Annual Report
2006

المؤسسة العربية لضمان الاستثمار

The Inter-Arab Investment Guarantee Corporation

The Inter-Arab Investment Guarantee Corporation is an autonomous Arab regional organization established in 1974 by the majority of Arab states, in accordance with a multilateral Convention deposited with the Ministry of Foreign Affairs in the State of Kuwait. The Corporation commenced its operations in mid-1975 and its membership currently encompasses all the Arab states (excluding Union of the Comoros), in addition to a number of Arab international organizations.

OBJECTIVES:

- The Corporation provides guarantees for inter-Arab investments against non-commercial risks such as nationalization, confiscation, expropriation, war, civil disturbances of a public nature, currency transfer and breach of contract. Furthermore, the Corporation provides insurance for Arab export credits to worldwide markets against commercial risks such as default, insolvency, bankruptcy of the debtor or its refusal to receive the goods, and against non-commercial risks such as cancellation of import license, prevention of the entry or passage of the goods and other non-commercial risks.
- The Corporation also promotes the flow of Arab capital among Arab countries by undertaking activities complementary to its insurance services, in particular, developing research with respect to identifying investment opportunities and their conditions in the Arab countries.

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The Corporation's Structure

The Inter-Arab Investment Guarantee Corporation consists of the following corporate structure:

1. The Shareholders' Council

The Shareholders' Council comprises representatives from each of the countries and organizations that subscribed to the Corporation's capital. The Council is the highest authority of the Corporation and has all the powers necessary to execute the Corporation's objectives. In particular, the Council formulates general policies, interprets and amends provisions of the Convention, adopts financial and administrative rules and regulations, and appoints members of the Board of Directors and the Director General.

2. The Board of Directors

The Board consists of eight part-time members appointed by the Shareholders' Council for a three-year term. The Board elects its Chairman from among its members, prepares the financial and administrative rules for the Corporation and approves the operations and research programs and plans, in addition to determining how the Corporation's capital is to be utilized. It also sets the annual budget and presents the annual report to the Shareholders' Council.

The current members of the Board of Directors:

H.E. Mr. Nassir Ben Mohamad Al Quhtani	Chairman
H.E. Mr. Khaled AB. Al-Mujhem	Member
H.E. Mr. Ali Ramadan Ashnebesh	Member
H.E. Mr. Jasem Rashed Al Shamsi	Member
H.E. Mr. Mohammed Ali Taleb	Member
H.E. Mr. AbdelLatif Chaabane	Member
H.E. Mr. Yassin Fadol Elsied Mohamed	Member
H.E. Mr. Mohamad Ghassan Al-Habash	Member

3. The Director General

The Director General is the legal representative of the Corporation who is in charge of running the Corporation with the Board's supervision. The Director General has the authority to conclude insurance agreements, invest the capital of the Corporation, prepare estimate budgets, prepare year-end statements, development, operations programs and plans, as well as the Corporation's research programs.

The current Director General: Mr. Fahad Rashid Al Ibrahim

4. Professional and Administrative Staff

His Excellency the Chairman of the 34th Session of the Shareholders' Council of the Inter-Arab Investment Guarantee Corporation,

In accordance with Article (12) (e) of the Inter-Arab Investment Guarantee Corporation's Convention, it is my pleasure to submit to your honorable Council for consideration the Annual Report of the Board of Directors on the activity of the Corporation for the year 2006.

Please accept my highest consideration,

Nassir Ben Mohamad Al Quhtani

Chairman of the Board of Directors

Beirut, April 2007

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Chapter One: Overview of World and Arab Macroeconomic Performance and Summary of the Corporation's Activities in 2006

1- World Economy

The **world economy**, according to the preliminary estimates of the International Monetary Fund (IMF), witnessed a slight increase in the real growth rate of approximately 5.1%, compared to 4.9 % in 2005, yet below 5.3% in 2004, due to the improvement in the growth rate of the **group of advanced economies** of 3.1%, compared to 2.6 % in 2005, whereas **other emerging markets and developing economies** witnessed a growth rate above the world average, of approximately 7.3 % in 2006, maintaining high level of approximately 7.4% in 2005. **Low income countries** also witnessed a relatively high growth rate, brought about by high prices of basic commodities exports. Global nominal GDP was estimated to reach approximately USD 47.8 trillion, compared to USD 44.5 trillion in 2005. **Inflation** rate on the other hand, as measured by the Consumer Price Index, maintained a low level in **the group of advanced economies**, reaching 2.6% in 2006, compared to 2.3% in 2005, while **other emerging markets and developing countries** maintained a higher inflation rate of 5.2 % close to 5.3 % in 2005.

It is clear that, the global economy recovered in 2006, despite some imbalances in its structure and performance, which could, if continued or randomly handled, incur the global economy heavy costs. On one hand, the continuing impact of high prices of oil, metals and basic commodities led to inflationary pressures in a number of countries. In response, central banks tightened monetary policies, raising the short-term interest rate, which in turn negatively affected stock markets in **advanced and emerging economies.** On the other hand, fiscal consolidation in most advanced economies, against aging population, social security and health care systems, still represent a major challenge. High surpluses continued throughout the year in the current accounts of the balance of payments (BOPs) in oil-exporting countries, against an increasing deficit in European emerging countries. However, the depth and sophistication of the U.S. financial markets, which helped to attract more foreign investments, has facilitated the financing of recent U.S. current account deficits. Nevertheless, the continued deterioration of the U.S. real-estate market would probably trigger a slowdown of the U.S. economy. Indeed, the structure reform program based on market-led economic policies, favorable doing business environment, and sustained ability to compete worldwide, is the key lesson that can be learnt from the distinguished performance of **the newly industrialized economies (NIEs).**

With regards to **foreign direct investment (FDI) developments** in 2006, and according to preliminary estimates by the United Nations Conference on Trade and Development (**UNCTAD**); global inflows continued to increase for the third consecutive year, totaling USD 1231 billion, remarkably rising by 34% above its level in 2005 of approximately USD 916 billion. The positive influence was brought upon by continued world economic growth, increased cross-border merger & acquisition (M&A) transactions, continued efforts towards more open investment policies, elimination of tariff and non-tariff barriers imposed on international trade, and effective investment promotion efforts of host countries. FDI inflows to **developed countries** were estimated around USD 801 billion, comprising 65% of global FDI inflows, while FDI inflows to **developing countries** were estimated around USD 368 billion, comprising 30% of global FDI inflows, whereas **economies in transition (south-eastern Europe and Commonwealth of Independent States)** received around USD 62 billion, accounting for only 5% of global FDI inflows. Main recipients of world FDI inflows were the USA (USD 177 billion), the United Kingdom (USD 170 billion), France (USD 88 billion) and China (USD 70 billion). Natural resources and relative industrial sectors were the main fields of FDI for the last three years.

Moreover, according to the **Institute of International Finance (IIF),** being the association of the largest group of international financial and banking institutions, net private capital flows to emerging market economies (29 countries), declined from USD 480 billion in 2005, to USD 418 billion in 2006, driven by net decrease in foreign borrowings from commercial banks and other private sector institutions totaling USD 158 billion, compared to around USD 238 billion in 2005, despite the increase in net FDI flows reaching around USD 202 billion compared to USD 186 billion in 2005, and the increase in the portfolio investment totaling around USD 57.7 billion, compared to USD 55 billion. Whereas, net official outflows totaled approximately (USD 48 billion), down from (USD 56 billion). Four Arab countries (Egypt, Tunisia, Algeria and Morocco) are included in the **IIF** database.

With respect to **world trade movement;** trade volume in goods and services increased in 2006, reaching a growth rate of 8.9% compared to 7.4% in 2005, however below 10.6% in 2004. Conversely, the value of world exports of goods and services increased from USD 12.7 trillion in 2005 to USD 14.5 trillion in 2006.

With regards to the **guarantee industry**; the global guarantee market witnessed further expansion in export credit guarantee operations in 2006, through the establishment of branches in new markets and entering into strategic alliances. Several guarantee agencies have undergone internal restructuring, brought on by increases in their capital to accommodate successive market developments. Pricing of guarantee contracts and value of premiums continued to increase during the year. Efforts were further enhanced to improve the guarantee industry by means of introducing new services and techniques, including a shift in preference to open account payments, loan guarantees backed by proven oil reserves or perspective proceeds from exported goods and services, through coordinated maturity and anticipated dates of projects' revenues or exports' proceeds.

In addition, guarantee agencies largely updated their websites, enabling electronic guarantee services which reflected shorter processing periods and a higher quality of service to small-sized enterprises and business partners.

According to data provided by members of the **International Union of Credit and Investment Insurers (The Berne Union)** which was established in 1934 and currently encompasses (52) national, regional and international agencies; the total value of guarantee operations reached USD 1068 billion in 2005 (compared to USD 788 billion in 2004), i.e. 10% of world exports, of which USD 1,032 billion were in export credit (compared to USD 769 billion in 2004), 88% were in short-term operations, and USD 36 billion were in investment guarantees (compared to USD 19 billion in 2004). This was basically attributed to the increasing growth rates of international trade over growth rates of the world economy, capital resulting from the increasing international prices of oil and metals entailing further investments in the energy and raw materials fields, sustained economic growth in Asia, particularly China and India, new projects in the Middle East and North Africa totaling over USD 100 billion, in addition to the stable guarantee markets which reflected increased premiums and decreased compensations and recoveries, entailing a notable increase in cash inflows received by guarantee agencies.

In Nov. 2006 **The Berne Union** developed, a group of guiding, non-biding, principles of best practices:

1- Conduct business in a manner that contributes to the stability and expansion of global trade and investment on a sound basis. That is in accordance with applicable laws and relevant international agreements.
2- Carefully review and manage the risks undertaken.
3- Promote export credit and investment insurance terms that reflect sound business practices.
4- Generate adequate revenues to sustain long-term operations reflective of the risks undertaken.
5- Manage claims and recoveries in a professional manner, while at all times recognizing insured's and obligators' rights.
6- Be sensitive about environmental issues and take such issues into account in the conduct of business.
7- Support international efforts to combat corruption and money laundering.
8- Promote best practices through exchange of information on activities, policies, and procedures, and through the development of relevant agreements and standards, where these are deemed necessary to govern the provision of export credit and investment insurance.
9- Be committed to furthering transparency amongst members and in the reporting of the overall business activities, reflective of international practices and respectful of the confidentiality of third party information.
10- Encourage cooperation and partnering with commercial, bilateral, multilateral, and other organizations involved in export trade and investment business.

2. Arab Economy

With respect to **Arab economic developments** in 2006 and according to international sources; preliminary estimates reflected a notable rise in Arab countries real GDP growth rate of 6.1% in 2006, outpacing global growth rate, compared to 5.5% in 2005, noting that a number of Arab countries realized higher annual growth rates of between 6.5% and 14%.

