



INTER-ARAB INVESTMENT GUARANTEE CORPORATION



Annual Report  
2004



**The Inter-Arab Investment Guarantee Corporation** is an autonomous regional organization with a membership of all the Arab countries. The Corporation has its main office in the State of Kuwait. It commenced its activities in the middle of 1975.

### **OBJECTIVES:**

- The Corporation provides insurance coverage for inter-Arab investments against non-commercial risks, and for inter-Arab export credits as well as Arab export credits to international markets against non-commercial and commercial risks. The non-commercial risks include nationalization, currency inconvertibility, war, civil disturbances, cancellation of the import license and prevention of the entry of goods or their transit passage into the country. The commercial risks include insolvency of the debtor, bankruptcy, as well as default and abrogation or termination of the export contract.
- The Corporation also undertakes the promotion of the flow of investments among the Arab countries by carrying out activities which are ancillary to its main purpose and in particular those relating to the identification of investment opportunities as well as the study of the conditions that govern the flow of investments among the said countries.

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## Organization & Management

### **The Subscribers' Council:**

It is the highest authority in the Corporation. It is entrusted with all the powers necessary for the realization of the objectives of the Corporation. Among its functions are the formulation of general policies, the adoption of the financial and administrative rules and regulations, deciding upon the financial and administrative matters and appointment of members of the Board of Directors and the Director General.

The Council is composed of one representative for each member country.

### **The Board of Directors:**

The Board consists of eight part time members elected by the Subscribers' Council for a three-year term. The Board elects its Chairman from among its members. In administering the Corporation, the board exercises the powers delegated to it by the Council. These comprise preparation of the financial and administrative regulations, approval of the operations and research programs presented by the Director General of the Corporation and overseeing their execution, determination of how the Corporation's resources are to be invested, adoption of its annual financial program, and presentation to the Subscribers' Council of an annual report on the activity of the Corporation.

### **The members of the current Board of Directors are:**

H.E. Nassir Ben Mohamad Al Gahtani	Chairman
H.E. Khaled AB. Al-Mujhem	Member
H.E. Mr. Ali Ramadhan Shinaibish	Member
H.E. Mr. Jasim Rashid Al Shamsi	Member
H.E. Dr. Mohammed Said Mohammed Shahin	Member
H.E. Mr. Mansour Ibrahim Al Mahmoud	Member
H.E. Dr. Ahmad Al Sa'eed Sharaf Aldin	Member
H.E. Abdeltif Loudayi	Member

The Director General:

**Mr. Fahad Rashid Al Ibrahim**

## Organization & Management

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His Excellency the Chairman of the 32<sup>nd</sup> Session of the Subscribers' Council of the Inter-Arab Investment Guarantee Corporation,

In accordance with Article (12) (e) of 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 2004.

Please accept my highest consideration,

**Nassir Ben Mohamad Al Gahtani**  
Chairman of the Board of Directors

Abu Dhabi, April 2005

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## Chapter One: Introduction

In 2004, the **Inter-Arab Investment Guarantee Corporation** continued to further develop its guarantee operations and support activities towards more effective achievement of its goals.

In this regard, the total value of guarantee contracts signed during the year (47 contracts) totaled approximately US\$ 134.6 million. Total value of current contracts as at 31/12/2004, reached approximately US\$ 266.1 million. The value of outstanding guarantee commitments vis-à-vis the guaranteed parties as at 31/12/2004 totaled approximately US\$ 100.3 million. The Corporation paid approximately US\$ 1.96 million in compensations for realized commercial and non-commercial risks, and recovered US\$ 562,680 representing part of the compensations previously paid for realized commercial risks.

In the course of continued endeavors to strengthen the guarantee industry in the Arab countries, enabling both investors and exporters to get maximum benefit from its services, the Corporation launched an intensive marketing program covering several Arab countries, including arranging for field visits and introductory seminars. The Corporation also organized the first forum for Guarantee and Finance Mechanisms, in cooperation with the Arab Investment Company in the Libyan Arab Jamahiriya, and participated in a number of activities supporting the reconstruction of Iraq and Southern Sudan. Furthermore, the Corporation took part in other inter-Arab meetings and in the fourth Forum of the Islamic Guarantee Agencies. Provisions for new and diversified guarantee contracts were further considered during the year, including guarantee contracts for financial leasing, construction contracting, services, as well as bank guarantee in response to rising demand. The Corporation signed a Framework Agreement with the Trade Bank of Iraq, and signed (MOU) with Export Guarantee Fund of Iran, and with other Arab Companies.

Regarding **ancillary activities and support services for its guarantee business**, the Corporation continued to provide several services in areas related to raising awareness on investment issues, investment promotion, and human resource development. The annual report on Investment Climate in the Arab Countries 2003 was finalized and published, whereas preparations for the 2004 report were initiated. (4) issues of the quarterly bulletin **Daman Al-Istithmar** were published, covering the Corporation and Board of Directors

## Chapter One: Introduction

activities, analyzing investment, trade and guarantee related trends on national and regional levels, and depicting Arab countries ranking in International indices. A number of introductory papers and studies were prepared and submitted in (26) conferences and workshops that the Corporation took part in. In accordance with the media program adopted for 2004, a number of press releases were issued, and a press conference was organized for co-launching the World Investment Report 2004 published by the UN Conference on Trade & Development (UNCTAD). Preparations for the Eleventh Arab Businessmen and Investors Conference were initiated in cooperation with other parties, introducing a **new model as suggested by the Corporation**. The Corporation also continued its technical support in the area of investment promotion and identifying investment opportunities, in addition to implementing the electronic content management system as part of the integrated program set for improvement of its IT infrastructure.

**Reviewing international developments** in 2004, the world economy witnessed, according to IMF sources, an unprecedented improvement since three decades. Growth rate increased to 5.1%, compared to a growth rate of 4.0% in 2003, and the value of world output reached US\$ 40.1 trillion. The remarkable global economy pickup was attributed to increasing profits of companies, regained investor confidence, stock markets recovery and the strength of international trade and industrial production, despite continued adverse effects of a weak US Dollar and a higher Euro in the international financial markets. The adverse effects of the Tsunami disaster on affected Asian economies, was not yet factored in as it occurred by year end.

**The Group of Advanced Economies** witnessed growth rate rising to 3.4% from 2.0% in 2003, whereas **other emerging markets and developing countries** witnessed a better growth rate which rose to around 7.2% from 6.4% in 2003, especially in China, which maintained a high growth level of around 9.5% for the same period. **Inflation**, as measured by the Consumer Price Index, maintained a low level in **the Group of advanced economies**, reaching around 2.0% in 2004, compared to 1.8% in 2003, while **other emerging markets and developing countries** reached inflation rate of 5.7% in 2004; decreasing from 6.0% in 2003.

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**World trade volume of goods and services** recorded remarkable improvement with growth rate rising by 8.8% in 2004 from 5.1% in 2003. The value of **World exports of goods and services** increased from US\$ 9.2 trillion to US\$ 10.8 trillion for the same period.

According to preliminary estimates of the United Nations Conference on Trading and Development (UNCTAD) sources, global **foreign direct investment (FDI) inflows** during 2004 reached around US\$ 612 billion, rising by 6% of their level in 2003; the increase was attributed to more activity in cross-border mergers & acquisitions (M&A), privatization programs, improved global economic growth, recovery of international stock markets, regained investor confidence, and continued improvement of investment policies and related measures. FDI inflows to developed countries were around US\$ 321 billion comprising 53.0% of total world FDI inflows; whereas the developing economies received US\$ 255 billion with a rising share of 42%, driven by strength of FDI inflows to China, while economies in transition (in Central and Eastern Europe) received US\$ 36 billion, constituting a share of 5.0%. USA regained its position as the main recipient of FDI inflows (US\$ 121 billion), followed by China (US\$ 62 billion), the United Kingdom (US\$ 55 billion), and Luxembourg (US\$ 52 billion). Preliminary estimates of FDI inflows to **Arab countries** in 2004 exceeded US\$ 12 billion, positively affected by opening new sectors for FDI, intensive national investment programs and continued improvement in their investment climate, compared to FDI inflows of US\$ 8.7 billion in 2003, which at the time comprised 1.54% of world total FDI inflows, and around 5.0% of total FDI inflows to developing countries. Main recipients of FDI inflows in 2003 were Morocco (US\$ 2.3 billion), Sudan (US\$ 1.4 million), Algeria (US\$ 634 million) and Tunisia (US\$ 584 million), respectively.

**The guarantee industry** witnessed new developments during the year. Major guarantee companies, including new companies established following the restructuring and merging operations last year, formed a stable and strong guarantee market, with enhanced transparency of financial data and the enforcement of better financial adequacy, which resulted in a notable drop in their encountered losses.

Efforts during the year were focused on improvement of guarantee schemes to tackle rising political instability and terrorism, which constitutes a major deterring factor in the guarantee markets. Efforts also focused on increasing use of

## Chapter One: Introduction

e-commerce, and provisions of quality support services like more reliable credit information. The year witnessed a trend towards privatizing or restructuring of national guarantee agencies, particularly in a number of Eastern European countries to be in line with international developments, as well as increased levels of project finance. More attention was given to environment issues and social resulting from the establishment of mega projects, in order to set necessary restrictions and controlling mechanisms.

Available data, provided by members of the **International Union of Credit and Investment Insurers (The Berne Union)**, established in 1934 and currently encompassing (55) national, regional, and international agencies from (43) different countries, indicated that the total value of guarantee operations reached US\$ 650.8 billion in 2003, of which US\$ 636 billion were in exports credit, of which 89.5% was short term and US\$ 14.8 billion in investment guarantees.

**As to main economic developments** that took place **in the Arab countries**, initial estimates of economic growth, according to international sources, reflected relative improvement of performance attributed to continued economic reform and restructuring programs, despite the fact that economic growth (in the Middle East) was about 5.5% in 2004 compared to 5.8% in 2003, taking into consideration the varying performance levels between oil and non-oil countries. Affected by higher oil prices and interest rates, inflation in Arab countries (in the Middle East) is estimated to have risen slightly to 8.3% on average compared to 7.1% in 2003. Increased oil prices entailed an increase of oil revenues and improvement of internal balances regarding budget deficits in several Arab countries. With regard to external balances, the current account position improved in a number of Arab countries, affected by the depreciation of the dollar, and the appreciation of the Euro, which had increased the Arab imports bill from their EU trade partners.

