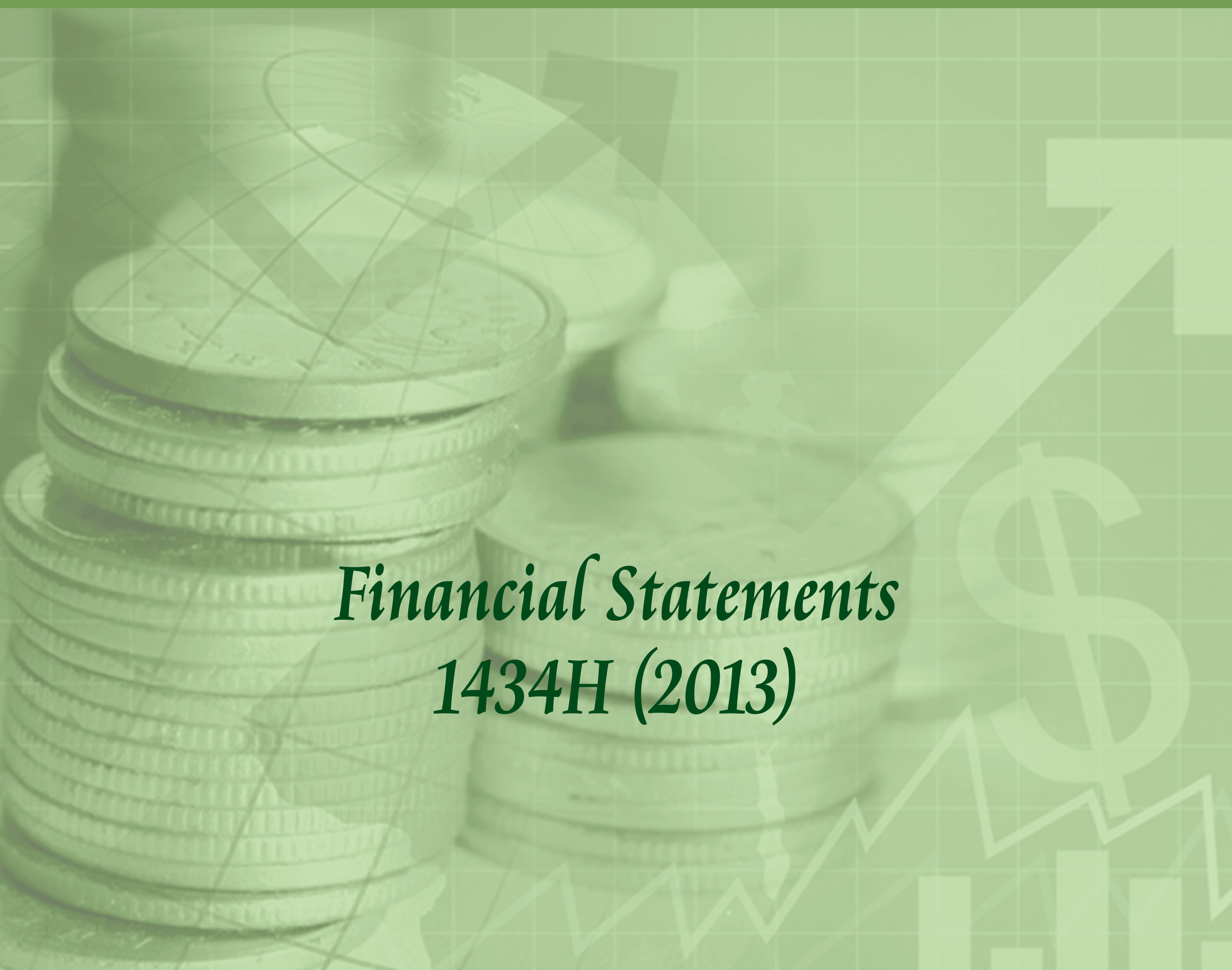
ISLAMIC DEVELOPMENT BANK



Financial Statements 1434H (2013)

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS
29 Dhul Hijjah 1434H (3 November 2013) with
INDEPENDENT JOINT AUDITORS' REPORT

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES
FINANCIAL STATEMENTS
29 Dhul Hijjah 1434H (3 November 2013)

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NDEPENDENT JOINT AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank
Jeddah
Kingdom of Saudi Arabia

We have audited the accompanying statement of financial position of Islamic Development Bank - Ordinary Capital Resources (the "Bank") as of 29 Dhul Hijjah 1434H (3 November 2013) 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 (AAOIFI) 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 issued by AAOIFI 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.

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 1434H (3 November 2013), 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 Organisation for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank.

PricewaterhouseCoopers

Ali. A. Alotaibi
Certified Public Accountant
Registration No. 379

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
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C.R. 46
KPMG
KPMG Al Fozan & Al Sadhan
Certified Public Accountants

16 Rajab 1435H
15 May 2014
Jeddah

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES
STATEMENT OF FINANCIAL POSITION
As of 29 Dhul Hijjah 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1434H	1433H Restated
Assets			
Cash and cash equivalents	4	**210,458**	469,972
Commodity placements through banks	5	**2,468,335**	1,357,530
Investments in Sukuk	6	**595,450**	388,549
Murabaha financing	7	**233,450**	214,438
Accrued income and other assets	8	**297,499**	480,775
Istisna'a assets	9	**3,181,353**	2,538,153
Instalment financing receivables	10	**1,174,984**	1,026,479
Loans	11	**1,709,374**	1,659,954
Ijarah Muntahia Bittamleek	12	**2,069,506**	1,864,050
Investments in equity capital	14	**713,064**	717,065
Investments in associates	15	**602,178**	560,680
Other investments	16	**112,874**	110,915
Fixed assets	17	**57,262**	58,102
Total assets		**13,425,787**	11,446,662
Liabilities and members' equity			
Liabilities			
Sukuk liability	18	**4,205,004**	3,101,322
Commodity purchase liabilities	19	**1,560,211**	893,219
Accruals and other liabilities	20	**406,894**	439,305
Total liabilities		**6,172,109**	4,433,846
Members' equity			
Paid-up capital	22	**4,799,791**	4,590,239
Reserves		**2,274,446**	2,292,330
Retained earnings		**179,441**	130,247
Total members' equity		**7,253,678**	7,012,816
Total liabilities and members' equity		**13,425,787**	**11,446,662**
Restricted investment accounts	27	**56,267**	53,403

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 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	**1434H**	1433H Restated
Income from:			
Commodity placements through banks		**19,725**	19,562
Investments in Sukuk	6	**517**	21,914
Murabaha financing		**9,384**	8,311
Istisna'a assets		**122,813**	102,164
Instalment financing		**44,657**	41,212
Loans service fees		**10,843**	8,820
Ijarah Muntahia Bittamleek		**201,714**	189,789
Investments in equity capital		**33,234**	41,953
Share of income in associates	15	**26,134**	14,928
Net gain on disposal and acquisition of associates	15	**1,612**	-
Other income		**12,435**	19,776
		483,068	468,429
Depreciation of assets under Ijarah Muntahia Bittamleek	12	**(133,949)**	(147,254)
		349,119	321,175
Foreign exchange gain, net		**6,780**	4,456
Gain/(loss) from Murabaha based profit rate and cross currency profit rate swaps	8	**8,263**	(5,028)
Financing costs	18,19	**(64,197)**	(57,358)
Income from operations		**299,965**	263,245
General and administrative expenses	24	**(99,796)**	(98,231)
Income before provision for impairment of financial assets		**200,169**	165,014
Provision for impairment of financial assets	13	**(20,728)**	(34,767)
Net income		**179,441**	130,247

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 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1434H	1433H Restated
Cash flows from operations			
Net income		**179,441**	130,247
Adjustments to reconcile net income for the year to net cash utilized in operating activities:			
Depreciation	12,17	**141,552**	154,693
Share of income in associates and other	15	**(27,746)**	(14,928)
Provision for impairment of financial assets	13	**20,728**	34,767
Investment fair value losses/(gains) on Sukuk	6	**18,670**	(8,397)
Amortization of deferred grant income		**(567)**	(567)
Foreign exchange losses/(gains)		**7,545**	(6,941)
Gain on disposal of investment in equity capital		**(372)**	-
Changes in operating assets and liabilities:			
Murabaha financing		**(18,317)**	6,196
Accrued income and other assets		**183,276**	(32,556)
Istisna'a assets		**(645,820)**	(462,536)
Instalment financing receivables		**(149,225)**	(20,323)
Ijarah Muntahia Bittamleek		**(348,226)**	(229,836)
Loans		**(58,682)**	(33,485)
Accruals and other liabilities		**(55,558)**	(29,641)
Net cash utilized in operating activities		**(753,301)**	(513,307)
Cash flows from investing activities			
Commodity placements through banks		**(1,110,805)**	(701,746)
Investments in Sukuk	6	**(549,230)**	(156,241)
Proceeds from disposal/redemption of investments in Sukuk	6	**319,479**	47,831
Investments in equity capital	14	**(35,733)**	(4,099)
Proceeds from disposal of investments in equity capital	14	**1,432**	908
Additions to other investments	16	**(18,681)**	(2,127)
Proceeds from disposal of other investments	16	**9,723**	18,653
Investments in associates, net	15	**(22,342)**	(37,331)
Additions to fixed assets	17	**(6,763)**	(5,563)
Net cash utilized in investing activities		**(1,412,920)**	(839,715)
Cash flows from financing activities			
Net increase in paid-up capital		**209,552**	216,435
Technical assistance and scholarship program grants		**(11,029)**	(7,714)
Contribution to the principal amount of Islamic Solidarity Fund for Development (ISFD)		**(66,124)**	(64,803)
Payment of Islamic Corporation for the Development of the Private Sector (ICD) capital on behalf of Member Countries		**-**	(8,167)
Proceeds from issuance of Sukuk		**1,171,626**	1,288,953
Redemption of Sukuk		**(64,310)**	(89,001)
Commodity purchase liabilities		**666,992**	(466,683)
Net cash generated from financing activities		**1,906,707**	869,020
Net decrease in cash and cash equivalents		**(259,514)**	(484,002)
Cash and cash equivalents at beginning of the year		**469,972**	953,974
Cash and cash equivalents at end of the year	4	**210,458**	469,972