Inflation rates as measured by the **Consumer Price Index,** nearly maintained its level of 6.5% in 2005 slightly rising to 6.6% in 2006. This was an outcome of the relative increase in inflation rates in Arab oil-exporting countries. Nevertheless, it remained within reasonable limits, due to open trade regimes and flexible labor markets on one hand, and the relative decrease in inflation rates in other Arab countries, resulting from the tight monetary policies adopted, on the other. Oil revenues continued to boost in Arab oil-exporting countries resulting in an increase in public spending, particularly in investment expenditure, public infrastructural projects, private sector development, enhancement of human capital, and better ability to service public debt. Furthermore, budget deficits in many Arab countries switched into surpluses, and current accounts position remarkably improved, consolidating external balances for the Arab oil-exporting countries and for other countries receiving considerable remittances by labor working abroad. Surpluses were basically used in enhancing gross official reserves of such countries. Affected by the Israeli military attacks in 2006; Lebanon realized a negative real GDP growth rate, as a result of its damaged productivity capacity, incurring high costs for reconstruction and rehabilitation and accordingly reflecting a widened budget deficit, deteriorated current account position, escalated external debt and inflation rate.

With regards to **foreign direct investment (FDI)** and according to initial estimates, primarily (**UNCTAD**); **FDI** inflows to **Arab countries** were estimated between USD 42- 45 billion in 2006, compared to USD 37.7 billion in 2005, affected by a number of internal (pull) and external (push) factors amongst which were; country modern promotion techniques, reinforcement of doing business environment, establishment of economic cities and relative infrastructure projects, completion of privatization programs, low average returns on investments abroad, expansion of services sector, and the boom in real-estate markets. Arab countries' share of world FDI flows increased during the year, supported by the remarkable rise of **inter-Arab investments**, particularly brought on by vast tourist investments exceeding USD 25 billion. Additionally, several Arab telecommunications companies expanded activities to other Arab markets, by way of merger and acquisition (M&A) transactions, joint ventures, or newly established companies, in addition to the surge in the real-estate sector, reflecting growing inter-Arab real-estate investments.

Aiming at the enhancement of Arab tourism sector, and in accordance with the Arab League resolution in 2005; the **Arab Tourism Organization** was established in 2006, with headquarters in Jeddah - Saudi Arabia. The **Organization** encompasses all the Arab countries and is a member of the World Tourism Organization (WTO). The **Organization's** main objectives are to eliminate the impediments of inter-Arab tourism, provide efficient and economically feasible international transportation, and activate inter-Arab tourist investments. In realization of such objectives, the organization signed a number of relative agreements.

With respect to **world trade movement** and according to preliminary estimates by the International Monetary Fund; trade value in goods and services is expected to have increased reaching USD 766 billion compared to USD 595 billion in 2005, resulting in a growth rate of 28%. This increase in exports proceeds was due to the continued high oil and metals prices and enhanced access into world markets, resulting from further adherence to quality standards and reinforced efforts related to Arab exports development. Whereas imports of goods and services are expected to have increased by 20%, reaching USD 481 billion in comparison to USD 401 billion in 2005. This continued increase was, foremost, reflected by higher economic growth rates in the Arab countries.

With regards to **guarantee industry** and according to preliminary estimates; activities of Arab national and regional agencies were further enhanced in 2006. Total value of guarantee contracts exceeded USD 2 billion. Guarantee enhanced activities related to factoring and the introduced services covered tourism, pre-shipping risks, cross- border financial leasing and improved debt collection methods.

3. Summary of the Corporation's Activities:

- ### Financial Resources

The Corporation's Shareholders' equities increased during 2006 by 10%, totaling approximately USD 330 million, compared to USD 300 million in 2005. Paid-up capital amounted to USD 165 million, compared to USD 145 million in 2005, generated from partly settled participation of Arab financial institutions. Capital reserve reached USD 156 million, compared to USD 143 million in 2005. The Corporation's net profits increased by 96% compared to 2005, totaling approximately USD 13 million. Total assets increased by 10% totaling USD 365 million, compared to USD 337 million in 2005.

- ### Investments

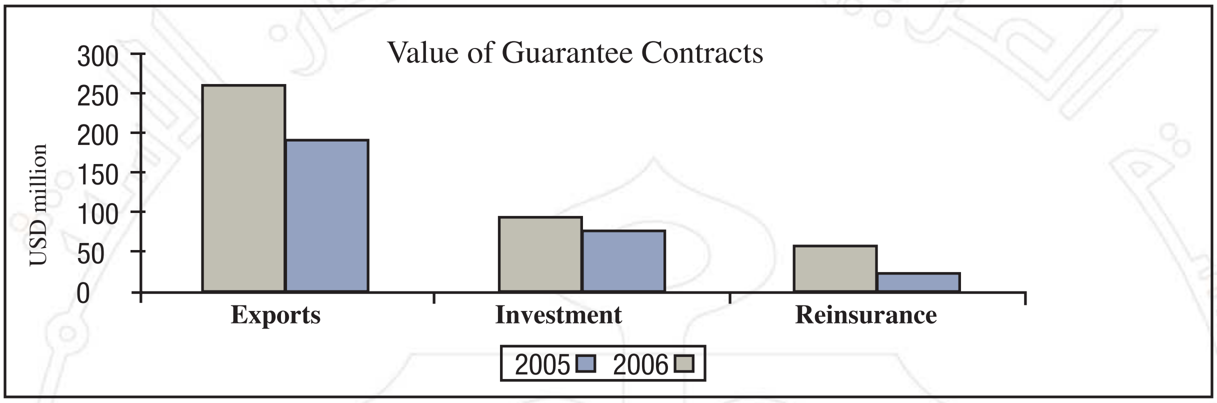
Taking advantage of worldwide economic and financial developments; the Corporation invested in Arab and international financial markets, realizing an approximate 17% increase in investment revenues, totaling approximately USD 21 million, compared to approximately USD 18 million in 2005.

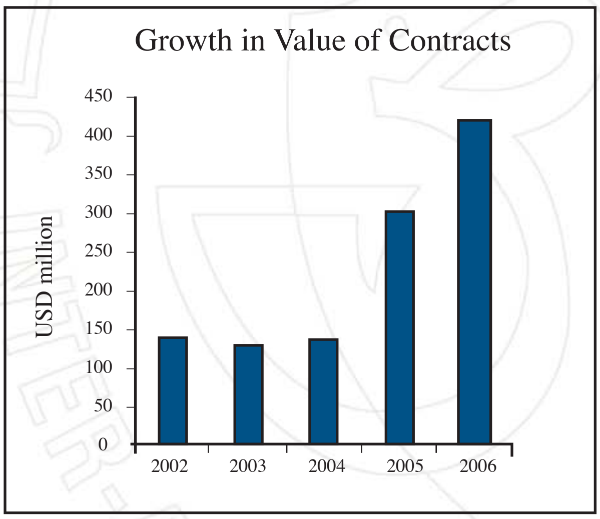
- ### Guarantee Operations

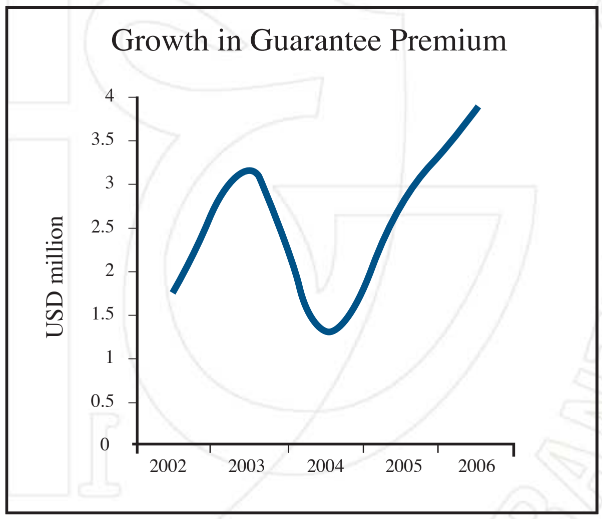
The Corporation further enhanced its activities and introduced new services during the year, resulting in an increase in guarantee operations by 39.1%. Guarantee contracts totaled approximately USD 422.3 million, compared to approximately USD 303.5 million in 2005. Guarantee operations covered 46 export credit insurance contracts totaling approximately USD 249.7 million, two investment guarantee contracts totaling USD 65.7 million, reinsurance operations totaling USD 56.9 million, and special accounts operations totaling approximately USD 50 million. Guarantee revenues increased by 40%, totaling approximately USD 3.9 million. The Corporation paid two compensations totaling approximately USD 5.26 million, of which USD 5.17 million against the realization of non-commercial risks, and USD 90 thousand against the realization of commercial risks, whereas around USD 36.8 million were recovered, of which USD 36.5 million for the realization of non-commercial risks, and USD 361 thousand for the realization of commercial risks.

2.1 Total Value of Operations:

Total value of Guarantee Contracts signed during 2006 reached approximately USD 422.3 million (KD 122.3 million)[1], registering a 39.1% increase in comparison with the value of Contracts signed during 2005 which totaled USD 303.5 million (KD 88.8 million)[2] (see Table 1).







2.1.1 Guarantee Contracts:

Fourty-eight Contracts were signed during 2006, with a cumulative value totaling approximately USD 315.4 million (KD 91.3 million); of which two of those Contracts were Investment Guarantee totaling approximately USD 65.7 million (KD 19 million). Fourty-six Export Credit Insurance Contracts were also signed (in addition to seventy-seven addendums which increased the maximum insured values of a number of previously signed Contracts), totaling a value of approximately USD 249.7 million (KD 72.3 million).

2.1.2 Reinsurance:

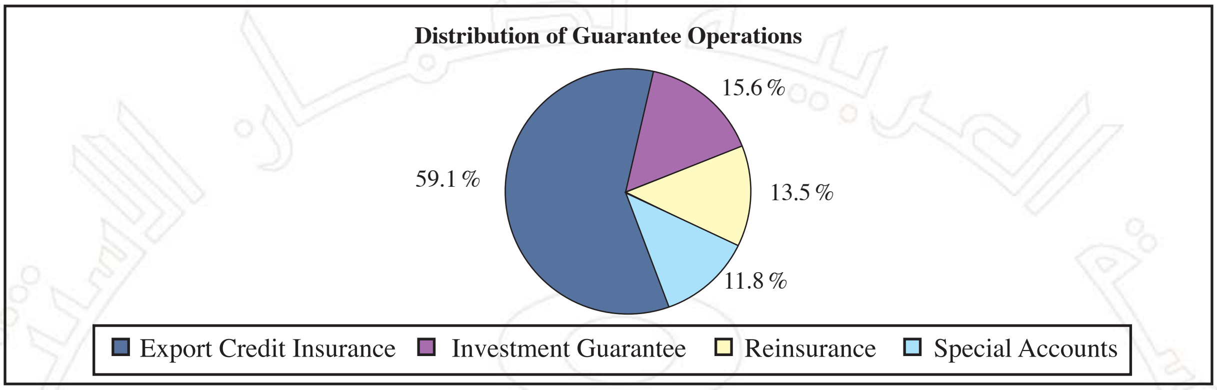
The value of transactions attributed to reinsurance agreements totaled approximately USD 56.9 million (KD 16.5 million); of which seven were facultative reinsurance agreements, in addition to the Corporation's share of a quota share treaty signed with a number of Arab export credit insurance agencies.

