Islamic Development Bank

Financial Statements
1432H (2011)

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS
29 Dhul Hijjah 1432H (25 November 2011)
with
INDEPENDENT JOINT AUDITORS' REPORT

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS
29 Dhul Hijjah 1432H (25 November 2011)

CONTENTS

PRICEWATERHOUSECOOPERS

P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan

P. O. Box 55078
Jeddah 21534
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INDEPENDENT JOINT AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank

We have audited the accompanying statement of financial position of Islamic Development Bank - Ordinary Capital Resources (the "Bank") as of 29 Dhul Hijjah 1432H (25 November 2011) and the related statements of income, cash flows and changes in members' equity for the year then ended and the attached notes from 1 to 35 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'ah rules and principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 29 Dhul Hijjah 1432H (25 November 2011), and the results of its operations, its cash flows and changes in members' equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank.

We draw your attention to note 2(a) which states that the Bank has followed other accounting standards for matters not addressed by the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and that the accompanying financial statements represent the separate financial statements of the Bank.

PricewaterhouseCoopers

Sami E. Farah
Certified Public Accountant
Registration No. 168

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

14 Rabi Al Thani 1433H
7 March 2012
Jeddah

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF FINANCIAL POSITION
As of 29 Dhul Hijjah 1432H (25 November 2011)
(In Thousands of Islamic Dinars)

	Note	**1432H**	1431H Restated
ASSETS			
Cash and cash equivalents	4	**953,974**	487,008
Commodity placements through banks, net	5	**655,784**	889,440
Investments in Sukuk	6	**266,631**	198,455
Murabaha financing, net	7	**232,197**	327,421
Accrued income and other assets	8	**448,219**	309,670
Istisna'a assets, net	9	**2,077,134**	1,633,091
Installment financing receivables, net	10	**1,001,507**	869,033
Qard, net	11	**1,621,784**	1,467,140
Ijarah Muntahia Bittamleek, net	12	**1,788,082**	1,498,065
Investments in equity capital, net	14	**649,835**	803,976
Investments in subsidiaries and trust funds	15	**413,699**	391,206
Investments in associates	16	**51,475**	51,587
Other investments, net	17	**130,858**	79,836
Fixed assets, net	18	**59,978**	61,657
TOTAL ASSETS		**10,351,157**	9,067,585
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Sukuk liability	19	**1,901,370**	1,374,591
Commodity purchase liabilities	20	**1,359,902**	1,015,951
Accruals and other liabilities	21	**460,199**	248,156
Total liabilities		**3,721,471**	2,638,698
MEMBERS' EQUITY			
Paid-up capital	23	**4,373,804**	4,031,071
General reserve	24	**1,769,766**	1,702,308
Fair value reserve		**377,116**	525,886
Net income for the year		**109,000**	169,622
Total members' equity		**6,629,686**	6,428,887
TOTAL LIABILITIES AND MEMBERS' EQUITY		**10,351,157**	9,067,585
Restricted Investment Accounts	28	**45,519**	43,326

The accompanying notes from 1 to 35 form
an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

INCOME STATEMENT
For the year ended 29 Dhul Hijjah 1432H (25 November 2011)
(In Thousands of Islamic Dinars)

	Note	1432H	1431H Restated
Income from:			
Commodity placements through banks		**12,131**	10,720
Investments in Sukuk		**13,677**	14,370
Murabaha financing		**6,103**	10,889
Istisna'a assets		**72,061**	51,688
Installment financing		**39,868**	38,822
Qard service fees		**8,260**	13,070
Ijarah Muntahia Bittamleek		**183,654**	164,549
Investments in equity capital		**27,396**	33,561
Other income		**12,676**	19,239
		375,826	356,908
Depreciation of assets under Ijarah Muntahia Bittamleek	12	**(118,304)**	(91,639)
		257,522	265,269
Foreign exchange gain (loss), net		**1,276**	(8,445)
(Loss) / gain from Murabaha-based Profit Rate Swaps		**(1,187)**	33,300
Financing costs		**(48,314)**	(33,029)
Profit from operations		**209,297**	257,095
Administrative expenses:			
Staff costs		**(66,078)**	(55,995)
Depreciation on fixed assets	18	**(5,923)**	(1,951)
Other, net		**(18,133)**	(16,300)
Profit before provision for impairment of financial assets		**119,163**	182,849
Provision for impairment of financial assets	13	**(10,163)**	(13,227)
Net income for the year		**109,000**	169,622

The accompanying notes from 1 to 35 form
an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF CASH FLOWS
For the year ended 29 Dhul Hijjah 1432H (25 November 2011)
(In Thousands of Islamic Dinars)

	1432H	1431H (Restated)
CASH FLOWS FROM OPERATIONS		
Net income for the year	**109,000**	169,622
Adjustments to reconcile net income for the year to net cash from operating activities:		
Depreciation	**124,227**	93,590
Provision for impairment of financial assets	**10,163**	13,227
Investment fair value gains	**(5,136)**	(7,267)
Amortization of deferred grant income	**(600)**	(600)
Foreign exchange gain	**(325)**	(12,930)
Changes in operating assets and liabilities:		
Commodity placements through banks	**233,656**	(444,188)
Murabaha financing	**86,977**	248,005
Accrued income and other assets	**(138,549)**	4,099
Istisna'a assets	**(444,390)**	(306,483)
Installment financing receivables	**(132,694)**	(126,816)
Ijarah Muntahia Bittamleek	**(407,531)**	(232,750)
Qard	**(139,812)**	(143,213)
Accruals and other liabilities	**193,505**	(44,554)
Net cash utilized in operating activities	**(511,509)**	(790,258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in Sukuk	**(80,486)**	(38,268)
Proceeds from disposal/redemption of investments in Sukuk	**16,342**	83,807
Investments in equity capital	**(19,046)**	(62,503)
Proceeds from disposal of investment in equity capital	**18,014**	3,089
Additions to other investments	**(63,260)**	(12,302)
Proceeds from disposal of other investments	**14,143**	7,553
Investment in subsidiaries and trust funds	**(22,493)**	(15,902)
Purchase of fixed assets	**(5,062)**	(6,436)
Net cash utilized in investing activities	**(141,848)**	(40,962)

(Continued)

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF CASH FLOWS (continued)
For the year ended 29 Dhul Hijjah 1432H (25 November 2011)
(In Thousands of Islamic Dinars)

	Note	**1432H**	1431H (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in paid-up capital		**342,733**	391,204
Technical assistance and scholarship program grants		**(10,029)**	(7,960)
Contribution to the principal of Islamic Solidarity Fund for Development (ISFD)		**(63,861)**	(65,120)
Payment of Islamic Corporation for the Development of the Private Sector (ICD) capital on behalf of member countries		**(8,794)**	(17,961)
Proceeds from issuance of Sukuk		**526,779**	685,708
Redemption of Sukuk		**-**	(332,827)
Commodity purchase liabilities		**343,951**	(529,834)
Net cash generated from financing activities		**1,130,779**	123,210
Increase/(decrease) in cash and cash equivalents		**477,422**	(708,010)
Impairment provision – Cash and cash equivalents		**(10,456)**	-
Cash and cash equivalents at the beginning of year		**487,008**	1,195,018
Cash and cash equivalents at the end of year	4	**953,974**	487,008

The accompanying notes from 1 to 35 form
an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the Year Ended 29 Dhul Hijjah 1432H (25 November 2011)
(In Thousands of Islamic Dinars)

	Notes	Paid-up capital	General reserve	Fair value reserve	Net income for the year	Total
Balance at 1 Muharram 1430H (previously reported)		3,639,867	1,677,938	424,965	124,763	5,867,533
Prior year adjustments	30	-	-	-	2,623	2,623
Balance at 1 Muharram 1430H (restated)		3,639,867	1,677,938	424,965	127,386	5,870,156
Increase in paid-up capital	23	391,204	-	-	-	391,204
Net unrealized gains from equity and other investments	14,17	-	-	100,921	-	100,921
Increase in the actuarial losses relating to retirement and medical plans	22	-	(11,975)	-	-	(11,975)
Payment of ICD share capital on behalf of member countries		-	(17,961)	-	-	(17,961)
Contribution to the principal amount of ISFD		-	(65,120)	-	-	(65,120)
Net income for the year ended 30 Dhul Hijjah 1431H		-	-	-	169,622	169,622
Transfer to general reserve	24	-	127,386	-	(127,386)	-
Allocation for grants	24	-	(7,960)	-	-	(7,960)
Balance at 30 Dhul Hijjah 1431H		4,031,071	1,702,308	525,886	169,622	6,428,887
Increase in paid-up capital	23	342,733				342,733
Net unrealized losses from investments in equity	14			(148,770)		(148,770)
Increase in the actuarial losses relating to retirement and medical plans	22		(19,480)			(19,480)
Payment of ICD share capital on behalf of member countries			(8,794)			(8,794)
Contribution to the principal amount of ISFD	26		(63,861)			(63,861)
Net income for the year ended 29 Dhul Hijjah 1432H					109,000	109,000
Transfer to general reserve	24		169,622		(169,622)	-
Allocation for grants	24		(10,029)			(10,029)
Balance at 29 Dhul Hijjah 1432H		4,373,804	1,769,766	377,116	109,000	6,629,686

The accompanying notes from 1 to 35 form
an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 29 Dhul Hijjah 1432H (25 November 2011)

1. INCORPORATION AND ACTIVITIES

Islamic Development Bank (the "Bank") is a multilateral development bank established pursuant to Articles of Agreement signed and ratified by its member countries. The Bank commenced its operations on 15 Shawwal 1395H (20 October 1975). The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities, individually as well as jointly, in accordance with the principles of Shari'ah. The Bank has 56 member countries.

The Bank's operational assets are primarily considered as sovereign debts made to or guaranteed by the respective member country or investments in member countries, which are guaranteed in a manner acceptable to the Bank.

As a multilateral development bank, the Bank is not subject to any local or foreign external regulatory authority.

The Bank consults the Islamic Fiqh Academy, an institution established by the Organization of the Islamic Cooperation (formerly Organization of the Islamic Conference), to provide it with Shari'ah advice. In 1422H, the Bank also established its own Shari'ah Committee.

The Bank carries out its business activities through its headquarters in Jeddah, Kingdom of Saudi Arabia and regional offices in Morocco, Malaysia, Kazakhstan and Senegal. The Bank has following subsidiaries and affiliated special trust funds /entities:

Entity	Relationship	Equity ownership 1432H	Equity ownership 1431H	Nature of business
Islamic Corporation for the Development of the Private Sector ("ICD")	Equity participation (subsidiary) see note 2 (a)	53.0%	59.8%	Private sector financing
International Trade Finance Corporation ("ITFC")	Equity participation (subsidiary) see note 2 (a)	38.8%	39.7%	Trade financing
Awqaf Properties Investment Fund ("APIF")	Mudarib and equity participation (subsidiary) see note 2 (a)	41.1%	27.9%	Social sector financing
Islamic Solidarity Fund for Development ("ISFD")	Management services Special trust fund	-	-	Social sector financing
Special Account Resources Waqf Fund ("SWF")	Management services Special trust fund	-	-	Social sector financing
Islamic Corporation for the Insurance of Investment and Export Credit ("ICIIEC")	Management services Insurance Company Affiliate	-	-	Insurance services
Islamic Development Bank - Unit Investment Fund ("UIF")	Mudarib Affiliate	-	-	Investment finance

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on 14thSafar, 1433H (8th January 2012).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of preparation

These separate financial statements are considered to be the Bank's primary set of financial statements and are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank. For matters which are not covered by AAOIFI standards, the Bank follows the relevant International Financial Reporting Standards ("IFRS").

These financial statements contain information about the Bank on an individual basis of the Ordinary Capital Resources (OCR) of the Bank, as defined in the Articles of Agreement and do not contain consolidated financial statements related to the Bank's subsidiaries, ICD, ITFC and APIF. Such subsidiaries have been reflected at cost in accordance with the requirements of AAOIFI standards. The Bank also prepares consolidated financial statements which include the results of all entities of Islamic Development Bank Group (IDB Group).

The financial statements are prepared under the historical cost convention except for the following items in the statement of financial position:

- measurement at fair value of investments in equity capital, other investments and investments in Sukuk
- Murabaha-based profit rate and cross-currency swaps which are measured at fair value through income statement.

The Bank's financial year is the lunar Hijra year.

Adoption of the new Accounting Standard

The Bank has adopted Financial Accounting Standard ("FAS") 25 "Investment in Sukuk, Shares and similar instruments" issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of this standard had an impact on the classification of investments and adjustment to the reported balance of reserves as disclosed in note 30.

Further, Statement of Financial Accounting No. 1 "Conceptual Framework of Financial Reporting by Islamic Financial Institution" became effective during the year ended 29 Dhul Hijjah 1432H. The adoption of this statement did not result in significant changes to the Bank's financial reporting.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Critical accounting judgments and estimates

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i) Provision for impairment of financial assets:

The Bank exercises judgement in the estimation of provision for impairment of financial assets. For equity investments, the determination of whether a reduction in fair value compared to cost is significant or prolonged requires the exercise of judgement. The methodology for the estimation of the provision is set out in note 2(n).

ii) Post-employee benefits plans:

The Bank uses the projected unit credit method to determine the present value of its defined benefit plans and the related service costs. In this regard, the Bank uses certain assumptions of discount rates, expected return on plan assets and rate of salary increases which may differ from the actual experiences. However, these estimates are revised every three years when an actuarial estimate of the benefits plans is carried out. Any estimate adjustment is taken directly to the general reserve under Members' equity.

iii) Useful lives of Ijarah Muntahia Bittamleek and fixed assets

The Bank uses estimates of useful lives of assets under Ijarah Muntahia Bittamleek and fixed assets for depreciating these assets and assessing the remaining useful lives of items of such assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. These estimates may have a significant impact on the amount of the carrying values of the assets and on the depreciation expense for the year.

c) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken to the income statement.

d) Post-employment benefit plans

The Bank has two defined post-employment benefit plans, the Staff Retirement Plan and the Post-Employment Medical Scheme, both of which require contributions to be made to separately administered funds. The Bank uses the Projected Unit Credit Method to determine the present value of its defined benefit plan and the related service costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial gains or losses, if material, are recognized immediately in the general reserve under members' equity in the year they occur.

e) Foreign currency translations

i) Functional and presentation currency

These financial statements are presented in thousands of Islamic Dinars (ID) which is the functional and presentation currency of the Bank. Islamic Dinar is the unit of account of the Bank and is equal to one Special Drawing Right (SDR) of the International Monetary Fund ("IMF").

ii) Transactions and balances

Foreign currency transactions are translated into Islamic Dinars using the SDR rates declared by the IMF at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates declared by the IMF are recognized in the income statement except for unrealized gains and losses on investment in equity capital which are charged to fair value reserve account under members' equity.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity placements through banks having a maturity of three months or less at the date of placement.

g) Commodity placements through banks

Commodity placements are made through banks and are utilized in the purchase and sale of commodities at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Bank and other Islamic and conventional financial institutions. Commodity placements are initially recorded at cost including acquisition charges associated with the placements and subsequently measured at cost less any provision for impairment.

