria by the AIECGC, Arab Investment Company, Banking Unit in Bahrain, the Federation of Syrian Chambers of Commerce, Damascus Chamber of Commerce, Aleppo Chamber of Commerce and the Commercial Bank of Syria, 14-16 May. 2007.

- A conference on the “**Collaboration Mechanisms among Arab Guarantee Agencies**, **Moroccan Financial and Export Institutions”** co-organized in Tunis by Tunisian Foreign Trade Insurance Company, and Tunisian Bank Society, Jun. 2007.

- IAIGC took part in the following conferences:

- The "**5th. Conference for Guarantee Agencies in Member Countries of the Islamic Corporation for the Insurance of Investment and Export Credit"** held in Jeddah, 30-31 Jan. 2007.

- The "**Prague Club Conference for Guarantee Agencies in Member Countries"** held in Belgrade, Jun. 2007.

- IAIGC organized:

- The **"11th. Conference for Arab Guarantee Agencies in Member Countries",,** held in Kuwait, 4-5 Dec. 2007. Arab Guarantee Agencies, a number of international corporations and banks including COFAC, foreign commercial information companies and Arab factoring companies took part in the conference. Commercial information and factoring were the two main topics tackled.

3.5 Development of Human Resources:

In order to cope with the speeding-up developments, the AIECGC continued enhancement of staff technical abilities. A number of IAIGC staff attended during the year three technical training courses, a seminar and an international conference, as follows:

- A training course on "**Corporate Certified Evaluation Analyst**", organized by Kuwait Economic Society, 27 Jan. – 4 Feb. 2007, attended by one staff member from the Operations Department.

- A training course on "**Enhancing Legal Abilities and Skills**", organized in Dubai by Al-Mawred Centre for Legal and Administrative Training, 22 – 26 Apr. 2007, attended by one staff member from the Legal Department.

- An international conference on **"Arbitration in Trade and Investment Disputes - Arbitration Role in Promoting Investment and Enhancing International Trade Relations"** organized in Cairo, 6 – 7. May. 2007, attended by one staff member from the Legal Department.

- A seminar on "**Beam Global Fixed Income**" organized in Germany, 24 – 30 Jun. 2007, attended by one staff member from the Financial Investment Department.

- A training course on "**IFRS Update Training**" organized in Kuwait by (KPMG), 5 – 6 Dec. 2007, attended by the Head of Internal Audit Unit.

3.6 Information Technology

Part of AIECGC plan of upgrading and developing the IT infrastructure, the year saw the completion of the following tasks in the areas of:

3.6.1 Applications & Development

- Development life cycle of the Payroll System was completed utilizing Oracle technologies and oracle Database; and the implementation of the system took place in March 15, 2007 after the completion of the testing phase successfully and being approved by higher management.

- The completion of development phase of the human resources management system (eHR), and self services (eSelf-Services) using Oracle technology, in addition to the completion of the preliminary testing phase, and currently the system is being evaluated for implementation by the Personnel and Administrative Services Section.

- Currently working on the integration between the Human Resources Management System (eHR) with the Accounting Ledger System (CSH), to generate automatic Journal Vouchers reflecting different transactions performed in the (eHR) system, which saves time and effort, in addition to reduce possibility of mistakes.

- The completion of development phase of a Legal Case Management system (CMS) using Oracle technology, and currently the system is in the testing phase.

- Continues upgrades to both Portfolio Management System (PMS) and Accounting Ledger system (CSH), which enhances and improves the efficiency and performance of both systems.

- Follow up and support of previously implemented systems, Portfolio Management System (PMS), Accounting Ledger System (CSH), Payroll System, and Health insurance system (eHealth).

3.6.2 Infrastructure:

- ❖ Introducing electronic fax services for both the Personnel & Administrative Affairs and the Research & Studies Sections. This will save time and reduce the effort. IT section is working to introduce this service to the rest of AIECGC departments.