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 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

			Reserves					
	Notes	**Paid-up capital**	**General reserve**	**Fair value and other reserve**	**Pension and medical obligation**	**Total**	**Retained earnings**	**Total**
Balance at 29 Dhul Hijjah 1432H, as previously stated		4,373,804	1,769,766	377,116	-	2,146,882	109,000	6,629,686
Regrouping the reserve accounts	21	-	58,153	-	(58,153)	-	-	-
Prior period adjustments	32	-	68,396	(30,410)	-	37,986	-	37,986
Balance at 29 Dhul Hijjah 1432H, as restated		4,373,804	1,896,315	346,706	(58,153)	2,184,868	109,000	6,667,672
Impact of equity accounting on reserves		-	1,343	3,918	-	5,261		5,261
Increase in paid-up capital	22	216,435	-	-	-	-	-	216,435
Net unrealized gains from investment in equity capital and other investments	14,16	-	-	83,198	-	83,198	-	83,198
Increase in the actuarial losses relating to retirement pension and medical plans	21	-	-	-	(9,313)	(9,313)	-	(9,313)
Payment of ICD share capital on behalf of Member Countries		-	(8,167)	-	-	(8,167)	-	(8,167)
Contribution to the principal amount of ISFD	25	-	(64,803)	-	-	(64,803)	-	(64,803)
Net income for the year ended 29 Dhul Hijjah 1433H		-	-	-	-	-	130,247	130,247
Transfer to general reserve	23	-	109,000	-	-	109,000	(109,000)	-
Allocation for grants	23	-	(7,714)	-	-	(7,714)	-	(7,714)
Balance at 29 Dhul Hijjah 1433H		4,590,239	1,925,974	433,822	(67,466)	2,292,330	130,247	7,012,816
Increase in paid-up capital	22	209,552	-	-	-	-	-	209,552
Net unrealized losses from investment in equity capital and other investments	14,16	-	-	(43,188)	-	(43,188)	-	(43,188)
Reversal of impairment on investment in equity capital		-	9,218	-	-	9,218	-	9,218
Increase in the actuarial losses relating to retirement pension and medical plans	21	-	-	-	(23,714)	(23,714)	-	(23,714)
Contribution to the principal amount of ISFD	25	-	(66,124)	-	-	(66,124)	-	(66,124)
Share in associates' reserve movement		-	(311)	(12,983)	-	(13,294)	-	(13,294)
Net income for the year ended 29 Dhul Hijjah 1434H		-	-	-	-	-	179,441	179,441
Transfer to general reserve	23	-	130,247	-	-	130,247	(130,247)	-
Allocation for grants	23	-	(11,029)	-	-	(11,029)	-	(11,029)
Balance at 29 Dhul Hijjah 1434H		**4,799,791**	**1,987,975**	**377,651**	**(91,180)**	**2,274,446**	**179,441**	**7,253,678**

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

1. Incorporation and activities

Islamic Development Bank (the "Bank") is a multilateral development bank established pursuant to Articles of Agreement signed and/or 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 is an international organisation and derives its legal personality from public international law. As a result, it is able to enter into contracts, acquire and dispose of property and take legal action. The Articles of Agreement have been signed and/or ratified by each of the Bank's Member Countries.

As a supranational institution, the Bank is not subject to any national banking regulation and is not supervised by any external regulatory authority. It is, however, closely supervised by its governing bodies namely, the Board of Governors of the Bank (Board of Governors) and the Board of Executive Directors of the Bank (Board of Executive Directors). Moreover, in each Member Country, the Bank has been granted exemption from all taxes and tariffs on assets, property or income, and from any liability involving payment, withholding or collection of any taxes.

The Bank is required to carry out its activities in accordance with the principles of Shari'ah. The fundamental principle underlying the Shari'ah approach to financial matters is that to earn a profit it is always necessary to take a risk. In practice, Shari'ah means that all Islamic finance is asset based.

The principles of Shari'ah are regularly clarified by the Islamic Fiqh Academy (the Fiqh Academy), an institution established by the Organisation of the Islamic Cooperation (the OIC) to interpret and develop Islamic jurisprudence. The Bank has established its own Shari'ah committee to give its opinion on matters on which the Fiqh Academy has not yet made any pronouncement.

Due to the overriding discipline imposed by Shari'ah, the Bank has built in mandatory business policies, accounting standards and policy defences to keep its statement of financial position exposure within prudent limits while raising funds from the market. For example, Article 21 of the Articles of Agreement requires that the total amount of equity investments, amounts of loans outstanding and other ordinary operations of the Bank do not exceed, at any time, the total amount of unimpaired subscribed share capital, reserves, deposits, other funds raised and surplus included in the Bank's Ordinary Capital Resources (OCR).

The Bank's operational assets are primarily comprised of sovereign financing to or guaranteed by Member Countries and non-sovereign financing operations largely covered by commercial bank guarantees and other securities acceptable to the Bank. associates and trust funds of the Bank share the common objective of mobilising financial resources in conformity with the Shari'ah, for the purposes of project financing, promotion of trade among Member Countries and providing technical assistance.

The Bank also manages Special Account Resources Waqf Fund (Waqf Fund), Islamic Solidarity Fund for Development (ISFD), World Waqf Foundation (WWF), Awqaf Property Investment Fund (APIF), and OIC Alliance Tsunami Orphan Kafala Program which is jointly managed with OIC. The Bank does not control any of the associates and the funds for the purpose of acquiring of benefits and, therefore, they are not considered as subsidiaries of the Bank.

The principal office of the Bank is located at King Khalid Street, P.O. Box 5925, Jeddah 21432 in the Kingdom of Saudi Arabia. The Bank also has, regional offices in Rabat (Morocco), Kuala Lumpur (Malaysia), Almaty (Kazakhstan) and Dakar (Senegal) as well as field representatives in Afghanistan, Azerbaijan, Bangladesh, Burkina Faso, Guinea (covering Sierra Leone), Indonesia, Iran, Mali, Nigeria, Pakistan, Sudan, Uzbekistan and Yemen. During 1434H, the Bank made headway in implementing the program for the establishment of new Group Country Gateway Offices (CGOs) in Turkey (Ankara and Istanbul), Indonesia, Egypt, Nigeria and Bangladesh. On September 19, 2013 the Ankara, Turkey CGO was officially inaugurated and the remaining CGOs are expected to be inaugurated by the end of 1435H.

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

2. Significant accounting policies

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

2.1 Basis of preparation

The financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") 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") issued by the International Accounting Standards Board (IASB).

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

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

2.2 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. The methodology for the estimation of the provision is set out in Note 2.13.

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 updated every year and revised every three years when an actuarial estimate of the benefits plans is carried out.

iii) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

2.3 Derivatives held for trading

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Any changes in the fair value of derivatives that are held for trading purposes are taken to the income statement. Also see Note 2.12.

2. Significant accounting policies (continued)

2.4 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. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Bank uses the projected unit credit method to determine the present value of its defined benefit plan and the related service costs.

Actuarial gains or losses, if material, are recognized immediately in the reserves under members' equity in the year they occur. The pension liability is recognized as part of other accounts payable in the statement of financial position. The liability represents the present value of the Bank's defined benefit obligations, net of the fair value of plan assets.

2.5 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"). With effect from 1 January 2011, the IMF has assigned the following weights to the four component currencies of the SDR: U.S. Dollar (41.9 percent.), Euro (37.4 percent.), Japanese Yen (9.4 percent.) and British Pound Sterling (11.3 percent.).

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.

2.6 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.

2.7 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.

2. Significant accounting policies (continued)

2.8 Operational assets

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

i) Murabaha and Instalment financing receivables

Murabaha financing and Instalment 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 Instalment financing receivables are stated at selling price less unearned income at the date of the statement of financial position, less repayments 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 and provision for impairment.

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

iii) Loans

Loans are recognized when cash is disbursed to finance components agreed to be financed from the loan amount.

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

iv) Ijarah Muntahia Bittamleek

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases assets 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 payment of all rentals 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. Ijarah assets comprised of fixed and variable rentals.

All Ijarah assets are stated at cost less the accumulated depreciation up to the date of the statement of financial position. The Ijarah assets with fixed rental is depreciated using the straight-line method over the related lease period and for Ijarah with variable rental is based on the estimated usage of the assets.

No depreciation is recorded in respect of assets under construction.

2.9 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. Initially and subsequently such investments are measured at fair value, and any unrealized gains or losses 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.

2. Significant accounting policies (continued)

2.10 Investments in associates

Associates are entities over which the Bank has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost (including transaction costs directly related to acquisition of investment in associate). The Bank's investment in associates includes goodwill (net of any accumulated impairment loss), if any, identified on acquisition. The Bank's share of its associates' post-acquisition profits or losses is recognized in the income statement; its share of post-acquisition movements in reserve is recognized in the statement of changes in members' equity.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Bank calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognizes the amount in the income statement.