Commodity placements through banks having a maturity of three months or less at the date of placement are classified as cash and cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Operational assets

Operational assets consist of receivables from Murabaha financing, Istisna'a assets, Installment financing receivables, Qard contracts and Ijarah Muntahia Bittamleek assets detailed as follows:

i) Murabaha and Installment financing receivables
Murabaha financing and Installment financing receivables are agreements whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Murabaha and Installment financing receivables are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Bank to the date of the statement of financial position, less repayments received and provision for impairment.

ii) Istisna'a assets
Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer an asset which is either manufactured or acquired by the purchaser on behalf of the Bank according to agreed upon specifications, for an agreed upon price.

Istisna'a assets represent the disbursements made as of the date of the statement of financial position against the assets acquired for Istisna'a projects plus income recognized, less repayments received.

After completion of the project, the Istisna'a asset is transferred to the Istisna'a receivable account.

iii) Qard
Qard is recognized when cash is disbursed to the borrowers.

Amounts receivable from Qard represent amounts disbursed in respect of projects plus the Qard service fees due, less repayments received relating to the outstanding capital portion of the Qard as determined according to the Qard agreements.

iv) Ijarah Muntahia Bittamleek
Ijarah is an agreement whereby the Bank, acting as a lessor, purchases according to the customer request (lessee), based on his promise to lease the asset for an agreed rent for a specific period. The Bank transfers the title of the asset to the lessee without consideration upon completion of all payments due.

Investment in Ijarah Muntahia Bittamleek consists of assets purchased by the Bank, either individually or through a syndicate agreement and leased to beneficiaries for their use under Ijarah Muntahia Bittamleek agreements. These assets are stated at cost less the accumulated depreciation up to the date of the statement of financial position. The assets are depreciated using the straight-line method over the related lease period. No depreciation is recorded in respect of assets under construction.

i) Investments in equity capital, real estate and other funds

Investments in equity capital, real estate and other funds are intended to be held for a long-term period, and may be sold in response to needs for liquidity or changes in prices. Such investments are measured at fair value, and any unrealized gains arising from the change in their fair value are recognized directly in the fair value reserve under members' equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded under the members' equity is recognized in the income statement.

Investments in equity capital, real estate and other funds whose fair value cannot be reliably measured are carried at cost, less provision for any impairment in the value of such investments.

Investments in Murabaha and Leasing Funds, which are of debt type in nature, are measured at amortized cost, less provision for any impairment in the value of such investments.

j) Investments in subsidiaries and trust funds

Investments in subsidiaries and trust funds over which the Bank exerts control are recognized at cost and reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount may not be recoverable and impairment loss, if any, is recognized for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Previously recognized impairment losses, if any, are reviewed for possible reversal of the impairment at each reporting date.

An assessment is made at each balance sheet date to determine whether there is objective evidence that an investment in the subsidiaries and trust funds may be impaired. The amount of the impairment loss is calculated as the difference between the investment's carrying amount and its estimated fair value and is charged to the income statement. Subsequent recoveries of amounts written-off are credited to the income statement.

The Bank's share of dividends distributed by the subsidiaries and trust funds are recognized in the income statement.

The Bank also manages the Special Account Resources Waqf Fund which, along with Organisation of the Islamic Conference is currently managing Kafala (Sponsor) programs such as Tsunami Orphans and others from donations received from philanthropists.

k) Investments in associates

Investments in associates are measured at cost, less provision for any impairment in the value of such investments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments in Sukuk

Investments in Sukuk are classified as investments at fair value through income statement. These investments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement.

m) Murabaha-based profit rate and cross currency swaps

The Bank uses Murabaha-based profit rate and cross-currency swaps for asset/liability management and hedging purposes to modify markup rate or currency characteristics of the Sukuk issued and financing extended. Murabaha-based profit rate and cross-currency swaps are treated as held-for-trading.

These instruments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement. Murabaha-based profit rate swap or cross-currency swap with positive fair values are recognized within other assets and those with negative fair values are recognized within other liabilities.

n) Impairment of financial assets

Operational assets:
Operational assets are the assets controlled by the Bank to conduct its operations. An assessment is made at each balance sheet date to determine whether there is evidence that a financial asset or a group of financial assets may be impaired. Accordingly, the Bank determines the provision for impairment losses based on an assessment of incurred losses. This involves a review of the financial assets on the balance sheet date in order to determine if there are any indications of impairment in their value individually; and also the losses that the Bank suffers as a result of rescheduling the dues from certain countries and from settlement plans mutually agreed with the beneficiaries due to its participation in the debt relief initiative for the Heavily Indebted Poor Countries (HIPC). The loss results from the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the implicit rate of return of the financial asset mentioned in the agreement. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. In addition, a portfolio provision is created for losses where there is objective evidence that unidentified losses are present in the portfolio at the balance sheet date. These are estimated based on country risk ratings, the current economic conditions and the default pattern that are embedded in the components of the portfolio.

Adjustments to the provision are recorded as a charge or credit in the Bank’s income statement. In determining the adequacy of the provision, the Bank takes into account the net present value of expected future cash flows discounted at the financial instruments’ implicit rate of return.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of financial assets (continued)

Other financial assets:
An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. The amount of the impairment losses for other financial assets is calculated as the difference between the asset's carrying amount and its estimated fair value.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, the asset is written off against the allowance account and any excess loss is recognised in the income statement. Subsequent recoveries of amounts previously written-off are credited to the Bank's income statement.

o) Fixed assets

Fixed assets are recorded at cost, except for donated land, which is recorded at its fair value at the time of receipt of donation.

Maintenance and repair costs are expensed as incurred. Cost includes expenditures that are directly attributable to the acquisition / construction of the asset. Subsequent expenditures are only capitalized when it increases the useful life of the asset.

Land is not depreciated. Other fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

Permanent headquarters building	40 years
Pre-fabricated buildings	6 to 7 years
Furniture and equipment	4 to 10 years
Motor vehicles	5 years

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

p) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

q) Revenue recognition

Commodity placements through banks
Income from placements through other Islamic and conventional banks is recognized on a time apportionment basis over the period from the actual disbursement of funds to the date of maturity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

Investments in Sukuk
Income from investments in Sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities.

Murabaha and installment financing
Income from Murabaha and installment financing receivables are accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to the scheduled repayment date of installments.

Mudarib fees
Mudarib fee income is recognized on an accrual basis when the service has been provided.

Istisna'a income
The Bank uses the deferred profits method for recognizing Istisna'a income on Istinsa'a assets whereby there is a proportionate allocation of deferred profits over the future financial period of the credit.

Qard service fees
Income from Qard service fees is accrued according to the service fee repayment schedule appended to the Qard agreement.

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is allocated proportionately in the financial periods over the term of Ijarah.

Dividends
Dividend income from investments in subsidiaries, associates and trust funds is recognized when the right to receive the dividend is established.

Earnings prohibited by Shari'ah
Any income earned by the Bank from sources, which is considered by management as forbidden by Shari'ah, is not included in the Bank's income statement but is transferred to the Special Account Resources Waqf Fund.

r) Commodity purchase and sale agreements

The Bank enters into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank purchases certain commodities from these banks on a deferred payment basis and sells these through those banks to third parties. The payable related to the purchase price under these agreements is presented as commodity purchase liabilities in the statement of financial position. The difference between sale and purchase price is treated as finance cost and accrued on a time apportionment basis over the period of the agreements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

t) Zakat and tax

In accordance with the Articles of Agreement and the fact that the Bank's equity is part of Baitul Mal (public money), the Bank is not subject to Zakat or tax.

3. SHARI'AH COMMITTEE

The Bank's business activities are subject to the supervision of a Shari'ah Committee consisting of members appointed by the Bank's General Assembly. IDB Group's Shari'ah Committee was established pursuant to Board Resolution No.BED/24/11/421/(198)/138. Members of the Shari'ah Committee of IDB Group are appointed for a period of 3 years renewable.

The Committee has the following functions:

i. to consider all that are referred to it of transactions and products introduced by the Bank for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;

ii. to give its opinion on the Shari'ah alternatives to conventional products which the Bank intends to use, and to lay down the basic principles for the drafting of related contracts and other documents, and to contribute to its development with a view to enhancing the Bank's experience in this regard;

iii. to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank;

iv. to contribute to the Bank's programme for enhancing the awareness of its staff members of Islamic banking and to deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and

v. to submit to the Board of Executive Directors a comprehensive report showing the measure of the Bank's commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed.

(In Thousands of Islamic Dinars)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the years are comprised of the following:

	1432H	1431H
Cash in hand and at banks (note 4.1)	**50,587**	62,468
Commodity placements through banks (note 5)	**903,387**	424,540
Total	**953,974**	487,008

Commodity placements through banks comprise those placements having a maturity of three months or less at the date of placement.

4.1 Cash in hand and at banks

Cash in hand and at banks at the end of the years comprise the following:

	1432H	1431H
Cash in hand	**224**	259
Cash at banks:		
- Current accounts	**8,104**	45,637
- Call accounts	**42,259**	16,572
Total	**50,587**	62,468

Current accounts at 29 Dhul Hijjah 1432H include ID 0.5 million (1431H: ID 10.96 million) that represent balances in member countries' currencies. These current account balances are to be used to finance operations and projects in the countries in which these accounts are maintained. For each such account, the country is required to maintain the counter-value in local currency.

5. COMMODITY PLACEMENTS THROUGH BANKS, NET

Commodity placements through banks at the end of the years are comprised of the following:

	1432H	1431H
Placements through Islamic banks	**249,550**	25,663
Placements through conventional banks	**1,313,764**	1,292,460
	1,563,314	1,318,123
Less: maturity of three months or less at the date of placement (note 4)	**(903,387)**	(424,540)
provision for impairment (note 13)	**(4,143)**	(4,143)
Commodity placements through banks, net	**655,784**	889,440

(In Thousands of Islamic Dinars)

6. INVESTMENTS IN SUKUK

Investments in Sukuk certificates represents a share in the Sukuk issued by various governments, financial institutions and certain other entities (see note 30).

Investments in Sukuk at the end of the years comprise of the following:

	1432H	1431H (Restated)
Governments	**73,463**	48,249
Financial institutions	**128,229**	82,865
Other entities	**64,939**	67,341
	266,631	198,455

The movement in investments in Sukuk is summarized as follows:

	1432H	1431H (Restated)
Balance at the beginning of the year	**198,455**	228,743
Additions during the year	**80,486**	38,268
Sales/redemptions during the year	**(16,342)**	(83,807)
Fair value gains	**5,136**	7,268
Exchange revaluation (losses) / gains	**(1,104)**	7,983
Balance at the end of the year	**266,631**	198,455

7. MURABAHA FINANCING, NET

Murabaha financing at the end of the year are comprised of the following:

	1432H	1431H
Gross amounts receivable	**270,657**	357,587
Less: share of syndicate members	**-**	(56)
Less: unearned income	**(2,976)**	(2,873)
	267,681	354,658
Less: provision for impairment (note 13)	**(35,484)**	(27,237)
Murabaha financing, net	**232,197**	327,421

(In Thousands of Islamic Dinars)

8. ACCRUED INCOME AND OTHER ASSETS

Accrued income and other assets at the end of the years are comprised of the following:

	1432H	1431H
Accrued income on operating assets	**153,000**	104,880
Accrued income from commodity placements through banks	**2,838**	5,447
Accrued income on investments in Sukuk	**2,385**	1,789
Related party balances (note 29)	**188,058**	123,973
Positive fair value of Murabaha - based profit rate and cross currency profit rate swaps (note 8.1)	**44,372**	43,475
Staff loans and advances	**13,263**	11,909
Prepayments and other assets	**44,303**	18,197
Total	**448,219**	309,670

8.1 SWAPS

The Bank has entered into the following Murabaha based profit rate and cross currency profit rate swaps with financial institutions:

a) Murabaha-based Profit Rate Swaps:

Under the arrangement, the Bank shall swap fixed profit rate with floating profit rate or vice versa with the counterparty. The contract amounts of the swaps are United States Dollar (USD) 100 million (ID 65 million) (for certain related party receivables) and USD 1,350 million (ID 877 million) (for Sukuk issued during the year for the same amount).

b) Cross Currency Profit Rate Swap:

The Bank has issued Sukuk amounting to Singaporean Dollar (SGD) 200 million (ID 89 million), Saudi Riyal (SAR) 1,875 million (ID 321.3 million) and Pound Sterling (GBP) 60 million (ID 93.5 million). In order to provide protection against exchange rate fluctuations between the SGD and USD, SAR and USD and GBP and Euro and the profit payments under the Sukuk, the Bank entered into cross currency profit rate swaps for the contract amount of SGD 200 million, SAR 1,875 million and GBP 60 million respectively. Under the arrangement, the Bank shall swap profit rate in USD with profit rates in SGD, SAR and GBP respectively with the counterparties.

For Murabaha-based Profit Rate Swaps and Cross Currency Swaps, the counter parties will act as an agent of the Bank to buy and sell Shari'ah compliant assets for immediate delivery. Under these arrangements Murabaha generates fixed payments (comprising both a cost price and a fixed rate profit mark up) or vice versa. Corresponding Reverse Murabaha contracts generates the floating leg payments (the cost price is fixed but the profit rate mark up is floating) or vice versa.

(In Thousands of Islamic Dinars)

8.1 SWAPS (continued)

The table below shows the positive and negative fair values of Murabaha-based profit rate swaps and cross currency swaps and together with the cost price of Murabaha and Reverse Murabaha transaction on net basis.

	1432H					
			Contract amount			
	Positive fair value	Negative fair value	Total	1-3 years	3-5 years	Over 5 years
Murabaha based profit and cross currency profit rate swaps	**44,372**	**23,761**	**1,402,127**	**699,458**	**381,375**	**321,294**

	1431H					
			Contract amount			
	Positive fair value	Negative fair value	Total	1-3 years	3-5 years	Over 5 years
Murabaha based profit and cross currency profit rate swaps	43,475	11,805	1,356,876	154,953	877,079	324,844

9. ISTISNA'A ASSETS, NET

Istisna'a assets at the end of the years are comprised of the following:

	1432H	1431H
Istisna'a assets in progress	**1,470,686**	926,551
Istisna'a receivables	**881,111**	1,010,657
	2,351,797	1,937,208
Less : unearned income	**(273,631)**	(303,433)
	2,078,166	1,633,775
Less : provision for impairment (note 13)	**(1,032)**	(684)
Istisna'a assets, net	**2,077,134**	1,633,091

10. INSTALLMENT FINANCING RECEIVABLE, NET

Installment financing receivables at the end of the years are comprised of the following:

	1432H	1431H
Gross amounts receivable	**1,440,037**	1,254,187
Less: unearned income	**(430,488)**	(377,332)
	1,009,549	876,855
Less: provision for impairment (note 13)	**(8,042)**	(7,822)
Installment financing receivables, net	**1,001,507**	869,033

(In Thousands of Islamic Dinars)

11. QARD, NET

Qard balances at the end of the years are comprised of the following:

	1432H	1431H
Qard	**1,682,867**	1,543,054
Less: Provision for impairment (note 13)	**(61,083)**	(75,914)
Qard, net	**1,621,784**	1,467,140

12. IJARAH MUNTAHIA BITTAMLEEK, NET

Ijarah Muntahia Bittamleek at the end of the years are comprised of the following:

	1432H	1431H
Cost:		
Assets under construction:		
At the beginning of the year	**1,064,480**	870,684
Additions	**407,530**	328,739
Transferred to assets in use	**(121,989)**	(134,943)
At the end of the year	**1,350,021**	1,064,480
Assets in use:		
At the beginning of the year	**935,654**	1,038,217
Transferred to beneficiaries and disposal due to early lease payments	**(13,360)**	(237,506)
Transferred from assets not yet in use	**121,989**	134,943
At the end of the year	**1,044,283**	935,654
Total cost	**2,394,304**	2,000,134
Accumulated depreciation:		
At the beginning of the year	**(480,158)**	(530,036)
Transferred to beneficiaries and disposal due to early lease payments	**13,360**	141,517
Charge for the year	**(118,304)**	(91,639)
At the end of the year	**(585,102)**	(480,158)
Balance at the end of the year	**1,809,202**	1,519,976
Less: provision for impairment (note 13)	**(21,120)**	(21,911)
Ijarah Muntahia Bittamleek, net	**1,788,082**	1,498,065

As at 29 Dhul Hijjah 1432H included in assets in use is an amount of ID 95.3 million (1431H: 164.6 million) that represents the cost of fully depreciated assets, which will ultimately be transferred to the beneficiaries under the terms of the lease agreements.