**Arab regional integration** efforts were further enhanced during the year. The joint Arab organizations adopted certain initiatives to support Southern Sudan, assess reconstruction needs for Iraq. The year witnessed the establishment of the first regional organization for combating terrorism and money laundering (comprising 14 Arab countries), and an Arab branch of the global network (Parliamentarians against Corruption). On another note, eleven Arab countries signed two Agreements for liberalizing Air Transport and Collective Negotiation

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Mechanism. The Arab Tourism Organization was also established, and alliances amongst Arab tourist transportation companies were encouraged with the intention of establishing a regional transport company to enhance inter-Arab tourism, which represents around 42% of the total tourism movement, especially that several Arab countries have adopted national strategies for enhancement of the tourism sector and increasing their overall share of tourists.

Arab countries intensified their efforts during the year towards attracting **Arab and foreign investments** through investment promotion programs conducted by Arab Investment Promotion Agencies (IPAs). Several initiatives took place towards that end including launching the Arab Investment Map, the Arab Investor Card, and a regional e-commerce market, Unified Arab Stock Exchange, opening of several Arab financial centers to attract foreign capital and Arab Funds abroad, and proposals to establish a Joint Arab Investment Promotion Bureau, and an Arab Union for Venture Capital. Special attention was given to support the advancement of small & medium enterprises (SMEs) sector and enhancing their cooperation through a regional network, with other steps taken to introduce financing and credit schemes for micro projects.

The Arab countries witnessed further liberalization in their **trade policies**, strengthened by continued implementation of Greater Arab Free Trade Area agenda (GAFTA), consisting of (17) Arab countries, representing 90% and 95% of total Arab and inter-Arab trade, respectively. By the end of 2004, tariff reduction on goods traded reached 80%. A Framework Agreement for the liberalization of trade in services among Arab countries was approved and efforts were intensified to achieve unified Arab rules of origin.

**On Arab international relations**, six Arab countries (Algeria, Saudi Arabia, Sudan Lebanon, Libya and Yemen) continued with the World Trade Organization (WTO) membership accession process. Eleven Arab countries are already full members in WTO out of 148 members; Iraq had acquired an observer status. Arab economic and commercial cooperation was further enhanced with China, India, Iran, Turkey, and other countries in central and eastern Asia and Eastern Europe. Arab countries also extended commercial relations to new regions including regional economic blocks in Latin America (like MERCUSOR), which member states expressed interest in signing bilateral trade agreements with Arab countries.

## Chapter One: Introduction

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The year witnessed enhanced implementation of the Euro-Mediterranean Association Agreement already signed between (8) Arab countries and (15) EU countries, initialing the Syria - EU Association Agreement upon conclusion of their negotiations, while the GCC countries continued the negotiation process with the EU (which started back in 1990).

A number of **Arab Bilateral Trade Agreements** were signed during the year between Arab countries, and with other countries. Also a number of bilateral free trade areas between Arab countries and non-Arab countries were approved, whereas several Joint Committees and Businessmen Councils were activated. Morocco and Bahrain signed bilateral free trade agreements with the USA (FTA) similar to the agreement signed with Jordan in 2000, paving the way for a free trade area with Arab countries by 2013. Egypt signed a Qualified Industrial Zones Agreement (QIZ) with the USA, similar to the agreement signed between USA and Jordan in 1997. Economic sanctions imposed on Libya by USA were lifted during the year.

Arab countries made further progress in improving the **legislative, administrative, and organizational environment**, particularly towards streamlining investment policies, enhancing FDI promotion programs catering to facilitating procedures, establishing one-stop-shop, opening up new sectors, rejuvenating privatization programs, and resorting more to public/private partnerships (PPPs), and earmarking special investment incentives for mega projects. On the other hand, new laws were issued pertaining to money laundering, information security, and auditing. The year witnessed more use of the electronic medium of exchange to facilitate provision of services, such as issuing and accrediting certificates of origin through the internet and adopting more transparent standards.

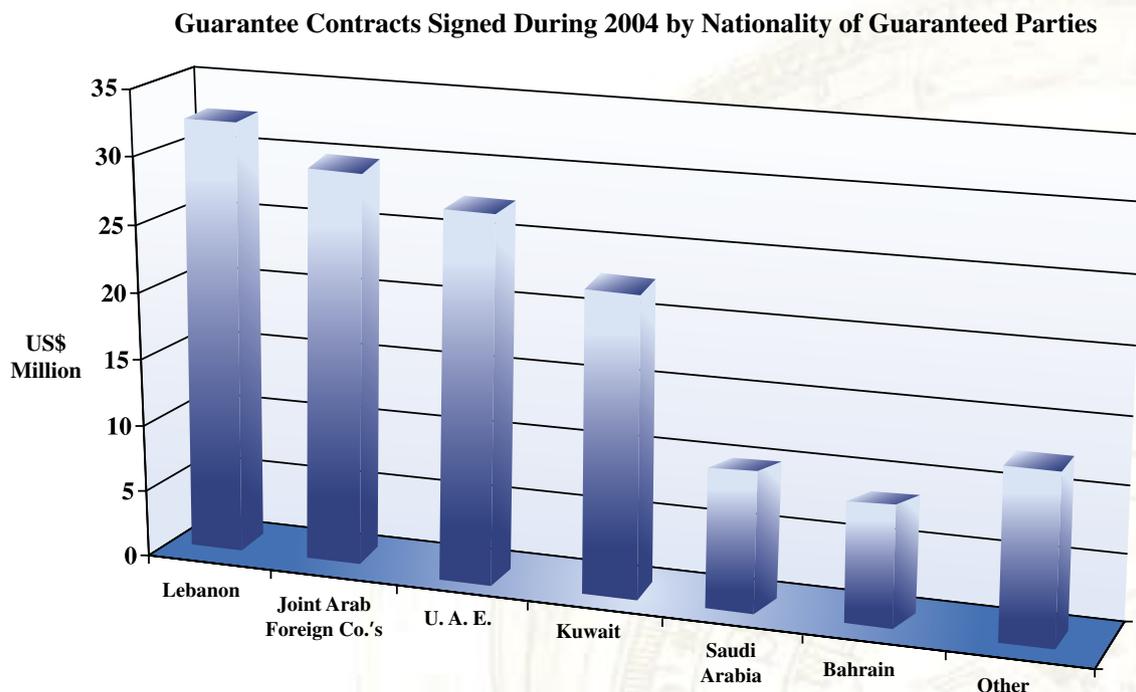
## Chapter Two: Guarantee Operations

### 2.1 Guarantee Contracts

#### 2.1.1 Value of Contracts:

Forty-seven Export Guarantee contracts were signed during 2004, with a cumulative value totaling approximately US\$ 134.6 mn (KD 39.7 mn)<sup>(1)</sup>, registering a 4.3% increase when compared to the value of contracts (Investment and Export Credit) signed during 2003 which totaled US\$ 129.1 mn (KD 38.1 mn). These contracts included a reinsurance treaty, in addition to five addendums which raised the maximum limits of guarantee for previously signed contracts. (See Table 1)

Exporters from eight Arab countries and joint Arab-foreign banks and companies benefited from the Corporation's guarantee. This included Lebanon (23.6%), joint Arab-foreign banks and companies (21.5%), the United Arab Emirates (19.3%), Kuwait (15.3%) and Saudi Arabia (6.7%). Four other countries accounted for (13.6%) of the guaranteed value of these contracts.

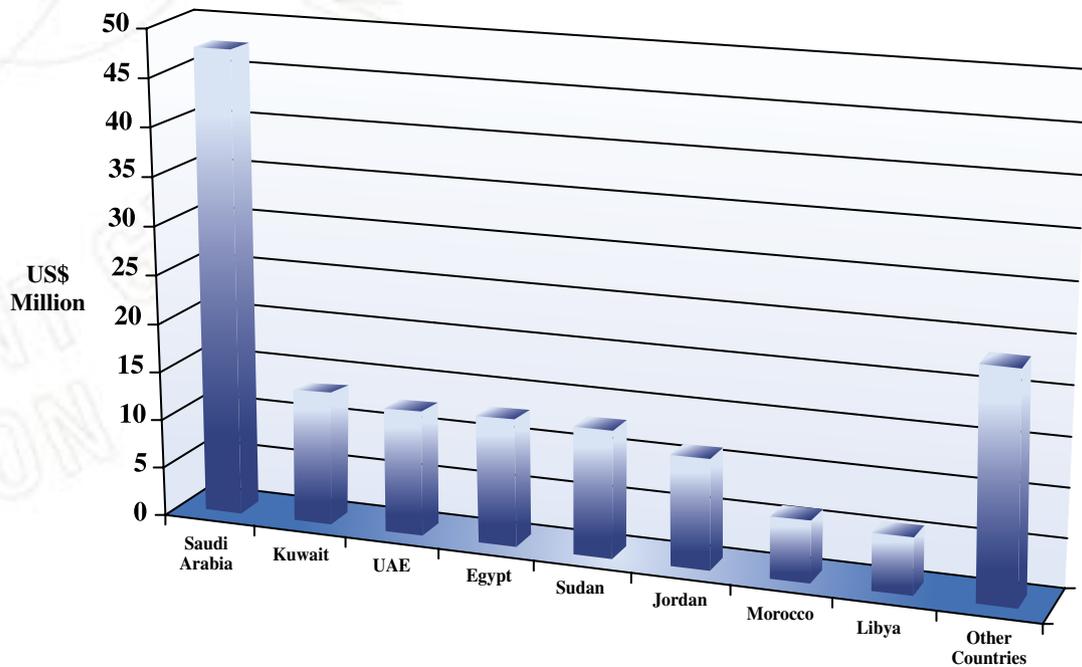


(1) US\$ = KD 0.2952 as at 31/12/2004

## Chapter Two: Guarantee Operations

The number of importing countries totaled twenty-four, with Saudi Arabia (36.2%), Kuwait (9.1%), the United Arab Emirates (8.4%), Egypt (8.3%), Sudan (8.2%), Jordan (7.3%), Morocco (3.4%) and Libya (3.2%). Eight other Arab countries and eight non-Arab countries accounted for 15.9% of the guaranteed value of these contracts.