- ❖ As part of a failover strategy a redundant standby machine with fax server capabilities was provided to ensure Fax server availability.

- ❖ Internet, on line communications with AIECGC clients and among AIECGC staff, is made available around the clock (24/7).

- ❖ Backup strategy is improved allowing data restoration for last 31 days. In addition to the monthly backup kept outside the AIECGC premises for emergencies.

- ❖ The Acronis Software is utilized to create images of all the servers; that can be used to rebuild servers in case of disaster. Acronis is also used to build new personal PCs.

- ❖ Continuation of the restore testing of the backup tapes to confirm the backup process and restore is done correctly.

- ❖ A test on Windows Vista is still under way to ensure compatibility with all application used at AIECGC in preparations of future implementation.

- ❖ Conducted several checks through the year to ensure that servers and user PC's had the latest versions of the operating system and antivirus engines as well as all other software used @ AIECGC.
- ❖ Several new computers was purchased as replacements for old systems as needed.

3.6.3 IAIGC New Website

Work on the AIECGC new website has been completed, and all content of the site has been reviewed and audited and the Site was launched on January 15, 2008 to replace the old site that was in place. The new site has many goals and features as follows:

- ❖ It serves as an information tool by providing an updated summary of AIECGC mission, vision and history, in addition to its organization structure and the guarantee products and services that AIECGC offers as well as the complementary activities like studies and research it conducts.

- ❖ It serves as a marketing tool by offering a detailed description about the many products and services that AIECGC offers (Types of risk covered, the terms of guarantees, the text of the guarantee contracts, and the procedure for the guarantee).

- ❖ It serves as a tool to promote and exchange the knowledge on the guarantee business in the world by providing in the site published research and papers in this field as well as related links to similar organization in the region and around the world.

- ❖ It serves as a portal for AIECGC clients, to securely access their private information around the clock (24/7).

- ❖ The new website has many advanced features including a speed search engine for fast access of information.

- ❖ The user can subscribe an electronic version of the many publication published by AIECGC.

- ❖ AIECGC welcomes inquires through the query mini form available on many pages without having to leave the page browsed.

- ❖ AIECGC's news, activities and other announcements are also made available on the new website.

3.6.4 Helpdesk support and Training

- ❖ Mutual meetings with counterparts at similar organizations continue for the purpose of exchanging knowledge and practical experiences.

- Archiving and indexing all types of AIECGC documents continues, to fully utilize the AIECGC document management system.
- Two In-House training sessions were conducted, for the CSH accounting system and the Payroll system.
- Helpdesk support for all hardware and software is in process.

4.6 Media Activities:

- Two press releases were issued by the AIECGC, covering the launching of UNCTAD's **World Investment Report 2007,** and the 11^{th}. Conference for Arab Guarantee Agencies.

- A total of (70) news items were detected on the AIECGC's activities throughout the year, in a number of local and regional newspapers and T.V. stations.

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

Independent auditor's report

Report on the financial statements

We have audited the accompanying financial statements of The Inter-Arab Investment Guarantee Corporation ("the Corporation"), which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in members' equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Corporation as at and for the year ended 31 December 2006 prior to the restatement, were audited by another auditor whose report dated 8 March 2007 expressed an unqualified opinion on these statements.

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 2007, 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 2007 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: 28 February 2008

The Inter-Arab Investment Guarantee Corporation
An Arab Corporation with a special independent legal status
Financial statements and independent auditor's report
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An Arab Corporation with a special independent legal status