(In Thousands of Islamic Dinars)

13. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

13.1 Provision for impairment of financial assets at the end of the years are comprised of the following:

	1432H	1431H
Specific provision	**201,342**	195,469
Portfolio provision	**18,753**	14,463
	220,095	209,932

13.2 The movement in provision for impairment of financial assets is as follows:

	14321H	1431H
Balance at the beginning of the year	**209,932**	206,287
Provision written off	**-**	(9,582)
Charge for the year	**10,163**	13,227
Balance at the end of the year	**220,095**	209,932

i) Specific provision

The movement in specific provision for impairment of financial assets is as follows:

	1432H	1431H
Balance at the beginning of the year	**195,469**	177,181
Provision written off	**-**	(9,582)
Charge for the year	**5,873**	27,870
Balance at the end of the year	**201,342**	195,469

ii) Portfolio provision

The movement in portfolio provision for impairment of financial assets is as follows:

	1432H	1431H
Balance at the beginning of the year	**14,463**	29,106
Charge/(reversal) for the year	**4,290**	(14,643)
Balance at the end of the year	**18,753**	14,463

(In Thousands of Islamic Dinars)

13. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS (continued)

13.3 Provision for impairment of financial assets at the end of the years represents:

	1432H	1431H
Cash and bank	**10,456**	
Commodity placements	**4,143**	4,143
Murabaha financing	**35,484**	27,237
Istisna's assets	**1,032**	684
Installment financing receivables	**8,042**	7,822
Qard	**61,083**	75,914
Ijarah Muntahia Bittamleek	**21,120**	21,911
Investment in equity capital	**58,709**	52,306
Investment in associates	**20,029**	19,917
Balance at the end of the year	**220,095**	209,932

13.4 The above impairment provision consists of the following:

a) The differences between the carrying amount of the related financial assets and the net present value of the expected future cash flows discounted at the implicit rate of return of the assets mentioned in the respective agreements. These differences arise either as a result of agreed rescheduled installments or management's best estimates of the timings of future cash flows from such financial assets.

b) A portfolio provision based on management's assessment of unidentified losses present in the portfolio using the country risk ratings and a probability analysis of the rates and severity of defaults.

c) The impairment provision for investments is taken when the decrease in fair value below cost is significant or prolonged. The impairment provision for unlisted equity capital investment is based on the difference between the investment carrying value and its net assets value at end of the years.

d) Provision for Sukuk is created when the Bank identifies investments in specific Sukuk as potentially impaired. In such situation, investments at the statement of financial position date are re-measured at their fair value and the difference is recognized in the statement of income.

13.5 As at the end of the years 1431H and 1432H the following is the ageing of operating assets which were overdue and considered impaired by the management of the Bank. A portion of the impairment provision calculated based on the above methodology relates specifically to these impaired receivables:

(In Thousands of Islamic Dinars)

13. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS (continued)

	1432H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Murabaha financing				**30,323**	**30,323**
Installment financing receivables	**-**	**-**	**-**	**5,173**	**5,173**
Qard	**374**	**277**	**889**	**7,633**	**9,173**
Istisna'a assets					
Ijara Muntahia Bittamleek	**97**	**8**	**335**	**17,742**	**18,182**
Total	**471**	**285**	**1,224**	**60,871**	**62,851**

	1431H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Murabaha financing	-	-	27,383	3	27,386
Installment financing receivables	-	-	-	5,189	5,189
Qard	334	168	288	7,542	8,332
Istisna'a assets			73		73
Ijara Muntahia Bittamleek	-	-		19,334	19,334
Total	334	168	27,744	32,068	60,314

The remaining provision for impairment relates to HIPC countries' rescheduled installments under the HIPC initiative and portfolio provision based on the management's best estimate of the losses present in the portfolio.

Following are the ageing of the balances which were overdue and not considered impaired by the management of the Bank.

	1432H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Amount overdue but not considered impaired	**3,054**	**688**	**210**	**104**	**4,056**

	1431H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Amount overdue but not considered impaired	16,134	772	296	48	17,250

(In Thousands of Islamic Dinars)

14. INVESTMENTS IN EQUITY CAPITAL, NET

The Bank undertakes equity investments in industrial, agro-industrial projects, Islamic banks and Islamic financial institutions of member countries.

Investments in equity capital at the end of the years comprise of the following:

	1432H	1431H
Equity investments:		
Listed	**569,349**	724,230
Unlisted	**139,195**	132,052
	708,544	856,282
Less: provision for impairment (note 13)	**(58,709)**	(52,306)
Investments in equity capital, net	**649,835**	803,976

The movement in investments in equity capital is summarized as follows:

	1432H	1431H
Balance at the beginning of the year	803,976	665,063
Additions during the year	19,046	62,503
Disposal during the year	(17,743)	(3,089)
Provision for impairment	(6,403)	(19,672)
Transfer to other investments, net (note 17)	(271)	(7,462)
Net unrealized fair value (losses) / gains	(148,770)	106,633
Balance at the end of the year	649,835	803,976

During 1431H, the Bank wrote-off ID 9.2 million (1432H – ID Nil) of equity capital investments, against which a full provision existed in the books of accounts. (See note 30 b). Investments carried at cost primarily represent equity investments in start-up unlisted entities where it is not possible to determine the fair value reliably given the developmental nature of such investments. The Bank intends to hold these investments for the long-term as strategic investments and exits from such investments would be made within the overall context of the Bank's developmental activities. During the year there were no transfers of investments carried at cost to investments at fair value through equity.

15. INVESTMENTS IN SUBSIDIARIES AND TRUST FUNDS

Investments in subsidiaries and trust funds at the end of the years comprise of the following:

	1432H	1431H
Islamic Corporation for the Development of the Private Sector (note 15.1)	223,983	207,842
Awqaf Properties Investment Fund (note 15.2)	20,981	14,629
International Islamic Trade Finance Corporation (note 15.3)	168,735	168,735
Investments in subsidiaries and trust funds	413,699	391,206

15. INVESTMENTS IN SUBSIDIARIES AND TRUST FUNDS (continued)

15.1 Islamic Corporation for the Development of the Private Sector

The Islamic Corporation for the Development of the Private Sector ("ICD") is an international specialized institution established pursuant to the Articles of Agreement signed and ratified by its members. ICD commenced operations following the inaugural meeting of the General Assembly held on 6 Rabi Thani 1421H (8 July 2000). According to the Articles of Agreement establishing ICD, the objective of ICD is to promote, in accordance with the principles of Shari'ah, the economic development of its member countries by encouraging the establishment, expansion and modernization of private enterprises producing goods and services in such a way as to supplement the activities of the Bank. As of end of Dhul Hijjah 1432H, the Bank owns 53.0% (1431H: 59.8%) of the paid-up capital of ICD. The Bank paid ID 8.79 million during 1432H (1431H: ID 17.96 million) on behalf of the member countries towards the share capital of ICD, which has been appropriated against the general reserve.

15.2 Awqaf Properties Investment Fund

Awqaf Properties Investment Fund (the "Fund") is a specialized Trust fund established pursuant to the Articles 2 and 23 of the Articles of Agreement establishing the Bank and the Memorandum of Understanding signed between the Bank, Awqaf Ministries and Institutions of Islamic countries in the year 1422H. The Fund commenced its operations on 1 Rajab 1422H (19 September 2001). The objective of the Fund is to develop and invest, in accordance with the principles of Shari'ah, Awqaf real estate properties that are socially, economically, and financially viable in the member countries of IDB and Islamic communities in non-member countries. As of 29 Dhul Hijjah 1432H, the Bank owns 41.09% (1431H: 27.9%) of the paid-up capital of the Fund. The Bank controls the Fund.

15.3 International Islamic Trade Finance Corporation

The Board of Governors of IDB during their 30th meeting held on 17 Jumad Awwal 1426H (24 June 2005) approved the establishment of the International Islamic Trade Finance Corporation ("ITFC") to focus primarily on trade finance operations for the IDB Group. The Articles of ITFC came into effect on 29 Dhul Qadah 1427H (20 December 2006) and it commenced its commercial operations on 1 Muharram 1429H (10 January 2008).

As of 29 Dhul Hijjah 1432H, the Bank owns 38.8% (1431H: 39.7%) of the paid-up capital of the Corporation. The Bank controls the Corporation.

(In Thousands of Islamic Dinars)

16. INVESTMENTS IN ASSOCIATES

Investments in associates at the end of the years are comprised of the following:

	Country of incorporation	Ownership %			
		1432H	1431H	1432H	1431H
Allied Cooperative Insurance Group (Listed)	Saudi Arabia	20.0%	20.0%	3,409	3,409
Bosna Bank International	Bosnia	45.5%	45.5%	9,618	9,618
Islamic Bank of Guinea	Guinea	49.9%	49.9%	2,627	2,627
Bank Muamalat Indonesia	Indonesia	32.8%	32.8%	32,964	32,964
Syrikat Takaful Indonesia	Indonesia	26.4%	26.4%	2,233	2,233
Islamic Bank of Niger	Niger	49.5%	49.5%	1,716	1,716
International Leasing and Investment Company	Kuwait	28.0%	28.0%	11,444	11,444
Sonali Paper & Board Mills	Bangladesh	23.2%	23.2%	808	808
Northern Jute Manufacturing Company	Bangladesh	30.0%	30.0%	198	198
National Fibres Limited	Pakistan	21.2%	21.2%	6,487	6,487
Total				71,504	71,504
Less: Provision for impairment				(20,029)	(19,917)
Investment in associates, net				51,475	51,587

The fair value of the listed associates as of 29 Dhul Hijjah 1432H is ID 11,275 (1431H - ID 12,024).

(In Thousands of Islamic Dinars)

17. OTHER INVESTMENTS, NET

Other investments at the end of the years are comprised of the following:

	1432H	1431H
Lease and Murabaha Funds – Debt type	79,115	45,240
Infrastructure, Equity and other funds – Equity type	51,743	34,596
Other investments, net	130,858	79,836

Above investments are managed by third party institutions or Bank affiliates in which the Bank has made specific investments as part of its management of liquidity.

The movement in other investments is summarized as follows:

	1432H	1431H
Balance at the beginning of the year	79,836	72,227
Additions during the year	62,989	12,302
Sale/capital redemptions during the year	(14,143)	(7,553)
Transfer from investment in equity capital, net (note 14)	271	7,462
Foreign exchange gains	1,905	2,174
Other adjustments	-	(1,064)
Net unrealized fair value (losses)	-	(5,712)
Balance at the end of the year	130,858	79,836

(In Thousands of Islamic Dinars)

18. FIXED ASSETS, NET

Fixed assets at 29 Dhul Hijjah 1432 are comprised of the following:

	Land	Buildings	Furniture, equipment and vehicles	Total
Cost:				
At the beginning of the year	13,043	105,096	41,411	159,550
Disposals during the year	-	(13,802)	(21,926)	(35,728)
Additions during the year	-	225	4,837	5,062
At the end of the year	13,043	91,519	24,322	128,884
Less: share of assets allocated to Special Account Resources Waqf Fund:				
At the beginning of the year	-	(31,851)	(5,346)	(37,197)
Disposals during the year	-	9	5,346	5,355
At the end of the year	-	(31,842)	-	(31,842)
At the end of the year	13,043	59,677	24,322	97,042
Accumulated depreciation:				
At the beginning of the year	-	52,421	27,311	79,732
Disposals during the year	-	(13,019)	(21,914)	(34,933)
Charge for the year	-	2,094	4,628	6,722
At the end of the year	-	41,496	10,025	51,521
Less: share of accumulated depreciation allocated to Special Account Resources Waqf Fund:				
At the beginning of the year	-	(13,658)	(5,378)	(19,036)
Disposals during the year			5,378	5,378
Allocation during the year		(799)	-	(799)
At the end of the year	-	(14,457)	-	(14,457)
At the end of the year	-	27,039	10,025	37,064
Net book value:				
29 Dhul Hijjah 1432H	13,043	32,638	14,297	59,978
30 Dhul Hijjah 1431H	13,043	34,482	14,132	61,657

Included in fixed assets is an amount of ID 13 million which represents the estimated market value of land at the time of donation, by the Government of the Kingdom of Saudi Arabia.

(In Thousands of Islamic Dinars)

18. FIXED ASSETS, NET (continued)

The cost of the Bank's permanent headquarters building was funded out of the Bank's ordinary resources and out of special assistance accounts resources. The cost and depreciation of the permanent headquarters building and related furniture and equipment are being split according to the following proportions:

The Bank - Ordinary Capital Resources	65%
Special Account Resources Waqf Fund	35%

19. SUKUK LIABILITY

IDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk by selling global Sukuk Certificates as set out below:

Date of Issue	Issuing currency	Amount	ID Equivalent 1432H	ID Equivalent 1431H	Maturity Date	Stock Exchange Listing	Issued by
20 Aug 2008	MYR	300,000	60,584	62,013	20 August 2013	Bursa Malaysia (BM)	TSB
30 Mar 2009	MYR	100,000	20,194	20,671	28 March 2014	Bursa Malaysia (BM)	TSC
16 Sep 2009	USD	850,000	546,199	552,235	16 September 2014	London Stock Exchange(LSE)	ITSL
14 Sep 2009	SGD	200,000	89,001	89,984	14 September 2012	Not Listed	ITSL
20 Sep 2010	SAR	937,500	160,647	162,422	20 September 2020	Not Listed	ITSL
20 Sep 2010	SAR	937,500	160,647	162,422	20 September 2020	Not Listed	ITSL
27 Oct 2010	USD	500,000	321,293	324,844	27 October 2015	LSE and BM	ITSL
17 Feb 2011	GBP	60,000	60,865	-	17 February 2016	Not Listed	ITSL
25 May 2011	USD	750,000	481,940	-	25 May 2016	LSE and BM	ITSL
			1,901,370	1,374,591			

The Sukuk Certificates confer on certificate holders the right to receive periodic distribution amounts arising from certain Ijarah transactions, which were originated by the Bank. Accordingly the Bank continues to recognize the Sukuk assets and records the amounts due to the holders of Sukuk Certificates as a liability in its financial statements.

The Bank continues to service these assets, and guarantees as a third party any shortfall in the scheduled installments. The proceeds from the issuance of SGD 200 million Sukuk were swapped into USD 138.5 million by the Bank at a fixed exchange rate of 1.444 SGD per USD. The fixed exchange rate is valid through maturity of the Sukuk in September 2012. (Also see notes 8 and 21).