The Bank's share of the results of associates is based on financial statements available three months before or after the date of the statement of financial position, adjusted to conform to the accounting policies of the Bank where necessary.

2.11 Investments in Sukuk

Debt-type instruments
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.

2.12 Murabaha based profit rate and cross currency profit rate swaps

The Bank uses Murabaha based profit rate and cross currency profit rate swaps for asset/liability management and hedging purposes to modify mark-up rate or currency characteristics of the Sukuk issued and financing extended. Murabaha based profit rate and cross-currency profit rate 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 profit rate swap with positive fair values are recognized within other assets and those with negative fair values are recognized within other liabilities.

2.13 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 statement of financial position 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 statement of financial position 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 to specific provision, a provision for collective impairment is made on portfolio basis for credit losses where there is objective evidence that unidentified losses exist in the portfolio at the statement of financial position 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)

Equity-type investments
An assessment is made at each statement of financial position date to determine whether there is objective evidence that an investment in equity-type instruments may be impaired. In case of investments carried at fair value through equity, a significant or prolonged decline in fair value of the investment below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the investment in equity previously recognised in the members' equity, is removed from equity and recognised in the income statement. Impairment losses on equity investments previously recognised in the income statement are not subsequently reversed through the income statement.

Other financial assets
An assessment is made at each statement of 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. Adjustments to the provision are recorded as a charge or credit in the Bank's income statement.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of loss is recognized in the income statement. 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.

2.14 Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for donated land, which was 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.

2.15 Impairment of non-financial assets

The carrying amounts of assets (other than for financial assets covered above) are reviewed for impairment at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

2.16 Other provisions

Other provisions, if any, 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.

2. Significant accounting policies (continued)

2.17 Revenue recognition

Commodity placements through banks
Income from placements with 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.

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. The fair value gain and losses (realized and unrealized) are also recognised in the income statement (see Note 2.11)

Murabaha and Instalment financing
Income from Murabaha and Instalment 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 instalments.

Mudarib share of income
Mudarib share of 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 Istisna'a assets whereby there is a proportionate allocation of deferred profits over the future financial period of the credit.

Loans service fees
Income from loans service fees is accrued according to the service fee repayment schedule appended to the loan agreement.

Ijarah Muntahia Bittamleek
Fixed rental income from Ijarah Muntahia Bittamleek is allocated proportionately in the financial periods over the term of Ijarah whilst variable rental income from Ijarah Muntahia Bittamleek is based on the net asset value.

Dividend income
Dividend income 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.

2.18 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.

2.19 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.

2.20 Zakat and tax

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

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

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 Board of Executive Director.. The Bank, associate entities and trust funds Shari'ah Committee was established pursuant to Board Resolution No. BED/24/11/421/(198)/138. Members of the Shari'ah Committee of the Bank, associate entities and trust funds are appointed for a period of 3 years renewable.

The Committee has the following functions:

i. to consider all transactions and products introduced by the Bank, associate entities and trust funds 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, associate entities and trust funds intend 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, associate entities and trust funds 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, associate entities and trust funds;

iv. to contribute to the Bank, associate entities and trust funds 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 of the Bank, associate entities and trust funds a comprehensive report showing the measure of the Bank, associate entities and trust funds 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:

	1434H	1433H
Cash in hand and at banks (Note 4.1)	**55,585**	32,717
Commodity placements through banks (Note 5)	**154,873**	437,255
Total	**210,458**	469,972

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:

	1434H	1433H
Cash in hand	**222**	165
Cash at banks:		
- Current accounts	**9,670**	2,899
- Call accounts	**45,693**	29,653
Total	**55,585**	32,717

Current accounts at 29 Dhul Hijjah 1434H include ID 0.5 million (1433H: ID 0.5 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.

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

5. Commodity placements through banks

Commodity placements through banks at the end of the years comprise the following:

	1434H	1433H
Placements with Islamic banks	**345,245**	181,317
Placements with conventional banks	**2,282,106**	1,617,611
	2,627,351	1,798,928
Less: maturity of three months or less at the date of placement (Note 4)	**(154,873)**	(437,255)
Provision for impairment (Note 13.3)	**(4,143)**	(4,143)
Commodity placements through banks, net	**2,468,335**	1,357,530

6. Investments in Sukuk

Investments in Sukuk certificates represent 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:

	1434H	1433H
Governments	**299,809**	107,771
Financial institutions	**187,095**	189,322
Other entities	**108,546**	91,456
Total	**595,450**	388,549

The movement in investments in Sukuk are summarized as follows:

	1434H	1433H
Balance at beginning of the year	**388,549**	266,631
Additions during the year	**549,230**	156,241
Sales/redemptions during the year	**(319,479)**	(47,831)
Unrealized fair value (losses)/gains	**(18,670)**	8,397
Unrealized exchange revaluation (losses)/gains	**(4,180)**	5,111
Balance at end of the year	**595,450**	388,549

The details of income from investments in Sukuk is as follows:

	1434H	1433H
Coupon income from investments in Sukuk	**18,519**	11,837
Realized gains	**668**	1,680
Unrealized fair value (losses)/gains	**(18,670)**	8,397
	517	21,914

The details of the investments in Sukuk by the credit ratings of the issuers are as follows:

Rating	**AAA**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**Unrated**	**Total**
1434H	**-**	**84,532**	**97,012**	**35,543**	**44,785**	**76,140**	**14,886**	**38,711**	**149,378**	**54,463**	**595,450**
1433H	6,843	45,364	47,874	39,213	39,518	73,585	2,103	18,228	62,407	53,414	388,549

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

7. Murabaha financing

Murabaha financing at the end of the years comprise the following:

	1434H	1433H
Gross amounts receivable	**282,963**	266,682
Less: unearned income	**(3,162)**	(5,198)
	279,801	261,484
Less: provision for impairment (Note 13.3)	**(46,351)**	(47,046)
Murabaha financing, net	**233,450**	214,438

8. Accrued income and other assets

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

	1434H	1433H
Accrued income on operating assets	**203,053**	214,994
Accrued income from commodity placements through banks	**7,883**	8,465
Accrued income on investments in Sukuk	**4,503**	3,471
Related party balances (Note 28)	**25,777**	178,964
Positive fair value of Murabaha based profit rate and cross currency profit rate swaps (Note 8.1)	**29,874**	37,691
Staff loans and advances	**21,058**	14,289
Prepayments and other assets	**5,351**	22,901
Total	**297,499**	480,775

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 swaps fixed profit rate with floating profit rate or vice versa with the counterparty. The contract amounts of the swaps are United States Dollars (USD) 1,850 million (ID 1,207 million).

b) Cross currency profit rate swap:

The Bank has issued Sukuk amounting to Saudi Riyal (SAR) 1,875 million (ID 326.4 million), and Pound Sterling (GBP) 260 million (ID 271.6 million). In order to provide protection against exchange rate fluctuations between the SAR and USD, GBP and Euro and GBP and USD and the profit payments under the Sukuk, the Bank entered into cross currency profit rate swaps for the contract amount of SAR 1,875 million and GBP 260 million, respectively. Under the arrangement, the Bank shall swap profit rate in USD and Euro with profit rates in SAR and GBP respectively with the counterparties.

For Murabaha based profit rate swaps and cross currency profit rate 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.

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

8. Accrued income and other assets (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.

	Positive fair value	Negative fair value	Contract amount Total	1-3 years	3-5 years	Over 5 years
1434H						
Murabaha based profit rate and cross currency profit rate swaps	**29,874**	**18,950**	**1,805,014**	**1,048,004**	**430,586**	**326,424**
1433H						
Murabaha based profit rate and cross currency profit rate swaps	37,691	31,432	1,842,838	1,021,268	493,964	327,606

During the year ended 29 Dhul Hijjah 1434H, the Bank recorded swap gain of ID 8.26 million (1433H loss of ID 5.03 million). Total realized gain during the year amounts to ID 8.43 million (1433H: realized gain ID 9.67 million) and unrealized loss amounted to ID 0.17 million (1433H: unrealized loss ID 14.70 million).

9. Istisna'a assets

Istisna'a assets at the end of the years comprise the following:

	1434H	1433H
Istisna'a assets in progress	**1,905,477**	1,829,828
Istisna'a receivables	**1,765,489**	1,036,093
	3,670,966	2,865,921
Less: unearned income	**(484,445)**	(325,220)
	3,186,521	2,540,701
Less: provision for impairment (Note 13.3)	**(5,168)**	(2,548)
Istisna'a assets, net	**3,181,353**	2,538,153

10. Instalment financing receivable

Instalment financing receivables at the end of the years comprise the following:

	1434H	1433H
Gross amounts receivable	**1,500,145**	1,430,462
Less: unearned income	**(321,048)**	(400,590)
	1,179,097	1,029,872
Less: provision for impairment (Note 13.3)	**(4,113)**	(3,393)
Instalment financing receivables, net	**1,174,984**	1,026,479

11. Loans

Loans balances at the end of the years comprise of the following:

	1434H	1433H
Loans	**1,775,035**	1,716,353
Less: Provision for impairment (Note 13.3)	**(65,661)**	(56,399)
Loans, net	**1,709,374**	1,659,954

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

12. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek at the end of the years comprise of the following:

	1434H	1433H
Cost		
Assets under construction		
At beginning of the year	**1,097,429**	1,350,021
Additions	**351,358**	232,154
Transferred to assets in use	**(580,663)**	(484,746)
At end of the year	**868,124**	1,097,429
Assets in use		
At beginning of the year	**1,529,479**	1,044,283
Transferred from assets under construction	**580,663**	485,196
At end of the year	**2,110,142**	1,529,479
Total cost	**2,978,266**	2,626,908
Accumulated depreciation		
At beginning of the year	**(735,124)**	(585,102)
Charge for the year	**(133,949)**	(147,254)
Share of syndication participants	**(3,132)**	(2,768)
At end of the year	**(872,205)**	(735,124)
Balance at end of the year	**2,106,061**	1,891,784
Less: provision for impairment (Note 13.3)	**(36,555)**	(27,734)
Ijarah Muntahia Bittamleek, net	**2,069,506**	1,864,050

As at 29 Dhul Hijjah 1434H included in assets in use is an amount of ID 246.1 million (1433H: ID 179.4 million) that represents the cost of fully depreciated assets, which will ultimately be transferred to the beneficiaries under the terms of the lease agreements.