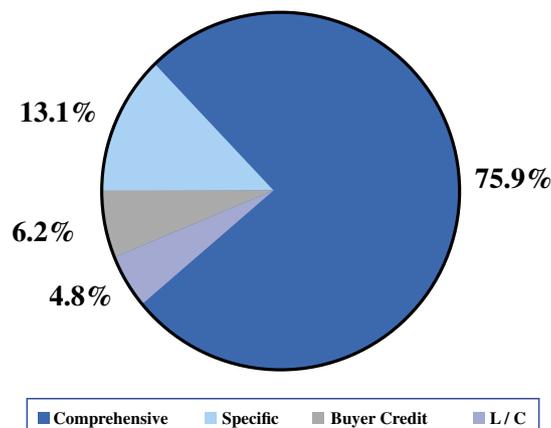
**Guarantee Contracts Signed During 2004 by Importing Countries**



### 2.1.2 Details of Contracts Signed:

Details of Export Credit Guarantee contracts signed during the year are specified in Table 3.

**Distribution of Contract by Type**



## Chapter Two: Guarantee Operations

### 2.1.3 Classification of Goods under Guarantee:

Goods covered under the guarantee contracts during the year included foodstuffs, chemicals, paper products, electrical products, jewelry, packaging and building materials and other miscellaneous products.

### 2.1.4 Value of Current Contracts & Outstanding Commitments:

The total value of current contracts reached approximately US\$ 266.1 mn (KD 78.5 mn) as at 31/12/2004, distributed between 36.3% for Investment Guarantee contracts and 63.7% for Export Credit Guarantee contracts, in comparison with US\$ 255.5 mn (KD 75.4 mn) for the previous year.

The total value of the Corporation's guarantee commitments vis-à-vis the guaranteed parties as at 31/12/2004<sup>(2)</sup> reached approximately US\$ 100.3 mn (KD 29.6 mn), representing 37.7% of the total current contracts, in comparison to the total value of the Corporation's commitments as at 31/12/2003 which totaled US\$ 120.9 mn (see Table 2).

### 2.1.5 Revenues from Guarantee Premia:

The total guarantee premia during the period amounted to approximately US\$ 1.25 mn (KD 369,600) recording a 60% decrease from 2003, and of which 48.7% was derived from Investment Guarantee contracts and 51.3% from Export Credit Guarantee contracts.

## 2.2 Compensation and Recovery:

During the year, four compensation payments amounting to US\$ 469,525 were paid to exporters against the realization of commercial risks. Exporters from three Arab countries benefited from the compensations paid. The Corporation paid a fifth claim against the realization of a non-commercial risk for the amount of US\$ 1,493,302 to a joint Arab-foreign bank. This amount represents the interest due on a previously paid compensation to the bank for non-commercial risk that occurred in a member-country during 1997.

On the other hand, the Corporation recovered US\$ 562,680 for compensations paid against commercial losses incurred in a number of Arab countries.

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(2) The Outstanding Guarantee commitments represent the following:

- In the case of Investment Guarantee Contracts: The value of investments executed.
- In the case of Export Credit Guarantee Contracts: The value of shipments executed but not yet repaid. Such commitments do not constitute compensation unless any of the risks covered is realized.

## Chapter Two: Guarantee Operations

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### 2.3 Reinsurance

#### 2.3.1 Inward Reinsurance:

One facultative reinsurance treaty was signed with an Arab export credit guarantee agency for the value of Euro 156,250.

#### 2.3.2 Outward Reinsurance:

The Corporation is currently reviewing an offer was received from a major Arab reinsurance company, to enter into a treaty that covers commercial risks.

On the other hand, the Corporation contacted a number of internationally renowned reinsurance companies, and positive feedback was received with regards to cooperation with the Corporation and reinsuring its commitments. To that effect, the Corporation outsourced a consultant specialist in the international reinsurance market, to follow-up with these reinsurance companies to ensure the entry into a Quota Share Treaty with one or more of them during 2005.

### 2.4 Marketing Guarantee Services:

The Corporation continued its efforts to market the guarantee services into various Arab countries through the following means:

2.4.1 The Corporation delegated one **field mission** to Jordan, in addition to several field visits in the Corporation's country of domicile and Saudi Arabia through the Corporation's Regional Office in Riyadh. A total of 282 commercial, industrial, banking and financial institutions were visited.

2.4.2 A **workshop** was organized for the purpose of introducing and marketing the Corporation's services in Jordan.

2.4.3 The first **forum** on mechanisms for guarantee and finance was organized in Tripoli, Arab Libyan Jamahiriya, in cooperation with the Arab Investment Company, attended by representatives of the Libyan government and private sector in addition to a group of Arab companies and businessmen.

2.4.4 A **meeting** was organized and held in Kuwait with a delegate from the General Union of Yemeni Chambers of Industry & Commerce for the purpose of

## Chapter Two: Guarantee Operations

introducing the Corporation's services and exchanging views on optimal ways for Yemeni businessmen to benefit from these services.

2.4.5 The Corporation participated in twelve Arab **conferences and meetings** relevant to the Corporation's core business for the purpose of introducing its services. The meetings were held in six countries including Syria, Saudi Arabia, Jordan, Bahrain, Sudan and Iran.

2.4.6 Five **direct-mail campaigns** were conducted covering 2,760 Arab businessmen, as well as industrial, exporting and investment companies.

2.4.7 Four **Commission Agency Agreements** were signed to promote the guarantee services, raising the total number of such agreements to (57) covering (15) Arab countries, in addition to a commission agent agreement to promote loan guarantee contracts in both the U.K and France.

2.4.8 Three new **introductory brochures** have been published covering the Comprehensive and Specific Export Credit Guarantee contracts and the Direct Investment Guarantee contract.

### 2.5 Relationship with Guarantee Agencies:

Efforts were undertaken to explore new ways of joint cooperation and further strengthen existing ones with Export Credit Guarantee Agencies and in particular Arab ones. Such efforts included the following:

- In the month of April, a Meeting convened between the Corporation and the Saudi Export Program (an affiliate of the Saudi Development Fund). Avenues of developing areas of cooperation were discussed between the two institutions and in that context, the minutes of the meeting was signed by the participants in anticipation of signing a Memorandum of Understanding for cooperation in the fields of information-exchange, co-insurance, reinsurance and technical and managerial support.
- The Corporation signed a Memorandum of Understanding with The Export Credit Guarantee Company of Egypt, for cooperation in the area of export credit guarantee, in addition to other fields such as reinsurance, the exchange of credit information, debt recovery, training and the exchange of expertise.

## Chapter Two: Guarantee Operations

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- The Corporation signed a Memorandum of Understanding with the Export Guarantee Fund of Iran, specifying the possible areas of cooperation between the two parties both in investment and export guarantee, in addition to other fields such as reinsurance, the exchange of credit information, debt recovery, training and the exchange of expertise.
- The Corporation participated in the proceedings of the 4th Meeting of ECAs in the member-countries of the Islamic Corporation for Insurance of Investment and Export Credits, convened in Tehran, Iran, during the month of December. In the Meeting, technical issues concerning the guarantee industry and technical cooperation in the underwriting procedures of each guarantee agency were discussed.

Alongside this occasion, a side-meeting was held between the participating Arab Export Credit Guarantee Agencies to decide on the appropriate time and place for holding the upcoming Tenth Forum of Arab National Export Credit Guarantee Agencies; which was agreed to be during the fourth quarter of 2005 in the State of Kuwait.

**Table (1)**  
**DISTRIBUTION OF THE EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 2004**  
 (VALUE IN US DOLLARS, GRAND TOTAL IN US DOLLARS & KD EQUIVALENT)

Nationality of Guaranteed Parties Importing Countries	Lebanese	Joint Arab- Foreign Co.	Emirati	Kuwaiti	Saudi	Bahraini	Omani	Jordanian	Egyptian	TOTAL		% of TOTAL
										US\$	KD	
Saudi Arabia	13,639,400	6,000,000	15,025,891	10,944,444	-	-	2,532,500	600,000	-	48,742,236	14,388,708	36.20%
Kuwait	3,780,000	-	2,658,786	-	5,307,308	-	450,000	-	-	12,196,094	3,600,287	9.06%
UAE	3,580,000	500,000	-	4,788,618	546,903	-	1,820,000	-	-	11,235,521	3,316,726	8.34%
Egypt	3,330,000	3,000,000	554,664	-	-	4,350,000	-	-	-	11,234,664	3,316,473	8.34%
Sudan	25,000	6,999,900	-	-	578,917	-	-	2,657,051	827,392	11,088,260	3,273,254	8.24%
Jordan	5,875,000	500,000	1,758,889	813,008	920,697	-	-	-	-	9,867,594	2,912,914	7.33%
Morocco	100,000	3,000,000	-	1,471,610	-	-	-	-	-	4,571,610	1,349,539	3.40%
Libya	-	3,000,000	1,063,514	-	-	-	-	-	212,907	4,276,421	1,262,399	3.18%
France	-	-	-	-	-	3,600,000	-	-	-	3,600,000	1,062,720	2.67%
Algeria	-	3,000,000	-	-	-	-	-	-	-	3,000,000	885,600	2.23%
Bahrain	550,000	-	654,470	-	1,242,537	-	390,000	-	-	2,837,008	837,485	2.11%
Qatar	600,000	-	1,227,132	443,767	168,073	-	-	300,000	-	2,738,972	808,544	2.03%
Oman	216,000	-	1,268,036	592,818	213,426	-	-	-	-	2,290,280	676,091	1.70%
Syria	25,000	1,000,000	-	-	-	-	-	-	-	1,025,000	302,580	0.76%
Lebanon	-	500,000	-	-	-	-	-	500,000	-	1,000,000	295,200	0.74%
Austria	-	1,000,000	-	-	-	-	-	-	-	1,000,000	295,200	0.74%
Italy	60,000	-	-	800,000	-	-	-	-	-	860,000	253,872	0.64%
USA	-	-	818,088	-	-	-	-	-	-	818,088	241,500	0.61%
Yemen	25,000	-	613,566	-	-	-	-	-	-	638,566	188,505	0.48%
India	-	-	-	596,206	-	-	-	-	-	596,206	176,000	0.44%
Tunisia	-	500,000	-	-	-	-	-	-	-	500,000	147,600	0.37%
Singapore	-	-	-	196,477	-	-	-	-	-	196,477	58,000	0.15%
Brunei	-	-	163,618	-	-	-	-	-	-	163,618	48,300	0.12%
Canada	-	-	163,618	-	-	-	-	-	-	163,618	48,300	0.12%
<b>TOTAL IN US\$</b>	<b>31,805,400</b>	<b>28,999,900</b>	<b>25,970,272</b>	<b>20,646,949</b>	<b>8,977,860</b>	<b>7,950,000</b>	<b>5,192,500</b>	<b>4,057,051</b>	<b>1,040,299</b>	<b>134,640,231</b>		
<b>TOTAL IN KD</b>	<b>9,388,954</b>	<b>8,560,770</b>	<b>7,666,424</b>	<b>6,094,979</b>	<b>2,650,264</b>	<b>2,346,840</b>	<b>1,532,826</b>	<b>1,197,641</b>	<b>307,096</b>		<b>39,745,796</b>	<b>100.00%</b>
<b>% OF TOTAL</b>	<b>23.62%</b>	<b>21.54%</b>	<b>19.29%</b>	<b>15.33%</b>	<b>6.67%</b>	<b>5.90%</b>	<b>3.86%</b>	<b>3.01%</b>	<b>0.78%</b>		<b>100.00%</b>	