The finance cost for the year ended 1432H is ID 36.7 million (1431H: ID 24.2 million).

(In Thousands of Islamic Dinars)

20. COMMODITY PURCHASE LIABILITIES

The Bank has entered into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank has purchased certain commodities from these banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The outstanding balance of ID 1,360 million as of 29 Dhul Hijjah 1432H (1431H: ID 1,016 million) represents the purchase price under these agreements. The related finance cost for the year ended 29 Dhul Hijjah 1432H is ID 10.9 million (1431H: ID 8.8 million).

21. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities at the end of the years are comprised of the following:

	1432H	1431H (Restated)
Investment deposits	2,308	2,447
Related party balances (note 29)	201,097	128,982
Accruals	18,613	23,065
Accrued staff retirement and medical benefit scheme liability (note 22)	58,152	38,673
Murabaha based profit rate and cross currency profit rate swaps (note 8.1)	23,761	11,805
Deferred grant income (note 30)	12,472	13,072
Other liabilities	143,796	30,112
Total	460,199	248,156

22. RETIREMENT BENEFITS

The Bank has a defined staff retirement pension plan that covers substantially all of its staff. In addition, the Bank provides medical retirement benefits for eligible active retired staff through its post-employment medical scheme.

a. Staff Retirement Pension Plan

The Staff Retirement Pension plan is a defined benefit pension plan established and maintained by IDB and covers most employees on regular appointment who receive a regular stated remuneration from the Bank. It became effective on 1 Rajab 1399H. The Pension Committee is responsible for the oversight of investment and actuarial activities of the Plan, which includes the IDB's contribution to the Plan. The Bank underwrites the investment and actuarial risk of the plan.

The main features of the plan are:

(i) normal retirement age is the 60th anniversary of the participant's birth;

(ii) on retirement, the eligible retired employee is entitled to 2.5% of the highest average remuneration (basic salary plus cost of living allowance) for each year of pensionable service.

(In Thousands of Islamic Dinars)

22. RETIREMENT BENEFITS (continued)

a. Staff Retirement Pension Plan (continued)

Under the Plan, the employee contributes at a rate of 7% of the salary (basic plus cost of living allowance) while the Bank typically contributes 14.88%, but may vary such contribution based on the results of the actuarial valuations.

The Plan assets are held and managed by IDB but recorded separately from the Bank's other assets and is used solely to provide the benefits and pay expenses of the Plan. The Bank pays all the administrative expenses of the Plan. The Plan's assets are invested in accordance with the policies set out by the Bank.

b. Post-Employment Medical Benefit Scheme

Effective 1 Muharram 1421H, the Bank established the medical benefit scheme for retired employee via resolution BED/18/10/418(176) dated 18 Shawwal 1418H. In accordance with the said resolution, the Post-Employment Medical Benefit Scheme is to be funded jointly by the Bank and staff at 1% and 0.5%, respectively.

The purpose of the Post-Employment Medical Benefit Scheme is to pay a monthly amount to eligible retired employee towards their medical expenses. The administration of the Post-Employment Medical Benefit Scheme is independent of the Staff Retirement Benefit Plan and contributions are invested in a similar manner to that of the Staff Retirement Benefit Plan under the management of the Pension Investment Management Committee. The monthly entitlements payable for each retired employee is computed according to the following formula:

Monthly highest average remuneration X 5 (being minimum contribution period) X .18%

The following table summarizes the movements on the present value of the defined benefit obligation:

	Staff Retirement Plan		Medical Benefit Scheme	
	1432H	1431H	1432H	1431H
Benefit obligation at beginning of the year	142,718	125,605	7,398	6,106
Service costs (excluding member contributions)	7,396	6,315	699	648
Finance costs	8,405	8,030	499	449
Plan member contributions	2,592	2,401	185	165
Benefits paid from plan assets	(6,044)	(6,110)	(94)	(95)
Foreign exchange losses / (gains) and other adjustments	6,429	6,477	999	125
Benefit obligation at end of the year	161,496	142,718	9,686	7,398

(In Thousands of Islamic Dinars)

22. RETIREMENT BENEFITS (continued)

The movements on the plan assets are as follows:

	Staff Retirement Plan		Medical Benefit Scheme	
	1432H	1431H	1432H	1431H
Fair value of plan assets at the beginning of the year	106,753	101,234	4,690	3,779
Actual return on plan assets	3,447	1,791	116	431
Employer contributions	5,504	4,964	383	333
Plan member contributions	2,592	2,401	185	165
Benefits paid from plan assets	(6,044)	(6,110)	(94)	(95)
Foreign exchange gains / (losses) and other adjustments	(4,175)	2,473	(327)	77
Fair value of plan assets at end of the year	108,077	106,753	4,953	4,690
Funded status - net liability recognized on balance sheet representing excess of benefit obligation over fair value of plan assets (note 21)	53,419	35,965	4,733	2,708

The above net liability represents the cumulative actuarial losses resulting from the difference between the actual experience and the assumptions used in estimating the liability which is recognized by the Bank in the members' equity immediately in the year it arises, if material.

Based on the actuarial valuations, the pension and medical benefit expenses for the year 1432H and 1431H for the Bank comprised the following:

	Staff Retirement Plan		Medical Benefit Scheme	
	1432H	1431H	1432H	1431H
Current service costs – gross	9,989	8,716	884	813
Less – Employee contributions	(2,592)	(2,401)	(185)	(165)
Net - current service costs	7,397	6,315	699	648
Finance costs	8,405	8,030	499	449
Expected return on plan asset	(2,768)	(4,504)	(160)	183
Expense for the year	13,034	9,841	1,038	1,280

Principal assumptions used in the actuarial valuations dated 13 Rajab 1431H (26 June 2010) and extended as at the end of the years are as follows:

	Staff Retirement Plan		Medical Benefit Scheme	
	1432H	1431H	1432H	1431H
Discount rate	5.4%	5.4%	5.4%	5.4%
Expected return on plan assets	6.0%	6.0%	6.0%	6.0%
Rate of expected salary increase	4.5%	4.5%	4.5%	4.5%

(In Thousands of Islamic Dinars)

22. RETIREMENT BENEFITS (continued)

The expected return on plan assets is an average of the expected long-term return of the Plan assets, weighted by the portfolio allocation of the assets. Asset class returns are developed based on historical returns as well as forward-looking expectations. The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AAA Corporate Bonds.

The following table presents the plan assets by major category:

	Staff Retirement Plan		Medical Benefit Scheme	
	1432H	1431H	1432H	1431H
Commodity placements	6,644	5,008	2,788	3,211
Investment in UIF	18,772	18,980		-
Syndicated Murabaha	1,647	1,423	306	-
Managed funds and Instalment Sales, net	30,909	32,571		-
Investments in Sukuk	62,403	40,720	1,285	-
Land	4,546	4,596		-
Others (net)	(16,844)	3,455	573	1,479
Plan Assets – net	108,077	106,753	4,952	4,690

17.4 % of staff retirement plan assets (1431H: 17.8%) are invested respectively within the IDB Group as of 29th Dhul Hijjah 1432H.

The following table summarizes the funding status of the staff retirement plan at the end of the last five fiscal years:

	1432H	1431H	1430H	1429H	1428H
Present value of defined benefit obligation	(161,496)	(142,718)	(125,605)	(117,261)	(105,128)
Fair value of plan assets	108,077	106,753	101,234	99,353	89,221
Plan deficit	(53,419)	(35,965)	(24,371)	(17,908)	(15,907)

The following table summarizes the funding status of the medical benefit scheme at the end of the last five fiscal years:

	1432H	1431H	1430H	1429H	1428H
Present value of defined benefit obligation	(9,686)	(7,398)	(6,106)	(5,332)	(4,221)
Fair value of plan assets	4,952	4,690	3,779	3,392	2,894
Plan deficit	(4,734)	(2,708)	(2,327)	(1,940)	(1,327)

(In Thousands of Islamic Dinars)

22. RETIREMENT BENEFITS (continued)

The amounts recognized in the general reserve are as follows:

	Staff Retirement Benefit	Medical Benefit Scheme	1432H Total	1431H Total
Balance at the beginning of the year	35,965	2,708	38,673	26,698
Movement during the year	17,454	2,026	19,480	11,975
Balance at the end of the year	53,419	4,734	58,153	38,673

23. PAID-UP CAPITAL

The capital of the Bank at the end of the years is comprised of the following:

	1432H	1431H
Authorized 3,000,000 shares of ID 10,000 each (1430H: 3,000,000 shares of ID 10,000 each)	30,000,000	30,000,000
Issued: 1,800,000 shares of ID 10,000 each (1430H: 1,600,000 shares of ID 10,000 each)	18,000,000	18,000,000
Issued shares not subscribed	(217,400)	(524,370)
Subscribed capital	17,782,600	17,475,630
Share capital not yet called	(12,469,121)	(12,275,000)
Installments not yet due	(770,902)	(1,002,973)
Called-up capital	4,542,577	4,197,657
Installments due, not yet paid	(168,773)	(166,586)
Paid-up capital	4,373,804	4,031,071

24. GENERAL RESERVE

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors, until this reserve equals 25% of the Bank's subscribed capital. Any excess of the net income over the above limit is available for distribution to member countries.

According to the Board of Governors' resolution No. BG/2-432 dated 28 Rajab 1432H (30 June 2011), and the Board of Executive Directors' resolution No. BED/BG/4-432, the higher of 5% of the Bank's 1431H net income and USD 5 million was allocated to finance technical assistance operations in the form of grants during the year 1432H amounted to ID 7.17 million (1431H: ID 5.69 million).

According to the Board of Governors' resolution No. BG/3-432 dated 28 Rajab 1432H (30 June 2011), and the Board of Executive Directors' resolution No.BED/BG/5-432, higher of 2% of the Bank's 1431H net income and USD Dollars 2 million was allocated to the merit scholarship programme in the form of grants during the year 1432H amounted to ID 2.86 million (1431H: ID 2.27 million).

(In Thousands of Islamic Dinars)

25. UNDISBURSED COMMITMENTS

Undisbursed commitments at the end of the years are comprise the following:

	1432H	1431H
Murabaha financing	7,931	13,792
Installment financing receivables and Istisna'a assets	3,764,945	3,038,082
Qard	1,060,101	1,033,983
Ijarah Muntahia Bittamleek assets	807,357	906,131
Investments in equity capital and profit sharing	8,675	36,566
Investment in ICD	48,194	74,967
ISFD (note 26)	385,552	454,781
Total	6,082,755	5,558,302

26. ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT - COMMITMENTS

The Islamic Solidarity Fund for Development ("ISFD") was established pursuant to the decision taken at the Third Extraordinary session of the OIC Islamic Summit conference in Makkah in December 2006 (Dhul Qadah 1426H). The purpose of the Fund is to finance different productive and service projects and programmes that help in reducing poverty in member countries of the Organization of Islamic Conference in accordance with its Regulations. The fund was officially launched during the 32nd meeting of the IDB Board of Governors, held on 12-13 Jumad Awwal 1428H (29-30 May 2007) , in Dakar, Senegal through adoption of the BoG resolution no. BG/5-428. The target principal amount of the Fund is USD 10 billion and the Bank has committed to contribute USD 1 billion, payable in 10 annual installments of USD 100 million each (ID 63.86 million) (1431H: ID 65.12 million). The first four installments amounting to USD 400 million have already been paid by the Bank as of 30 Dhul Hijjah 1432H.

27. COMMITMENTS AND CONTINGENCIES THROUGH IDB – UNIT INVESTMENT FUND

The Bank's Unit Investment Fund ("UIF") is a Trust Fund established under Article 23 of the Articles of Agreement of the Bank. The purpose of the Fund is to participate in the economic development of the member countries through the pooling of the savings of institutions and individual investors, and to invest these savings in producing projects in the said member countries. The Bank has agreed to extend the guarantee to cover all the projects financed by the Fund.

Until 1429H, the Fund was being managed by the Bank. During 1430H, its management was transferred to ICD, which is a subsidiary of the Bank.

The Bank has outstanding guarantees at 29 Dhul Hijjah 1432H of ID 61.3 million (1431H: ID 63.9 million) in respect of other operations, which are covered by counter guarantees acceptable to the Bank.

(In Thousands of Islamic Dinars)

28. RESTRICTED INVESTMENT ACCOUNTS

The Bank in its capacity as a Mudarib has invested funds of holders of restricted investment accounts for a fixed fee and does not participate in the investment results. Restricted investments accounts are not shown in the Bank's Statement of financial position. Right of holders of restricted investments accounts realised from their investments and the total obligation amounted to ID 45.5 million (1431H: ID 43.3 million).

29. RELATED PARTY BALANCES

In the ordinary course of its activities, the Bank transacts with related parties defined as member countries, subsidiaries and associates, other programmes initiated by the Bank and key management comprising of the Board of Governors, the Shari'a Board and the Board of Executive Directors.

Bank's development activities were principally conducted with its member countries.

The net balances due (to) / from IDB group entities at the end of the year are as follows:

	1432H		1431H	
	Assets	Liabilities	Assets	Liabilities
World Waqf Foundation	-	(935)	416	-
APIF	-	(734)	949	-
UIF	12,623	-	6,602	-
ICIIEC	2,705	-	-	(95)
Special Account Resources Waqf Fund	-	(41,317)	-	(5,784)
IDB Special Assistance Fund	-	(14,993)	5,537	-
IDB Pension Fund	5,320	-	-	(4,557)
IDB Medical Fund	1,287	-	-	(868)
Al-Aqsa Fund	-	(37,214)	2,472	-
Al Quds Fund	973	-	980	-
ICD	31,480	-	22,403	-
BADEA	-	(56)	75	-
ITFC	-	(105,084)	-	(89,830)
Fael Khair Program	24,030	-	-	(4,727)
ISFD	3,845	-	3,328	-
Sacrificial Meat Project	2,000	-	-	(5,218)
GCC Program for Reconstruction of Gaza	39,536	-	-	(17,903)
Kafala Program	-	(764)	-	-
ICD – Receivable under Wakala agreement (note 29 (a))	64,259	-	64,969	-
ITFC – Receivable under Wakala agreement (note 29 (a))	-	-	16,242	-
Total	188,058	(201,097)	123,973	(128,982)

(In Thousands of Islamic Dinars)

29. RELATED PARTY BALANCES (continued)

APIF, ICD and ITFC are the subsidiaries of the Bank. All the remaining entities are Bank's affiliated entities. The Bank provides management services to these entities.

Other than the overall development activity transactions, which are entered into with member countries, the following significant related party transactions were entered into with IDB group entities:

(a) The Bank entered into two wakala agreements with ICD amounting to USD 100 million, on which the Bank will receive quarterly Muwakkil profit of 2.75% and 2.97% per annum. These transactions will mature on 9 December 2012 and 16 July 2012 respectively. Similarly, the Bank had also entered into a Wakala agreement with ITFC amounting to USD 25 million, on which the Bank received a Muwakkil profit of Libor plus 110 bps. This transaction matured on 12 December 2010 corresponding to 6th Moharram 1432H.

(b) According to the IDB's Board of Executive Directors' resolution number BED/27/12/428(249)/157, dated 27 Dhul Hijja 1428H (6 January 2008), the Board resolved to allocate USD 1 billion of IDB OCR resources for the ITFC, wherein ITFC will act as Mudarib under a mudaraba agreement dated 10 Rabi al Awal 1429H (18 March 2008).