[1] USD 1 = KD 0.28964 as 31/12/2006

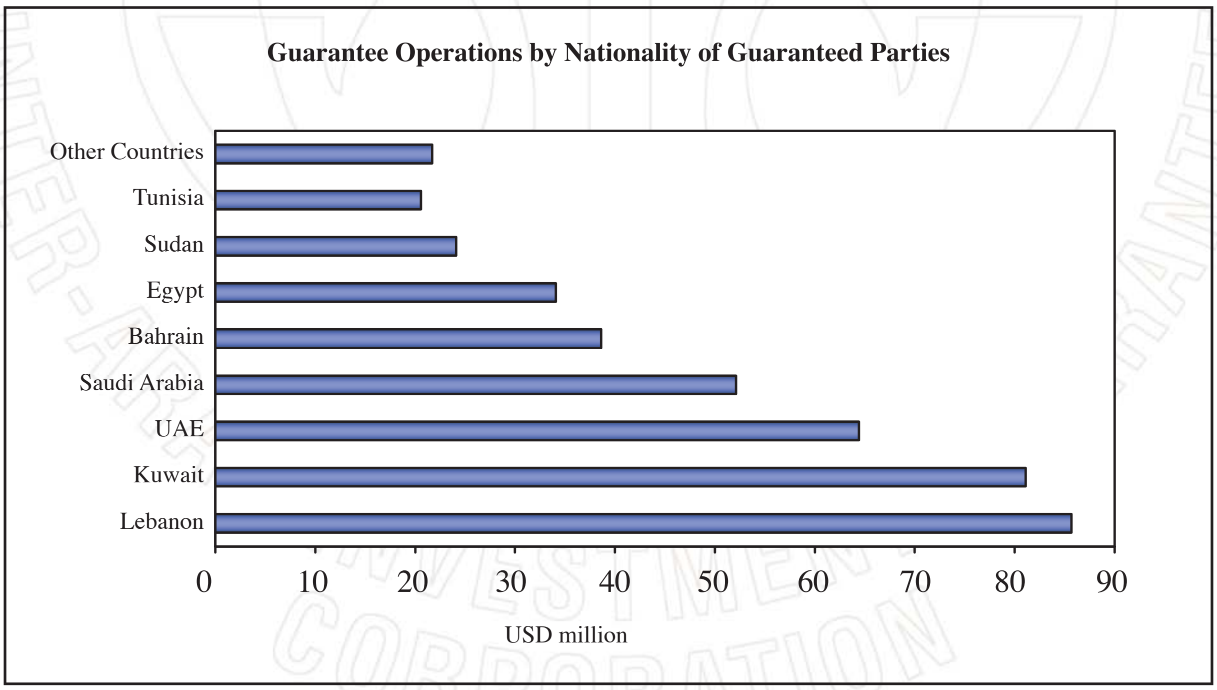
[2] USD 1 = KD 0.2925 as 31/12/2005

2.1.3 Operations signed within the context of special accounts:

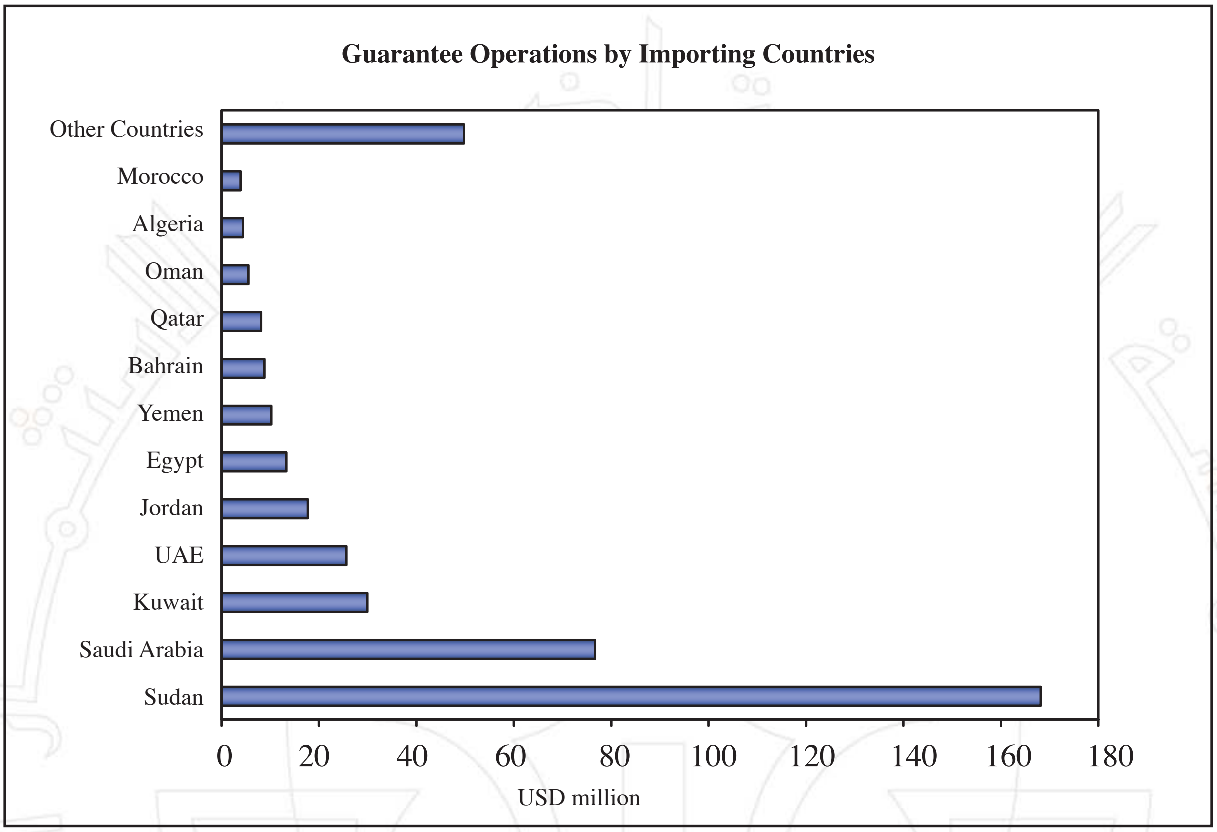
The total value of these operations totaled approximately USD 50 million (KD 14.5 million).



Investors and exporters from thirteen Arab countries benefited from the Corporation's guarantee, in addition to one Arab-foreign company. Leading these benefiting countries was Lebanon (20.3%), followed by Kuwait (19.2%), the United Arab Emirates (15.2%), Saudi Arabia (12.3%), Bahrain (9.2%), Egypt (8.1%), with seven other Arab countries along with the Arab-foreign company accounting for 15.7% of the value of these Contracts (see Table 2).



The number of host and importing countries totaled 87, led by Sudan (39.8%), Saudi Arabia (18.2%), Kuwait (7.1%), the United Arab Emirates (6.1%), Jordan (4.2%), Egypt (3.1%), with eighty-one other countries accounting for 21.5% of the value of these Contracts (see Table 3).



2.2 Details of Guarantee Operations:

2.2.1 Investment Guarantee Contracts:

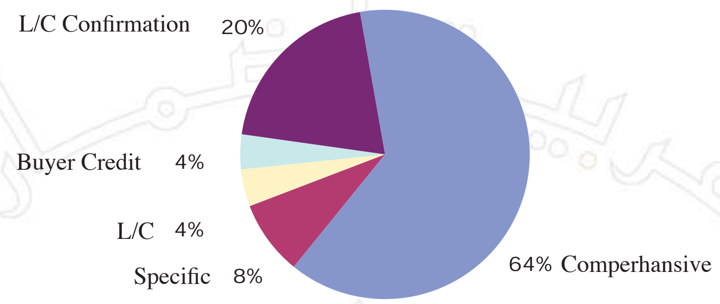
Two Investment Guarantee Contracts were signed during 2006, with a cumulative value totaling approximately USD 95.7 million (KD 27.7 million); registering a 21.3% increase in comparison with the value of Investment Guarantee Contracts signed during 2005 which totaled USD 78.9 million. USD 30 million of those contracts were allocated to operations signed under the special accounts.

2.2.2 Export Credit Insurance Contracts:

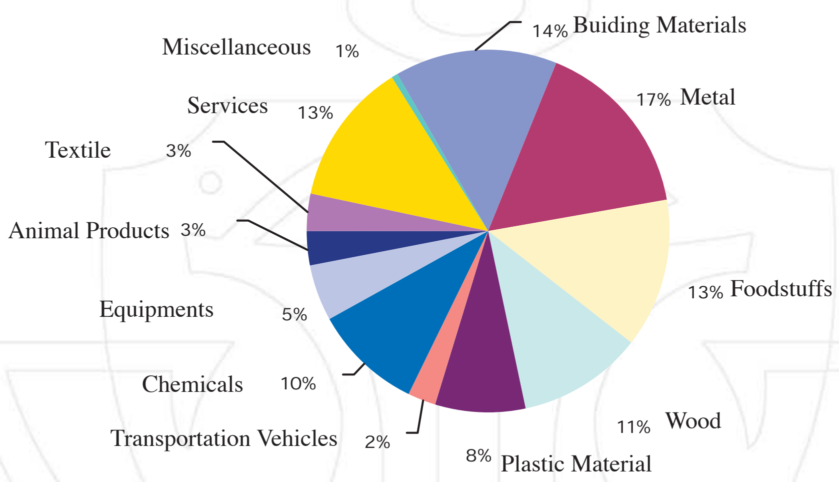
Fourty-six Export Credit Insurance Contracts were signed during the year, in addition to seventy-seven addendums which raised the maximum limits of previously signed Contracts, and which brought the total value of contracts and addendums to approximately USD 249.7 million (KD 72.3 million). This constitutes a 25.9% increase, when compared to the Export Credit Insurance Contracts signed in 2005 and which totaled approximately USD 198.3 million.

Taking these Contracts into account, the value of approved revolving limits totaled approximately USD 113.2 million (KD 32.8 million). These revolving limits represent the Corporation's maximum guarantee commitment at any point in time for approved importers towards insurance applicants.

Distribution of Export Credit Insurance Contracts by Type



Clasification of Goods Under Export Credit Insurance



2.3 Value of Current Contracts & Outstanding Commitments:

The value of current Contracts as at 31/12/2006 totaled approximately USD 490.9 million (KD 142.2 million), distributed between 34.2% for Investment Guarantee Contracts and 65.8% for Export Credit Insurance Contracts, in comparison with USD 371.8 million (KD 108.7 million) which represents the total value of current Contracts as at 31/12/2005. Moreover, the total value of the Corporation's guarantee commitments vis-à-vis the guaranteed parties as at 31/12/2006 reached approximately USD 198 million (KD 57.4 million)[3], representing 40.3% of the total current Contracts, in comparison to the total value of the Corporation's commitments as at 31/12/2005 which totaled USD 129.4 million. In comparison, this constitutes an increase of 53%. (See table 4).

2.4 Results from Guarantee Operations:

Total revenue generated from guarantee operations at the end of 2006 totaled approximately USD 3.86 million (KD 1.12 million), which constitutes a 40% increase in total revenues when compared with 2005. This was generated by the following:

A. USD 2.25 million (KD 650,000) generated by guarantee premium from Contracts signed; 24% of which were from Investment Guarantee Contracts and 76% of which were from Export Credit Insurance Contracts.