Balance sheet
as at 31 December 2007

	Note	2007 KD	2006 KD (restated)
Assets			
Cash on hand and at banks	*5*	19,088,166	20,765,195
Investments at fair value through profit or loss	*6*	17,392,836	23,559,511
Available-for-sale investments	*7*	43,179,209	29,523,963
Investment in Arab Trade Finance Program	*8*	365,731	365,731
Receivable from member state	*9*	20,507,930	21,718,160
Recoverable claims	*10*	1,773,681	1,762,433
Accrued interest	*11*	761,280	460,376
Due from insurance and reinsurance companies	*12*	2,787,709	2,787,709
Accounts receivable and other assets	*13*	4,133,409	897,844
Claim from member state	*14*	18,968	18,968
Property and equipment	*15*	1,758,858	1,826,506
Total assets		111,767,777	103,686,396
Liabilities and members' equity			
Liabilities			
Accounts payable and other liabilities	*16*	541,411	942,870
Obligations under finance lease	*17*	2,124,109	2,153,015
Due to insurance and reinsurance companies	*12*	5,568,851	5,568,851
Employee savings and end of service benefits	*18*	1,613,968	1,258,309
Total liabilities		9,848,339	9,923,045
Members' equity			
Paid up capital	*19*	54,006,827	47,977,827
General reserve	*19*	47,099,291	43,295,588
Change in fair value reserve		813,320	2,489,936
Total members' equity		101,919,438	93,763,351
Total liabilities and members' equity		111,767,777	103,686,396

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

The Inter-Arab Investment Guarantee Corporation
An Arab Corporation with a special independent legal status

Statement of income
for the year ended 31 December 2007

	Note	2007 KD	2006 KD
Income			
Gross guarantee premiums		1,049,945	661,163
Guarantee premiums ceded to reinsurers		(53,889)	(47,969)
Net guarantee premiums earned		996,056	613,194
Expenses and other commission		(18,141)	(77,699)
Net guarantee results		977,915	535,495
Commission income		563,994	456,567
		1,541,909	992,062
Bank interest		1,260,220	316,152
Interest on bonds		694,637	323,304
Investment income	*20*	2,991,154	4,855,425
Foreign exchange loss		(21,767)	(711,380)
Other income		7,164	6,818
Net operating income		6,473,317	5,782,381
Expenses			
First Chapter - Salaries, wages and bonuses		1,399,526	1,214,798
Second Chapter - General and administrative expenses		744,883	701,343
Third Chapter - Capital expenditures		87,300	52,837
Fourth Chapter - Provisions and others		65,548	89,832
Total expenses		2,297,257	2,058,810
Net profit for the year		4,176,060	3,723,571

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

The Inter-Arab Investment Guarantee Corporation
An Arab Corporation with a special independent legal status

Statement of changes in members' equity
for the year ended 31 December 2007

	Paid up capital KD	General reserve KD (restated)	Change in fair value reserve KD	Retained earnings KD	Total KD (restated)
Balance at 1 January 2006	42,073,827	41,575,051	3,328,241	-	86,977,119
Changes in members' equity for the year ended 31 December 2006					
Available-for sale-investments:					
Changes in fair values of available-for-sale investments	-	-	1,783,687	-	1,783,687
Transferred to profit and loss on sale	-	-	(2,621,992)	-	(2,621,992)
Net loss recognised directly in equity	-	-	(838,305)	-	(838,305)
Net profit for the year	-	-	-	3,723,571	3,723,571
Total recognised income and expense for the year	-	-	(838,305)	3,723,571	2,885,266
Additional capital introduced during the year	5,904,000	-	-	-	5,904,000
Transfer to general reserve	-	3,723,571	-	(3,723,571)	-
Balance at 31 December 2006 as previously reported	47,977,827	45,298,622	2,489,936	-	95,766,385
Effect of prior year's adjustment (note 29)	-	(2,003,034)	-	-	(2,003,034)
Restated balance at 31 December 2006	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)
Total income 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 (note 21)	-	-	-	(372,357)	(372,357)
Transfer to general reserve	-	3,803,703	-	(3,803,703)	-
Balance at 31 December 2007	54,006,827	47,099,291	813,320	-	101,919,438