(c) Key management compensation

Key management comprises of the President and the three Vice Presidents. The compensation paid or payable to key management for their services is shown below:

	1432H	1431H
Salaries and other short-term benefits	1,457	1,256
Post-employment benefits	856	724
	2,313	1,980

(In Thousands of Islamic Dinars)

30. PRIOR-YEAR ADJUSTMENTS

30.1 The Bank has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments in Sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by Islamic financial institution. The following is the summary of the impact on the classification of investments:

Type	Note	Before adopting FAS 25	On adopting FAS 25	Impact on equity
Equity Investments	Note 14	Available for sale	Fair Value through Equity	None
Sukuk Investments	Note 6	Held to maturity	Fair value through Statement of Income	See below
Other Investments - Equity type - Investments in Equity, Real Estate Funds	Note 17	Available for sale	Fair Value through Equity	None
Other Investments - Debt type - Investment in Murabaha and Leasing funds	Note 17	Amortized cost	Amortized cost	None

The financial statements for the year ended 30th Dhul Hijjah 1431H have been restated to account for the impact on the balance of investments in Sukuk as a result of the implementation of FAS 25. The Bank has reduced the opening balances reserves and investments in Sukuk balance at the beginning of 1431H by the amount of the adjustment relating to years prior to 1431H.

	ID thousands
Effect on years prior to 1431H:	
Decrease in investments in Sukuk	6,377
Decrease in opening balance of reserves	6,377
Effect on 1431H:	
Increase in the income from investments in Sukuk	7,267
Decrease in the provision for impairment on Sukuk	430
Increase in the investments in Sukuk	7,697

30.2 The capital reserve in prior years comprised the estimated value of land (ID 13 million) and buildings (ID 3.5 million) that were donated by the Government of the Kingdom of Saudi Arabia. The Government also donated SR 50 million (ID 9.6 million) for the construction of the permanent headquarters building. During 1432, in accordance with International Accounting Standard 20: Government Grants, amount relating to the capital reserve has been reclassified as the deferred income and a portion of it has been amortized to income in proportion to the depreciation of related assets in prior and current years against which the grant has been received.

(In Thousands of Islamic Dinars)

30. PRIOR-YEAR ADJUSTMENTS (continued)

	ID thousands
Effect on years prior to 1431H:	
Decrease in capital grants	9,000
Increase in opening balance of reserves	9,000
Effect on 1431H:	
Increase in other income	600
Decrease in capital grants	600

30.3 In the Bank's financial statements for the year ended 30 Dhul Hijjah 1431H certain equity investments (see note 17) were recorded as equity investments through fair value while the Bank had ownership interest of 20% or more. In accordance with the requirements of AAOIFI Standards such investments should be recorded as associates. Consequently, the Bank's management restated the comparative financial statements for the year ended 30 Dhul Hijjah 1431H. This reclassification had no effect on the reported income for the year ended 30 Dhul Hijjah 1431H and opening reserves of the Bank at 1 Muharram 1432H. (See note 14).

31. NET ASSETS IN FOREIGN CURRENCIES

The net assets in foreign currencies at the end of the years are as follows:

	1432H	1431H
United States Dollar	654,741	654,486
Euro	437,600	616,474
Pound Sterling	150,765	152,442
Japanese Yen	129,508	166,362

32. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION

	At 29 Dhul Hijjah 1432H					
	Maturity period determined					
	Less than 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Maturity period not determined	Total
Total assets	2,266,060	861,151	1,324,268	4,724,691	1,174,987	10,351,157
Total liabilities	1,332,300	576,803	1,812,368	-	-	3,721,471
	At 30 Dhul Hijjah 1431H					
Total assets	2,221,439	988,394	1,384,068	3,140,535	1,333,149	9,067,585
Total liabilities	748,420	515,687	1,374,591	-	-	2,638,698

(In Thousands of Islamic Dinars)

33. CONCENTRATION OF ASSETS

Analysis of assets by economic sector is as follows:

	Public utilities	Transport and telecom	Agriculture	Industry and mining	Social Services	Others	Total
	At 29 Dhul Hijjah 1432H						
Total assets	3,262,348	1,639,492	481,147	266,684	827,887	3,873,599	10,351,157
	At 30 Dhul Hijjah 1431H						
Total assets	2,650,806	1,622,226	459,735	696,172	643,782	2,994,864	9,067,585

The geographical locations of assets are as follows:

	Member countries				
	Asia	Africa	Europe	Non-member countries	Total
	29 Dhul Hijjah 1432H				
Total assets	6,494,411	2,739,463	611,418	505,865	10,351,157
	30 Dhul Hijjah 1431H				
Total assets	5,808,227	2,669,832	327,672	261,854	9,067,585

The geographical locations of assets reflect the countries in which the beneficiaries of the assets are located.

34. RISK MANAGEMENT

The Bank has a Group Risk Management Department ("GRMD") that is fully independent from all business departments as well as other entities of the Bank. The GRMD is responsible for identification, assessment, mitigating and reporting of all risks inherent in the Bank's activities to maintain its low risk profile. The Bank has also established a Group Risk Management Committee which ensures that, based on the risk appetite; there are appropriate controls on all major risks arising from financing and investment operations through reviewing the risk management framework, policies, procedures, guidelines and risk reports.

a) Credit Risk

Credit risk refers to the risk that a Bank's counterparty, i.e. sovereign, financial institution, corporate, etc, will fail to discharge its obligation resulting in financial loss to the Bank. The Bank's credit risk arises mainly from its operating and financial assets.

For all classes of financial assets held by the Bank, the maximum credit risk exposure is their carrying value as disclosed in the statement of financial position. The assets which subject the Bank to credit risk, principally relates to financing operations under Murabaha, Istisna'a, Installment sale, Ijarah Muntahia Bittamleek and other investments which are largely covered by

34. RISK MANAGEMENT (continued)

Credit Risk (continued)

sovereign guarantees, commercial bank guarantees and other securities acceptable to the Bank (in accordance with specific eligibility criteria and credit risk assessments).

The Bank also has strong protection against credit losses on sovereign financing due to its 'Preferred Creditor Status' affording the Bank priority over other creditors in the event of default. Historically, the Bank has had a very low level of overdues and write-offs. The Bank's Management is of the opinion that significant credit losses, beyond what has already been provisioned for, is unlikely to occur.

The Bank's liquid funds portfolio; comprising Commodity placements, Sukuk and other investments, are also exposed to credit risk which is mitigated by diversification and limiting exposure to highly rated banks and issuers including sovereigns.

The Bank has put in place comprehensive credit risk management framework including policies and guidelines on various types of financing operations. The credit policy formulation, credit limit setting, monitoring of credit exposures/exceptions and monitoring/review functions are performed independently by GRMD, which endeavors to ensure that business departments comply with risk parameters and prudential limits established by the Board of Executive Directors ("BED") and the Management.

An important element of the credit risk management framework is exposure limits structure for each obligor and group of connected obligors. Moreover, portfolio concentration limits relating to single country and single obligor are also in place with the view to maintain appropriate diversification. In summary, IDB has a well-developed exposure and concentration limit structure that is based on the credit strength of the beneficiary/obligor, the size of the obligor, as well as the size and structure of the portfolio.

The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationships with IDB. While extending financing to its member countries, the Bank safeguards its interests by obtaining adequate guarantees and securities and ensures that the concerned beneficiaries as well as the guarantors are able to meet their obligations to IDB. In addition to the above risk mitigation tools, the Bank has in place a comprehensive approach for risk assessment and assignment of exposure limits for each type of obligors in line with the best banking practices.

Country risk refers to the risks associated with the economic, social and political environments of the beneficiary's home country. Guidelines are in place for assessing and monitoring country risk profiles and exposure to safeguard the Bank against undue risk. The country risk profiles and exposure limits are periodically reviewed taking into consideration the macro-economic, financial and other developments in the member countries, as well as the status of their business relationship with IDB, perception of the rating agencies and institutions of repute, risk perception of market participants and experience of other MDB's. Countries are classified under 7 risk categories; i.e., "A" to "G", whereby "A" represents the highest creditworthy category (lowest risk) and "G" represents the lowest creditworthy category (highest risk).

(In Thousands of Islamic Dinars)

34. RISK MANAGEMENT (continued)

(i) Concentration of credit risk

The table below reflects the ten largest country exposures for financed operations (excluding equity and profit sharing) as of the end of years 1432H and 1431H:

1432H			1431H		
Country	**Amount**	**% (of total exposure)**	Country	Amount	% (of total exposure)
Morocco	**745,670**	**10.9%**	Morocco	590,228	10.0%
Iran	**546,230**	**8.0%**	Iran	534,678	9.0%
Pakistan	**355,189**	**5.2%**	Saudi Arabia	346,040	5.8%
Saudi Arabia	**352,550**	**5.1%**	Tunisia	298,224	5.0%
Indonesia	**318,431**	**4.7%**	Indonesia	293,282	4.9%
Tunisia	**316,356**	**4.6%**	Bangladesh	261,930	4.4%
Azerbaijan	**305,498**	**4.5%**	Pakistan	261,153	4.4%
Bahrain	**287,246**	**4.2%**	Bahrain	234,550	4.0%
Syria	**228,241**	**3.3%**	Jordan	199,229	3.4%
Sudan	**226,062**	**3.3%**	Lebanon	194,234	3.3%
Total Top 10	**3,681,473**	**53.8%**	Total Top 10	3,213,548	54.2%

(ii) Credit quality of financed operations

The table below provides analysis of the credit quality of country exposures related to financed operations (excluding equity and profit sharing) as of the end of years 1432H and 1431H:

	1432H		1431H	
Credit Risk Category	**Amount**	**%**	Amount	%
Category "A"	**529,700**	**7.7%**	510,469	8.6%
Category "B"	**2,533,283**	**37.0%**	2,147,365	36.2%
Category "C"	**1,321,642**	**19.3%**	1,154,205	19.5%
Category "D"	**754,995**	**11.0%**	673,858	11.4%
Category "E"	**1,252,780**	**18.3%**	1,036,368	17.4%
Category "F"	**386,498**	**5.6%**	341,979	5.8%
Category "G"	**68,485**	**1.0%**	64,073	1.1%
Other Non Rated	**81**	**0.0%**	-	-
Total	**6,847,464**	**100%**	5,928,317	100%

(In Thousands of Islamic Dinars)

34. RISK MANAGEMENT (continued)

Gross operating assets are covered by guarantees and securities as follows:

	Sovereign	Commercial & Others	Total
1432H			
Other operating assets	5,896,090	683,698	6,579,788
Murabaha financing	213,760	53,916	267,676
Total	**6,109,850**	**737,614**	**6,847,464**
1431H			
Other operating assets	5,276,718	296,942	5,573,660
Murabaha financing	267,481	87,177	354,658
Total	**5,544,199**	**384,119**	**5,928,318**

(iii) Geographical concentration of operating assets

The Bank carries on business mainly with countries in Middle East, Asia and Africa. Due to the relatively high country risk of some countries in these continents, the Bank is exposed to potential loss arising from its exposure to these countries. The Bank's exposure to any Member Country is diversified with a view to avoid excessive concentration of risk in any particular Member Country by setting maximum country exposure limits.

The following table reflects the geographical distribution of exposure on financed operations with member countries:

	1432H	1431H
Geographical Area		
Middle East	**50.7%**	51.5%
Asia & others	**27.2%**	26.4%
Africa	**22.1%**	22.1%
	100%	100%

34. RISK MANAGEMENT (continued)

b) Market risks

IDB is exposed to the following market risks:

i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the Bank's financial assets and liabilities denominated in foreign currencies, in case the Bank does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited as the Bank has the Islamic Dinar (equivalent to Special Drawing Right – SDR of the International Monetary Fund) as the unit of account (which mitigates against translation risk) and the Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. The treasury and operational investment portfolio are held in major currencies and are aligned with the composition of the Islamic Dinars basket, namely US Dollar, Sterling Pound, Euro and Japanese Yen. The Bank has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly (Also see Note 31 for distribution of net assets by currencies).

ii) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. To guard against this risk, the Bank adopts a conservative approach by maintaining high liquidity levels invested in cash, cash equivalents, commodity placements and Murabaha financing with short-term maturity of three to twelve months. The liquidity profile of the Bank's assets and liabilities has been presented in Note 32.

iii) Equity price risk

The Bank is exposed to equity price risks arising from equity investments that are held for strategic rather than trading purposes. The Bank does not actively trade these investments. If equity prices had been 5% higher or lower, net income for the year ended 30 Dhul Hijjah 1431H would have been unaffected as equity investments are classified as available-for-sale and adequate provision has been made for the equity investments against which an impairment loss has occurred.

iv) Mark-up risk

Mark-up risk arises from the possibility that changes in Mark-up will affect the value of the financial instruments. The Bank is exposed to Mark-up risk on its investments in cash and cash equivalents, commodity placements, Murabaha financing, Istisna'a assets, Ijarah Muntahia Bittamleek assets, investments in Sukuk and Sukuk liabilities. In respect of the financial assets, the Banks returns are based on a benchmark and hence vary according to the market conditions. In terms of the Sukuk liability, the outflows are based on the returns on the underlying assets which are measured in terms of a fixed percentage over and above a benchmark.

(In Thousands of Islamic Dinars)

34. RISK MANAGEMENT (continued)

The effective markup rate for the various operational financial assets and financial liabilities are as follow:

	1432H	1431H
Commodity placements	0.9%	0.7%
Murabaha financing	2.2%	2.4%
Istisna'a assets	4.0%	4.5%
Installment sales	4.3%	4.8%
Ijara Muntahia-Bittamleek	4.0%	5.1%
Sukuk liability	2.2%	2.29%

The Bank also uses Murabaha-based swaps instruments approved by the Sharia'h Board in its portfolios for asset/liability management, cost reduction and risk management. These instruments include cross-currency swaps and profit-rate swap that are used to modify the profit-rate or currency characteristics of the sukuk liability and other assets of the Bank. Further details are contained in Note 8.1.

v) Capital risk

The Bank's objective when managing its capital, which comprises Members' equity, is to maintain a strong capital base to support it in its development initiatives. The Bank is not subject to any external capital requirements.

vi) Other risks

The Bank assumes financial institution risk while dealing with banks and other financial institutions for placement of liquid funds; acceptance of guarantees for IDB financing operations and extending lines of financing. The GRMD follows in its credit risk evaluation the approved framework for the financial institutions.

Credit quality of the liquid fund portfolio, based on the internal rating system of the Bank, as of the year end is shown below:

	1432H		1431H	
Credit Risk Category	**Amount (ID thousands)**	**%**	Amount (ID thousands)	%
Category "A"	**-**	**-**	-	-
Category "B"	**10,919**	**0.7%**	75,620	5.5%
Category "C"	**1,166,077**	**72.2%**	1,007,203	73.0%
Category "D"	**216,229**	**13.4%**	267,083	19.3%
Category "E"	**207,680**	**12.9%**	16,591	1.2%
Category "F"	**-**	**-**	-	-
Category "G"	**12,996**	**0.8%**	14,094	1.0%
Total	**1,613,901**	**100%**	1,380,591	100%

34. RISK MANAGEMENT (continued)

vi) Other risks (continued)

The Bank assumes corporate risk due to its dealings with corporations, that are not financial institutions and do not carry any explicit government guarantee, in the form of financing, investments and corporate guarantees. This financing can be in the form of structured facilities, trade finance, equity investments, profit sharing, etc. According to the approved guidelines, a maximum of 30% of IDB's financing operations can be made against such alternatives to Sovereign/Bank guarantees.