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:

	1434H	1433H
Specific provision	**225,598**	216,325
Portfolio provision	**19,450**	18,509
	245,048	234,834

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

	1434H	1433H
Balance at beginning of the year	**234,834**	200,067
Charge for the year	**20,728**	36,342
Reversals of impairment on investment in equity capital	**(10,514)**	(1,575)
Balance at end of the year	**245,048**	234,834

i) Specific provision

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

	1434H	1433H
Balance at beginning of the year	**216,325**	181,314
Charge for the year	**19,787**	36,586
Reversals for the year	**(10,514)**	(1,575)
Balance at end of the year	**225,598**	216,325

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

13. Provision for impairment of financial assets (continued)

ii) Portfolio provision

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

	1434H	1433H
Balance at beginning of the year	**18,509**	18,753
Charge/(reversal) for the year	**941**	(244)
Balance at end of the year	**19,450**	18,509

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

	Notes	**1434H**	1433H
Cash and bank		**10,456**	10,456
Commodity placements	5	**4,143**	4,143
Murabaha financing	7	**46,351**	47,046
Istisna'a assets	9	**5,168**	2,548
Instalment financing receivables	10	**4,113**	3,393
Loans	11	**65,661**	56,399
Ijarah Muntahia Bittamleek	12	**36,555**	27,734
Investments in equity capital	14	**67,690**	78,204
Other Investments	16	**4,911**	4,911
Balance at the end of the year		**245,048**	234,834

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 instalments 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 in equity capital and other 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 year.

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 income statement.

13.4 As at the end of the years 1434H and 1433H the following is the ageing of operating assets which were overdue and considered impaired. A portion of the impairment provision calculated based on the above methodology relates specifically to these impaired receivables:

1434H	**0 – 6 months**	**7 – 12 months**	**1 – 2 years**	**Over two years**	**Total**
Murabaha financing	**-**	**123**	**159**	**37,827**	**38,109**
Instalment financing receivables	**-**	**338**	**194**	**2,845**	**3,377**
Istisna'a assets	**-**	**226**	**-**	**-**	**226**
Loans	**-**	**2,190**	**1,213**	**8,543**	**11,946**
Ijarah Muntahia Bittamleek	**-**	**2,894**	**4,829**	**22,264**	**29,987**
Total	**-**	**5,771**	**6,395**	**71,479**	**83,645**

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

13. Provision for impairment of financial assets (continued)

1433H	0 – 6 months	7 – 12 months	1 – 2 years	Over two years	Total
Murabaha financing	130	130	261	40,345	40,866
Instalment financing receivables	-	-	-	2,469	2,469
Loans	289	614	516	8,130	9,549
Ijarah Muntahia Bittamleek	-	1,291	2,582	16,529	20,402
Total	419	2,035	3,359	67,473	73,286

The remaining provision for impairment relates to HIPC countries' rescheduled instalments 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.

	0 – 6 months	**7 – 12 months**	**1 – 2 years**	**Over two years**	**Total**
1434H					
Amount overdue but not considered impaired	**34,451**	**-**	**-**	**-**	**34,451**
1433H					
Amount overdue but not considered impaired	23,088	10,228	1,467	1,076	35,859

14. Investments in equity capital

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

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

	1434H	1433H
Equity investments:		
Listed	**607,340**	652,884
Unlisted	**173,414**	142,385
	780,754	795,269
Less: provision for impairment (Note 13.3)	**(67,690)**	(78,204)
Investments in equity capital	**713,064**	717,065

The movement in investments in equity capital is as follows:

	1434H	1433H
Balance at beginning of the year	**717,065**	649,835
Additions during the year	**35,733**	4,099
Disposal during the year	**(1,060)**	(908)
Impairment reversal (provision)	**9,218**	(19,495)
Transfer to investments in associates	**(4,704)**	-
Net unrealized fair value (losses)/gains	**(43,188)**	83,534
Balance at end of the year	**713,064**	717,065

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 as strategic investments and exit 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.

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

14. Investments in equity capital (continued)

The movement in provision for impairment in equity capital is as follows:

	1434H	1433H
Provision at beginning of the year	**78,204**	58,709
Disposals	**(1,296)**	-
(Reversal of provision)/charge during the year	**(9,218)**	19,495
Provision at end of the year	**67,690**	78,204

15 Investments in associates

	1434H	1433H Restated
Balance at beginning of the year (Note 32)	**560,680**	503,160
Foreign currency translation and other movements	**(13,294)**	5,261
Transfer from equity investment	**4,704**	-
Investments acquired during the year	**22,342**	37,811
Share of results	**26,134**	14,928
Net gain on acquisition and disposal of associates	**1,612**	-
Cash dividend	**-**	(480)
Balance at end of the year	**602,178**	**560,680**

Name of the entity	**Country of incorporation**	**Entity's activities**	**Ownership % 1434H**	**Ownership % 1433H**
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	20.00%	20.00%
Bosna Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	49.99%	49.99%
Bank Muamalat Indonesia	Indonesia	Banking	32.80%	32.84%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
Islamic Bank of Niger	Niger	Banking	49.88%	49.50%
International Leasing and Investment Company	Kuwait	Investment Co.	31.24%	28.00%
Sonali Paper & Board Mills	Bangladesh	Manufacturing	24.61%	23.22%
Northern Jute Company	Bangladesh	Manufacturing	30.00%	30.00%
National Fibers Limited	Pakistan	Manufacturing	21.15%	21.15%
Tatarstan International Investment Company	Tatarstan (Russia)	Investment Co.	20.32%	-
Islamic Bank of Senegal	Senegal	Banking	33.26%	-
Islamic Corporation for the Development of the Private Sector (ICD)	Saudi Arabia	Private Sector Investment	50.00%	53.30%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	37.90%	38.10%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	38.60%	41.10%

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

15 Investments in associates (continued)

Summarized financial of amounts as of 29 Dhul Hijjah and for the year then ended is as follows:

Name of the company	Total assets	Total liabilities	Total revenues	Net income or (loss)
1434H				
Allied Cooperative Insurance Group	63,995	47,182	24,477	1,226
Bosna Bank International	257,670	217,860	13,368	1,307
Islamic Bank of Guinea	32,873	26,117	1,767	89
Bank Muamalat Indonesia	2,906,344	2,753,272	256,515	30,271
Syrikat Takaful Indonesia	62,434	56,161	11,462	127
Islamic Bank of Niger	52,335	41,050	5,522	1,199
Sonali Paper & Board Mills	65,675	64,878	8,243	111
Islamic Bank of Senegal	181,784	150,519	16,145	3,364
ICD	794,809	211,514	28,864	15,859
ITFC	528,162	10,205	28,453	13,715
APIF	55,989	803	3,223	1,080
1433H				
Allied Cooperative Insurance Group	41,659	26,060	23,526	(4,074)
Bosna Bank International	188,433	164,630	11,666	1,142
Islamic Bank of Guinea	33,988	27,144	2,291	31
Bank Muamalat Indonesia	3,018,060	2,858,487	234,283	27,058
Syrikat Takaful Indonesia	72,225	64,277	13,910	514
Islamic Bank of Niger	41,336	31,781	5,319	1,049
Sonali Paper & Board Mills	1,803	1,193	7,879	52
ICD	647,948	143,383	34,434	7,648
ITFC	579,173	76,490	28,669	2,404
APIF	52,878	1,862	4,573	1,517

Allied Cooperative Insurance Group is a listed entity and the value of investment based on the quoted market price at 29 Dhul Hijjah 1434H is ID 19.29 million (1433H: ID 15.02 million).

The Bank has written down its investments in International Leasing and Investment Company, Northern Jute Company, National Fibers Limited and Tatarstan International Investment Company.