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

The Inter-Arab Investment Guarantee Corporation
An Arab Corporation with a special independent legal status

Statement of cash flows
for the year ended 31 December 2007

	Note	2007 KD	2006 KD
Cash flows from operating activities:			
Net profit for the year		4,176,060	3,723,571
Adjustments for:			
Depreciation		67,648	52,863
Investment income		(2,991,154)	(4,855,425)
Interest income		(1,954,857)	(639,456)
Finance lease charges		150,711	108,341
		(551,592)	(1,610,106)
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		6,523,828	1,063,836
Receivable from member state		1,210,230	13,669,452
Recoverable claims		(11,248)	(1,362,006)
Due from insurance and reinsurance companies		-	1,673,628
Accounts receivable, accrued interest and other assets		(3,536,469)	(355,777)
Accounts payable and other liabilities		(401,459)	414,567
Due to insurance and reinsurance companies		-	(2,056,229)
Employees' savings and end of service benefits		355,659	(15,917)
Cash flow from operations		3,588,949	11,421,448
Dividends received		213,255	257,235
Interest received		1,954,857	639,456
Payment to support the people of Palestine	*21*	(247,357)	-
Net cash flows generated from operating activities		5,509,704	12,318,139
Cash flows from investing activities:			
Purchase of available-for-sale investments		(33,470,040)	(17,823,317)
Proceeds from sale of available-for-sale investments		20,558,924	19,685,728
Term deposits		(10,000,000)	-
Net cash flows (used in)/ generated from investing activities		(22,911,116)	1,862,411
Cash flows from financing activities:			
Payment of finance lease obligations		(179,617)	(127,550)
Proceeds from settlement of paid up capital		5,904,000	5,904,000
Net cash flows generated from financing activities		5,724,383	5,776,450
Net (decrease) / increase in cash on hand and at banks		(11,677,029)	19,957,000
Cash on hand and at banks at beginning of the year		20,765,195	808,195
Cash on hand and at banks at end of the year	*5*	9,088,166	20,765,195

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

1. Status and activities

The Inter-Arab Investment Guarantee Corporation ("the 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 28 February 2008. 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 judgements 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, except for changes resulting from amendments to IFRSs. The changes to the Corporation's accounting policies and their effect on the financial statements are described below:

The Corporation has adopted all applicable revisions to IFRSs and new IFRSs that came into effect from 1 January 2007.

In preparing these financial statements, the Corporation has adopted IFRS 7 (*Financial Instruments: Disclosures)* and IAS 1 (*Presentation of Financial Statements: - Capital Disclosures)*, effective for annual periods beginning on or after 1 January 2007. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Corporation. In accordance with the transitional requirements of the standards, the Corporation has provided full comparative information.

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 are 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-commercial 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:

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

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 amortised 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 is 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 2007, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Corporation's 2009 financial statements, will require the disclosure of segment information based on the components of the entity that management monitors in making decisions about operating matters.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 which becomes mandatory for the Corporation's 2009 financial statements, is not expected to have any effect on the financial statements.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Corporation's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Corporation's 2008 financial statements, is not expected to have any effect on the financial statements.

- IFRIC 13 *Customer Loyalty Programs* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Corporation's 2009 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Corporation's 2008 financial statements, with retrospective application required. The Corporation has not yet determined the potential effect of the interpretation.

- Revised IAS 1 *Presentation of Financial Statements* which becomes mandatory for the Corporation's 2009 financial statements, requires additional disclosures. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income.

- Revised IFRS 3 *Business Combinations* which is effective for annual periods beginning on or after 1 July 2009, is not expected to have any effect on the financial statements.

- Revised IAS 27 *Consolidated and Separate Financial Statements*. The amendments in IAS 27 which are effective for annual periods beginning on or after 1 July 2009, are not expected to have any effect on the financial statements.

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.