[3] The outstanding Guarantee commitments represents the following:
- In the case of Investment Guarantee contracts: the value of investments executed.
- In the case of Export Credit Insurance contracts: the value of shipments executed by not yet repaid. Such commitments do not constitute compensation unless any of the risks covered is realized.

B. USD 36,000 (KD 10,500) representing the Corporation's share of premiums generated from Contracts signed under the special accounts.

The rate of generated premium therefore increased by 12%, compared with the total premium accumulated in 2005.

C. USD 1.57 million (KD 456,000) 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 claims were paid. The first was against the realization of non-commercial risk amounting to USD 5,169,179. The second was against the realization of commercial risk amounting to USD 90,153. An investor and exporter from two Arab countries benefited from the compensations paid. The Corporation also recovered USD 36,823,218 for compensations paid against non-commercial and commercial risks realised in a number of Arab countries, amounting to USD 36,461,793 and USD 361,425 respectively.

2.6 Reinsurance

In an effort to promote and further stabilise the foundations of cooperation with Arab export credit insurance agencies, three quota share reinsurance treaties were signed with three Arab agencies, increasing the total number of treaties signed with similar agencies to four.

The total value of transactions attributed to the Corporation through reinsurance agreements totaled approximately USD 56.9 million (KD 16.5 million), as mentioned previously in section 2.1.2.

2.7 Marketing Guarantee Services:

The Corporation has continued its efforts to market the guarantee services through different means, such as advertisement with regards to its insurance services in specialized Arab magazines and newspapers, in addition to its participation in a number of trade and investment exhibitions. The Corporation has also contacted many Arab businessmen and companies through mailing campaigns, especially after releasing its new set of brochures and flyers.

Furthermore, the Corporation has organized a meeting in Amman – Jordan to discuss the mechanism for guaranteeing and financing export operations and investment projects, in addition to its participation in various conferences and forums held in a number of Arab countries.

Additionally, new marketing software is under development to meet the Corporation's different marketing activities and needs. A new web site is also being developed and is expected to be launched during 2007.

2.8 Relationship with Guarantee Agencies:

- Several meetings were held with many Arab export credit insurance agencies. The main purpose for these meetings was to strengthen and foster existing relationships, while discovering ways and tools to better serve common objectives.
- In the context of the Corporation's technical assistance to the Arab export credit insurance agencies; the Corporation has provided one of these agencies with the export credit insurance software it uses, along with the training necessary for the software's effective utilization.
- The Corporation conducted special training programs for two staff members belonging to one of the Arab export credit insurance agencies.

Table (1)
Total Value of Guarantee Operations During 2006

1. Signed Contracts Under the Corporation's Own Resources		USD	KD
Investment		65,670,000	19,020,659
Export Credit		249,682,583	72,318,063
Reinsurance		56,942,619	16,492,860
	Total	**372,295,202**	**107,831,582**
2. Signed Contracts Under Special Accounts		**USD**	**KD**
Investment		30,000,000	8,689,200
Export Credit		19,978,267	5,786,505
	Total	**49,978,267**	**14,475,705**
	Grand Total	**422,273,469**	**122,307,287**

Table (2)
Value of Contracts Signed During 2006 by Exporting Country & Type of Contract
(in USD and KD Equivalent)

	Exporting Country	Investment Contracts			Export Credit Contracts			Total		% of
		USD	KD	%	USD	KD	%	USD	KD	Total
1	Lebanon	-	-	-	85,706,000	24,823,886	26.24%	85,706,000	24,823,886	20.30%
2	Kuwait	55,670,000	16,124,259	58.19%	25,396,354	7,355,800	7.78%	81,066,354	23,480,059	19.20%
3	UAE	40,000,000	-	41.81%	24,355,667	7,054,375	7.46%	64,355,667	18,639,975	15.24%
4	Saudi Arabia	-	11,585,600	-	52,051,827	15,076,291	15.94%	52,051,827	15,076,291	12.33%
5	Bahrain	-	-	-	38,620,000	11,185,897	11.82%	38,620,000	11,185,897	9.15%
6	Egypt	-	-	-	34,076,576	9,869,939	10.43%	34,076,576	9,869,939	8.07%
7	Sudan	-	-	-	24,115,599	6,984,842	7.38%	24,115,599	6,984,842	5.71%
8	Tunisia	-	-	-	20,574,207	5,959,113	6.30%	20,574,207	5,959,113	4.87%
9	Oman	-	-	-	8,109,900	2,348,951	2.48%	8,109,900	2,348,951	1.92%
10	Jordan	-	-	-	8,053,590	2,332,642	2.47%	8,053,590	2,332,642	1.91%
11	Syria	-	-	-	2,120,000	614,037	0.65%	2,120,000	614,037	0.50%
12	Palestine	-	-	-	1,500,000	434,460	0.46%	1,500,000	434,460	0.36%
13	Algeria	-	-	-	973,749	282,037	0.30%	973,749	282,037	0.23%
14	Joint Cos.	-	-	-	950,000	275,158	0.29%	950,000	275,158	0.23%
	Total for the Year	95,670,000	27,709,859	100%	326,603,469	94,597,428	100%	422,273,469	122,307,287	100%
	% of Total	22.66%			77.34%					

Table (3)
Value of Contracts Signed During 2006 by Host/ Importing Country & Type of Contract
(in USD and KD Equivalent)

Host/ Importing Country	Investment Contracts			Export Credit Contracts			Total		% of Total
	USD	KD	%	USD	KD	%	USD	KD	
Sudan	95,670,000	27,709,859	100.00%	72,538,188	21,009,961	22.21%	168,208,188	48,719,819	39.83%
Saudi Arabia	-	-	-	76,720,408	22,221,299	23.49%	76,720,408	22,221,299	18.17%
Kuwait	-	-	-	29,948,556	8,674,300	9.17%	29,948,556	8,674,300	7.09%
UAE	-	-	-	25,557,326	7,402,424	7.83%	25,557,326	7,402,424	6.05%
Jordan	-	-	-	17,700,332	5,126,724	5.42%	17,700,332	5,126,724	4.19%
Egypt	-	-	-	13,269,152	3,843,277	4.06%	13,269,152	3,843,277	3.14%
Yemen	-	-	-	10,227,949	2,962,423	3.13%	10,227,949	2,962,423	2.42%
Bahrain	-	-	-	8,843,740	2,561,501	2.71%	8,843,740	2,561,501	2.09%
Qatar	-	-	-	8,113,737	2,350,063	2.48%	8,113,737	2,350,063	1.92%
Oman	-	-	-	5,488,027	1,589,552	1.68%	5,488,027	1,589,552	1.30%
Algeria	-	-	-	4,428,897	1,282,786	1.36%	4,428,897	1,282,786	1.05%
Morocco	-	-	-	3,929,925	1,138,264	1.20%	3,929,925	1,138,264	0.93%
Tunisia	-	-	-	3,556,769	1,030,182	1.09%	3,556,769	1,030,182	0.84%
Syria	-	-	-	2,590,370	750,275	0.79%	2,590,370	750,275	0.61%
Libya	-	-	-	1,167,137	338,050	0.36%	1,167,137	338,050	0.28%
Lebanon	-	-	-	951,551	275,607	0.29%	951,551	275,607	0.23%
Mauritania	-	-	-	2,570	744	0.001%	2,570	744	0.001%
Total (Arab Countries)	**95,670,000**	**27,709,859**	**100%**	**285,034,634**	**82,557,432**	**87.28%**	**380,704,634**	**110,267,290**	**90.16%**
Europe	-	-	-	26,037,046	7,541,370	7.97%	26,037,046	7,541,370	6.17%
Asia	-	-	-	14,413,285	4,174,664	4.41%	14,413,285	4,174,664	3.41%
Africa	-	-	-	607,191	175,867	0.19%	607,191	175,867	0.14%
North America	-	-	-	437,983	126,857	0.13%	437,983	126,857	0.10%
South America	-	-	-	73,330	21,239	0.02%	73,330	21,239	0.02%
Total (Non-Arab Countries)	-	-	-	**41,568,835**	**12,039,997**	**12.72%**	**41,568,835**	**12,039,997**	**9.84%**
Grand Total	**95,670,000**	**27,709,859**	**100%**	**326,603,469**	**94,597,429**	**100%**	**422,273,469**	**122,307,287**	**100%**
% of Total	**22.66%**			**77.34%**					

Table (4)

Value of Current Contracts & Outstanding commitments as at 31/12/2006 by Host/ Importing Country & Type of Contract (in USD and its Equivalent in KD)

Host/ Importing Country	Current Investment Contracts		Current Export Credit Contracts		Total Current Contracts[1]		Outstanding Commitments for Investment Contracts		Outstanding Commitments for Export Credit Contracts		Total Outstanding Commitments[2]		
	USD	KD	USD	KD	USD	KD	USD	KD	USD	KD	USD	KD	%
Jordan	-	-	15,633,424	4,528,065	15,633,424	4,528,065	-	-	1,343,340	389,085	1,343,340	389,085	0.68%
UAE	-	-	23,532,242	6,815,878	23,532,242	6,815,878	-	-	1,889,266	547,207	1,889,266	547,207	0.95%
Bahrain	-	-	8,072,355	2,338,077	8,072,355	2,338,077	-	-	380,536	110,218	380,536	110,218	0.19%
Tunisia	15,402,360	4,461,140	3,556,769	1,030,182	18,959,129	5,491,322	3,564,338	1,032,375	1,976,769	572,551.25	5,541,107	1,604,926	2.80%
Algeria	-	-	4,428,897	1,282,786	4,428,897	1,282,786	-	-	128,897	37,333.65	128,897	37,333.65	0.07%
Saudi Arabia	-	-	73,442,649	21,271,929	73,442,649	21,271,929	-	-	9,492,573	2,749,429	9,492,573	2,749,429	4.79%
Sudan	95,670,000	27,709,859	80,310,552	23,261,148	175,980,552	50,971,007	72,478,069	20,992,548	36,789,491	10,655,708	109,267,560	31,648,256	55.17%
Syria	1,373,000	397,676	3,944,121	1,142,375	5,317,121	1,540,051	535,805	155,191	1,696,032	491,239	2,231,837	646,429	1.13%
Oman	-	-	5,315,485	1,539,577	5,315,485	1,539,577	-	-	375,555	108,776	375,555	108,776	0.19%
Qatar	-	-	6,815,192	1,973,952	6,815,192	1,973,952	-	-	1,095,514	317,304	1,095,514	317,304	0.55%
Kuwait	-	-	27,089,906	7,846,320	27,089,906	7,846,320	-	-	1,402,856	406,323	1,402,856	406,323	0.71%
Lebanon	25,700,000	7,443,748	404,984	117,300	26,104,984	7,561,048	16,958,467	4,911,850.38	57,288	16,593	17,015,755	4,928,443	8.59%
Libya	-	-	1,167,137	338,050	1,167,137	338,050	-	-	104,763	30,344	104,763	30,344	0.05%
Egypt	-	-	15,731,978	4,556,610	15,731,978	4,556,610	-	-	4,769,366	1,381,399	4,769,366	1,381,399	2.41%
Morocco	-	-	3,929,925	1,138,264	3,929,925	1,138,264	-	-	1,177,925	341,174	1,177,925	341,174	0.59%
Yemen	30,000,000	8,689,200	11,022,904	3,192,674	41,022,904	11,881,874	22,500,000	,516,900.00	1,643,034	475,888	24,143,034	6,992,788	12.19%
Mauritania	-	-	2,570	744	2,570	744	-	-	2,570	744	2,570	744	0.001%
Asia	-	-	11,351,285	3,287,786	11,351,285	3,287,786	-	-	3,687,441	1,068,031	3,687,441	1,068,031	1.86%
Afrirca	-	-	607,191	175,867	607,191	175,867	-	-	447,191	129,524.42	447,191	129,524.42	0.23%
Europe	-	-	25,923,894	7,508,597	25,923,894	7,508,597	-	-	3,203,305	3,824,205	13,203,305	3,824,205	6.67%
North America	-	-	437,983	126,857	437,983	126,857	-	-	274,541	79,518	274,541	79,518	0.14%
South America	-	-	73,330	21,239	73,330	21,239	-	-	73,330	21,239	73,330	21,239	0.04%
Total	**168,145,360**	**48,701,622**	**322,794,772**	**93,494,278**	**490,940,132**	**142,195,900**	**116,036,679**	**33,608,864**	**82,011,584**	**23,753,835**	**198,048,263**	**57,362,699**	**100%**

1 Current contracts represent the value of guarantee contracts, whether executed or not.
2 The outstanding Guarantee commitments represents the following:
- For Investment Guarantee contracts: the value of investments executed.
- For Export Credit Insurance contracts: the value of shipments executed by not yet repaid.