Table (2)  
**VALUE OF CURRENT CONTRACTS & OUTSTANDING COMMITMENTS AS AT 31/2004/12/ BY HOST/IMPORTING COUNTRY & TYPE OF CONTRACT**  
 (IN US DOLLARS AND ITS EQUIVALENT IN KD)<sup>(1)</sup>

MEMBER COUNTRY	CURRENT INVESTMENT CONTRACTS <sup>(2)</sup>		CURRENT EXPORT CREDIT CONTRACTS		TOTAL CURRENT CONTRACTS		OUTSTANDING COMMITMENTS FOR INV. CONTRACTS		OUTSTANDING COMMITMENTS FOR EXP. CONTRACTS		TOTAL OUTSTANDING COMMITMENTS <sup>(3)</sup>		% OF TOTAL
	US\$	KD	US\$	KD	US\$	KD	US\$	KD	US\$	KD	US\$	KD	
JORDAN	-	-	9,824,546	2,900,206	9,824,546	2,900,206	-	-	633,289	186,947	633,289	186,947	0.63%
UAE	-	-	12,468,385	3,680,667	12,468,385	3,680,667	-	-	1,658,973	489,729	1,658,973	489,729	1.65%
BAHRAIN	-	-	13,878,201	4,096,845	13,878,201	4,096,845	-	-	2,356,025	695,498	2,356,025	695,498	2.35%
TUNISIA	14,041,280	4,144,986	594,591	175,523	14,635,871	4,320,509	4,721,095	1,393,667	94,591	4,815,686	1,421,590	4.80%	
ALGERIA	-	-	6,183,067	1,825,241	6,183,067	1,825,241	-	-	3,183,067	939,641	3,183,067	939,641	3.17%
SAUDI ARABIA	-	-	48,293,508	14,256,244	48,293,508	14,256,244	-	-	2,814,329	830,790	2,814,329	830,790	2.81%
SUDAN	41,791,924	12,336,976	30,479,080	8,997,424	72,271,004	21,334,400	18,404,826	5,433,105	23,124,791	41,529,616	12,259,543	41.41%	
SYRIA	-	-	1,025,000	302,580	1,025,000	302,580	-	-	-	-	-	0	0.00%
OMAN	-	-	2,334,626	689,182	2,334,626	689,182	-	-	176,971	52,242	176,971	52,242	0.18%
USA	-	-	816,802	241,120	816,802	241,120	-	-	-	-	-	0	0.00%
QATAR	-	-	2,782,316	821,340	2,782,316	821,340	-	-	362,401	106,981	362,401	106,981	0.36%
KUWAIT	-	-	11,694,301	3,452,158	11,694,301	3,452,158	-	-	526,874	155,533	526,874	155,533	0.53%
LEBANON	25,700,000	7,586,640	915,967	270,393	26,615,967	7,857,033	20,827,810	6,148,370	63,240	20,891,050	6,167,038	20.83%	
LIBYA	-	-	4,255,644	1,256,266	4,255,644	1,256,266	-	-	-	-	-	0	0.00%
EGYPT	-	-	13,653,675	4,030,565	13,653,675	4,030,565	-	-	6,995,229	2,064,992	6,995,229	2,064,992	6.97%
MOROCCO	-	-	4,439,552	1,310,556	4,439,552	1,310,556	-	-	-	-	-	0	0.00%
YEMEN	15,000,000	4,428,000	637,602	188,220	15,637,602	4,616,220	13,611,771	4,018,195	-	-	13,611,771	4,018,195	13.57%
FRANCE	-	-	3,600,000	1,062,720	3,600,000	1,062,720	-	-	-	-	-	0	0.00%
ITALY	-	-	820,000	242,064	820,000	242,064	-	-	236,428	69,794	236,428	69,794	0.24%
AUSTRIA	-	-	500,000	147,600	500,000	147,600	-	-	500,000	147,600	500,000	147,600	0.50%
CANADA	-	-	163,360	48,224	163,360	48,224	-	-	-	-	-	0	0.00%
BRUNEI	-	-	163,360	48,224	163,360	48,224	-	-	-	-	-	0	0.00%
<b>TOTAL</b>	<b>96,533,204</b>	<b>28,496,602</b>	<b>169,523,584</b>	<b>50,043,362</b>	<b>266,056,788</b>	<b>78,539,964</b>	<b>57,565,502</b>	<b>16,993,336</b>	<b>42,726,208</b>	<b>100,291,710</b>	<b>29,606,113</b>	<b>100.00%</b>	

(1) US\$ = 0.2952 KD

(2) Current contracts represent the value of guarantee contracts, regardless of activity

(3) Outstanding commitments represents the following:

- For Investment Guarantee contracts: The value of investment realised
- For Export Credit Guarantee contracts: The value of shipments executed by not yet repaid. Such commitments do not constitute compensation, unless any of the risks covered occur.

Cont. Table (3)  
EXPORT CREDIT GUARANTEE CONTRACT SIGNED DURING 2004

Nationality of Guaranteed Parties	Importing Country	Type of Good	Value in US\$	Value in KD
<b>Jordanian</b>	Sudan	Medicines	319,591	94,343
	Lebanon	Ammonia	500,000	147,600
	Sudan	Cement	800,000	236,160
	Sudan	Cement	349,920	103,296
	Qatar	Plastic Products	300,000	88,560
	Sudan	Cement	187,500	55,350
	Sudan	Cement	500,040	147,612
	Saudi Arabia	Foodstuffs	600,000	177,120
	Sudan	Medicines	500,000	147,600
		<b>Jordan's Total</b>	<b>4,057,051</b>	<b>1,197,641</b>
<b>Emirati</b>	Several Countries	Electrical Appliances	695,375	205,275
	Several Countries	Foodstuffs	22,783,751	6,725,763
	Several Countries	Foodstuffs	1,772,797	523,330
	Saudi Arabia	Foodstuffs	600,000	177,120
Addendum	Egypt	Foodstuffs	118,350	34,937
		<b>UAE's Total</b>	<b>25,970,272</b>	<b>7,666,424</b>
<b>Bahraini</b>	Egypt	Hotel Furniture	4,350,000	1,284,120
	France	Chemical Products	3,600,000	1,062,720
		<b>Bahrain's Total</b>	<b>7,950,000</b>	<b>2,346,840</b>
<b>Saudi Arabian</b>	Sudan	Trucks	578,917	170,896
	Kuwait	Carpets	480,208	141,757
	Several Countries	Packaging Material	4,015,715	1,185,439
	Several Countries	Plastic Products	2,835,893	837,156
	Bahrain	Electrical Appliances	80,035	23,626
	Jordan	Packaging Material	426,851	126,006
Addendum	Kuwait	Plastic Products	400,173	118,131
Addendum	Kuwait	Plastic Products	160,069	47,252
		<b>Saudi Arabia's Total</b>	<b>8,977,860</b>	<b>2,650,264</b>
<b>Omani</b>	Saudi Arabia	Medical Products	2,332,500	688,554
	Several Countries	Foodstuffs	2,860,000	844,272
		<b>Oman's Total</b>	<b>5,192,500</b>	<b>1,532,826</b>
<b>Kuwaiti</b>	UAE	Assorted Goods	3,000,000	885,600
	Several Countries	Insulating Material	12,584,011	3,714,800
	Italy	Chemical Products	800,000	236,160
	Several Countries	Foodstuffs	2,411,924	712,000
	Morocco	Chemical Products	1,471,610	434,419
Addendum	Saudi Arabia	Foodstuffs	379,404	112,000
		<b>Kuwait's Total</b>	<b>20,646,949</b>	<b>6,094,979</b>
<b>Lebanese</b>	Several Countries	Jewelry	17,110,000	5,050,872
	Several Countries	Paper Products	1,755,000	518,076
	UAE	Fertilizers	200,000	59,040
	Several Countries	Industrial Appliances	600,000	177,120
	Several Countries	Garments	1,000,000	295,200
	Several Countries	Paper Products	4,290,000	1,266,408
	Several Countries	Jewelry	350,000	103,320
	UAE	Foodstuffs	100,000	29,520
	Several Countries	Medicines & Beauty Products	2,181,000	643,831
	UAE	Fertilizers	620,000	183,024
	Saudi Arabia	Ceramics	3,385,000	999,252
	Saudi Arabia	Industrial Appliances	139,400	41,151
Addendum	Bahrain	Jewelry	75,000	22,140
		<b>Lebanon's Total</b>	<b>31,805,400</b>	<b>9,388,954</b>
<b>Egyptian</b>	Sudan	Medicines	76,830	22,680
	Libya	Medicines	212,907	62,850
	Sudan	Building Material	750,562	221,566
		<b>Egypt's Total</b>	<b>1,040,299</b>	<b>307,096</b>
<b>Joint Banks &amp; Companies</b>	Saudi Arabia	Urea	1,000,000	295,200
	Several Countries	Assorted Goods	25,000,000	7,380,000
	Sudan	Urea	1,999,900	590,370
	Austria	Assorted Goods	1,000,000	295,200
		<b>Joint Arab-Foreign Banks &amp; Companies' Total</b>	<b>28,999,900</b>	<b>8,560,770</b>
		<b>GRAND TOTAL</b>	<b>134,640,231</b>	<b>39,745,796</b>