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

16. Other investments

Other investments at end of the years comprise of the following:

	1434H	1433H
Lease and Murabaha Funds - Debt type	**65,917**	75,569
Infrastructure, equity and other funds - Equity type	**51,868**	40,257
	117,785	115,826
Less: provision for impairment (Note 13.3)	**(4,911)**	(4,911)
Other investments, net	**112,874**	110,915

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

The movement in other investments is summarized as follows:

	1434H	1433H
Balance at beginning of the year	**110,915**	130,858
Additions during the year	**18,681**	2,127
Sale/capital redemptions during the year	**(9,723)**	(18,653)
Unrealized foreign exchange (losses)/gains	**(6,999)**	1,830
Provision for impairment	**-**	(4,911)
Net unrealized fair value loss	**-**	(336)
Balance at end of the year	**112,874**	110,915

17. Fixed assets

Fixed assets at 29 Dhul Hijjah 1434 is comprised of the following:

1434H	**Land**	**Buildings**	**Furniture, equipment and vehicles**	**Total**
Cost				
At beginning of the year	13,043	91,921	29,483	134,447
Additions during the year	-	292	6,471	6,763
At end of the year	13,043	92,213	35,954	141,210
Less: share of assets allocated to Special Account Resources Waqf Fund:				
Allocation at beginning and at end of the year	-	(31,842)	-	(31,842)
Total cost at end of the year	13,043	60,371	35,954	109,368
Accumulated depreciation				
At beginning of the year	-	43,979	15,713	59,692
Charge for the year	-	2,302	6,100	8,402
At end of the year	-	46,281	21,813	68,094
Less: share of accumulated depreciation allocated to Special Account Resources Waqf Fund:				
Allocation at beginning of the year	-	(15,189)	-	(15,189)
Allocation during the year	-	(799)	-	(799)
Allocation at end of the year	-	(15,988)	-	(15,988)
Total accumulated depreciation at end of the year	-	30,293	21,813	52,106
Net book value				
29 Dhul Hijjah 1434H	**13,043**	**30,078**	**14,141**	**57,262**

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

17. Fixed assets (continued)

1433H	Land	Buildings	Furniture, equipment and vehicles	Total
Cost				
At beginning of the year	13,043	91,519	24,322	128,884
Additions during the year	-	402	5,161	5,563
At end of the year	13,043	91,921	29,483	134,447
Less: share of assets allocated to Special Account Resources Waqf Fund:				
Allocation at beginning and end of the year	-	(31,842)	-	(31,842)
Total cost at end of the year	13,043	60,079	29,483	102,605
Accumulated depreciation				
At beginning of the year	-	41,496	10,025	51,521
Charge for the year	-	2,483	5,688	8,171
At end of the year	-	43,979	15,713	59,692
Less: share of accumulated depreciation allocated to Special Account Resources Waqf Fund:				
Allocation at beginning of the year	-	(14,457)	-	(14,457)
Allocation during the year	-	(732)	-	(732)
Allocation at end of the year	-	(15,189)	-	(15,189)
Total accumulated depreciation at end of the year	-	28,790	15,713	44,503
Net book value				
29 Dhul Hijjah 1433H	13,043	31,289	13,770	58,102

As at 29 Dhul Hijjah 1434H and 1433H, the fixed assets include 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.

The cost of the Bank’s permanent headquarters building was funded out of the Bank's ordinary resources and out of Special Account Resources Waqf Fund. 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%

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

18. 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 in foreign currency**	**ID equivalent 1434H**	ID equivalent 1433H	Maturity date	**Stock Exchange Listing**	**Issued by**
20 Aug 2008	MYR	300,000	**-**	64,310	20 Aug 2013	Bursa Malaysia (BM)	TSB
30 Mar 2009	MYR	100,000	**20,596**	21,437	28 Mar 2014	BM	TSB
16 Sept 2009	USD	850,000	**554,921**	556,928	16 Sept 2014	London Stock Exchange(LSE)	ITSL
20 Sept 2010	SAR	937,500	**163,212**	163,802	20 Sep 2020	Not Listed	ITSL
20 Sept 2010	SAR	937,500	**163,212**	163,802	20 Sep 2020	Not Listed	ITSL
27 Oct 2010	USD	500,000	**326,424**	327,604	27 Oct 2015	LSE and BM	ITSL
17 Feb 2011	GBP	60,000	**62,497**	58,997	17 Feb 2016	Not Listed	ITSL
25 May 2011	USD	750,000	**489,636**	491,407	25 May 2016	LSE and BM	ITSL
30 Jan 2012	GBP	100,000	**104,162**	102,049	30 Jan 2017	Not listed	ITSL
26 Jun 2012	USD	800,000	**522,278**	524,167	26 Jun 2017	LSE and BM	ITSL
7 Aug 2012	GBP	100,000	**104,162**	102,652	7 Aug 2015	Not listed	ITSL
1 Oct 2012	USD	300,000	**195,854**	196,563	1 Oct 2015	Not listed	ITSL
11 Oct 2012	USD	500,000	**326,424**	327,604	11 Oct 2017	Not listed	ITSL
27 Mar 2013	USD	700,000	**456,994**	-	27 Mar 2018	Not listed	ITSL
4 Jun 2013	USD	1,000,000	**652,848**	-	4 Jun 2018	LSE and BM	ITSL
31 Jul 2013	MYR	300,000	**61,784**	-	31 Jul 2018	BM	TSB
			4,205,004	3,101,322			

The Sukuk Certificates confer on certificate holders the right to receive periodic distribution amounts arising from the profit element of the asset against which sukuk are issued. 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 instalments.

The finance cost for the year ended 1434H is ID 61.8 million (1433H: ID 50.1 million).

Subsequent to the year ended 29th Dhul Hijjah 1434H, the Bank issued the following Sukuk:

Date of issue	**Issuing currency**	**Amount in foreign currency**	**ID equivalent**	Maturity date	**Stock Exchange Listing**	**Issued by**
6 Mar 2014	USD	1,500,000	970,890	5 Mar 2019	LSE, BM and Nasdaq Dubai	ITSL

19. 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 1,560.21 million as of 29 Dhul Hijjah 1434H (1433H: ID 893.22 million) represents the purchase price under these agreements. The related finance cost for the year ended 29 Dhul Hijjah 1434H is ID 2.4 million (1433H: ID 7.2 million).

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

20. Accruals and other liabilities

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

	1434H	1433H
Payables against commodity purchase liability	**223,240**	185,054
Investment deposits	**2,931**	2,662
Related party balances (Note 28)	**3,199**	94,424
Accruals	**20,892**	21,681
Accrued staff retirement and medical benefit scheme liability (Note 21)	**91,180**	67,466
Negative fair value of Murabaha based profit rate and cross currency profit rate swaps (Note 8.1)	**18,950**	31,432
Deferred grant income	**11,336**	11,903
Other liabilities	**35,166**	24,683
Total	**406,894**	439,305

21. 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 the Bank 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 Bank’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 62nd 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.

Under the Plan, the employee contributes at a rate of 9% of the basic salary while the Bank typically contributes 21%, but may vary such contribution based on the results of the actuarial valuations.

The Plan assets are held and managed by the Bank 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 Pension Plan and contributions are invested in a similar manner to that of the Staff Retirement Pension 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%

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

21. Retirement benefits (continued)

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

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1434H	1433H	**1434H**	1433H
Benefit obligation at beginning of the year	**193,033**	161,496	**12,199**	9,686
Service costs (excluding member contributions)	**15,399**	8,891	**1,398**	974
Finance costs	**9,995**	8,448	**627**	531
Plan member contributions	**3,900**	4,313	**218**	243
Benefits paid from plan assets	**(6,562)**	(5,747)	**(166)**	(183)
Foreign exchange losses and other adjustments	**10,046**	15,632	**(810)**	948
Benefit obligation at end of the year	**225,811**	193,033	**13,466**	12,199

The movements in the plan assets are as follows:

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1434H	1433H	**1434H**	1433H
Fair value of plan assets at beginning of the year	**131,899**	108,077	**5,867**	4,953
Actual return on plan assets	**4,796**	8,716	**427**	162
Employer contributions	**9,058**	9,956	**504**	580
Plan member contributions	**3,900**	4,313	**218**	243
Benefits paid from plan assets	**(6,562)**	(5,747)	**(166)**	(183)
Foreign exchange (losses)/ gains and other adjustments	**(1,746)**	6,584	**(98)**	112
Fair value of plan assets at end of the year	**141,345**	131,899	**6,752**	5,867
Funded status - net liability recognized on statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 20)	**84,466**	61,134	**6,714**	6,332

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 1434H and 1433H for the Bank comprised the following:

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1434H	1433H	**1434H**	1433H
Current service costs - gross	**19,299**	13,204	**1,642**	1,217
Less - Employee contributions	**(3,900)**	(4,313)	**(244)**	(243)
Net - current service costs	**15,399**	8,891	**1,398**	974
Finance costs	**9,995**	8,448	**627**	531
Amortisation of unrecognised actuarial loss	**4,618**	-	**26**	-
Expected return on plan asset	**(8,067)**	(7,060)	**(365)**	(316)
Expense for the year	**21,945**	10,279	**1,686**	1,189

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

21. Retirement benefits (continued)

Principal assumptions used in the actuarial valuations dated 17 Rabi Awwal 1434H (9 Feb 2013) and extended as at end of the years are as follows:

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1434H	1433H	**1434H**	1433H
Discount rate	**4.9%**	4.5%	**4.9%**	4.5%
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%

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 Pension Plan		Medical Benefit Scheme	
	1434H	1433H	**1434H**	1433H
Commodity placements	**22,759**	3,465	**1,107**	2,867
Investment in Unit Investment Fund (UIF)	**-**	19,140	**-**	-
Syndicated Murabaha	**15,762**	7,538	**3,293**	3,224
Managed funds and Instalment sales	**18,632**	18,811	**-**	-
Investments in Sukuk	**81,629**	74,315	**2,132**	1,323
Land	**4,618**	4,635	**-**	-
Others	**(2,055)**	3,995	**220**	(1,547)
Plan assets	**141,345**	131,899	**6,752**	5,867

3.9% of staff retirement plan assets (1433H: 14.5%) are invested respectively within the IDB and associate entities as of 29th Dhul Hijjah 1434H.