Chart (1)

Guarantee Contracts Signed During 2006 by Nationality of Guaranteed Parties

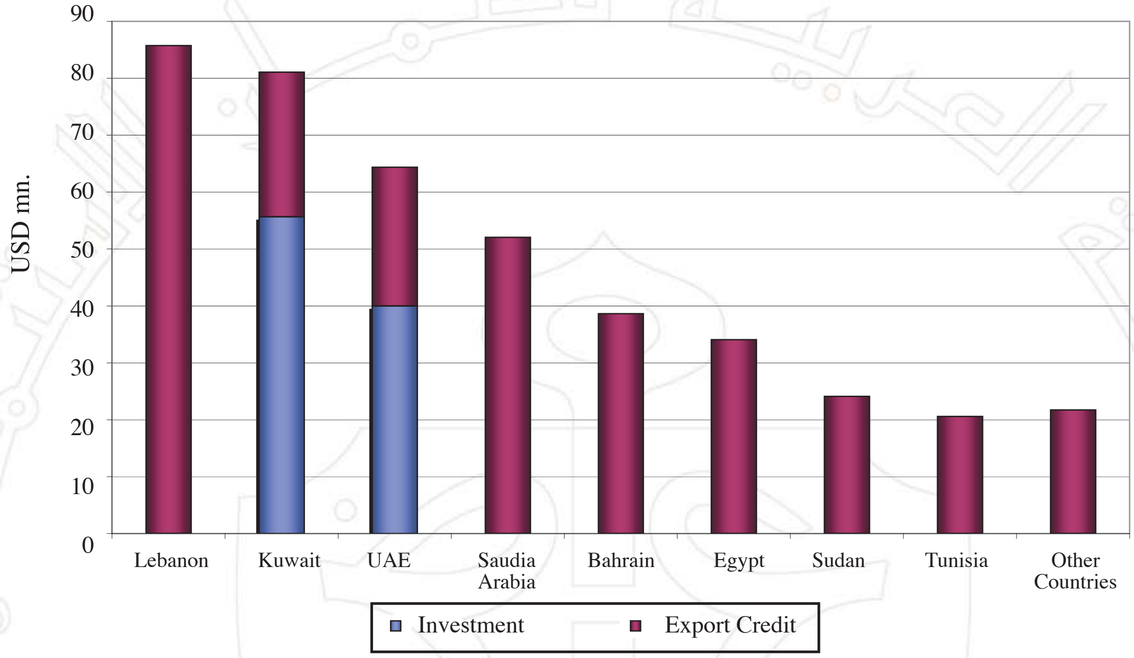


Chart (2)

Guarantee Contracts Signed During 2006 by Host/Importing Countries

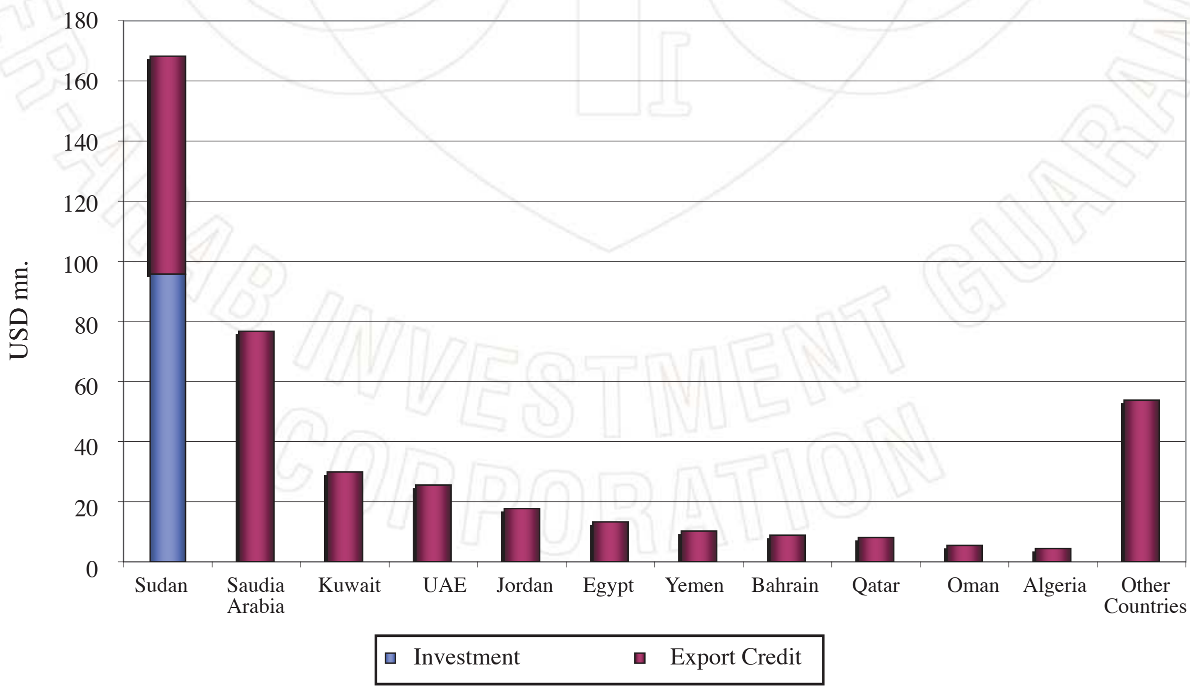
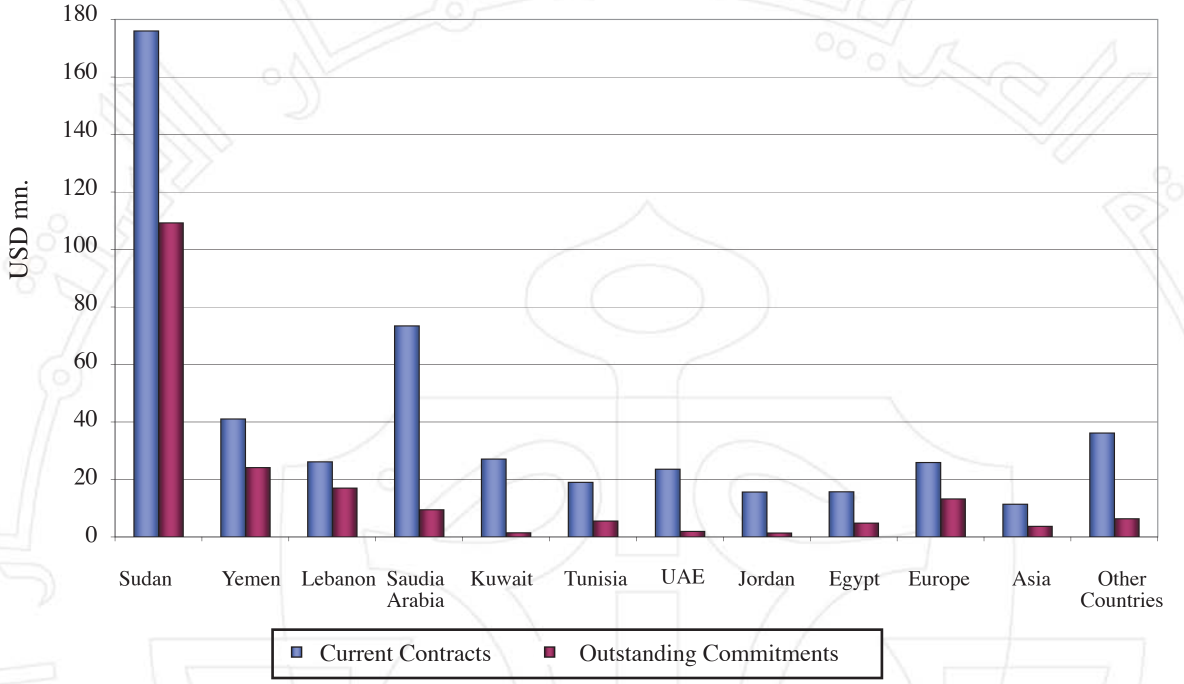


Chart (3)

Total Current Contracts & Outstanding Commitments by Host/Importing Countries as at 31 December 2006



3.1 Reports, Publications and Introductory Papers:

3.1.1 The Annual Report on Investment Climate in the Arab Countries:

- **The Annual Report on Investment Climate in the Arab Countries 2005** was issued and distributed in 2006 to all concerned parties in member countries, regional organizations, Arab investors and businessmen, media and research centers in the Arab region and abroad. The report was also made available on the Corporation's website.

3.1.2 The Quarterly Bulletin "Daman Al-Istithmar":

- Four issues of the quarterly bulletin "**Daman Al-Istithmar**" were published during the year, covering major issues related to the guarantee industry and investment. The bulletin covered regular items and other emerging ones, and included the following topics: the **Shareholders' Council Meeting, Board of Directors Periodical Meetings, Corporation's activities, investment trends, recent international publications and indices,** reflecting Arab countries' position in a number of selected international indices.
- Twenty thousand issues were distributed to concerned government parties, banking and investment institutions, research centers and other interested individuals. The Bulletin was also made available on the Corporation's website.

3.1.3 Introductory Papers:

Four introductory papers were prepared during the year, covering the following topics:

- **"Investment Impediments in Arab Countries",** presented during the Eleventh Conference of Arab Businessmen and Investors, held in Manama on 6-7 March 2006, and co-organized by the Corporation, the General Secretariat of the Arab League and the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries.

- **"Mechanisms and Role of Insurance in Exports Development",** presented during the training program on "Modern Methods for Developing and Financing External Trade", held in Kuwait during the period 15-19 April 2006, and organized by the Arab Planning Institute.

- **"Arab Countries Efforts Towards the Enhancement of Investment Climate",** presented during Cairo Conference for Investment, held in Cairo during the period 10-12 December 2006, and organized by the General Authority for Investment and Free Zones, and Al-Iktissad Wal-Aamal Group.