## Chapter Two: Guarantee Operations

Guarantee Contracts Signed During 2004 by Nationality of Guaranteed Parties

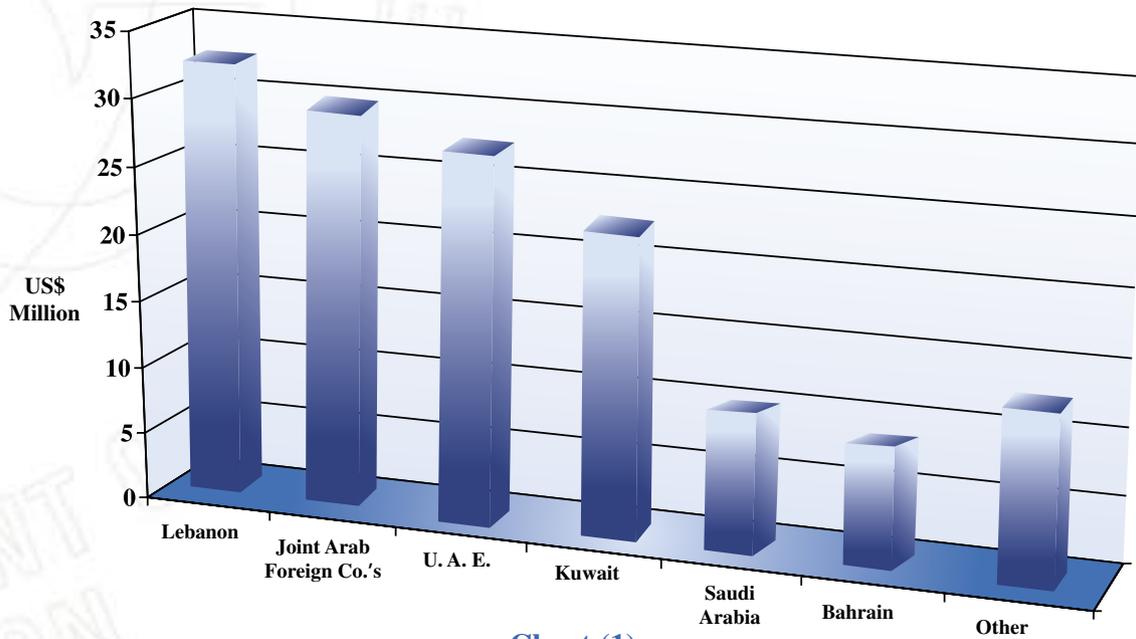


Chart (1)

Guarantee Contracts Signed During 2004, by Importing Countries

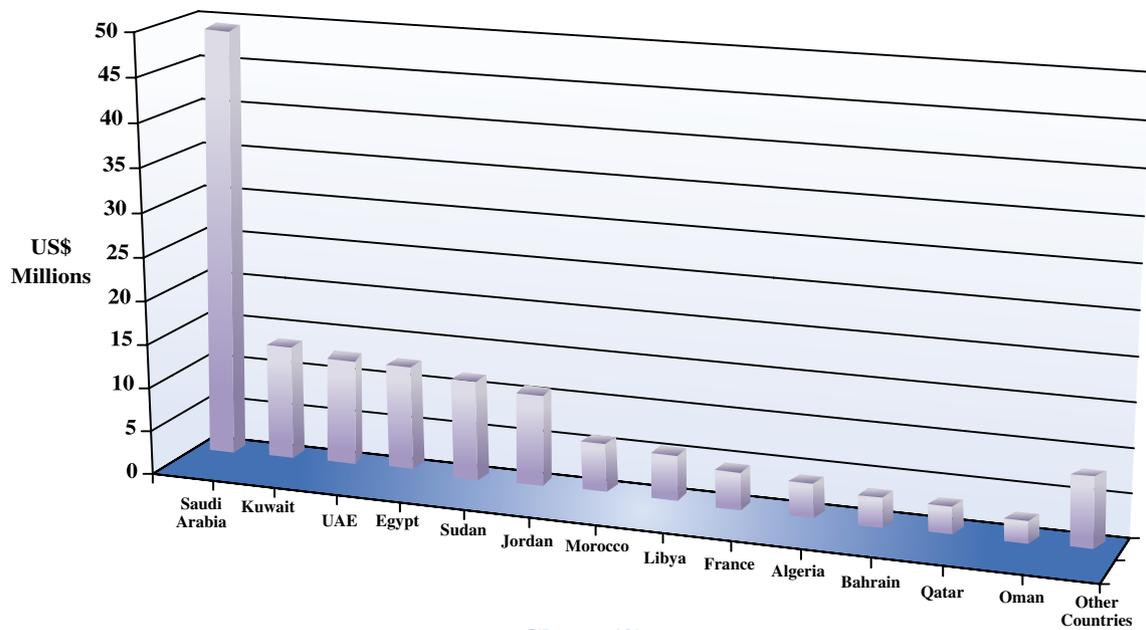
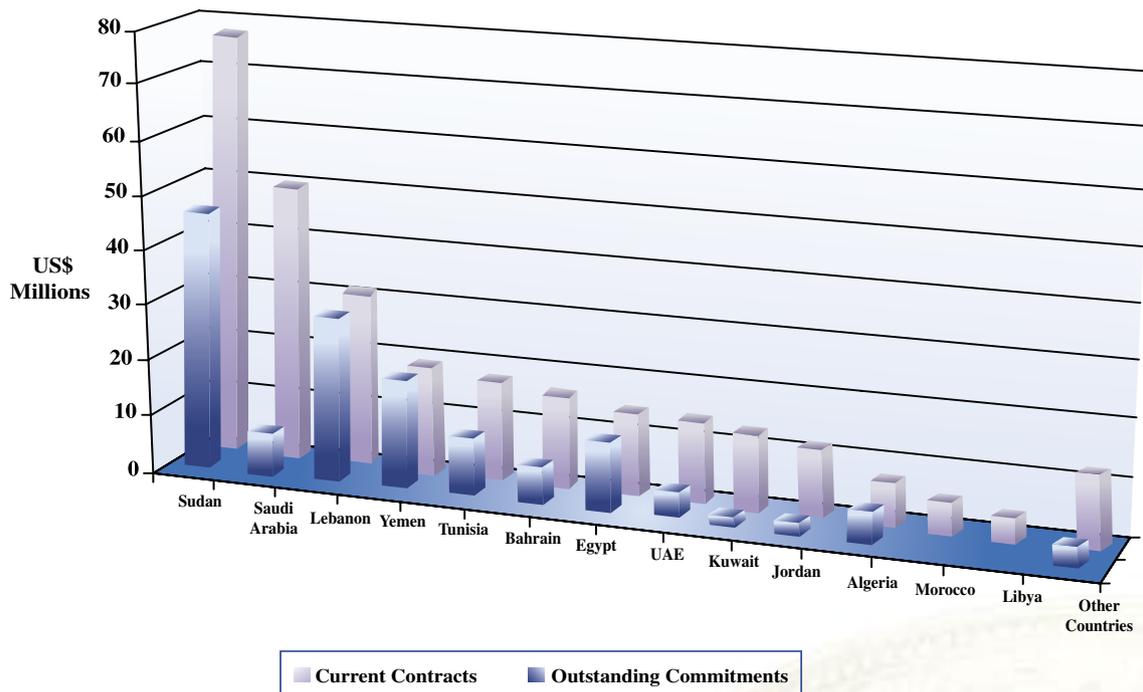


Chart (2)

## Chapter Two: Guarantee Operations

**Total Current Contracts & Outstanding Commitments  
as at 31/12/2004**



**Chart (3)**



## Chapter Three: Ancillary Activities & Support Services

### 3.1 Reports, Studies, Publications and Conferences

Pursuing its objective of dissemination of information and raising awareness on investment issues in the Arab countries, the Corporation continued during the year to develop and publish the annual survey on "Investment Climate in the Arab Countries", the Quarterly Bulletin "Daman Al-Istithmar", and the preparation of a number of specialized studies and introductory papers, in addition to the attendance of selected conferences and seminars, as follows:

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

- The Corporation resumed the distribution of the 2002 edition of the report, upon demand from interested parties.
- Information and data needed for the preparation of the 2003 edition of the report was received from national contacts and the report was duly finalized and distributed to all concerned parties and other research and media centers.
- National contacts were approached to arrange for providing needed data for the preparation of the 2004 edition of the report, as per the tables designed for this purpose which cover macroeconomic indicators, investment promotion activities, legislative and institutional developments, human resource development and initiatives of the new economy.

#### 3.1.2 The Quarterly Bulletin "Daman Al-Istithmar"

Four issues of the quarterly Bulletin were published during the year; over 6,000 copies were distributed to investment institutions, investors and other investment parties in the Arab countries. The Bulletin was also made available online through the Corporation's website. It covered the following events and topics:

- **The Subscribers' Council Meeting and Board of Directors Meetings:** it covered the Subscribers' Council's annual meeting which was held in Kuwait during the course of annual joint meetings of Arab financial institutions on (14/4/2004). The Bulletin also covered the meetings of the Board of Directors for 2004, which were also held in Kuwait at the Corporation's headquarters on (6/3/2004 (14/4/2004, 8/7/2004) and (21/11/2004) consecutively.

### Chapter Three: Ancillary Activities & Support Services

- **The Corporation's Activities**, which included the organization of two field visits to Syria and Sudan, and the *First Forum on Guarantee and Finance Mechanisms*, in co-operation with the Arab Investment Company in Tripoli, the Libyan Arab Jamahiriya, and sponsored by the Central Bank of Libya. A number of framework agreements were signed. Additionally, the Corporation participated in several activities such as the Carthage Investment Forum and the 4<sup>th</sup> Meeting of ECA's in the member-countries of the Islamic Corporation for Insurance of Investment and Export Credit and a number of economic conferences including the *Second Arab Business Community Forum & the World Trade Organization(WTO) Agreements*, the *International Conference on Institutional Dimension of Development Performance*, and the *International Conference on Developing Countries and (WTO): Facts and Future Challenges*.
- **The Corporation's publications**; one of which was a review of the Annual Report on Investment Climate in the Arab Countries 2003, which particularly highlighted emerging developments that had affected inter-Arab investment inflows and the Composite Index used to measure the macroeconomic components of the investment climate.
- **Emerging trends in the Guarantee Industry**, as per the developments covered in the annual report of the International Union of Credit & Investment Insurers (Berne Union) and other international resources.
- **Snapshots of Arab countries** covering the 25<sup>th</sup> Summit of the Gulf Cooperation Council held in the Kingdom of Bahrain during the period (20-21/12/2004), an overview on Arab funds invested abroad, and economic and investment developments in the Libyan Arab Jamahiriya.
- **Developments of investment trends** in Arab countries covering different angles of investment inflow values and destinations, promising investment sectors, and institutional and procedural developments which aim to facilitate more investment.
- **Developments of foreign direct investment (FDI) globally**, with a special focus on FDI inflows into the Arab countries and sources of FDI data in the latter.

## Chapter Three: Ancillary Activities & Support Services

- **Indices** reflecting Arab countries' positions in 2004. These indices included Economic Freedom, Opacity, Water Poverty, Doing Business, Good Governance & Competitiveness.