5. Cash on hand and at banks

	2007 KD	2006 KD
Cash on hand and at banks	1,746,867	3,205,076
Deposits with banks	17,341,299	17,560,119
	19,088,166	20,765,195
Deposits maturing over three months	(10,000,000)	-
	9,088,166	20,765,195

The effective interest rate on deposits was 6.875% (2006: 5.2%).

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

	2007 KD	2006 KD
Bonds	11,110,382	5,195,329
Managed funds	32,068,827	24,328,634
	43,179,209	29,523,963

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

Fair value of unquoted available-for-sale investments, with a carrying value of KD 1,641,000 (2006: KD 1,737,840) cannot be reliably determined. Therefore, these investments are carried at cost less any impairment losses. There is no active market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

Interest-bearing available-for-sale investments, with a carrying value of KD 11,110,382 as at 31 December 2007 (2006: KD 5,195,329) have stated interest rates that range between 4% to 9.7% (2006: 4% to 9.7%) and mature in 1 to 23 years.

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% (2006: 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 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 USD 46 million which was received during 2006.

The movement on the receivable from member state is as follows:

	2007 U.S.$	**2006 U.S.$**
Opening Balance	74,983,290	120,983,290
Paid during the year	-	(46,000,000)
Balance as at 31 December	74,983,290	74,983,290
Equivalent in KD	20,507,930	21,718,160

The first two installments were due on 31 December 2006 and 31 December 2007 respectively, but not received yet. The Corporation's management pursued the Member State for payment in accordance with the agreement. None of these dues was received up to the reporting date. Whilst, the member state is still experiencing difficult political and economic conditions, 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

	2007 KD	**2006 (restated) KD**
Balance at beginning of the year	3,765,467	2,403,461
Net claims paid during the year	30,865	1,520,470
Claims recovered during the year	(3,283)	(136,265)
Foreign currency exchange differences	(16,334)	(22,199)
	3,776,715	3,765,467
Provision for impairment	(2,003,034)	(2,003,034)
Balance at end of the year	1,773,681	1,762,433

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 (note 29).

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

11. Accrued interest

	2007 KD	2006 KD
Balance at beginning of the year	622,388	503,390
Interest accrued during the year	484,159	118,998
Balance at end of the year	1,106,547	622,388
Less: interest suspended	(345,267)	(162,012)
	761,280	460,376

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

	2007 KD	2006 KD
Accrued income from forward contract	3,020,984	-
Commission income	561,530	458,402
Receivables from staff	332,792	314,144
Guarantee premiums receivable	166,587	64,662
Other debit balances	51,516	60,636
	4,133,409	897,844

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 represent 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).

16. Accounts payable and other liabilities

	2007 KD	2006 KD
Due to reinsurance companies	10,014	413,696
Accrued staff leave	161,985	124,886
Other liabilities	369,412	404,288
	541,411	942,870

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:

	2007 KD	2006 KD
Less than one year	179,617	179,617
From one to five years	898,085	898,085
More than five years	3,592,340	3,771,957
Due to Arab Fund for Economic And Social Development	4,670,042	4,849,659
Less: finance charges allocated to future periods	(2,545,933)	(2,696,644)
	2,124,109	2,153,015

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:

a) End of service indemnity under the Corporation's by-laws;

b) An amount deducted from the employees at a rate of 7% of the monthly salary;

c) 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

a) 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:

	Authorised and Issued		*Paid*	
	2007 KD	**2006 KD**	**2007 KD**	**2006 KD**
A) Member States:				
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
People's 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	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 People's 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	1,000,000	1,000,000	1,000,000	1,000,000
	26,101,667	26,101,667	25,726,667	25,601,667
B) Arab Financial Authorities:				
Arab Fund for Economic and Social Development	15,202,800	15,202,800	15,202,800	12,162,240
Arab Monetary Fund	8,118,000	8,118,000	8,118,000	6,494,400
BADEA	5,106,960	5,106,960	4,085,568	3,064,176
Arab Authority for Agricultural Investment and Development	1,092,240	1,092,240	873,792	655,344
	55,621,667	55,621,667	54,006,827	47,977,827

The payment towards share capital for the State of Palestine is postponed based on the Shareholders Council's resolution no. 4 of 1981. The Shareholders approved a contribution of 25% of issued capital amounting to KD 125,000 towards payment of unpaid capital (note 21).