- **"Investment Environment in Lebanon, the next phase",** was to be presented during Lebanon International Conference for Investment and Reconstruction, which was scheduled to be held in Beirut during the period 23-24 November 2006. However, the conference was to be rescheduled, following the Israeli military attacks on Lebanon in summer 2006.

3.2 Conferences and Seminars:

- The Corporation took part in (23) conferences and meetings relevant to its core business, (9) of which were meetings with regional and international organizations, while (14) meetings were held on economic issues. The Corporation's attendance aimed at: marketing its various services, fostering cooperation ties with Arab and international agencies, exchanging expertise on exports insurance and on regional and international investment guarantee, focusing on the Corporation's role in reconstruction, and participating in debates related to Arab investment and inter-Arab trade issues.

3.3 Cooperation with Regional and International Institutions:

The **Eleventh Conference of Arab Businessmen and Investors** was held in the Kingdom of Bahrain, during the period 6-7 March 2006. Preparations for this event were earlier coordinated by the IAIGC, the General Secretariat of the Arab League, the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, and Bahrain Chamber of Commerce and Industry. The Conference's theme was the **Enhancement of Private Investment and Promotion Techniques**, and was attended by around (300) representatives of senior officials in the Kingdom of Bahrain, Arab business owners, Arab investment organizations, representatives of Arab and regional investment and financing institutions and agencies, Arab joint companies, Arab and Arab-foreign chambers of commerce. A number of speeches were delivered, and best practices and investment opportunities were exchanged during the conference sessions and workshops.

- The Corporation and the **Multilateral Investment Guarantee Agency (MIGA**), completed the Arabic version of MIGA's Electronic FDI Promotion Centre and was made available on the following website (www.fdipromotion.com). Furthermore, the Arabic version was launched by the Corporation and **(MIGA)** during **WAIPA's** annual conference, held in Sharm El-Sheikh on 17-18 November 2006, and a joint presentation of the FDI Promotion Centre website and the Arabic version was presented by **MIGA** and the Corporation during the conference.

- The Corporation took part in the annual meetings of the Prague Club which encompasses 29 Arab and foreign countries, during which members exchanged expertise on credit guarantee, underwriting, claims, recovery, and reviewed developments relative to the guarantee industry.

- In terms of technical support to Arab member countries; the Corporation received a technical delegation from Syria, representing the Ministry of Economy, the Commercial Bank of Syria, and the Arab-Syrian Insurance Corporation, in the frame of establishing a national credit guarantee agency in Syria. Furthermore, The Corporation delegated one IT staff member to the National Agency for Insurance and Finance of Exports in Sudan, for technical support relative to export credit systems.

3.4 Development of Human Resources:

The Corporation pursued its program of enhancing the developments of human resources, by means of upgrading staff technical skills. A number of Corporation staff benefited from three **technical training courses** during 2006, as follows:

- **Guarantee Industry**, organized in Ireland by Atradius Group during the period 15-19 May 2006, attended by two staff members from the Operations Department.
- **Risk Analysis**, organized in Dubai by the IIR Middle East during the period 24- 28 June 2006, attended by one staff member from the Internal Audit Unit.
- **Employee Motivations, Grievances and Discipline,** organized in London by Brain Power Institute during the period 8-12 July 2006, attended by one staff member from the Director General Office.

3.5 Information Technology:

Staff Computer skills were further enhanced during the year, in terms of electronic documents management and modernization of in-house developed infrastructure of IT and adopted software applications as follows:

3.5.1 Systems Development:

- The user acceptance testing phase of the the Accounting System (CSH) was completed (the system was developed using Oracle development tools and Oracle database in the backend).
- The integration of the PMS system and the CSH system were completed, and as a result all dealings in the PMS system generate automatic entries in the CSH system to reduce the double work and to save time and reduce errors.
- The integration of the document management system (FileNet) and the CSH system on one hand, and the document management system (FileNet) and the PMS system on the other hand were completed, to streamline indexing and avoid repetition of data entry.

3.5.2 Infrastructure:

- IAIGC's servers and IT infrastructure were moved to a new location on the second floor, and both floors were linked by fiber optic cables.
- Two fax lines were converted to utilize the fax server.
- Access to e-mail from outside the Corporation using secure protocol was provided.
- IAIGC's UPS capacity was increased to protect servers and databases, in case of electrical cut.
- Follow up of the periodic back-up and the testing restoration.
- Follow up of the periodic check-up of computer sets, and upgrading the protection software and operating systems.
- Follow up of the periodic check-up of IAIGC's servers, and upgrading the protection and operation softwares.
- During the year, several out-dated computer sets were replaced with up-to-date sets.

3.5.3 Website:

- In cooperation with a specialized company; 75% of the new IAIGC website was completed. The new website is still under construction.
- Follow up of the updating of the IAIGC's current website. IAIGC's publications (the Investment Climate Report, and the Quarterly Bulletin) were made available online, including up-to-date information regarding new products and services offered.

3.5.4 Technical Support and Training:

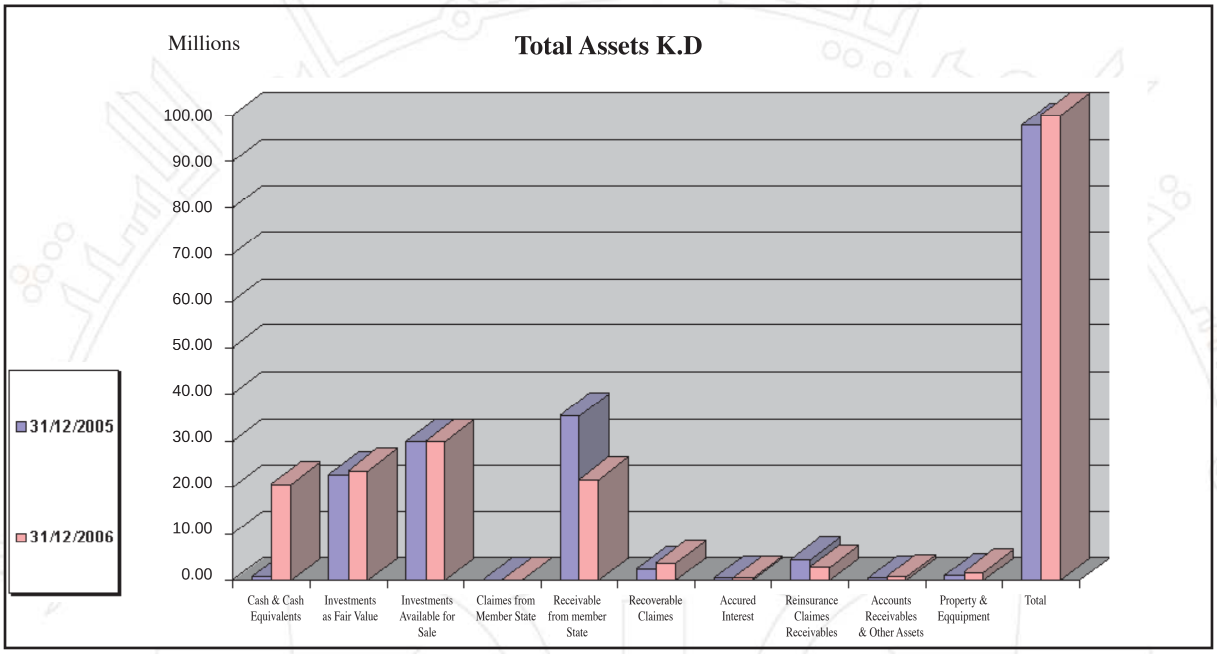
- Via the FileNet document management systems, several thousand documents of the Accounting Section, Administrative Section and the Investment Department were scanned and indexed for easy access and retrieval.
- Technical support (Helpdesk) to the IAIGC's hardware and software was provided.
- An in-house training course was organized for two staff members from the Accounting and IT Sections. A different in-house training course (Linux) was organized for two staff members from the IT Section.

3.6 Media Activities:

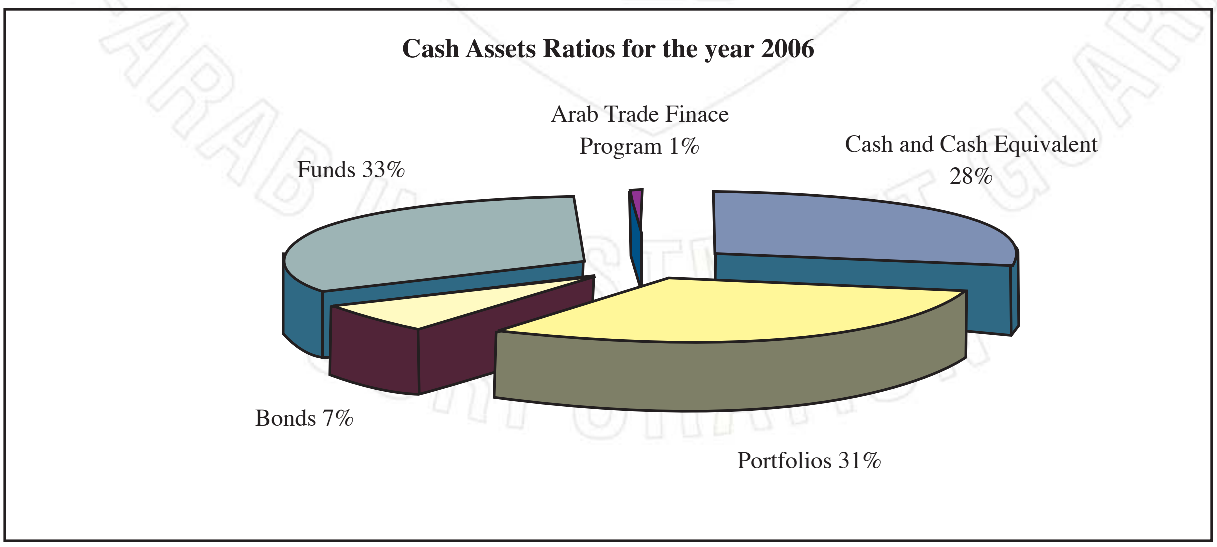
- The Corporation organized a press conference launching the **World Investment Report 2006**, on behalf of the assistant secretary general of the **UNCTAD**, on 16 October 2006. The conference was attended by reporters representing daily local and Arab newspapers, news agencies, T.V. stations, and a number of economic experts. A press kit, covering the world investment developments, and the Arab countries' share of world FDI flows, was distributed during the conference.

- A total of (84) news items were detected on the Corporation's activities, in a number of local and Arab newspapers during 2006.

The Corporation’s Balance Sheet as of 31 December 2006 reveals that the total assets amounted to K.D 105,669,111 (USD 364,829,136) compared to K.D 97,721,372 (USD 337,389,076) as of 31 December 2005 as shown by the following chart:



The Corporation’s Cash Assets have increased in year 2006 by K.D 20,774,499 (USD 71,725,242) compared to year 2005, and they are composed of cash and cash equivalents, portfolios, funds, bonds and equity participation in the Arab Trade Finance Program. The following chart shows the percentage distribution of Cash Assets as of 31 December 2006.



The Shareholders' Equity was increased to K.D 95,766,385 (USD 330,639,363) as of 31 December 2006 compared to K.D 86,977,119 (USD 300,293,879) as of 31 December 2005.