### 3.1.3 Specialized Studies and Papers

Eight papers were prepared during the year, addressing the following subjects:

- "The Role of the Corporation in the Development of Southern Sudan", presented by the Corporation's Director General in the workshop on *Activating the Role of Specialized Organizations and Arab Unions in Southern Sudan*, organized by the General Secretariat of the Arab League and held in Cairo on 15/1/2004.
- "Investment and Business Requirements and Opportunities in Iraq" presented by the Corporation's Director General in the *Iraq Economic Forum*, organized by Al-Iktissad Wa Al-Aamal Group and held in Beirut during the period 17 -19/3/2004.
- "The Role and Mechanisms of the Insurance Industry in Enhancing Exports", presented in the training workshop on *New Methods for Promoting and Financing Exports* which was organized by the Arab Planning Institute and held in Kuwait during the period 24 - 28/4/2004.
- The Corporation's Director General's intervention in the second forum of *Arab Business Community and the World Trade Organization Agreements*, organized by the UN Economic & Social Commission for Western Asia (ESCWA) and the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries and held in Beirut during the period 28 - 29/4/2004.
- The Corporation's Director General's intervention in the *Sixth Carthage Economic Forum*, organized by the Tunisian Foreign Investment Promotion Agency and the Ministry of Development and International Cooperation, held in Tunisia during the period 17 - 19/6/2004.
- The Corporation's Director General's intervention in *The Tenth Conference on Investment and Arab Capital Markets*, organized by Al Iktissad Wa Al Aamal Group and held in Beirut during the period 24 - 26/6/2004.

## Chapter Three: Ancillary Activities & Support Services

- "A Proposal for Improving Performance of Biennial Arab Businessmen and Investors Conferences", presented by the Corporation's Director General to the first meeting of the Preparatory Committee for the *Eleventh Arab Businessmen and Investors Conference*, organized by the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries and held in Beirut on 12/7/2004.
- "Requirements for Enhancement of Investment Environment in the Arab Countries" presented by the Corporation's Director General to the *Arab Banking and Investment Conference, 2004 on Cross-Border Banking Expansions Strengthens Investments*, organized by the Union of Arab Banks and held in Beirut during the period 12 - 13/10/2004.

### 3.2 Investment Promotion

The Corporation's investment promotion activities during the year focused on the following:

- Opportunities of technical cooperation with the Multilateral Investment Guarantee Agency (MIGA), regarding IAIGC's potential role in taking charge of the Arabic version of MIGA's online FDI Promotion Centre.
- Technical support through active participation in the symposium on *Means of Attracting FDI into Kuwait*, held in Kuwait City on 29/11/2004, and organized by the College of Business Administration – Kuwait University, in cooperation with the United Nations Development Program (UNDP).
- Addressing Arab Investment Promotion Agencies (IPAs) to assess their views on the newly proposed framework for the *Eleventh Arab Businessmen and Investors Conference* and encouraging a more integral role on their part in upcoming conferences.
- Addressing the Corporation's national contacts and the IPAs on the issue of activating the *Unified Agreement for Investing Arab Funds in the Arab Countries*, in accordance with the Social and Economic Council resolutions, in cooperation with the General Secretariat of the Arab League, and the participation of the Arab private sector.

## Chapter Three: Ancillary Activities & Support Services

### 3.3 Cooperation with Arab and International Organizations

During 2004, the Corporation participated in (26) conferences and meetings, of which (5) functions were relevant to joint Arab action, (2) functions involved presentations on the Corporation's services, and (17) functions covered economic issues relevant to the Corporation's core business. (2) Meetings were held with international parties on issues relevant to the Corporation's core business.

### 3.4 Information & Computerization

The following activities took place during the year:

#### Networks:

- The electronic document management system (FileNet) was finalized in all its stages covering the testing phase, training, customizing the application to meet the Corporation's work needs, and classification of documents.
- Upgrading the Corporation's antivirus, firewall and the security systems, and introducing a fax server for the Corporation.
- Upgrading the network bandwidth to enhance its efficiency and meet the needs of an evolving workload.
- Continuous website updates.

#### IT:

- Converting the Corporation's database to (Oracle) after it was approved as the enterprise database.
- Continued update of the export credit system (ECS) in accordance with emerging developments, and finalizing the automation of the Operation Department processes (E-process).
- A study was conducted on the e-portal to maximize its benefits and to serve as a virtual gate for the Corporation's employees and clients, while continuing the effort of implementing automation and the flow of information within the Corporation.

## Chapter Three: Ancillary Activities & Support Services

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- Providing financial applications related to accounting and investment, in accordance with the Corporation's requirements.

### 3.5 The Library

The Corporation renewed its subscription to specialized publications and guides of direct relevance to its core business, with increased utilization of online sources and the launch of the internal electronic library (FileNet).

### 3.6 Training

Efforts continued towards the enhancement of staff technical skills and the upgrading of human capital through participation in various training courses covering subjects in the areas of re-insurance, underwriting of non-commercial risks and investment.

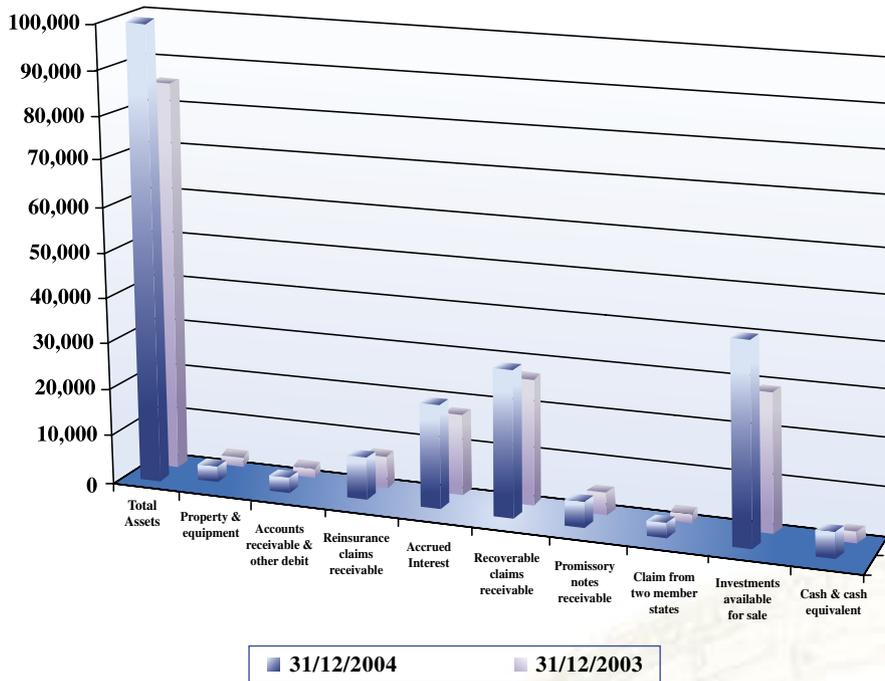
### 3.7 Information Activities

Based on the **Media Program** prepared and adopted for 2004, four press releases were issued during the year covering the signature of a Memorandum of Understanding with the Export Credit Guarantee Company of Egypt, the signature of a Framework Agreement with the Trade Bank of Iraq, the first meeting of the Board of Directors of the Corporation, and the signature of another Memorandum of Understanding with Export Guarantee Fund of Iran. The Corporation also organized a press conference to launch the World Investment Report 2004 prepared by the United Nations Conference on Trade and Development (UNCTAD), concomitant with launching it in several major capitals worldwide.

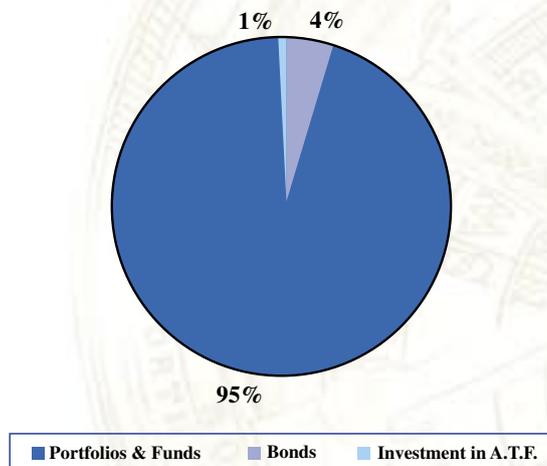
## Chapter Four: Financial Report

The Corporations' balance sheet as on 31 December 2004 reveals that the total assets amounted to K.D 98,847,333 (US\$ 334,848,689) which is an increase of K.D 13,582,437 (US\$ 46,010,965) from the year 2003 as shown by the following chart.

Balance Sheet (Thousands) K.D



The investments available for sale has increased by K.D 10,590,952 (US\$ 35,877,208) from the year 2003, and it is composed of bonds, portfolios, funds, and equity participation in the Arab Trade Finance Programme. The following chart shows the percentage distribution of the Investments as at 31 December 2004.



## Chapter Four: Financial Report

The shareholder's equity which is composed of paid up capital and General Reserve was increased to K.D 88,967,311 (US\$ 301,379,780) as of 31 December 2004, compared to K.D 75,389,946 (US\$ 255,385,996) as of 31 December 2003.

The Corporation's paid up capital increased to K.D 36,173,327 (US\$ 122,538,370) as of 31 December 2004, compared to K.D 25,398,615 (US\$ 86,038,669) as at 31 December 2003. The increase of K.D 10,774,712 consists of K.D 10,349,712 which represents the amount that remained from the first installment due in 2003, and part of the second installment that was due in 2004 from the Arab Financial Organizations' share in the Corporation's capital increase, and also K.D 425,000 which represents the unpaid balance of the amount by which the United Arab Emirates increased its subscription to the Corporation's capital.

The General Reserve increased from K.D 49,991,331 (US\$ 169,347,327) as at 31 December 2003 to K.D 52,793,984 (US\$ 178,841,409) as of 31 December 2004.

The total income which included investments, guarantee premia, interest on recoverable compensations, promissory notes and other earnings amounted to K.D 4,430,697 (US\$ 15,009,136) as at 31 December 2004, compared to a profit of K.D 5,175,044 (US\$ 17,530,637) as at 31 December 2003. In 2004, the Corporation realized a net profit of K.D 2,802,653 (US\$ 9,494,082), compared to a net profit of K.D 3,483,641 (US\$ 11,800,952) as at 31 December 2003, registering a decrease of K.D 680,988 (US\$ 2,306,870).