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

	1434H	1433H	1432H	1431H	1430H
Present value of defined benefit obligation	**(225,811)**	(193,033)	(161,496)	(142,718)	(125,605)
Fair value of plan assets	**141,345**	131,899	108,077	106,753	101,234
Plan deficit	**(84,466)**	(61,134)	(53,419)	(35,965)	(24,371)

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

	1434H	1433H	1432H	1431H	1430H
Present value of defined benefit obligation	**(13,466)**	(12,199)	(9,686)	(7,398)	(6,106)
Fair value of plan assets	**6,752**	5,867	4,953	4,690	3,779
Plan deficit	**(6,714)**	(6,332)	(4,733)	(2,708)	(2,327)

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

21. Retirement benefits (continued)

The amounts recognized in the general reserve are as follows:

	Staff Retirement Pension Plan	**Medical Benefit Scheme**	**1434H Total**	1433H Total
Balance at beginning of the year	61,134	6,332	**67,466**	58,153
Movement during the year	23,332	382	**23,714**	9,313
Balance at end of the year	84,466	6,714	**91,180**	67,466

22. Paid up capital

The capital of the Bank at end of the years comprise of the following:

	1434H	1433H
Authorized 10,000,000 shares of ID 10,000 each	**100,000,000**	30,000,000
Issued: 1,800,000 shares of ID 10,000 each	**18,000,000**	18,000,000
Issued shares available for subscription	**(196,239)**	(217,400)
Subscribed capital	**17,803,761**	17,782,600
Callable capital	**(8,852,530)**	(12,470,380)
Called-up capital	**8,951,231**	5,312,220
Amount not yet due	**(4,075,840)**	(579,851)
Instalments overdue	**(75,600)**	(142,130)
Paid-up capital	**4,799,791**	4,590,239

In its 287th meeting held in Safar 1434H (December 2012G), the Board of Executive Directors of the Bank resolved to recommend the following for consideration and approval of the Board of Governors of the Bank in the Annual Meeting:

a. that the 50% cash callable portion of the 4th general increase in capital be called in so that the value of shares subscribed by each Member Country be paid in equal instalments over 20 years starting 01 January 2016G;

b. that the authorized capital of the Bank be increased from ID 30 billion to ID 100 billion; and

c. that the subscribed capital of the Bank be increased from ID 18 billion to ID 50 billion,

Subsequent to the approval of the Board of Governors in the 38th annual meeting held on 12 Rajab 1434H (22 May 2013) the Bank has invited all Member Countries to subscribe to the 5th General Capital Increase in accordance with the terms approved by the Board of Governors.

23. 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/2-434 dated 12 Rajab 1434H (22 May 2013), and the Board of Executive Directors' resolution No. BED/BG/3-434, the higher of 5% of the Bank’s 1433H net income and USD 5 million was allocated to finance technical assistance operations in the form of grants during the year 1434H amounting to ID 5.9 million (1433H: ID 5.5 million).

According to the Board of Governors’ resolution No. No. BG/3-434 dated 12 Rajab 1434H (22 May 2013), and the Board of Executive Directors’ resolution No. BED/BG/4-434 higher of 2% of the Bank’s 1433H net income and USD

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

23. General reserve (continued)

Dollars 2 million was allocated to the merit scholarship programme in the form of grants during the year 1434H amounting to ID 2.4 million (1433H: ID 2.2 million).

According to the Board of Governors' resolution No. BG/4-434 dated 12 Rajab 1434H (22 May 2013), and the Board of Executive Directors' resolution No. BED/BG/5-434, higher of 2% of the Bank's 1433H net income and USD Dollars 4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants during the year 1434H amounting to ID 2.7 million (1433H: ID Nil).

24. General and administrative expenses

	1434H	1433H
Staff costs	**72,299**	68,225
Depreciation on fixed assets	**7,603**	7,439
Business travel	**5,875**	5,399
Consultancy fees	**3,673**	6,318
Others	**10,346**	10,850
Total	**99,796**	98,231

25. Contingencies and commitments

25.1 Undisbursed commitments

Undisbursed commitments at end of the years comprised of the following:

	1434H	1433H
Instalment financing receivables and Istisna'a assets	**4,905,580**	4,264,961
Loans	**970,990**	987,709
Ijarah Muntahia Bittamleek assets	**1,422,680**	1,147,371
Investments in equity capital and profit sharing	**213,565**	70,107
Investment in ICD	**-**	16,380
ISFD (Note 25.2)	**261,481**	327,605
Total	**7,774,296**	6,814,133

25.2. 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 OIC in accordance with its Regulations. The fund was officially launched during the 32nd meeting of the Bank's 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 instalments of USD 100 million each (ID 66.12 million) (1433H: ID 64.80 million). The first six instalments amounting to USD 600 million have already been paid by the Bank as of 29 Dhul Hijjah 1434H.

26. Earnings and expenditures prohibited by Shari'ah

Earnings realised during the year 1434H from transactions which are not permitted by Shari'ah amounted to ID Nil (1433H: ID 99 thousand) as a result of the earnings from call accounts maintained with conventional banks.

27. 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 as at the end of Dhul Hijjah 1434H amounted to ID 56.3 million (1433H: ID 53.4 million).

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

28. Related party balances

In the ordinary course of its activities, the Bank transacts with related parties defined as Member Countries, associate entities trust funds and other programmes initiated by the Bank and key decision making bodies comprising of the Board of Governors, the Board of Executive Directors and the Shari'ah Board.

Bank's development activities were principally conducted with its Member Countries.

The net balances due (to) / from the Bank, associate entities and trust funds at the end of the year are as follows:

	1434H		1433H	
	Assets	**Liabilities**	Assets	Liabilities
World Waqf Foundation	**-**	**(1,869)**	-	(1,314)
APIF	**-**	**(1,180)**	33	-
UIF	**118**	**-**	-	(56)
ICIIEC	**1,389**	**-**	6,336	-
Special Account Resources Waqf Fund	**5,507**	**-**	29,318	-
IDB Special Assistance Fund	**3,285**	**-**	-	(5,554)
IDB Pension Fund	**2,758**	**-**	3,908	-
IDB Medical Fund	**-**	**(150)**	-	(4)
Al-Aqsa Fund	**23**	**-**	5	-
Al Quds Fund	**-**	**-**	995	-
ICD	**230**	**-**	12,789	-
Arab Bank for Economic Development in Africa	**38**	**-**	38	-
ITFC	**2,922**	**-**	-	(33,283)
Fael Khair Program	**30**	**-**	17,302	-
ISFD	**6,143**	**-**	88	-
Sacrificial Meat Project	**3,325**	**-**	3,319	-
GCC Program for Reconstruction of Gaza	**9**		-	(14)
Kafala Program	**-**	**-**	-	(1)
ICD – Receivable under Wakala agreement (Note 28 (a))	**-**	**-**	32,760	-
ITFC – Receivable under Wakala agreement (Note 28 (a))	**-**	**-**	72,073	-
Waqf – Payable under Wakala agreement (Note 28 (a))	**-**	**-**	-	(54,198)
Total	**25,777**	**(3,199)**	178,964	(94,424)

The Bank provides management services to associate entities.

Other than the overall development activity transactions, which are entered into with Member Countries, the following significant related party transaction was entered into by the Bank:

(a) According to the Bank's Board of Executive Directors' resolution number BED/27/12/428(249)/157, dated 27 Dhul Hijjah 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 Awwal 1429H (18 March 2008).

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

28. Related party balances (continued)

(b) 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:

	1434H	1433H
Salaries and other short-term benefits	**1,584**	1,536
Accumulated post-employment benefits	**1,220**	1,056

29. Net assets in foreign currencies

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

	1434H	1433H
United States Dollar	**783,994**	643,454
Euro	**657,438**	653,994
Pound Sterling	**203,772**	186,095
Japanese Yen	**127,739**	121,618

30. Assets and liabilities according to their respective maturity periods or expected periods to cash conversion

1434H	**Total**	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 years**	**1 to 5 years**	**Over 5 years**	**Maturity period not determined**
Assets								
Cash and cash equivalents	210,458	210,458	-	-	-	-	-	-
Commodity placements through banks	2,468,335	339,604	477,722	296,724	1,354,285	-	-	-
Investments in Sukuk	595,450	16,321	323	8,794	35,832	326,500	207,680	-
Murabaha financing	233,450	33,368	18,155	178,055	3,872	-	-	-
Accrued income and other assets	297,499	173,564	42,645	64,342	710	6,327	9,912	
Istisna'a assets	3,181,353	60,926	26,442	25,144	76,618	586,922	2,405,301	-
Instalment financing receivables	1,174,984	4,129	26,905	19,587	47,475	315,748	761,140	-
Loans	1,709,374	6	71,855	198	66,573	494,756	1,075,986	-
Ijarah Muntahia Bittamleek	2,069,506	6,517	18,742	24,847	46,034	356,680	1,616,685	-
Investments in equity capital	713,064	-	-	-	-	-	-	713,064
Investments in associates	602,178	-	-	-	-	-	-	602,178
Other investments	112,874	-	-	-	-	-	-	112,874
Fixed assets	57,262	-	-	-	-	14,141	43,121	-
Total assets	**13,425,787**	**844,893**	**682,789**	**617,691**	**1,631,399**	**2,101,074**	**6,119,825**	**1,428,116**
Liabilities								
Sukuk liability	4,205,004	-	-	20,611	554,921	3,303,113	326,359	-
Commodity purchase liabilities	1,560,211	345,357	-	-	-	1,214,854	-	-
Accruals and other liabilities	406,894	55,642	6,472	25,175	30,704	185,220	103,681	-
Total liabilities	**6,172,109**	**400,999**	**6,472**	**45,786**	**585,625**	**4,703,187**	**430,040**	**-**

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

30. Assets and liabilities according to their respective maturity periods or expected periods to cash conversion (continued)