20. Investment income

	2007 KD	2006 KD
Realised gains on investments held for trading	738,527	-
Unrealised (losses)/gains on investments held for trading	(381,374)	2,076,082
Net gains on investments at fair value through profit or loss	357,153	2,076,082
Realised gains on sale of available-for-sale investments	2,420,746	2,522,108
Dividends from funds	195,399	245,213
Dividends from Arab Trade Finance Program	17,856	12,022
	2,991,154	4,855,425

21. Contribution to support the people of Palestine

In accordance with the Shareholders Council resolution no. 3 of 2007, 10% of the net profit for 2006 amounting to KD 372,357 was transferred as a contribution to support the people of Palestine. The Shareholders decided to make this contribution partially towards unpaid capital of the State of Palestine amounting to KD 125,000, which represent 25% of the member state's share capital of KD 500,000 and the balance amounting to KD 247,357 to be paid in coordination with Al-Aqsa fund.

22. Commitments and contingent liabilities

a) The underlying value of written guarantee contracts as at 31 December 2007 amounted to KD 83,152,991 (2006: KD 57,362,699). At the balance sheet date, the written guarantee contracts reinsured against commercial and non-commercial risks amounted to KD 2,068,788 (2006: KD 2,049,352).

b) Due from insurance and reinsurance companies includes an amount of KD 1,167,195 (2006: KD 1,167,195) that has been blocked by one of the Arab banks. The Bank, together with an Arab exporter, filed a claim on the Corporation of U.S. Dollar 1,040,000 (equivalent to KD 284,440 at the rate of exchange prevailing at 31 December 2007 (2006: KD 301,226). The claimed amount plus interest at 21% from the date the amount became payable until payment is made has been awarded to the claimants; accordingly, the Bank may possibly recover this claim from the blocked amount. The Corporation has challenged the validity of this case's arbitration proceedings and the matter is still pending before the court.

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

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 563,994 were received for management of fiduciary assets in favour of one member state (2006: KD 456,567) (Note 28). 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).

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 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	19,088,166	-	19,088,166
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	4,133,409	-	4,133,409
Claim from member state	18,968	-	18,968
Total assets	110,008,919	11,489,568	98,519,351

31 December 2006 (restated)	Total carrying value KD	Past due but not impaired KD	Neither past due nor impaired KD
Financial assets			
Cash on hand and at banks	20,765,195	-	20,765,195
Investments at fair value through profit or loss	23,559,511	-	23,559,511
Available-for-sale investments	29,523,963	-	29,523,963
Investment in Arab Trade Finance Program	365,731	-	365,731
Receivable from member state	21,718,160	4,607,690	17,110,470
Recoverable claims	1,762,433	-	1,762,433
Accrued interest	460,376	-	460,376
Due from insurance and reinsurance companies	2,787,709	2,787,709	-
Accounts receivable and other assets	897,844	-	897,844
Claim from member state	18,968	-	18,968
Total assets	101,859,890	7,395,399	94,464,491

Management does not hold any collateral for investment and reinsurance contracts as at 31 December 2007.