As for the Corporation's investments, particularly with regards to the portfolios, funds, bonds and the Arab Trade Finance Program; the profit amounted to K.D 2,373,217 (US\$ 8,039,353) as at 31 December 2004, compared to a profit of K.D 3,039,390 (US\$ 10,296,037) as at 31 December 2003, registering a decrease of K.D 666,173 (US\$ 2,256,684).

The total expenditure for 2004 amounted to K.D 1,628,044 (US\$ 5,515,054), compared to K.D 1,691,403 (US\$ 5,729,685) as at 31 December 2003, registering a decrease of K.D 63,359 (US\$ 214,631) which is 3.75%.

## AUDITORS' REPORT

**TO THE CHAIRMAN AND MEMBERS OF COUNCIL  
OF THE INTER-ARAB INVESTMENT GUARANTEE CORPORATION  
AN ARAB CORPORATION WITH A SPECIAL INDEPENDENT LEGAL STATUS**

We have audited the accompanying balance sheet of The Inter-Arab Investment Guarantee Corporation as of 31 December 2004 and the related statements of revenues and expenses, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated in Note (8) to the financial statements, the corporation continues to accrue and recognise interest on long outstanding recoverable claims and promissory notes receivable from member states that have been unable, due to difficult political and economic conditions, to settle their principal obligations on the due dates. In our opinion, the corporation should not accrue delay interest and recognise the related income unless their recoverability is certain; accordingly, the corporation's assets and shareholders' equity as of 31 December 2004 should be reduced by KD 19,519,397 (2003: KD 18,002,501) and the net profit for the year then ended should be reduced by KD 1,516,896 (2003: KD 1,563,199). Our audit opinion on the prior year's financial statements was qualified in respect to the same matter.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the corporation as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 2004 that might have had a material effect on the business of the corporation or on its financial position.

Without qualifying our opinion, we draw attention to Notes (6) and (7) to the financial statements. As indicated in the Notes, promissory notes receivable and recoverable claims amounting to KD 3,804,981 and KD 24,504,906 respectively as of 31 December 2004 are due from certain member states who are experiencing difficult political and economic conditions. Because of these conditions, it is not possible to ascertain the collectability of these amounts. Accordingly, no provision for any loss relating to the uncollectability of these receivables has been made in the accompanying financial statements.

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

6 March 2005 - Kuwait

## Balance Sheet - At 31 December 2004

	Note	2004 KD	2003 KD (Restated)
<b>ASSETS</b>			
Cash and cash equivalents	3	1,990,159	424,696
Investments available for sale	4	39,849,593	29,258,641
Claim from two member states	5	748,866	701,106
Promissory notes receivable	6	3,804,981	3,804,981
Recoverable claims	7	26,967,126	26,545,831
Accrued interest	8	19,519,397	18,002,501
Reinsurance claims receivable	9	4,847,992	4,881,834
Accounts receivable and other debit balances	10	54,531	543,898
Property and equipment	11	1,064,688	1,101,408
<b>TOTAL ASSETS</b>		<b>98,847,333</b>	<b>85,264,896</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and other credit balances	12	541,060	423,255
Obligations under finance lease	13	1,352,447	1,366,918
Reinsurance claims payable	9	7,974,536	8,046,703
Due to savings and social security fund		11,979	38,074
<b>Total liabilities</b>		<b>9,880,022</b>	<b>9,874,950</b>
<b>Shareholders' equity</b>			
Paid-up capital	14	36,173,327	25,398,615
General reserve	15	52,793,984	49,991,331
<b>Total shareholders' equity</b>		<b>88,967,311</b>	<b>75,389,946</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>98,847,333</b>	<b>85,264,896</b>

The attached notes 1 to 23 form part of these financial statements.

## Statement of Revenue & Expenses - Year Ended 31 December 2004

	Note	2004 KD	2003 KD (Restated)
<b>REVENUES:</b>			
Gross guarantee premiums		366,043	920,301
Guarantee premiums ceded		(10,891)	(3,513)
Net guarantee premiums		355,152	916,788
Expenses and other commission		(5,414)	(5,597)
Guarantee results		349,738	911,191
Interest on promissory notes and recoverable claims	8	1,516,896	1,563,199
Bank interest		7,120	7,791
Interest on bonds		85,545	114,740
Investment gain	16	2,373,217	3,039,390
Exchange gain (loss)	17	14,053	(537,083)
Interest on claim from two member states	5	47,760	44,626
Other miscellaneous income		36,368	31,190
		<b>4,430,697</b>	<b>5,175,044</b>
<b>EXPENSES:</b>			
	18		
First Chapter - Salaries, wages and bonuses		969,756	969,165
Second Chapter - General and administrative expenses		553,476	569,244
Third Chapter - Capital expenses		80,279	57,556
Fourth Chapter - Provisions and others		24,533	95,438
<b>Total expenses</b>		<b>1,628,044</b>	<b>1,691,403</b>
<b>NET PROFIT FOR THE YEAR</b>		<b>2,802,653</b>	<b>3,483,641</b>

The attached notes 1 to 23 form part of these financial statements.

## Statement of Changes in Shareholders' Equity - Year ended 31 December 2004

	Paid-up Capital KD	General Reserve KD	Retained Earnings KD	Total KD
Balance at 31 December 2002, as previously reported	24,751,667	47,406,511	-	72,158,178
Prior year adjustment (Note 22)	-	(898,821)	-	(898,821)
Restated balance at 31 December 2002	24,751,667	46,507,690	-	71,259,357
Paid in capital increase	221,948	-	-	221,948
Payment of unpaid capital	425,000	-	-	425,000
Net profit for the year	-	-	3,483,641	3,483,641
Transfer to general reserve	-	3,483,641	(3,483,641)	-
Balance at 31 December 2003	25,398,615	49,991,331	-	75,389,946
Balance at 31 December 2003, as previously reported	25,398,615	50,935,913	-	76,334,528
Prior year adjustment (Note 22)	-	(944,582)	-	(944,582)
Restated balance at 31 December 2003	25,398,615	49,991,331	-	75,389,946
Paid in capital increase	10,349,712	-	-	10,349,712
Payment of unpaid capital	425,000	-	-	425,000
Net profit for the year	-	-	2,802,653	2,802,653
Transfer to general reserve	-	2,802,653	(2,802,653)	-
<b>Balance at 31 December 2004</b>	<b>36,173,327</b>	<b>52,793,984</b>	<b>-</b>	<b>88,967,311</b>

The attached notes 1 to 23 form part of these financial statements.

## Statement of Cash Flows - Year Ended 31 December 2004

	2004 KD	2003 KD (Restated)
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	2,802,653	3,483,641
Adjustments for:		
Depreciation	36,720	36,720
Investment gain	(2,373,217)	(3,039,390)
Exchange loss on translation of certain financial assets	-	500,398
Interest income	(1,657,321)	(1,730,356)
Finance lease charges	95,684	96,631
<b>Operating loss before changes in operating assets &amp; liabilities</b>	<b>(1,095,481)</b>	<b>(652,356)</b>
Claim from two member states	-	18,556
Recoverable claims	29,507	431,841
Reinsurance claims receivable	33,842	200,327
Accounts receivable and other debit balances	38,565	65,057
Savings and social security fund	(26,095)	87,826
Accounts payable and other credit balances	117,805	(4,778)
Reinsurance claims payable	(72,167)	-
Cash (used in) from operations	(974,024)	146,473
Interest received	92,665	122,531
Dividends received	81,357	8,210
<b>Net cash (used in) from operating activities</b>	<b>(800,002)</b>	<b>277,214</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments available for sale	(14,497,061)	(7,661,761)
Proceeds from sale of investments available for sale	6,197,969	6,618,872
<b>Net cash used in investing activities</b>	<b>(8,299,092)</b>	<b>(1,042,889)</b>
<b>FINANCING ACTIVITIES</b>		
Payment of finance lease obligations	(110,155)	(110,155)
Proceeds from capital increase and unpaid capital	10,774,712	646,948
<b>Net cash from financing activities</b>	<b>10,664,557</b>	<b>536,793</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>1,565,463</b>	<b>(228,882)</b>
Cash and cash equivalents at beginning of the year	424,696	653,578
<b>CASH &amp; CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>1,990,159</b>	<b>424,696</b>

The attached notes 1 to 23 form part of these financial statements.

## Notes to the Financial Statements - 31 December 2004

### 1. ACTIVITIES

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.

At 31 December 2004, the corporation had (47) employees (2003: 45 employees).

The financial statements were authorised for issue by the corporation's Board of directors on 6 March 2005.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and practices followed by the "Arab Organisations".

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investments available for sale.

The accounting policies are consistent with those used in the previous year.

#### Cash and cash equivalents

Cash includes cash in hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value such as fixed deposits, which mature within three months from the date of deposit.

#### Investments available for sale

Investments are initially recognised at cost, being the fair value of the consideration given, which is measured using settlement date, including all acquisition costs associated with the investment.

After initial recognition, investments available for sale are measured at fair value. The fair value of investments traded in recognised financial markets is their quoted market price at the close of business on the balance sheet date. For investments where there is no quoted market price, a

## Notes to the Financial Statements - 31 December 2004

reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses. Any gain or loss arising from a change in the fair value of investments classified as available for sale is recognised in the statement of revenues and expenses in the period in which it arises.

### 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. 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.

### Impairment of assets

The carrying amounts of the corporation's assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the statement of revenues and expenses whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the corporation's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Assets with a short duration are not discounted. The recoverable amount of non-financial assets is the higher of the asset's net selling price and value in use.

## Notes to the Financial Statements - 31 December 2004

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### Payables

Accounts payable are stated at their cost.

### 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 (21) of the employees' internal policy, the indemnities are paid in a funded employee savings and social security fund.

### 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.

### 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 as part of the results for the year.

### Finance leases

Assets acquired under finance lease agreements are capitalised in the balance sheet and are depreciated over their useful 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.

### 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.

## Notes to the Financial Statements - 31 December 2004

### Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investment, accounts and notes receivable, accrued interest, recoverable claims and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note. Financial assets and financial liabilities are offset when the corporation has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

### 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.

### Use of estimates

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.

### 3. CASH AND CASH EQUIVALENTS

	2004 KD	2003 KD
Cash in hand and at banks	366,559	424,696
Time deposit maturing within three months	1,623,600	-
	<b>1,990,159</b>	<b>424,696</b>

The time deposit is denominated in US Dollars and is placed with the Arab Banking Corporation.