The Bank has a strict framework for corporate financing risk evaluation. Further, the GRMD, while reviewing the financing proposals ensures that the due-diligence has been performed according to the approved guidelines.

The Bank adopts a detailed risk management framework for assessing measuring and mitigating all risks related to project finance. The GRMD undertakes independent risk review covering all aspects of the project finance in accordance with the related guidelines.

vii) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

The fair values of operational assets are not significantly different from the carrying values included in the financial statements except for unlisted equity investments and investments in subsidiaries and trust funds over which the Bank exerts control. Unlisted equity investments are stated at cost as their fair values cannot be reliably determined. These amount to ID 139,195 (1431H ID 132,052). Fair value of listed equity investments are measured based on market quotes. Fair value of investments in Sukuk and Murabaha based profit rate cross currency swaps are measured based on inputs other than quoted prices that are observable.

35. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its member countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Bank actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed centrally through the Bank's capital and Sukuk liabilities. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Bank as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programmes. Further, the internal reports furnished to the Board of Executive Directors do not present discrete financial information with respect to the Bank's performance to the extent envisaged in FAS 22 - the sectoral and geographical distribution of the Bank's assets is set out in note 33.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
(IDB – WAQF FUND)

FINANCIAL STATEMENTS
29 Dhul Hijjah 1432H (25 November 2011)
with
INDEPENDENT JOINT AUDITORS' REPORT

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND

29 Dhul Hijjah 1432H (25 November 2011)

CONTENTS

PRICEWATERHOUSECOOPERS

P.O. Box 16415
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Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan

P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

INDEPENDENT JOINT AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank

We have audited the accompanying statement of financial position of the Islamic Development Bank - Special Account Resources Waqf Fund (the Fund) as of 29 Dhul Hijjah 1432H (25 November 2011) and the related statements of activities and changes in net assets and cash flows for the year then ended and the attached notes from 1 to 33 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and to operate in accordance with Islamic Shari'ah rules and principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 29 Dhul Hijjah 1432H (25 November 2011), and the results of its activities and changes in net assets and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Fund.

We draw your attention to note 2(a) which states that the Fund has followed other accounting standards for matters not addressed by the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and that the accompanying financial statements represent the separate financial statements of the Fund.

PricewaterhouseCoopers

Sami E. Farah
Certified Public Accountant
Registration No. 168

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
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كي بي. إم. جي الفوزان والسدحان
محاسبون ومراجعون قانونيون
س.ت.م رقم ٤٦
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

14 Rabi Al Thani 1433H
7 March 2012
Jeddah

ISLAMC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENT OF FINANCIAL POSITION
As of 29 Dhul Hijjah 1432H (25 November 2011)

(In Thousands of Islamic Dinars)

	Notes	**1432H**	1431H (Restated)
ASSETS			
Cash and cash equivalents	4	**59,304**	160,045
Commodity placements through banks, net	5	**415,055**	633,496
Investment in Murabaha	6	**221**	2,198
Receivable from related parties	7	**103,243**	22,705
Investment in units	8	**78,410**	78,410
Investment in subsidiaries	9	**60,516**	60,516
Investments in Sukuk	10	**87,831**	85,192
Investment in equity, net	11	**19,324**	6,393
Investment in associates	12	**9,523**	7,006
Instalment financing receivables, net	13	**1,780**	2,907
Investment in Ijarah	14	**18,539**	15,004
Istisna'a assets, net	15	**756**	1,159
Qard, net	16	**156,720**	165,356
Accrued income and other assets		**8,524**	8,180
Other investments	17	**202,552**	158,899
Fixed assets, net	19	**23,987**	18,246
TOTAL ASSETS		**1,246,285**	1,425,712
LIABILITIES			
Commodity purchase liabilities	20	**361,296**	542,690
Accruals and other liabilities	21	**29,079**	7,484
Specific deposit from IDB – Unit Investment Fund	8	**9,505**	9,505
TOTAL LIABILITIES		**399,880**	559,679
NET ASSETS		**846,405**	866,033
REPRESENTED BY:			
Waqf Fund principal amount	32	**761,179**	758,343
Special assistance	32	**(56,077)**	(29,831)
Special account for Least Developed Member Countries	32	**141,303**	137,521
		846,405	866,033

The accompanying notes from 1 through 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended 29 Dhul Hijjah 1432H (25 November 2011)

(All amounts in Thousands of Islamic Dinars unless otherwise stated)

	Notes	1432H				1431H (Restated) Total
		Waqf Fund Principal Amount	Special Assistance	Special Account for LDMC	Total	
Income from:						
Commodity placements through banks		-	-	-	7,937	6,003
Investment in Murabaha		-	-	-	267	387
Investment in units		-	-	-	2,628	3,639
Investment in Sukuk		-	-	-	4,885	5,432
Instalment financing receivable		-	-	-	303	334
Investment in Ijarah		-	-	-	154	87
Istisna'a assets		-	-	-	75	124
Other investments		-	-	-	4,067	18,442
Dividend income		-	-	-	477	-
Other Income - Restated		-	-	-	500	-
					21,293	34,448
Foreign currency exchange gains		-	-	-	1,737	2,482
Financing costs		-	-	-	(4,943)	(4,158)
					18,087	32,772
Provision for impairment of assets	18	-	-	-	(250)	345
Attributable net income					17,837	33,117
Allocation of attributable net income	23	2,601	11,769	3,467	-	-
Share of income transferred from IDB-OCR	24	7	31	10	48	179
Contributions from IDB-OCR for technical assistance grants and scholarship program	25	-	10,028	-	10,028	7,960
Income before grants and program expenses		2,608	21,828	3,477	27,913	41,256
Grants for causes	22	-	(37,719)	-	(37,719)	(29,076)
Program expenses	22	-	(11,204)	-	(11,204)	(16,962)
		2,608	(27,095)	3,477	(21,010)	(4,782)
Capital losses		-	(141)	-	(141)	(320)
Change in net assets / (liabilities)		**2,608**	**(27,236)**	**3,477**	**(21,151)**	**(5,102)**
Fair value reserve		228	990	305	1,523	2,135
Net assets at the beginning of the year, as previously reported		757,856	(31,941)	136,873	862,788	870,285
Prior year adjustments	31	487	2,110	648	3,245	(1,285)
Net assets at the beginning of the year, as restated		758,343	(29,831)	137,521	866,033	869,000
Net assets / (liabilities) at end of the year	32	**761,179**	**(56,077)**	**141,303**	**846,405**	**866,033**

The attached notes from 1 through 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENT OF CASH FLOWS
For the Year Ended 29 Dhul Hijjah 1432H (25 November 2011)

(All amounts in Thousands of Islamic Dinars unless otherwise stated)

	Note	**1432H**	1431H (Restated)
CASH FLOWS FROM OPERATIONS:			
Attributable net income		**17,837**	33,117
Adjustments to reconcile attributable net income to net cash provided by (used in) operating activities:			
Depreciation		**886**	810
Provision for impairment		**250**	2,872
Foreign exchange loss		**619**	-
Change in operating assets and liabilities:			
Investment in Murabaha		**10,605**	3,736
Instalment financing receivable		**1,127**	1,027
Istisna'a assets		**403**	369
Qard		**8,636**	(12,359)
Accrued income and other assets		**(344)**	22,323
Accruals and other liabilities		**21,595**	524
Special Assistance Program Expenses		**(11,204)**	(16,962)
Grant for Causes		**(37,719)**	(29,076)
Net cash provided operations		**12,691**	6,381
CASH FLOWS FROM INVESTING ACTIVITIES:			
Commodity placements through banks		**218,441**	(527,923)
Investment in units		**-**	(1,379)
Investment in equity		**(12,492)**	(1,346)
Investment in Associates		**(2,517)**	-
Investment in Ijara		**6,053**	(11,419)
Investments in Sukuk		**(22,299)**	31,404
Redemption of Sukuk		**18**	-
Other investments		**(42,153)**	7,135
Specific deposit from IDB - Unit Investment Fund		**-**	192
Additions to fixed assets		**(6,627)**	(21)
Net cash provided by / (used in) investing activities		**138,424**	(503,357)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in receivable from IDBG Entities		**(80,538)**	18,420
Commodity purchase liabilities		**(181,394)**	187,485
Income transferred from IDB-OCR		**48**	179
Contribution from IDB		**10,028**	7,960
Net cash used in financing activities		**(251,856)**	214,044
Net decrease in cash and cash equivalents		**(100,741)**	(282,932)
Cash and cash equivalents at beginning of the year		**160,045**	442,977
Cash and cash equivalents at end of the year	4	**59,304**	160,045

The attached notes from 1 through 33 form an integral part of these financial statements.

(All amounts in Thousands of Islamic Dinars unless otherwise stated)

1. INCORPORATION AND ACTIVITIES

The Special Account Resources Waqf Fund (the "Fund") of the Islamic Development Bank (the "Bank" or "IDB") was established on 1 Muharram 1418H (7 May 1997) based on the Board of Governors' Resolution No. BG/3-417. At that date, the entire uncommitted assets of the Special Account of the Bank were transferred to the Fund.

The Board of Governors' Resolution, as subsequently amended by BG/4-420 and BED/28/12/ (192)/195, also stated that a certain percentage of the income for the Fund resources and the same percentage of the banking returns from the Bank's investments in the international market shall be transferred to the principal amount of the Fund until it reaches one thousand million Islamic Dinars. At such time, the Board of Governors shall, upon recommendation of the Board of Executive Directors, determine the purpose for which the amounts in excess of one thousand million Islamic Dinars shall be used. Such percentage will be reviewed each year on the basis of annual income earned for that year (see Note 23).

In 1417H, the Special Accounts of the Islamic Development Bank - Ordinary Capital Resources ("IDB-OCR") consisted of the Special Reserve, Special Assistance and Special Account for Least Developed Member Countries. On 1 Muharram 1418H, the balances of these accounts in the books of IDB-OCR as of 29 Dhul Hijjah 1417H together with the related assets and liabilities were transferred to the Special Account Resources Fund. The balance of Special Reserve Account has been taken as the uncommitted resources of the Special Accounts and formed the balance of the Fund principal amount at 1 Muharram 1418H. The balances of the Special Assistance and Special Account for Least Developed Member Countries have been taken as committed resources of the Special Accounts and have been transferred to the Fund, but do not form part of the Fund principal amount. All assets of the Fund are commingled and are not distinguished between the Fund principal amount and the other committed resources of the Fund (see note 30).

The Fund is managed in accordance with its regulations by the Bank through a Board of Trustees. The regulations provide that the Bank's Board of Executive Directors shall be the Board of Trustees. Its business activities are carried out through the Bank's headquarter in Jeddah, Kingdom of Saudi Arabia.

The title of assets recorded in the financial statements as Fund assets is held with the Bank.

As a fund of the Bank which is an international institution, the Fund is not subject to an external regulatory authority.

The Fund's financial year is the lunar Hijra year.

The financial statements were authorized for issue in accordance with a resolution of the Executive Directors on 14thSafar, 1433H (8th January 2012G).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of preparation

These separate financial statements are considered to be the primary financial statements of the Fund and have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank. For matters, which are not covered by AAOIFI standards, the Fund follows the International Financial Reporting Standards ("IFRS").

The financial statements contain information about the Fund on an individual basis and do not contain consolidated financial information related to the Fund's subsidiaries, Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC") and Investment in BBI Leasing and Real Estate Company ("BBI"). Such subsidiaries have been reflected at cost in accordance with the requirements of AAOIFI Standards. The Fund also prepares consolidated financial statements which include the results of all subsidiaries.

The financial statements are prepared under the historical cost convention except for the revaluation of investment in units, equity, Sukuk and other investments to fair value.

Adoption of the new Accounting Standard

The Fund had adopted Financial Accounting Standard (FAS) 25 Investment in sukuk, shares and similar instruments issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments in Sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of this standard has an impact on the classification of investments and adjustment to the reported balance of the net assets as disclosed in note 31.

Further, Statement of Financial Accounting No. 1 "Conceptual Framework of Financial Reporting by Islamic Financial Institution" became effective during the year ended 29 Dhul Hijjah 1432H. The adoption of this statement did not result n significant changes to the Bank's financial reporting.

b) Critical accounting estimates and judgments

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant area where management has used estimates, assumptions or exercised judgments is estimation of provision for impairment of financial assets. Equity investments, the determination of whether a reduction in fair value compared to cost is significant or prolonged requires the exercise of judgement. The methodology for the estimation of the provision is set outline in notes 2(r).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency translations

(i) Functional and presentation currency

These financial statements are presented in thousands of Islamic Dinars (ID) which is the functional and presentation currency of the Fund. Islamic Dinar is the unit of account of the Fund and is equal to one Special Drawing Right (SDR) of the International Monetary Fund ("IMF").

(ii) Transactions and balances

Foreign currency transactions are translated into Islamic Dinars using the SDR rates declared by the IMF at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates declared by the IMF are recognized in the statement of activities except for unrealized gains and losses on investment in equity which are charged to fair value reserve account under Statement of activities and changes in net assets.

Non-monitory items measured at historical cost denominated in a foreign currency are translated with the exchange rate at the date of initial recognition.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity placements through banks having a maturity of three months or less at the date of placement.

e) Commodity placements through banks

Commodity placements are made through banks and are utilized in the purchase and sale of commodities at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Fund and other financial institutions. Commodity placements are initially recorded at cost including acquisition charges associated with the placements.

Commodity placements through banks having a maturity of three months or less at the date of placement are classified as cash and cash equivalents.

f) Murabaha and Installment financing receivable

Murabaha financing and installment financing are agreements whereby the Fund sells to a customer a commodity or an asset, which the Fund has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Murabaha financing and installment financing receivable are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Fund to the date of the statement of financial position, less repayments received and any provision for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investment in units, equity and other assets

Investments in units, equity and other assets are intended to be held for a long-term period, and may be sold in response to needs for liquidity or changes in prices. Such investments are measured at fair value, and any unrealized gains arising from the change in their fair value are recognized statement of changes in net assets until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded under the statement of changes in net assets is recognized in the statement of activities.

Investments in units, equity, and other assets whose fair value cannot be reliably measured are carried at cost, less provision for any impairment in the value of such investments.

Investments in Murabaha and leasing, which are of debt type in nature are measured at amortized cost, less provision for any impairment in the value of such investments.

h) Investments in subsidiaries

Investment in subsidiaries are recognized at cost and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the investment in the subsidiaries' carrying amount exceeds its recoverable amount, the recoverable amount being the higher of the fair value less costs to sell and value in use. Previously recognized impairment losses, if any, are reviewed for possible reversal of the impairment at each reporting date.

i) Investment in associates

Investments in associates are measured at cost, less provision for any impairment in the value of such investments.

j) Investments in Sukuk

Investments in Sukuk are classified as investments at fair value through income. These investments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the statement of activities. Previously, these investments were stated at cost, less provision for impairment (see note 31).

k) Istisna'a assets

Istisna'a is an agreement between the Fund and a customer whereby the Fund sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Istisna'a assets represent the disbursements made as of the date of the statement of financial position against the assets acquired for istisna'a projects plus income recognized, less repayment received.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Ijarah Muntahia Bittamleek

Ijarah is an agreement whereby the Fund, acting as a lessor, purchases according to the customer request (lessee), based on the customer's promise to lease the asset for an agreed rent for a specific period. The Fund transfers the title of the asset to the lessee without consideration upon completion of all payments due.