	Maximum exposure 2007 KD	Maximum exposure 2006 (restated) KD
Cash on hand and at banks	19,088,166	20,765,195
Investments at fair value through profit or loss	17,392,836	23,559,511
Available-for-sale investments	43,179,209	29,523,963
Investments in Arab Trade Finance Program	365,731	365,731
Receivable from member state	20,507,930	21,718,160
Recoverable claims	1,773,681	1,762,433
Accrued interest	761,280	460,376
Due from insurance and reinsurance companies	2,787,709	2,787,709
Accounts receivable and other assets	4,133,409	897,844
Claim from member state	18,968	18,968
	110,008,919	101,859,890

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	
	2007	2006 (restated)	2007	2006
	KD	KD	KD	KD
Concentration by geographic location				
Kuwait	700,903	589,798	7,981,780	9,313,732
Other Middle East countries and Africa	26,261,090	27,055,692	5,276,260	5,561,060
Europe	-	-	13,130,066	23,559,511
North America	3,020,984	-	34,549,670	15,014,902
	29,982,977	27,645,490	60,937,776	53,449,205

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.

The maturity profile at 31 December 2007 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	19,088,166	19,088,166	-	-
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	4,133,409	3,809,093	324,316	-
Claim from member state	18,968	-	-	18,968
Property and equipment	1,758,858	-	-	1,758,858
Total assets	111,767,777	31,599,118	73,463,712	6,704,947
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	111,767,777	269,577	1,349,536	110,148,664

The maturity profile at 31 December 2006 (restated) 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	20,765,195	20,765,195	-	-
Investments at fair value through profit or loss	23,559,511	-	23,559,511	-
Available-for-sale investments	29,523,963	-	29,523,963	-
Investments in Arab trade finance program	365,731	-	-	365,731
Receivable from member state	21,718,160	4,607,690	17,110,470	-
Recoverable claims	1,762,433	-	-	1,762,433
Accrued interest	460,376	-	460,376	-
Due from insurance and reinsurance companies	2,787,709	-	-	2,787,709
Accounts receivable and other assets	897,844	-	601,438	296,406
Claim from member state	18,968	-	-	18,968
Property and equipment	1,826,506	-	-	1,826,506
Total assets	103,686,396	25,372,885	71,255,758	7,057,753
Liabilities and members' equity				
Accounts payable and other liabilities	942,870	413,696	529,174	-
Obligations under finance lease	2,153,015	179,617	898,085	1,075,313
Due to insurance and reinsurance companies	5,568,851	-	-	5,568,851
Employee savings and end of service benefits	1,258,309	-	-	1,258,309
Members' equity	93,763,351	-	-	93,763,351
Total liabilities and members' equity	103,686,396	593,313	1,427,259	101,665,824

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.

25. Financial risk management (continued)

d) Market risks (continued)

Interest rate risk (continued)	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	19,088,166	19,086,876	-	1,290	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	4,133,409	-	-	4,133,409	
Claim from member state	18,968	-	-	18,968	
Property and equipment	1,758,858	-	-	1,758,858	
Total assets	111,767,777	19,086,876	11,110,387	81,570,514	
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	111,767,777	-	-	111,767,777	

25. Financial risk management (continued)

d) Market risks (continued)

Interest rate risk (continued)	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 2006 (restated)					
Assets					
Cash on hand and at banks	20,765,195	20,765,195	-	-	5.2%
Investments at fair value through profit or loss	23,559,511	-	-	23,559,511	
Available-for-sale investments	29,523,963	-	5,195,329	24,328,634	4% - 9.75%
Investments in Arab Trade Finance Program	365,731	-	-	365,731	
Receivable from member state	21,718,160	-	-	21,718,160	
Recoverable claims	1,762,433	-	-	1,762,433	
Accrued interest	460,376	-	-	460,376	
Due from insurance and reinsurance companies	2,787,709	-	-	2,787,709	
Accounts receivable and other assets	897,844	-	-	897,844	
Claim from member state	18,968	-	-	18,968	
Property and equipment	1,826,506	-	-	1,826,506	
Total assets	103,686,396	20,765,195	5,195,329	77,725,872	
Liabilities and members' equity					
Accounts payable and other liabilities	942,870	-	-	942,870	
Obligations under finance lease	2,153,015	-	-	2,153,015	
Due to insurance and reinsurance companies	5,568,851	-	-	5,568,851	
Employee savings and end of service benefits	1,258,309	-	-	1,258,309	
Members' equity	93,763,351	-	-	93,763,351	
Total liabilities and members' equity	103,686,396	-	-	103,686,396	