The Corporation's paid up capital increased to K.D 47,977,827 (USD 165,646,413) as of 31 December 2006, compared to K.D 42,073,827 (USD 145,262,488) as of 31 December 2005. The increase of K.D 5,904,000 represents the amount that remained from the third installment due in 2005 from The Arab Authority for Agriculture Investment and Development and The Arab Bank for Economic Development in Africa as their subscription to the corporation's capital, and the fourth installment from Arab Monetary Fund and Arab Fund for Economic and Social Development as well for year 2006.

The General Reserve increased up to K.D 45,298,622 (USD 156,396,292) as of 31 December 2006 compared to K.D 41,575,051 (USD 143,540,433) as of 31 December 2005.

While the Cumulative Changes in Fair Value amounted to K.D 2,489,936 (USD 8,596,658) as of 31 December 2006 for the corporations' investments in funds and bonds.

The total income which included revenues of investments, portfolios, guarantee premium, currency exchange and other earnings amounted to K.D 5,782,381 (USD 19,964,028) as of 31 December 2006, compared to K.D 3,601,194 (USD 12,433,345) as of 31 December 2005, with an increase of K.D 2,181,187, (USD 7,530,683) a rate of 61%. The Corporation realized a net profit of K.D 3,723,571 (USD 12,855,859) as of 31 December 2006, compared to a net profit of K.D 1,904,352 (USD 6,574,893) as of 31 December 2005, registering an increase of K.D 1,819,219 (USD 6,280,966), a rate of 96%.

The total expenditures as of 31 December 2006 amounted to K.D 2,058,810 (USD 7,108,169) compared to K.D 1,696,842 (USD 5,858,452) as of 31 December 2005, registering an increase of K.D 361,968 (USD 1,249,717), a rate of 21%, mainly due to increased rental and maintenance expenses, due to an increases in the occupied area of the corporation in the headquarters building by 1,285 square meters, and due to some emergency expenses, also an expenses increase in the end of service benefits due to promotions and salaries raises, yearly allowances and cost of new employees.

INDEPENDENT AUDITORS' REPORT TO

THE CHAIRMAN AND MEMBERS OF COUNCIL OF THE INTER-ARAB INVESTMENT GURANTEE CORPORATION
AN ARAB CORPORATION WITH A SPECIAL INDEPENDEDNT LEGAL STATUS

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 2006 and the statement of revenues and expenses, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements
The Corporation's Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the corporation as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters
Furthermore, in our opinion proper books of account have been kept by the Corporation and we obtained all the information and explanations that we required for the purpose of our audit. We further report that, to the best of our knowledge and belief, no violations of the corporation's convention have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the corporation or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

8 March 2007
Kuwait

STATEMENT OF REVENUES AND EXPENSES Year ended 31 December 2006

	Notes	2006 KD	2005 KD
REVENUES:			
Gross guarantee premiums		**661,163**	586,511
Guarantee premiums ceded		**(47,969)**	5,351
Net guarantee premiums		**613,194**	591,862
Expenses and other commission		**(77,699)**	(15,125)
Guarantee results		**535,495**	576,737
Commission income on guarantee funds		**456,567**	209,720
		992,062	786,457
Bank interest		**316,152**	36,265
Interest on bonds		**323,304**	92,893
Investment income	3	**4,855,425**	3,228,153
Foreign exchange (loss) gain		**(711,380)**	(572,255)
Other miscellaneous income		**6,818**	29,681
TOTAL REVENUES		**5,782,381**	3,601,194
EXPENSES:	4		
First Chapter - Salaries, wages and bonuses		**1,214,798**	1,032,360
Second Chapter - General and administrative expenses		**701,343**	578,194
Third Chapter - Capital expenses		**52,837**	85,828
Fourth Chapter - Provisions and others		**89,832**	460
TOTAL EXPENSES		**2,058,810**	1,696,842
PROFIT FOR THE YEAR		**3,723,571**	1,904,352

The Attached notes 1 to 22 form part of these financial statements.

BALANCE SHEET At 31 December 2006

	Notes	2006 KD	2005 KD
ASSETS			
Cash and cash equivalents	5	**20,765,195**	808,195
Investments at fair value through statement of revenues and Expenses	6	**23,559,511**	22,774,548
Investments available for sale	7	**29,523,963**	29,491,427
Investment in arab trade finance program	8	**365,731**	365,731
Receivable from member state	9	**21,718,160**	35,387,612
Recoverable claims	10	**3,765,467**	2,403,461
Accrued interest	11	**460,376**	503,390
Reinsurance claims receivable	12	**2,787,709**	4,461,337
Accounts receivable and other assets	13	**877,525**	478,735
Claim from member state	14	**18,968**	18,968
Property and equipment	15	**1,826,506**	1,027,968
Total assets		**105,669,111**	97,721,372
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and other liabilities	16	**922,551**	507,984
Obligations under finance lease	17	**2,153,015**	1,336,963
Reinsurance claims payable	12	**5,568,851**	7,625,080
Employee savings and end of service benefits	18	**1,258,309**	1,274,226
Total liabilities		**9,902,726**	10,744,253
Equity			
Paid-up capital	19	**47,977,827**	42,073,827
General reserve	20	**45,298,622**	41,575,051
Cumulative changes in fair value		**2,489,936**	3,328,241
Total equity		**95,766,385**	86,977,119
TOTAL LIABILITIES AND EQUITY		**105,669,111**	97,721,372

The Attached notes 1 to 22 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2006

	Paid-up capital KD	General reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Total KD
Balance as at 1 January 2005	36,173,327	39,670,699	1,443,934	-	77,287,960
Change in fair value of available for sale investments during the year	-	-	2,984,651	-	2,984,651
Realised on sale of available for sale investments	-	-	(1,100,344)	-	(1,100,344)
Total income recognised directly in equity	-	-	1,884,307	-	1,884,307
Profit for the year	-	-	-	1,904,352	1,904,352
Total income and expenses for the year	-	-	1,884,307	1,904,352	3,788,659
Capital increase	5,900,500	-	-	-	5,900,500
Transfer to general reserve	-	1,904,352	-	(1,904,352)	-
Balance as at 31 December 2005	42,073,827	41,575,051	3,328,241	-	86,977,119
Balance as at 1 January 2006	42,073,827	41,575,051	3,328,241	-	86,977,119
Change in fair value of available for sale investments during the year	-	-	1,783,687	-	1,783,687
Realised on sale of available for sale investments	-	-	(2,621,992)	-	(2,621,992)
Total expense recognised directly in equity	-	-	(838,305)	-	(838,305)
Profit for the year	-	-	-	3,723,571	3,723,571
Total income and expenses for the year	-	-	(838,305)	3,723,571	2,885,266
Capital increase	5,904,000	-	-	-	5,904,000
Transfer to general reserve	-	3,723,571	-	(3,723,571)	-
Balance at 31 December 2006	**47,977,827**	**45,298,622**	**2,489,936**	**-**	**95,766,385**

The Attached notes 1 to 22 form part of these financial statements.

STATEMENT OF CASH FLOWS Year ended 31 December 2006

	Note	2006 KD	2005 KD
OPERATING ACTIVITIES			
Profit for the year		**3,723,571**	1,904,352
Adjustments for:			
Depreciation		**52,863**	36,720
Investment income		**(4,855,425)**	(3,228,153)
Interest income		**(639,456)**	(129,158)
Finance lease charges		**108,341**	94,671
Changes in operating assets and liabilities:		**(1,610,106)**	(1,321,568)
Investments at fair value through statement of revenue and expenses		**1,063,836**	-
Recoverable claims		**(1,362,006)**	-
Receivable from member state		**13,669,452**	317,690
Reinsurance claims receivable		**1,673,628**	386,655
Accounts receivable, accrued interest and other assets		**(355,777)**	(209,395)
Claim from member state		**-**	729,898
Accounts payable and other liabilities		**414,567**	(33,076)
Reinsurance claims payable		**(2,056,229)**	(349,456)
Employees savings and end of service benefits		**(15,917)**	71,499
Cash from (used in) operations		**11,421,448**	(407,753)
Dividends received		**257,235**	123,777
Interest received		**639,456**	129,158
Net cash from (used in) operating activities		**12,318,139**	(154,818)
INVESTING ACTIVITIES			
Purchase of investments at fair value through statement of revenue and Expenses		**-**	(1,017,082)
Purchase of investments available for sale		**(17,823,317)**	(19,044,788)
Proceeds from sale of investments available for sale		**19,685,728**	13,244,379
Net cash from (used in) investing activities		**1,862,411**	(6,817,491)
FINANCING ACTIVITIES			
Payment of finance lease obligations		**(127,550)**	(110,155)
Proceeds from increase in paid up capital		**5,904,000**	5,900,500
Net cash from financing activities		**5,776,450**	5,790,345
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**19,957,000**	(1,181,964)
Cash and cash equivalents at beginning of the year		**808,195**	1,990,159
Cash and cash equivalents at end of the year	5	**20,765,195**	808,195

The Attached notes 1 to 22 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2006

1. CORPORATE INFORMATION

The Corporation is an Arab corporation with a special independent legal status that was incorporated in accordance with a convention between Arab member states. Its main objectives are to provide guarantee 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 located in Kuwait and its registered address is at P.O. Box 23568 Safat, 13096 – State of Kuwait.

The financial statements were authorised for issue by the Corporation's Board of directors on 8 March 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and practices followed by the "Arab Organisations".

The financial statements are prepared under the historical cost convention except for the measurement at fair value of investments available for sale and investments at fair value through the statement of revenues and expenses.

Summary of significant accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2005.

IASB Standards and Interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Corporation:

IFRS 7 Financial Instruments: Disclosures	The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.
IAS 1 Presentation of financial statements (amended)	The application of IAS 1 (amended), which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to the Corporation's objectives, policies and procedures for managing capital.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income recognition

Net guarantee premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on a time proportion basis. Interest on doubtful or overdue accounts is suspended and recognised in the statement of revenues and expenses as and when received.

Cash and cash equivalents

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

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through revenues and expenses, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through revenues and expenses, directly attributable transaction costs.

The Corporation determines that classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Corporation commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments at fair value through statement of revenues and expenses

After initial recognition investments at fair value through statement of revenues and expenses are remeasured at fair value with all changes in fair value recognised in the statement of revenues and expenses.

Investments available for sale

After initial recognition investments available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the statement of revenues and expenses. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

(a) The rights to receive cash flows from the asset have expired;

(b) The Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(c) The Corporation has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Corporation's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of revenues and expenses.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of revenues and expenses. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;

(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Promissory notes receivable

Promissory notes are stated at face value less provision for amounts deemed uncollectable. Interest earned on the promissory notes, if any, is recognised on a time proportion basis and included separately under accrued interest in the balance sheet.

Recoverable claims

In accordance with the Corporation's Convention, claims incurred and paid by the Corporation in compensating insured individuals and entities against non-commercial risks are reimbursable from the respective member state. Claims paid in relation to commercial risks are the responsibility of the importer and are subject to reinsurance arrangements. Accordingly, recoverable claims are stated at face value less, in rare circumstances, provision for doubtful accounts.