Investment in Ijarah Muntahia Bittamleek consists of assets purchased by the Fund, either individually or through a syndicate agreement and leased to beneficiaries for their use under Ijarah Muntahia Bittamleek agreements. The assets are stated at cost less the accumulated depreciation up to the date of the statement of financial position. The assets are depreciated using the straight-line method over the related lease period. No depreciation is recorded in respect of assets under construction.

m) Investment in Ijara

Investments in Ijara, which are of debt type in nature are initially recognized at fair value and subsequently are measured at amortized cost, less provision for any impairment in the value of such investments. These are investment managed by third parties or Bank affiliates in which the Fund has participated as part of its liquidity management.

n) Qard

Qard is recognized when cash is disbursed to the borrowers.

Amounts receivable from Qard represent amounts disbursed in respect of projects plus the Qard service fees due, less repayments received relating to the outstanding capital portion of the Qard as determined according to the Qard agreements.

o) Fixed assets

Fixed assets are recorded at cost. Maintenance and repair costs are expensed as incurred. Cost includes expenditures that are directly attributable to the acquisition/ construction of the asset. Subsequent expenditures are only capitalized when it increases the useful life of the asset.

Land is not depreciated. Other fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Number of years
Permanent headquarters buildings	40
Pre-fabricated buildings	6 to 7
Furniture and equipment	4 to 10
Motor vehicles	5

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of activities.

p) Revenue recognition

Commodity placements through banks
Income from placements through banks is recognized on a time apportionment basis over the period from the actual disbursement of funds to the date of maturity.

Murabaha and installment financing receivable
Income from Murabaha and installment financing is accrued on a time apportionment basis over the period from the date of actual disbursement of funds to the scheduled repayment dates of installments.

Investments in Sukuk
Income from investments in Sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is allocated proportionately to the financial periods over the lease term.

Istisna'a assets

The Fund uses the deferred profits method for recognizing Istisna'a income whereby there is a proportionate allocation of deferred profits over the future financial period of the credit.

Qard service fees

Income from Qard service fees is accrued according to the service fee repayment schedule appended to the Qard agreement.

Investment Ijarah

Income from Ijarah is accrued based on the repayment schedules or the rate stipulated in the Ijara agreement.

Investment in units, equity and other assets

Income from investment in units, equity and other investments are recognized when right to receive the payments is established.

q) Commodity purchase and sale agreements

The Bank on behalf of the Fund enters into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank purchases certain commodities from these banks on a deferred payment basis and sells these through those banks to third parties. The payable related to the purchase price under these agreements is included as commodity purchase liabilities in statement of financial position. The difference between sale and purchase price is treated as finance cost and accrued on a time apportionment basis over the period of the agreements.

r) Impairment of financial assets

Operational assets

Operational assets are the assets controlled by the Fund to conduct its operations. An assessment is made at each balance sheet date to determine whether there is evidence that a financial asset or group of financial assets may be impaired. Accordingly, the Fund determines the provision for impairment losses based on an assessment of incurred losses. This involves a review of the financial assets on the balance sheet date in order to determine if there are any indications of impairment in their value individually; and also the losses that the Fund suffers as a result of rescheduling the dues from certain countries and from settlement plans mutually agreed with the beneficiaries due to its participation in the debt relief initiative for the Heavily Indebted Poor Countries (HIPC). The loss results from the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the implicit rate of return of the financial asset mentioned in the agreement. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. In addition, a portfolio provision is created for losses where there is objective evidence that unidentified losses are present in the portfolio at the balance sheet date. These are estimated based on country risk ratings, the current economic conditions and the default pattern that are embedded in the components of the portfolio.

Adjustments to the provision are recorded as a charge or credit in the Fund's Income Statement. In determining the adequacy of the provision, the Fund takes into account the net present value of expected future cash flows discounted at the financial instruments' implicit rate of return.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial assets:

An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. The amount of the impairment losses for other financial assets is calculated as the difference between the asset's carrying amount and its estimated fair value.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, the asset is written off against allowance account and any excess loss is recognised in the statement of activities. Subsequent recoveries of amounts previously written-off are credited to the Fund's statement of activities.

s) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Fund intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

t) Zakat and Tax

Since the Fund's resources are part of Baitul Mal (public money), the Fund is not subject to Zakat or tax.

u) Provisions

Provisions are recognized when a reliable estimate can be made by the Fund for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

3. SHARI'AH COMMITTEE

The Fund's business activities are subject to the supervision of a Shari'ah Committee consisting of members appointed by the Fund's General Assembly. IDB Group's Shari'ah Committee was established pursuant to Board Resolution No.BED/24/11/421/(198)/138. Members of the Shari'ah Committee of IDB Group are appointed for the period of 3 years renewable.

The Committee has the following functions:

i. to consider all that are referred to it of transactions and products introduced by the Fund for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;

ii. to give its opinion on the Shari'ah alternatives to conventional products which the Fund intends to use, and to lay down the basic principles for the drafting of related contracts and other documents, and to contribute to its development with a view to enhancing the Fund's experience in this regard;

iii. to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Fund;

iv. to contribute to the Fund's programme for enhancing the awareness of its staff members of Islamic banking and to deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and

(In Thousands of Islamic Dinars)

3. SHARI'AH COMMITTEE (continued)

v. to submit to the Board of Executive Directors a comprehensive report showing the measure of the Fund's commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed;

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the years are comprised of the following:

	1432H	1431H
Cash in hand	**48**	74
Cash at banks	**23,294**	28,017
Commodity placements through banks (Note 5)	**35,962**	131,954
Total	**59,304**	160,045

5. COMMODITY PLACEMENTS THROUGH BANKS, NET

Commodity placements through banks at the end of the years are comprised of the following:

	1432H	1431H
Placements through Islamic banks	**8,919**	8,628
Placements through conventional banks	**442,098**	756,822
Total	**451,017**	765,450
Less: maturity of three months or less at the date of placement (Note 4)	**(35,962)**	(131,954)
	415,055	633,496

6. INVESTMENT IN MURABAHA, NET

Investment in Murabaha at the end of the years comprised of the following:

	1432H	1431H
Gross amounts receivable	**221**	2,247
Less: unearned income	**-**	(49)
Investment in Murabaha, net	**221**	2,198

(In Thousands of Islamic Dinars)

7. RELATED PARTY TRANSACTIONS

During the ordinary course of its business, the Fund has certain transactions with IDB Group entities relating to investments and realization of investments made through the inter-fund account between the Fund and the Bank. The balances due to/from IDB Group entities as the end of the year are as follows:

(i) Due from related parties

	1432H	1431H
International Islamic Trade Finance Corporation	**18,346**	-
Unit Investment Fund	**2,268**	-
Islamic Corporation for the Development of the Private Sector	**1,328**	-
Awqaf Properties Investment Fund	**323**	-
Kafala Program	**414**	-
IDB - Special Assistance Fund	**7,713**	998
IDB - World Waqf Fund	**1,876**	477
IDB - Pension Fund	**5,021**	4,522
Sacrificial Meat Project	**5,352**	11,947
Islamic Solidarity Fund for Development	**19,285**	-
Ordinary Capital Resources	**41,317**	4,761
	103,243	22,705

(ii) Due to related parties

	1432H	1431H
GCC Program for Reconstruction of Gaza	**15,526**	-
IDB - Fael Al Khair Fund	**6,457**	-
IDB - Medical Fund	**346**	334
	22,329	334

The cost of the permanent Headquarters buildings and other related furniture and equipment was funded out of IDB's Ordinary Capital Resources and the Fund. The cost of such fixed assets and its related depreciation were split according to the following proportions:

IDB - Ordinary Capital Resources	65%
The Fund	35%

8. INVESTMENT IN UNITS

IDB - Unit Investment Fund ("UIF") is a trust fund established under Article 23 of the Articles of Agreement of the Bank. The purpose of the UIF is to participate in the economic development of member countries through the pooling of the savings of institutions and individual investors, and to invest these savings in producing projects in the said member countries. The units of UIF are quoted on the Bahrain Stock Exchange.

(In Thousands of Islamic Dinars)

9. INVESTMENT IN SUBSIDIARIES

	1432H	1431H
ICIEC (Note 9.1)	**50,000**	50,000
BBI (Note 9.2)	**10,516**	10,516
	60,516	60,516

9.1 Investment in ICIEC

ICIEC was established on 1 August 1994 by the Bank. The objective of ICIEC is to enlarge the scope of trade transactions and the flow of investments among member countries of the Organization of the Islamic Conference by providing: a) export credit insurance to cover the non-payment of export receivables; and b) investment insurance against country risks.

The authorized capital of ICIEC is ID 400 million, divided into 400,000 shares of ID 1,000 each. The subscribed capital of ICIEC at 29 Dhul Hijjah 1432H is ID 148.99 million (1431H: ID 148.49 million), with callable installments of ID 74.49 million (1431H: ID 74.49 million) of which ID 73.53 million were paid (1430H: ID 73.43 million).

The Fund has subscribed in 100,000 shares and paid for 50,000 shares in ICIEC, which represents 67.12% of ICIEC's share capital at 29 Dhul Hijjah 1431H (1431H: 67.12%).

9.2. Investement in BBI

BBI Leasing and Real Estate D.O.O. is a limited liability company ("BBI") established in Bosnia and Herzegovina by Court Decision no. UF/1-1411/05 dated 2 September 2005 and commenced its operations in 2006. BBI is principally engaged in development and leasing of real estate. The subscribed and paid-up capital of BBI is Convertible Mark ("KM") 39,915 thousand (ID 17,608 thousand) at 29 Dhul Hijjah 1432H. As of 29 Dhul Hijjah 1432H, the Fund has subscribed in and paid for KM 21,531 thousand (ID 10,516 thousand) (1431H: ID 10,516 thousand), representing a share of 53.94% (1431H: 53.94%) in the total paid up capital of BBI.

(In Thousands of Islamic Dinars)

10. INVESTMENTS IN SUKUK

Investments in Sukuk certificates represents a share in the Sukuk issued by various governments, financial institutions and certain other entities.

Investments in Sukuk at the end of the years comprise of the following:

	1432H	1431H
Government	**16,660**	16,985
Financial Institutions	**24,044**	11,933
Other entities	**47,127**	56,274
	87,831	85,192

The movement in Sukuk investments is summarized as follows:

	1432H	1431H
Balance at the beginning of the year	**85,192**	113,402
Additions during the year	**22,299**	24,464
Sales/redemptions during the year	**(18)**	(55,868)
Transfer to investment in Ijara	**(2,599)**	-
Transfer to investment in Murabaha	**(8,628)**	-
Transfer to other investments	**(7,796)**	-
Exchange revaluation (losses)/gains	**(619)**	3,194
Balance at the end of the year	**87,831**	85,192

11. INVESTMENT IN EQUITY, NET

The Fund through the Bank invests in the equity of industrial, agro-industrial and Investment Management institutions.

Investments in the equity at the end of the years are comprised of the following:

	1432H	1431H
Equity investments:		
Listed	**13,512**	3,019
Unlisted	**5,812**	3,374
	19,324	6,393

The movement in equity investments is summarized as follows:

	1432H	1431H (Restated)
Balance at the beginning of the year	**6,393**	12,053
Additions during the year	**12,492**	1,346
Transfer to other investment (Note 12)	**-**	(7,006)
Fair value gains	**689**	-
Less: Provision for impairment (Note 18)	**(250)**	-
	19,324	6,393

The Fund intends to hold these investments for the long-term as strategic investments and exits from such investments would be made within the overall context of the Fund's developmental activities. During the year there were no transfers of investments carried at cost to investments at fair value through equity.

(In Thousands of Islamic Dinars)

12. INVESTMENT IN ASSOCIATES

Investments in associates at the end of the years are comprised of the following:

	Country of Incorporation	Ownership % 1432H	Ownership % 1431H	1432H	1431H
Caspian International Investment Co.	Azerbaijan	27	27	7,006	7,006
Islamic Bank of Niger	Niger	35	35	2,517	-
				9,523	7,006

13. INSTALLMENT FINANCING RECEIVABLE, NET

Receivables from installment financing receivable at the end of the years are comprised of the following:

	1432H	1431H
Gross amounts receivable	**2,108**	3,554
Less: unearned income	**(328)**	(647)
Installment financing receivable, net	**1,780**	2,907

14. INVESTMENT IN IJARA

	1432H	1431H
Balance at the beginning of the year	**15,004**	3,609
Transfer from Sukuk	**2,599**	-
Transfer from other investment	**6,989**	-
Additions during the year	**-**	12,992
Redemption during the year	**(6,053)**	(1,597)
Balance as at the end of the year	**18,539**	15,004

15. ISTISNA’A ASSETS, NET

Istisna’a assets at the end of the years are comprised of the following:

	1432H	1431H
Istisna’a receivable	**756**	1,290
Less: unearned income	**-**	(131)
Istisna’a assets, net	**756**	1,159

(In Thousands of Islamic Dinars)

16. QARD, NET

Qard at the end of the years are comprised of the following:

	1432H	1431H
Qard	**164,156**	172,792
Less: Provision for impairment (Note18)	**(7,436)**	(7,436)
Qard, net	**156,720**	165,356

17. OTHER INVESTMENTS

Other investments at the end of the years are summarized as follows:

	1432H	1431H
Real estate, equity & other funds (Note 17.1)	**143,195**	98,239
Infrastructure Fund (Note 17.2)	**39,907**	40,452
Infrastructure and Growth Capital Fund ("IGCF") (Note 17.3)	**19,450**	20,208
Organization of Islamic Conference - Network SDN BHD (Note 17.4)	**1,379**	1,379
	203,931	160,278
Provision for impairment (Note 18)	**(1,379)**	(1,379)
Total	**202,552**	158,899

17.1 Ijarah, real estate and other funds are investments managed by third party institutions in which the Fund has made specific investments as part of its management of liquidity.

17.2 Investment in the Infrastructure Fund is classified as investment at fair value through equity and represents investment in IDB Infrastructure Fund LLP (the "Infrastructure Fund"), a limited liability partnership incorporated in the Kingdom of Bahrain, promoted by the Bank. The primary objective of the Infrastructure Fund is to promote the use of Islamic Finance in infrastructure projects and seek long-term capital appreciation through participation in such projects.. The total capital committed by the partners to the Infrastructure Fund is USD 730.50 million (ID: 469.40 million) (1431: US$ 730.50, ID 474.60 million). The Waqf Fund has committed USD 100 million (ID 64.26 million) (1431H: USD100 million, ID 64.96 million) of which USD 62.71 million (ID 39.9 million) was net paid up to 29 Dhul Hijjah 1432H (1430H USD 62.26 million, ID 40.45 million). The investment is currently stated at cost, as fair value cannot be reliably measured.

17.3 IGCF is classified as investment at fair value through equity and represents investment made by Fund in a USD 2 billion fund managed by Abraaj Capital. The main objective of IGCF is to access private equity infrastructure investment opportunities across the high growth regions of the Middle East, North Africa and South Asia (MENASA). The Fund has committed an amount of USD 35 million (ID 22.3 million), out of which a net amount of USD 30.27 million (ID 19.6 million) has been disbursed. The investment is currently stated at fair value, with the difference in the cost and the fair value recorded as a separate component directly in the resources of the Fund.