## Notes to the Financial Statements - 31 December 2004

### 4. INVESTMENTS AVAILABLE FOR SALE

	2004 KD	2003 KD
Bonds	1,753,881	1,861,234
Portfolios and funds "primarily in quoted securities"	37,729,981	27,031,676
Investment in Arab Trade Finance Program	365,731	365,731
	<b>39,849,593</b>	<b>29,258,641</b>

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.

### 5. CLAIM FROM TWO MEMBER STATES

This claim represents amounts due from two member states in respect of their unpaid capital contribution, together with delay interest, following a decision by council and agreements between the corporation and each member state. Delay interest charged during the year on the outstanding balances amounted to KD 47,760 (2003: KD 44,626).

### 6. PROMISSORY NOTES RECEIVABLE

	2004 US\$	2003 US\$
Five promissory notes of U.S.\$ 6,444,752 each	32,223,760	32,223,760
Three instalments collected during 1988 to 1990	(19,334,256)	(19,334,256)
	<b>12,889,504</b>	<b>12,889,504</b>
<b>Equivalent in KD</b>	<b>3,804,981</b>	<b>3,804,981</b>

An agreement executed between the corporation and a representative of a member state dated 20 December 1989 stipulates that the remaining amount of the promissory notes along with any other outstanding amounts should be settled in equal quarterly instalments of U.S.\$ five million each starting 1 July 1990; however, due to difficult political and economic conditions in that state, none of the instalments were settled on the due dates. The Ministry of Finance of the respective member state has confirmed and acknowledged that their obligations will be satisfied as soon as the circumstances preventing payment no longer exist.

## Notes to the Financial Statements - 31 December 2004

### 7. RECOVERABLE CLAIMS

	2004 US\$	2003 US\$ (Restated)
Balance at beginning of the year	89,924,901	91,385,796
Net claims paid during the year	494,450	167,162
Claims recovered during the year	(560,600)	(1,628,057)
Amount transferred from escrow account	1,493,302	-
<b>Balance at end of the year</b>	<b>91,352,053</b>	<b>89,924,901</b>
<b>Equivalent in KD</b>	<b>26,967,126</b>	<b>26,545,831</b>

These amounts represent claims paid in compensating Arab nationals against risks realised in ten member states with concentration in four states. In accordance with the inter member states convention, claims paid by the corporation 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. Long outstanding claims that are due from states who are experiencing difficult political and economic conditions and therefore have been unable to meet their obligations within the usual timeframe amounted to KD 24,504,906 at 31 December 2004 (2003: KD 24,560,137).

### 8. ACCRUED INTEREST

The corporation accrues delay interest on the promissory notes receivable from a certain member state and claims recoverable from counter parties and member states that have not met their obligations within the usual timeframe. This decision was taken in the prior years and as of the balance sheet date; none of the accrued interest has been paid. The details of the interest are as follows:

	2004 KD	2003 KD (Restated)
Balance at beginning of the year	18,002,501	16,439,302
Interest charged during the year	1,516,896	1,563,199
<b>Balance at end of the year</b>	<b>19,519,397</b>	<b>18,002,501</b>

### 9. 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.

## Notes to the Financial Statements - 31 December 2004

### 10. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

Accounts receivable and other debit balances included an amount of U.S\$ 1,527,108 in the prior years that was held in an escrow account with a foreign bank as security for the possible payment of a contingent liability arising from one of the legal cases. During the current year the corporation lost the legal case and the balance, less amount recovered, was transferred to recoverable claims for recovery from the respective member state.

### 11. 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 (2003: KD 36,720).

### 12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2004 KD	2003 KD
Due to reinsurance companies	71,302	71,553
Accrued staff leave	118,613	115,922
Provision for legal encyclopaedia	13,757	13,757
Others	337,388	222,023
	<b>541,060</b>	<b>423,255</b>

### 13. OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2004 KD	2003 KD
Within one year	110,155	110,155
In the second to fifth years inclusive	550,775	550,775
Over five years	2,533,565	2,643,720
	<b>3,194,495</b>	3,304,650
Less: Finance charges allocated to future periods	<b>(1,842,048)</b>	(1,937,732)
	<b>1,352,447</b>	<b>1,366,918</b>

## Notes to the Financial Statements - 31 December 2004

### 14. PAID-UP CAPITAL

At 31 December 2004, the capital of the corporation and the share of each member state and other authorities are as follows:

	Issued		Paid	
	2004 KD	2003 KD	2004 KD	2003 KD
<b>A. Member State:</b>				
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	1,925,000
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 Socialist Peoples' Libyan Arab Jamahiriyah	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
	<b>26,101,667</b>	<b>26,101,667</b>	<b>25,601,667</b>	<b>25,176,667</b>
<b>B. Arab Financial Authorities:</b>				
Arab Fund for Economical and Social Development	15,202,800	-	6,081,120	-
Arab Monetary Fund	8,118,000	-	3,247,200	-
BADEA	5,106,960	-	1,021,392	-
Arab Authority for Agricultural Investment and Development	1,092,240	1,092,240	221,948	221,948
	<b>55,621,667</b>	<b>27,193,907</b>	<b>36,173,327</b>	<b>25,398,615</b>

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

## Notes to the Financial Statements - 31 December 2004

### 15. 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.

### 16. INVESTMENT GAIN

	2004 KD	2003 KD
Unrealised gain on revaluation of investments	2,321,956	2,524,535
Dividend from Arab Trade Finance Program	6,066	8,210
(Loss) gain on sale of portfolios and funds	(35,516)	395,080
Gain on redemption and sale of bonds	5,420	111,565
Dividends from funds	75,291	-
	<b>2,373,217</b>	<b>3,039,390</b>

### 17. EXCHANGE GAIN (LOSS)

Foreign currency exchange differences result from applying the corporation's accounting policy as stated in Note (2). Following are exchange differences resulting from major foreign currencies:

	2004 KD	2003 KD
U.S Dollar	(4,304)	(576,007)
European Currency Unit	13,482	29,690
G. Britain Pound Sterling	6,071	11,890
Other Currencies	(1,196)	(2,656)
	<b>14,053</b>	<b>(537,083)</b>

### 18. EXPENSES

General and administrative expenses include finance lease charges in the amount of KD 95,684 (2003: KD 96,631). Capital expenses represent depreciation charge and expenditure on minor capital items, which is expensed as incurred.

## Notes to the Financial Statements - 31 December 2004

### 19. CONTINGENT AND UNRECORDED LIABILITIES

a) The underlying value of written guarantee contracts in force as of 31 December 2004 amounted to KD 29,606,113 (2003: KD 35,692,383). Approximately KD 1,658,978 (2003: KD 1,907,651) of this value is reinsured against non-commercial risks. As of 31 December 2004, no amount has been reinsured against commercial risks under reinsurance contracts (2003: KD 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 307,008 at the rate of exchange prevailing at 31 December 2004). 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.

c) Another claim has been raised by an Arab company in the amount of KD 982,175 plus interest from 26 May 1996 until the date of payment. During 1998, an award was issued in favour of the claimant for the amount plus interest of 7% from the date the amount became payable until payment is made. It is the policy of the corporation to record such obligation when payment is made and to charge the respective member state with the amount.

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.

### 20. 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:

## Notes to the Financial Statements - 31 December 2004

	Less than 1 year KD	Within 1 - 5 years KD	Total KD	Effective interest rate %
<b>31 December 2004</b>				
Cash and cash equivalents	1,851,365	-	1,851,365	1 - 2
Bonds	-	1,753,881	1,753,881	2 - 9.75
Claim from two member states	748,866	-	748,866	7
Promissory notes receivable	-	3,804,981	3,804,981	5
Recoverable claims	-	26,967,126	26,967,126	5
	<b>2,600,231</b>	<b>32,525,988</b>	<b>35,126,219</b>	
<b>31 December 2003 (Restated)</b>				
Cash and cash equivalents	302,000	-	302,000	1 - 2
Bonds	131,505	1,729,729	1,861,234	2 - 9.75
Claim from two member states	701,106	-	701,106	7
Promissory notes receivable	-	3,804,981	3,804,981	5
Recoverable claims	-	26,545,831	26,545,831	5
	<b>1,134,611</b>	<b>32,080,541</b>	<b>33,215,152</b>	

### 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.

### 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.

## Notes to the Financial Statements - 31 December 2004

### 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.

### 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 (4).

## 21. SAVINGS AND SOCIAL SECURITY FUND (UNAUDITED)

The savings and social security fund was established in accordance with article (21) 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 purpose of providing extra benefits to the employees. The fund resources are as follows:

- a) End of service indemnities under the respective employment contracts. These amounts are paid to the fund after approving the budget.
- b) Employee savings as determined by each employee with a minimum of 3% of the employee's salary. These amounts are paid to the fund through monthly deductions from the payroll.
- c) Fund investment income.

At the conclusion of the employment period, the employee is paid his net balance in the fund comprising indemnity in accordance with the terms of employment, savings and his share of any surplus arising on the fund balance. Where the fund's assets are not sufficient to meet the employees' entitlements, the deficiency is borne by the corporation. Article (9) of the fund's articles states that the fund accounts should be audited annually and its financial position examined by an actuary, as selected by the management. Following is a summary of the fund's unaudited financial position and results for the year:

## Notes to the Financial Statements - 31 December 2004

	2004 KD	2003 KD
Investments	975,939	904,052
Employee loans	214,809	364,410
<b>Total assets</b>	<b>1,190,748</b>	<b>1,268,462</b>
<b>Liabilities</b>		
End of service indemnity	784,813	853,003
Employee savings	232,143	291,993
Current account with the corporation	(11,979)	(38,074)
<b>Total liabilities</b>	<b>1,004,977</b>	<b>1,106,922</b>
<b>Surplus</b>	<b>185,771</b>	<b>161,540</b>
<b>Revenues:</b>		
Unrealised gain on revaluation of investments	71,887	111,218
Other income	-	139,735
Exchange and forward contracts losses	-	(1,205)
	<b>71,887</b>	249,748
Expenses	(1,050)	(2,200)
Surplus for the year	70,837	247,548
Accumulated surplus (deficit) at beginning of the year	161,540	(69,004)
Payments to employees during the year	(46,606)	(17,004)
<b>Accumulated surplus at end of the year</b>	<b>185,771</b>	<b>161,540</b>

### 22. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to a claim from a member state, together with accrued interest thereon, that was determined to be unrecoverable pursuant to a decision by the Council in 2002. The financial statements for 2003 have been restated to reflect this correction.

### 23. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the current year presentation.