Receivables

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment as follows:

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

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Payables

Accounts payable are stated at their cost.

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 allocated over the period of the lease so as to produce a constant rate of interest on the remaining obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

In the normal course of business, the Corporation cedes certain levels of risk in various areas of exposure with reinsurance companies. Reinsurance contracts do not relieve the Corporation from its obligations to policy- holders; accordingly, failure of reinsurance companies to honour their obligations could result in losses to the Corporation. In the opinion of management, the Corporation's exposure to such losses is minimal since losses incurred in compensating policyholders are the ultimate responsibility of counter parties or member states. Amounts recoverable from reinsurance companies are estimated in a manner consistent with the related claim liability.

End of service indemnity

The end of service indemnity for the general manager is calculated in accordance with article No. 6 of the resolution made by the Arab Ministers of Finance and Economy in Abu Dhabi. The end of service indemnity for other employees is based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. In accordance with article 31 of the employees' internal policy, the indemnities are paid together with the employee savings.

Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into Kuwaiti Dinars at the rate of exchange prevailing on that date. Exchange differences are reported in the statement of revenues and expenses.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Provisions

Provisions are recognised when the Corporation has a present obligation (legal or contractual) arising from a past event and the costs to settle the obligation are both probable and measurable.

Judgments

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as, at fair value through statement of revenues and expenses, or available for sale.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of investments as fair value through statement of revenues and expenses depends on how management monitors the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of the results for the period, they are classified as at fair value through statement of revenues and expenses. All other investments are classified as available for sale.

Impairment of investments
The Corporation treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Corporation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

3. INVESTMENT INCOME

	2006 KD	2005 KD
Realized gain on sale of available for sale investments	**2,522,108**	1,768,365
Unrealised gain on investments at fair value through statement of revenues and expenses	**2,076,082**	1,336,011
Dividends from funds	**245,213**	115,763
Dividend from Arab Trade Finance Program	**12,022**	8,014
	4,855,425	3,228,153

4. EXPENSES

General and administrative expenses include finance lease charges in the amount of KD 108,341 (2005: KD 94,671). Capital expenses represent depreciation charge and expenditure on minor capital items which is expensed as incurred.

5. CASH AND CASH EQUIVALENTS

	2006 KD	2005 KD
Cash in hand and at banks	**3,205,076**	808,195
Time deposit maturing within three month	**17,560,119**	-
	20,765,195	808,195

6. INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF REVENUES AND EXPENSES

These represent portfolios of primarily quoted investments managed by specialist investment managers.

7. INVESTMENTS AVAILABLE FOR SALE

	2006 KD	2005 KD
Bonds	**5,195,329**	3,215,384
Managed funds	**24,328,634**	26,276,043
	29,523,963	29,491,427

The managed funds primarily represent quoted investments managed by speciality investment managers.

8. INVESTMENT IN ARAB TRADE FINANCE PROGRAM

The Corporation owns 0.25% of the capital of the Arab Trade Finance Program, which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. Due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable measure of fair value, the investment is carried at cost.

9. RECEIVABLE FROM MEMBER STATE

This represents amount owed to the Corporation by a member state that had been unable, due to difficult political and economic conditions, to settle their obligations on the due dates.

Under the terms of an agreement dated 15 December 2005 entered into with the Ministry of Finance of the member state, the Corporation agreed to waive interest receivable in the amount of USD 41,920,050 from the previously accrued delay interest, consolidate and reschedule all amounts payable under the agreement comprising:

	2006	2005
	U.S.$	U.S.$
Promissory notes	**12,889,505**	12,889,505
Recoverable claims	**83,011,202**	83,011,202
Unwaived delay interest	**25,082,583**	25,082,583
	120,983,290	120,983,290
Equivalent in KD	**35,387,612**	35,387,612

Under the terms of the agreement, the member state will repay the rescheduled debt on one down payment due by 31 March 2006, in addition to five annual instalments starting 31December 2006 at an interest rate of 2% per annum.

The movement on the debt is as follows:

	U.S.$	U.S.$
Opening Balance	**120,983,290**	120,983,290
Paid during the year	**(46,000,000)**	-
Total as at 31 December	**74,983,290**	120,983,290
Equivalent in KD	**21,718,160**	35,387,612

10. RECOVERABLE CLAIMS

	2006 U.S.$	2005 U.S.$
Balance at beginning of the year	**8,216,968**	91,352,053
Net claims paid during the year	**5,249,517**	48,271
Claims recovered during the year	**(465,977)**	(172,154)
Rescheduled under agreement with member state	**-**	(83,011,202)
Balance at end of the year	**13,000,508**	8,216,968
Equivalent in KD	**3,765,467**	2,403,461

These amounts represent compensation claims paid to Arab nationals against risks realised in member states. In accordance with the inter member states Convention, such compensation claims are reimbursable 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.

11. ACCRUED INTEREST

The Corporation accrues delay interest on claims recoverable from counter parties and member states that have not met their obligations within the usual timeframe; the details of the interest are as follows:

	2006 KD	2005 KD
Balance at beginning of the year	**503,390**	7,840,046
Interest accrued during the year	**118,998**	120,173
Rescheduled under agreement with member state	**-**	(7,336,656)
Balance at end of the year	**622,388**	623,563
Less: Interest suspended	**(162,012)**	(120,173)
	460,376	503,390

12. REINSURANCE CLAIMS

Reinsurance claims receivable represent the reinsurance companies' share of claims incurred and paid by the Corporation under the respective reinsurance contract. Reinsurance claims payable represent amounts refundable to the reinsurance companies following reimbursement by the counter party or member state. In making settlement with a given reinsurance company, the Corporation will observe amounts owed by the reinsurance company and settle on a net basis.

13. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2006 KD	2005 KD
Commission income	**458,402**	196,109
Employee receivables	**314,144**	199,598
Other debit balances	**104,979**	83,028
	877,525	478,735

14. CLAIM FROM MEMBER STATE

This claim represents amounts due from a member state in respect of its unpaid capital contribution, together with delay interest, following a decision by council and agreements between the Corporation and this member.

15. PROPERTY AND EQUIPMENT

Property and equipment are substantially represented in the carrying amount of the Corporation's premises, which were acquired under a finance lease based on the space allocated to and occupied by the Corporation in the Joint Building of the Arab Organisations. The premises are being depreciated over the 40-year lease term and the related depreciation charge for the year amounted to KD 36,720 (2005: KD 36,720).

16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2006 KD	2005 KD
Due to reinsurance companies	**413,696**	2,472
Accrued staff leave	**124,886**	121,654
Provision for legal encyclopaedia	**-**	13,757
Other liabilities	**383,969**	370,101
	922,551	507,984

17. OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2006 KD	2005 KD
Within one year	**179,617**	110,155
In the second to fifth years inclusive	**898,085**	550,775
Over five years	**3,771,957**	2,423,410
Due to Arab Fund For Economic And Social Development	**4,849,659**	3,084,340
Less: Finance charges allocated to future periods	**(2,696,644)**	(1,747,377)
	2,153,015	1,336,963

18. EMPLOYEE SAVINGS AND END OF SERVICE BENEFITS

Previously, the corporation established and managed a savings and social security fund in accordance with article 31 of the employees' internal policy, as approved by resolution No. 6 of 1981 and the General Manager's resolution dated 1 January 1984 for the benefit of the employees. In accordance with the General Manager's resolution dated 19 June 2005, the Corporation suspended the savings and social security fund scheme and absorbed the assets and liabilities of the fund.

Under the new scheme, the employee is entitled to the following:

(a) Entitlement to end of service indemnity under the Corporation bye-laws

(b) The amount deducted from the employees at the 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.

All these amounts are not invested on behalf of the employees as was the case under the previous scheme.

19. PAID-UP CAPITAL

At 31 December 2006, the capital of the corporation and the share of each member state and other authorities are as follows:

	Issued		Paid	
	2006 KD	2005 KD	**2006 KD**	2005 KD
A. Member State:				
The Hashemite Kingdom of Jordan	**525,000**	525,000	**525,000**	525,000
United Arab Emirates	**2,350,000**	2,350,000	**2,350,000**	2,350,000
Kingdom of Bahrain	**500,000**	500,000	**500,000**	500,000
The Republic of Tunisia	**1,250,000**	1,250,000	**1,250,000**	1,250,000
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	**-**	-
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	**25,601,667**	25,601,667
B. Arab Financial Authorities:				
Arab Fund for Economical and Social Development	**15,202,800**	15,202,800	**12,162,240**	9,121,680
Arab Monetary Fund	**8,118,000**	8,118,000	**6,494,400**	4,870,800
BADEA	**5,106,960**	5,106,960	**3,064,176**	2,042,784
Arab Authority for Agricultural Investment and Development	**1,092,240**	1,092,240	**655,344**	436,896
	55,621,667	55,621,667	**47,977,827**	42,073,827

The payment of the share capital of the State of Palestine is postponed based on the shareholder council resolution number 4 of 1981.

20. GENERAL RESERVE

Article 24 of the Corporation's Convention states that "Net income realised from the Corporation's operations is to be accumulated to establish a reserve equal to three times the capital", after which time, the council shall decide the manner of utilisation or distribution of the realised annual profits, provided that no more than 10 percent 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.

21. CONTINGENT AND UNRECORDED LIABILITIES

a) The underlying value of written guarantee contracts in force as of 31 December 2006 amounted to KD 57,362,699 (2005: KD 37,861,886). At the balance sheet date there were written guarantee contracts reinsured against commercial and non-commercial risks amounted to KD 2,049,352 (2005: Nil).

b) Included in reinsurance claims receivable is an amount of 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.$ 1,040,000 (equivalent to KD 301,226 at the rate of exchange prevailing at 31 December 2006). 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.

22. FINANCIAL INSTRUMENTS

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

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest.

The effective interest rates and the periods in which interest bearing financial assets are repriced or mature are as follows:

31 December 2006	Less than 1year KD	Within 1 - 5 years KD	More than 5 years	Total KD	Effective interest rate %
Bonds	**3,497,967**	**1,274,914**	**422,448**	**5,195,329**	4-8
Receivable from member state	**4,343,632**	**17,374,528**	**-**	**21,718,160**	2
Recoverable claims	**3,765,467**	**-**	**-**	**3,765,467**	5
	11,607,066	**18,649,442**	**422,448**	**30,678,956**	

31 December 2005	Less than 1year KD	Within 1 - 5 years KD	More than 5 years	Total KD	Effective interest rate %
Bonds	1,470,351	1,322,910	422,123	3,215,384	2-5
Receivable from member state	13,455,000	21,932,612	-	35,387,612	2
Recoverable claims	2,403,461	-	-	2,403,461	5
	17,347,780	23,255,522	422,123	41,025,425	

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which potentially subject the Corporation to credit risk, consist principally of cash at banks and bonds. Cash is placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or governments. In the opinion of management, financial assets related to the Corporation's investment guarantee business do not expose the Corporation to credit risk since such business is backed up by the member states.

Foreign currency risk

The Corporation incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Corporation ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

22. FINANCIAL INSTRUMENTS (continued)

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

Cash flow risk
Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the Corporation has no significant exposure to such risk.

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

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

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

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

Fair value of financial instruments
Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. At the balance sheet date, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of certain investments available for sale as indicated in Note 7.