17.4 The investment in OIC - Network SDN BHD represents an investment in a Malaysia based fund which has been fully provided for.

(In Thousands of Islamic Dinars)

18. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

The movement in provision for specific impairment of financial assets is as follows:

	1432H	1431H (Restated)
Balance at the beginning of year	**22,819**	23,189
Charge for the year	**250**	2,872
Restatement for Sukuk provision	**-**	(3,217)
Write-off during the year	**(12,331)**	(25)
Balance at the end of year	**10,738**	22,819

19. FIXED ASSETS, NET

Fixed assets at the end of the years are comprised of the following:

	Buildings	Furniture and equipment	Total
Cost:			
At the beginning of the year	34,443	6,605	41,048
Disposals		(6,525)	(6,525)
Additions during the year	6,599	28	6,627
At the end of the year	41,042	108	41,150
Accumulated depreciation:			
At the beginning of the year	16,244	6,558	22,802
Disposals		(6,525)	(6,525)
Charge for the year	862	24	886
At the end of the year	17,106	57	17,163
Net book value:			
29 Dhul Hijjah 1432H	**23,936**	**51**	**23,987**
30 Dhul Hijjah 1431H	18,199	47	18,246

(In Thousands of Islamic Dinars)

20. COMMODITY PURCHASE LIABILITIES

The Bank on behalf of the Fund has entered into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Fund has purchased certain commodities from other banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The purchase price includes the accrued markup under these agreements. The related finance cost for the year ended 29 Dhul Hijjah 1432H (25 November 2011) was ID 4.9 million (1431H: ID 4.16 million).

21. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities at the end of the years are comprised the following:

	1432H	1431H
Accrued expenses	**6,750**	7,150
Due to related parties (Note 7)	**22,329**	334
Total	**29,079**	7,484

22. SPECIAL ASSISTANCE

At 1 Muharram 1418H, the Special Assistance resources were transferred to the Fund from IDB-OCR, and are to be used for the purposes set out in the Board of Governors' Resolutions No. BG/14-99 and BG/3-402, as follows:

a) training and research for member countries to re-orient their economies, financial and banking activities in conformity with the Islamic Shari'ah;
b) provision of relief for natural disasters and calamities;
c) provision to member countries for the promotion and furtherance of Islamic causes; and
d) provision towards the special account for technical assistance.

The Board of Executive Directors of the Bank has made certain commitments to make disbursements to support the above-mentioned causes.

The Bank created IRTI, which is an international organization devoted to technical research and training. IRTI was formed pursuant to Article 2 of the Articles of Agreement of the Bank and became operational in 1403H. The President of the Bank is also the President of IRTI and the Board of Executive Directors of the Bank is its supreme policy making body. Since 1 Muharram 1418H, the entire activities of IRTI are financed out of the Fund resources and are included as part of the program expenses of the Special Assistance accounts in these financial statements.

(In Thousands of Islamic Dinars)

22. SPECIAL ASSISTANCE (continued)

The following amounts were distributed as grants from the Fund during the years ended end of Dhul Hijjah 1432H and 1431H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives:

	1432H	1431H
Relief against disasters and calamities	**2,302**	1,708
Assistance for Islamic causes	**9,608**	9,272
Technical assistance grants	**15,587**	10,159
Technical cooperative program	**1,589**	1,476
Scholarship program	**8,633**	6,461
Total	**37,719**	29,076

The following amounts were incurred as program expenses from the Fund during the years ended end of Dhul Hijjah 1432H and 1431H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives.

	1432H	1431H
IRTI, Program share & others	**6,316**	7,091
Technical cooperation office	**238**	454
Special Assistance office	**2,005**	1,715
Sacrificial meat project	**1,250**	5,764
Scholarship Program	**1,395**	1,078
Fixed assets depreciation		860
Total	**11,204**	16,962

23. ALLOCATION OF FUND INCOME

As at the end of the years the Fund's regulations stipulate that the net income of the Fund is allocated to the Fund's Resources as follows:

	1432H	1431H
Fund principal	**15%**	15%
Special Assistance	**65%**	65%
Special Account for Least Developed Member Countries ("LDMC")	**20%**	20%

(In Thousands of Islamic Dinars)

24. SHARE OF INCOME TRANSFERRED FROM IDB-OCR

Income on IDB balances with banks (conventional investments) and other investments balances, which are considered by IDB management to be forbidden by Shari'ah, are not included in the income statement of IDB-OCR but are transferred by IDB to the Fund in accordance with the Board of Governors' Resolutions No. BG/3-417 and BG/4-420.

The Bank's Shari'ah advisers have ruled that the investment in companies that deal with interest-bearing methods of finance is not permissible under Shari'ah. The Bank's management is reviewing its equity participation portfolio and the cumulative income arising from such companies.

The allocation of the income transferred from IDB-OCR to the Fund's resources during the years ended end of Dhul Hijjah is as follows:

	1432H	1431H
Fund principal amount	**7**	27
Special Assistance	**31**	116
Special Account for LDMC	**10**	36
Total	**48**	179

25. CONTRIBUTION FROM IDB-OCR FOR TECHNICAL ASSISTANCE GRANT AND SCHOLARSHIP PROGRAMS

According to the Board of Governors resolution No. BG/2-431, and the Board of Executive Directors resolution No. BED/BG/3-431, 5% but not less than USD 5 million of the IDB-OCR 1431H net income was allocated to finance Technical Assistance Operations in the form of grants during the year 1432H amounting to ID 7.2 million (1431: ID 5.69 million).

According to the Board of Governors' resolution No. BG/3-431, and the Board of Executive Directors' resolution No. BED/BG/4-431, an amount equivalent to 2% but not less than USD 2 millions of IDB-OCR net income for 1431 was allocated for financing of Scholarship Programmers in the form of grants for the year 1432H amounting to ID 2.9 million (1431: ID 2.27 million).

26. UNDISBURSED COMMITMENTS

Undisbursed commitments at the end of the years are as follows:

	1432H	1431H
Special assistance grants	**52,116**	56,484
Qard to LDMC	**88,028**	106,086
Special loans	**1,974**	2,821
Technical assistance grants	**42,749**	39,367
Scholarship program	**40,000**	22,953
Total	**224,867**	227,711

27. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets and liabilities of the Fund in foreign currencies (in thousands of ID equivalents) at the end of Dhul Hijjah are as follows:

	1432H	1431H
United States Dollar	**303,929**	281,440
Euro	**190,246**	207,482
Japanese Yen	**49,098**	79,532
Pound Sterling	**54,852**	50,325
Other currencies	**(29,946)**	7,464

28. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION

	29 Dhul Hijjah 1432H					
	Maturity period determined				Maturity	
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	period not determined	Total
Assets	**614,373**	**48,520**	**55,826**	**388,640**	**138,926**	**1,246,285**
Liabilities	**390,375**	**-**	**-**	**9,505**	**-**	**399,880**

	30 Dhul Hijjah 1431H					
	Maturity period determined				Maturity	
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	period not determined	Total (Restated)
Assets	202,011	671,136	270,295	139,617	138,934	1,421,993
Liabilities	109,778	439,922	-	9,505	-	559,205

(In Thousands of Islamic Dinars)

29. CONCENTRATION OF ASSETS

Economic sectors:

All operations of the Fund are receivable in respect of social sector financing. All investments are invested in accordance with criteria set out by management to ensure that the investee institutions have a credit rating acceptable to the management of the Fund or are in accordance with furthering the aims and objectives of the Bank.

The geographical locations of assets and liabilities of the Fund are as follows:

	29 Dhul Hijjah 1432H				
	Member countries			Non-member	
	Asia	Africa	Europe	countries	Total
Assets	**1,022,841**	**129,247**	**50,216**	**43,981**	**1,246,285**
Liabilities	**399,880**	**-**	**-**	**-**	**399,880**

	30 Dhul Hijjah 1431H				
	Member countries			Non-member	
	Asia	Africa	Europe	countries	Total (Restated)
Assets	1,238,086	143,016	10,820	30,071	1,421,993
Liabilities	549,700	-	-	9,505	559,205

The geographical locations of assets and liabilities for 1432H and 1431H reflect the countries in which the beneficiaries of the assets are located.

30. COMMINGLING OF ASSETS

The management of the Fund has reviewed the commingling of the assets of the Fund, Principal amount, Special Assistance account and Special Account for LDMC as presented in these financial statements. The management has taken the advice of the Bank's legal counsel. As per the Bank’s legal counsel’s opinion and the Fund’s management, the presentation set out in these financial statements is in accordance with the requirements of the regulations of the Fund.

(In Thousands of Islamic Dinars)

31. PRIOR PERIOD ADJUSTMENTS

31.1 The Fund has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions. The following is the summary of impact on the classification of investments:

Type	Note	Before adopting FAS 25	On adopting FAS 25	Impact
Investment in equity	Note 11	Available for sale	Fair Value through Equity	None
Investments in Sukuk	Note 10	Held to maturity	Fair value through Statement of Income	See below
Investment in units	Note 8	Available for sale	Fair Value through Equity	None
Investment in Ijara funds	Note 13	Amortized cost	Amortized cost	None
Other Investments	Note 16	Available for sale	Fair Value through Equity	None

The financial statements for the year ended 30th Dhul Hijjah 1431H have been restated to account for the impact on the balance of investments in Sukuk as a result of the implementation of the FAS 25. Furthermore, the Fund has reduced the opening reserves and investments in Sukuk balance at the beginning of 1431H by the amount of the adjustment relating to years prior to 1431H. The effect of the restatement on the financial statements is summarized below:

	ID thousands
Effect on years prior to 1431H:	
Decrease in investments in Sukuk	1,285
Decrease in opening balance of reserves	1,285
Effect on 1431H:	
Increase in the income from investments in Sukuk	1,313
Decrease in the provision for impairment on Sukuk	3,217
Increase in the investments in Sukuk	4,530

13.2 In the Fund's financial statements for the year ended 30 Dhul Hijjah 1431H, certain equity investments (see note 12) were recorded as equity investments through fair value while the Fund had ownership interest of 20% or more. In accordance with the requirements of AAOIFI Standards such investments should be recorded as associates. Consequently, the Management of the Fund restated the comparative financial statements for Dhul Hijjah 1431H and the restatement has no effect on the income and opening reserves of the Bank.

32. CHANGES IN NET ASSETS

	Waqf Fund Principal Amount	Special Assistance	Special Account for LDMC	Total
Net assets at beginning of the year at 1 Muharram 1430H, as previously reported	752,926	(12,939)	130,298	870,285
Adjustment for prior period (note 31)	(192)	(834)	(259)	(1,285)
Net assets at beginning of the year at 1 Muharram 1431H, as restated	752,734	(13,773)	130,039	869,000
Changes in net assets during the year 1431	4,994	(16,756)	6,660	(5,102)
Fair value reserve	615	698	822	2,135
Net assets at beginning of the year at 1 Muharram 1432H, as restated	758,343	(29,831)	137,521	866,033
Changes in net assets during the year 1432H	2,608	(27,236)	3,477	(21,151)
Fair value reserve	228	990	305	1,523
Net assets at end of the year at 29 Dhul Hijjah 1432H	761,179	(56,077)	141,303	846,405

33. RISK MANAGEMENT

The Bank has a Group Risk Management Department ("GRMD") fully independent from all business departments as well as other entities of the Bank including the Fund. The GRMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile for the Bank through the identification, measurement and monitoring of all types of risks inherent in its activities. The Bank has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank's risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank's financial transactions.

a) 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. The Fund's credit risk arises mainly from its operating assets.

For all classes of financial assets held by the Fund, the maximum credit risk exposure to the Fund is their carrying value as disclosed in the statement of financial position. The assets which subject the Fund to credit risk, principally consist of commodity placements, Murabaha financing, Istisna'a assets, installment financing, loans and Ijarah Muntahia Bittamleek, which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Bank, in accordance with specific eligibility criteria and credit risk assessments. The Fund's liquid fund investments portfolio is managed by the Treasury Department and comprise deals with reputable banks. Murabaha financing, Istisna'a assets, Installment financing, Qard and Ijarah Muntahia Bittamleek are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks whose ratings are acceptable to the Bank per its policies, or sovereign guarantees from Member Countries. The Bank benefits from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, The Fund has had a very low level of overdue. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit loss is unlikely to occur.

33. RISK MANAGEMENT (continued)

Credit risk includes potential losses arising from a counterparty's (i.e., countries, banks/financial institutions, corporate, etc.) inability or unwillingness to service its obligation to the Fund. In this respect, the Bank has developed and put in place comprehensive credit policies and guidelines as a part of overall credit risk management framework to provide clear guidance on various types of financing.

These policies are clearly communicated within the Bank with a view to maintain the overall credit risk appetite and profile within the parameters set by the management of the Bank. The credit policy formulation, credit limit setting, monitoring of credit exceptions / exposures and review / monitoring functions are performed independently by the RMD, which endeavors to ensure that business lines comply with risk parameters and prudential limits established by the BED and the management of the Bank.

An important element tool of credit risk management is the established exposure limits for single beneficiary or an obligor and group of connected obligors. In this respect, the Bank has a well developed limit structure, which is based on the credit strength of the beneficiary, the obligor. Moreover, credit commercial limits in member countries regarding financing operations as well as placement of liquid funds are also in place.

The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationship with the Bank. While extending financing to its member countries the Bank safeguards its interests by obtaining the relevant guarantees for its financing operations and has to ensure that the concerned beneficiaries as well as the guarantors are able to meet their obligations. In addition to the above risk mitigation tools, the Bank has in place a comprehensive counterparty's assessment criteria and detailed structured exposure limits in line with the best banking practices.

b) Market risks

The Fund is exposed to following market risks:

i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's financing operations are SDR-denominated, the same currency in which the Fund's resources – i.e. equity are denominated. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The investment portfolio is held in major currencies in line with the composition of the Islamic Dinars basket, namely US Dollar, Sterling Pound, Euro and Japanese Yen. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

ii) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its net funding requirements. To guard against this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents and Murabaha financing with short-term maturity of three to twelve months.

33. RISK MANAGEMENT (continued)

iii) Equity price risk

The Fund is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Fund does not actively trade these investments. If equity prices had been 5% higher or lower, net assets at the year ended 29 Dhul Hijjah 1432H would have not been significantly affected as equity investments are classified as available-for-sale and adequate provision has been made for the equity investments against which an impairment loss has occurred.

iv) Mark-up risk

Mark-up risk arises from the possibility that changes in Mark-up risk will affect the value of the financial instruments. The Fund is exposed to Mark-up on its investments in cash and cash equivalents, Murabaha financing, Istisna'a assets, Ijarah Muntahia Bittamleek assets and investments in Sukuk. In respect of the financial assets, the Funds returns are based on a benchmark and hence vary according to the market conditions.

c) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of operational assets are not significantly different from the carrying values included in the financial statements except for unlisted equity investments. Unlisted equity investments are stated at cost as their fair values cannot be reliably determined because of non-availability of required information for such determination. Fair value of listed equity investments are measured based on market quotes and fair value of investments in Sukuk are measured based on inputs other than quoted prices that are observable.

d) Segment information

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its member countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Fund actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed centrally through the Fund's capital and Sukuk liabilities. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Fund as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programmes. Further, the internal reports furnished to the Board of Executive Directors do not present discrete financial information with respect to the Fund's performance to the extent envisaged in FAS 22.