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**
Fluctuation in yield by 25 bps	75,493	64,901

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The calculation is based on KD 30,197 thousand interest bearing assets and KD Nil thousand 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:

	2007 Equivalent Long/ (short) Position	**2006 Equivalent Long/ (short) Position**
US Dollar	79,973,778	96,530,598
Euro	1,633,940	227,853
Japanese Yen	560	560
Pound Sterling	4,094	4,249
Other	29,300	21,831

Sensitivity analysis

The Corporation is exposed to currency risk mainly with respect to US dollar. A 5 percent strengthening/weakening of the KD against USD as at 31 December would have increased/(decreased) members' equity by KD 1,093,641 (2006: 1,397,956). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

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 1,306,348 (2006: an increase/(decrease) of KD 896,690). 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 521,785 (2006: KD 706,785). The analysis is performed on the same basis for 2006.

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.

26. Financial assets and liabilities

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 receivables KD	Available-for-sale KD	Other amortised cost KD	Total carrying value KD	Fair value KD
Cash on hand and at banks	-	19,088,166	-	-	19,088,166	19,088,166
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	-	4,133,409	-	-	4,133,409	4,133,409
Claim from member state	-	18,968	-	-	18,968	18,968
	17,392,836	49,071,143	43,544,940	-	110,008,919	110,008,919
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
	-	-	-	8,234,371	8,234,371	8,234,371

26. Financial assets and liabilities (continued)

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 2006.

	At fair value through profit or loss KD	Loans and receivables KD (restated)	Available-for-sale KD	Other amortised cost KD	Total carrying value KD	Fair value KD
Cash on hand and at banks	-	20,765,195	-	-	20,765,195	20,765,195
Investments at fair value through profit or loss	23,559,511	-	-	-	23,559,511	23,559,511
Available-for-sale investments	-	-	29,523,963	-	29,523,963	29,523,963
Investment in Arab Trade Finance Program	-	-	365,731	-	365,731	365,731
Receivable from member state	-	21,718,160	-	-	21,718,160	21,718,160
Recoverable claims	-	1,762,433	-	-	1,762,433	1,762,433
Accrued interest	-	460,376	-	-	460,376	460,376
Due from insurance and reinsurance companies	-	2,787,709	-	-	2,787,709	2,787,709
Accounts receivable and other assets	-	897,844	-	-	897,844	897,844
Claim from member state	-	18,968	-	-	18,968	18,968
	23,559,511	48,410,685	29,889,694	-	101,859,890	101,859,890
Accounts payable and other liabilities	-	-	-	942,870	942,870	942,870
Obligations under Finance lease	-	-	-	2,153,015	2,153,015	2,153,015
Due to insurance and reinsurance companies	-	-	-	5,568,851	5,568,851	5,568,851
	-	-	-	8,664,736	8,664,736	8,664,736

27. 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 arm's 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 2007, 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.

28. 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 20,230,401 (2006: KD 20,756,668), which represent investments managed on behalf of a member state.

29. Prior year adjustment

During the current year, the Corporation's management has undertaken a review of financial assets to determine whether there is any objective evidence of impairment. As a result of this review, an impairment of KD 2,003,034 was identified in recoverable claims at 31 December 2006. Accordingly, the financial statements were adjusted retroactively and the prior year figures were restated. The Corporation has made a provision for impairment on these claims (note 10), and the impairment loss was recognized directly in members' equity as a deduction from the general reserve. This adjustment has reduced the recoverable claims and general reserve by KD 2,003,034 as at 31 December 2006 and 31 December 2007.

30. Comparative figures

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