1433H	Total	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 years	1 to 5 years	Over 5 years	**Maturity period not determined**
Assets								
Cash and cash equivalents	469,972	469,972	-	-	-	-	-	-
Commodity placements through banks	1,357,530	-	732,717	275,995	348,818	-		-
Investments in Sukuk	388,549	13,190	-	-	5,056	325,624	44,679	-
Murabaha financing	214,438	55,586	38,107	25,779	86,122	8,844	-	-
Accrued income and other assets	480,775	152,441	102,264	73,790	29,142	116,200	6,938	-
Istisna'a assets	2,538,153	20,177	26,188	17,765	64,130	483,416	1,926,477	-
Instalment financing receivables	1,026,479	7,431	30,505	18,551	54,299	338,462	577,231	-
Loans	1,659,954	-	38,227	174	44,678	331,357	1,245,518	-
Ijarah Muntahia Bittamleek	1,864,050	5,786	39,697	27,124	69,501	368,639	1,353,303	-
Investments in equity capital	717,065	-	-	-	-	-		717,065
Investments in associates	560,680	-	-	-	-	-		560,680
Other investments	110,915	-	-	-	-	70,658		40,257
Fixed assets	58,102	-	-	-	-	11,265	46,837	-
Total assets	11,446,662	724,583	1,007,705	439,178	701,746	2,054,465	5,200,983	1,318,002
Liabilities								
Sukuk Liability	3,101,322	-	-	-	64,163	2,709,359	327,800	-
Commodity purchase liabilities	893,219	100,058	379,795	309,139	104,227	-	-	-
Accruals and other liabilities	439,305	86,025	15,681	50,824	28,902	180,243	77,630	-
Total liabilities	4,433,846	186,083	395,476	359,963	197,292	2,889,602	405,430	-

31. Concentration of assets

Analysis of assets by economic sectors is as follows:

	Public utilities	**Transport and telecom**	**Agriculture**	**Industry and mining**	**Social services**	**Others**	**Total**
1434H							
Total assets	**4,304,254**	**2,151,721**	**190,535**	**415,378**	**607,398**	**5,756,501**	**13,425,787**
1433H							
Total assets	3,866,886	1,905,892	142,554	565,634	592,297	4,373,399	11,446,662

The geographical locations of assets are as follows:

	Member Countries			**Non-Member Countries**	**Total**
	Asia	**Africa**	**Europe**		
1434H					
Total assets	**9,410,971**	**3,436,762**	**213,458**	**364,596**	**13,425,787**
1433H					
Total assets	7,626,995	3,279,174	256,453	284,040	**11,446,662**

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

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

32. Prior period adjustments

The Bank in 1434H applied the equity method of accounting to reflect the results of investee companies in which it exercises significant influence, including ICD, ITFC, and APIF which were presented in prior years as subsidiaries of the Bank.

The Bank, prior to 1434H, accounted for these equity investments on a cost basis in its standalone financial statements, which was complimented by a policy of preparing consolidated financial statements of the Bank.

During 1434H the management has determined that assertions of control applied in determining control over these entities (ICD, ITFC and APIF) in prior years were not consistent with the Financial Accounting Standards issued by AAOIFI. Further, Article 17 of the Articles of Agreement of the Bank (related to equity participation in an enterprise), among other, specifies that the Bank shall not acquire majority or controlling interest in an enterprise except when necessary to protect the Bank's interest and shall not assume responsibility for managing any entity in which it has invested except to safeguard its investment. Accordingly, the Bank's strategic objective was to play a catalytic rather than controlling role in investee companies reflected as subsidiaries in prior years.

As a consequence of above, the financial statements for the year ended 30th Dhul Hijjah 1433H and as at the beginning of 1433H have been restated to account for the correction for the impact on the balance of investments in associates and subsidiaries and certain other amounts/balances. The Bank has, therefore, increased the opening balances of reserves and investments in associates balance at the beginning of 1433H by the amount of the adjustment relating to years prior to 1433H.

Effect on years prior to 1433H	
Increase in investments in associates at beginning of 1433H	37,986
Increase in opening balance of reserves at beginning of 1433H	37,986
Effect on 1433H	
Increase in share of income in associates	14,448
Increase in reserves	5,261
Increase in the investments in associates	19,709

The restatements made are reflected as follows:

	Amounts as previously reported	**Restatement amounts**	**Restated amounts**
At beginning of 1433H			
Investments in subsidiaries and trust funds	413,699	(413,699)	-
Investments in associates	51,475	451,685	503,160
General reserve	1,769,766	68,396	1,838,162
Fair value and other reserve	377,116	(30,410)	346,706
As of and for the year ended 29 Dhul Hijjah 1433H			
Investments in subsidiaries and trust funds	446,572	(446,572)	-
Investments in associates	54,838	505,842	560,680
General reserve	1,788,769	69,739	1,858,508
Fair value and other reserve	460,314	(26,492)	433,822
Share of income in associates	-	14,928	14,928
Dividend income	480	(480)	-
Reversal of impairment provision	(1,575)	1,575	-
Net income	114,224	16,023	130,247

33. Risk management

The Bank, as a development financial institution, assumes business risks from its lending and investing operations and seeks to minimize other risks (market risk, counterparty risk and operational risk). The degree of risk the Bank is willing to assume in pursuing its development mandate is limited by its risk-bearing capacity, risk tolerance and commitment to maintain a prudent risk profile consistent with its 'AAA' credit rating.

The Bank has a fully independent Group Risk Management function ("GRM") that is responsible for identification, assessment, mitigating and reporting on all risks in the Bank's activities. The Bank has also established a Group Risk Management Committee to ensure that there is appropriate monitoring and oversight on all major risks arising from financing and investment operations through reviewing risk management frameworks, policies, guidelines and risk reports.

a) Credit Risk

Credit risk is the risk that an obligor (i.e. sovereign, financial institution, corporate, etc.) may fail to discharge its contractual obligation resulting in financial loss to the Bank.

The Bank's exposure to credit risk arises mainly from its financing and investment operations. 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 subject to credit risk, principally relate to financing operations under Murabaha, loans, Istisna'a, Instalment sale, Ijarah Muntahia Bittamleek and other investments which are largely covered by sovereign guarantees, commercial bank guarantees and other securities acceptable to the Bank.

The Bank also enjoys 'Preferred Creditor Treatment' from its Member Countries which affords strong protection against credit losses as the Bank has priority over other creditors in the event of a sovereign default. This is evidenced by the very low level of overdues and write-offs and management is of the opinion that significant credit losses, beyond what has already been provided for, is unlikely to occur.

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

The Bank has put in place a comprehensive credit risk management framework including policies and guidelines on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by GRM which ensures that business departments comply with relevant guidelines and prudential limits established by the Board of Executive Directors ("BED") and Management.

Country risk is assessed and monitored in accordance with established guidelines and internal rating models that take into consideration macro-economic indicators and other quantitative and qualitative factors. 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). Financing operations to other obligors including projects, corporates and financial institutions are subject to rigorous due diligence based on credit risk assessment frameworks and internal rating models including independent risk review by GRM.

The Bank also has an exposure management framework covering country limits as well as limits for each obligor and group of connected obligors. Moreover, portfolio concentration limits relating to single country and single obligor are in place to maintain appropriate diversification.

While extending financing to beneficiaries in its Member Countries (MCs), the Bank safeguards its interests by obtaining adequate guarantees and securities to ensure that beneficiaries and guarantors are able to meet their contractual obligations to the Bank.

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

33. Risk management (continued)

(i) Concentration Risk: Top-10 Gross Outstanding Financing Exposure

The table below reflects the ten largest country gross exposures for financed operations (excluding equity and profit sharing) as of the end of years 1434H and 1433H:

	1434H			1433H	
Country	**Amount**	**% (of total exposure)**	Country	Amount	% (of total exposure)
Morocco	**780,949**	**9.2%**	Morocco	738,011	9.9%
Pakistan	**657,466**	**7.7%**	Iran	559,800	7.5%
Iran	**549,865**	**6.4%**	Pakistan	450,708	6.1%
Tunisia	**419,534**	**4.9%**	Indonesia	356,687	4.8%
Azerbaijan	**370,812**	**4.4%**	Tunisia	341,460	4.6%
Total Top 5	**2,778,626**	**32.6%**	Total Top 5	2,446,666	32.9%
Bahrain	**369,341**	**4.3%**	Azerbaijan	337,986	4.5%
Indonesia	**363,984**	**4.3%**	Saudi Arabia	313,203	4.2%
Turkey	**351,372**	**4.1%**	Bahrain	301,656	4.1%
Saudi Arabia	**295,657**	**3.5%**	Sudan	251,157	3.4%
Sudan	**278,152**	**3.2%**	Syria	244,615	3.3%
Total Top 10	**4,437,132**	**52.0%**	Total Top 10	3,895,283	52.4%
Total All MCs	**8,526,515**	**100%**	Total All MCs	7,440,194	100%

(ii) Concentration Risk: Geographical concentration of financed operations

The Bank carries on business mainly with countries in Asia including Middle East and Africa. To minimize concentration risk, the Bank diversifies its exposure across countries and regions. The following table reflects the geographical distribution of gross financed operations exposures:

Geographical Area	**1434H**	1433H
Middle East	**46.8%**	47.9%
Asia and others	**31.6%**	29.9%
Africa	**21.6%**	22.2%
	100%	100%

(iii) Credit quality of financed operations

The table below provides analysis of the credit quality of country exposures related to gross financed operations (excluding equity and profit sharing) as of the end of years 1434H and 1433H:

	1434H		1433H	
Credit Risk Category	**Amount**	**%**	Amount	%
Category "A"	**482,353**	**5.6%**	466,948	6.3%
Category "B"	**2,635,283**	**30.9%**	2,706,685	36.4%
Category "C"	**1,483,373**	**17.4%**	1,523,547	20.5%
Category "D"	**2,309,202**	**27.1%**	784,004	10.5%
Category "E"	**928,213**	**10.9%**	1,456,185	19.6%
Category "F"	**101,540**	**1.2%**	432,824	5.8%
Category "G"	**586,551**	**6.9%**	70,001	0.9%
Total	**8,526,515**	**100%**	7,440,194	100%

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

33. Risk management (continued)

(iv) Financed operations by type of exposure

Gross financed operations by type of exposure are as follows:

	Sovereign	Non-Sovereign	Total
1434H			
Ijarah Muntahia Bittamleek	**1,177,300**	**928,761**	**2,106,061**
Istisna'a assets	**3,035,264**	**151,256**	**3,186,521**
Instalment financing receivables	**1,120,659**	**58,438**	**1,179,097**
Loans	**1,775,035**	**-**	**1,775,035**
Murabaha financing	**180,417**	**99,384**	**279,801**
Total	**7,288,675**	**1,237,838**	**8,526,515**
As percentage of total	**85.5%**	**14.5%**	**100%**
1433H			
Ijarah Muntahia Bittamleek	1,038,472	853,312	1,891,784
Istisna'a assets	2,413,553	127,148	2,540,701
Instalment financing receivables	997,786	32,086	1,029,872
Loans	1,716,353	-	1,716,353
Murabaha financing	178,744	82,740	261,484
Total	6,344,908	1,095,286	7,440,194
As percentage of total	85.3%	14.7%	100%

Sovereign exposure comprises sovereign and sovereign-guaranteed operations while non-sovereign exposure comprises mainly public-private partnership projects and operations guaranteed by financial institutions.

b) Counterparty risks

The Bank assumes counterparty risk while dealing with financial institutions for placement of liquid funds and other exposures. The credit quality of the liquid fund portfolio, based on internal rating models, as of the year end, is as follows:

	1434H		1433H	
Credit Risk Category	**Amount**	**%**	Amount	%
Category "A"	**-**	**-**	-	-
Category "B"	**561,065**	**20.9%**	248,700	13.6%
Category "C"	**1,301,287**	**48.5%**	1,136,173	62.0%
Category "D"	**612,855**	**22.8%**	105,612	5.8%
Category "E"	**123,928**	**4.6%**	335,183	18.3%
Category "F"	**79,350**	**3.0%**	-	-
Category "G"	**4,451**	**0.2%**	5,977	0.3%
Total	**2,682,936**	**100%**	1,831,645	100%

c) Market risks

The Bank 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. 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 currency translation risk. The Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. The treasury and operational investment portfolios are held in major currencies and the Bank has a conservative policy of match-funding its financed operations. The Bank monitors/adjusts the currency composition of the net assets by currency and regularly aligns it with the composition of the Islamic Dinar basket; namely US Dollar, Sterling Pound, Euro and Japanese Yen (also see Note 29 for distribution of net assets by currencies).

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

33. Risk management (continued)

ii) Mark-up risk

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

The effective mark-up rate for the various operational financial assets and financial liabilities are as follow:

	1434H	1433H
Commodity placements	**0.9%**	1.3%
Sukuk investments (coupon)	**3.8%**	3.7%
Murabaha financing	**3.7%**	3.8%
Istisna'a assets	**4.3%**	4.4%
Instalment sales	**4.2%**	4.0%
Ijarah Muntahia-Bittamleek	**3.0%**	2.8%
Sukuk liability	**1.7%**	2.1%

The Bank uses Shari'ah-approved Murabaha based profit rate and cross-currency profit rate swaps instruments for asset/liability management, cost reduction and risk management. These instruments 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).

iii) Equity price risk

The Bank's equity investments are held for strategic rather than trading purposes and are not actively traded. While the Bank has exposure to equity price risk, net income would remain unaffected if equity prices changed during the year as equity investments are classified as available-for-sale (with gains/losses accounted for through the equity fair value reserve). In addition, adequate provisions have been made for equity investments which are considered impaired.

d) 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, commodity placements, Sukuk investments and Murabaha financing with short-term maturity. The liquidity profile of the Bank's assets and liabilities has been presented in Note 30.

e) Fair values of financial assets and liabilities

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

33. Risk management (continued)

The following table presents the group's assets and liabilities that are measured at fair value at 29 Dhul Hijjah:

	Level 1	Level 2	Level 3	Total
1434H				
Assets				
Financial assets at fair value through profit or loss:				
- Debt type investments	**-**	**660,894**	**-**	**660,894**
- Murabaha based profit rate and cross currency profit rate swaps	**-**	**29,874**	**-**	**29,874**
Available for sale financial assets:				
- Equity type investments	**607,340**	**47,430**	**-**	**654,770**
Total assets	**607,340**	**738,198**	**-**	**1,345,538**
Liabilities				
Financial liabilities at fair value through profit or loss:				
- Murabaha based profit rate and cross currency profit rate swaps	**-**	**18,950**	**-**	**-**
Total liabilities	**-**	**18,950**	**-**	**18,950**
1433H				
Assets				
Financial assets at fair value through profit or loss:				
- Debt type investments	-	463,646	-	463,646
- Murabaha based profit rate and cross currency profit rate swaps	-	37,691	-	37,691
Available for sale financial assets:				
- Equity type investments	652,884	35,818	-	688,702
Total assets	652,884	537,155	-	1,190,039
Liabilities				
Financial liabilities at fair value through profit or loss:				
- Murabaha based profit rate and cross currency profit rate swaps	-	31,432	-	31,432
Total liabilities	-	31,432	-	31,432

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. Unlisted equity investments are stated at cost less impairment as their fair values cannot be reliably determined. The unlisted equity investments in 1434H amount to ID 173.4 million (1433H: ID 142.4 million). Fair value of listed equity investments are measured based on market quotes. Fair value of investments in Sukuk and Murabaha based profit rate and cross currency profit rate swaps are measured based on inputs other than quoted prices that are observable.

34. Segment information

The chief operating decision maker is 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 sectorial and geographical distribution of the Bank's assets is set out in Note 31 and Note 33.

35. Approval of Financial Statements

The financial statements were authorized by the Resolution of the Board of Executive Directors on 20 Jamad Thani 1435H (April 20, 2014) for submission to the Board of Governors 39th Annual Meeting.

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

FINANCIAL STATEMENTS
29 Dhul Hijjah 1434H (3 November 2013)
with
INDEPENDENT JOINT AUDITORS' REPORT

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND

29 Dhul Hijjah 1434H (3 November 2013)

CONTENTS

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INDEPENDENT JOINT AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank
Jeddah
Kingdom of Saudi Arabia

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 1434H (3 November 2013) and the related statements of activities, changes in net assets and cash flows for the year then ended and the attached notes from 1 to 32 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 (AAOIFI) 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 issued by the AAOIFI 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.

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 29 Dhul Hijjah 1434H (3 November 2013), and the results of its activities, changes in net assets and cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Fund.

PricewaterhouseCoopers

PRICE WATER HOUSE COOPERS
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LICENSE NO. 25

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KPMG Al Fozan & Al Sadhan
C.R 46

16 Rajab 1435H
15 May 2014
Jeddah

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND

STATEMENT OF FINANCIAL POSITION
As of 29 Dhul Hijjah 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	**1434H**	1433H Restated
Assets			
Cash and cash equivalents	4	**93,236**	29,716
Commodity placements through banks	5	**104,077**	384,104
Investment in syndicated Murabaha	6	**15,148**	-
Due from related parties	7	**77,804**	67,644
Investments in units	8	**7,308**	78,410
Investments in Sukuk	9	**50,254**	73,156
Investments in equity capital	10	**16,868**	19,324
Investments in associates	11	**96,248**	95,270
Instalment financing receivables	12	**-**	1,417
Investments in syndicated Ijarah	13	**19,143**	18,665
Qurood	14	**181,322**	167,022
Accrued income and other assets		**5,917**	7,236
Other investments	15	**146,779**	164,464
Fixed assets	17	**25,713**	26,581
Total assets		**839,817**	1,133,009
Liabilities			
Commodity purchase liabilities	18	**-**	269,949
Due to related parties	7	**9,532**	31,713
Accruals and other liabilities	19	**4,714**	3,418
Total liabilities		**14,246**	305,080
Net assets		**825,571**	827,929
Represented by:			
Waqf Fund principal amount		**769,410**	765,123
Special assistance		**(96,115)**	(83,754)
Special account for Least Developed Member Countries (LDMC)		**152,276**	146,560
		825,571	827,929

The accompanying notes from 1 through 32 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 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

		1434H				
	Notes	**Waqf Fund principal amount**	**Special assistance**	**Special account for LDMC**	**Total**	1433H Total Restated
Statement of activities						
Income from:						
Commodity placements through banks					**1,605**	6,310
Investments in syndicated Murabaha					**243**	224
Investments in units					**7,802**	2,656
Investments in Sukuk					**1,306**	9,420
Instalment financing receivable					**15**	319
Other investments					**5,573**	11,685
Investment in associates					**1,239**	(3,196)
Other income					**1,964**	1,895
					19,747	29,313
Foreign currency exchange gains					**1,269**	3,771
Financing costs					**(563)**	(4,418)
					20,453	28,666
Provision for impairment of financial assets	16				**(1,542)**	(13,859)
Attributable net income					**18,911**	14,807
Income attributable to Special Assistance		-	1,964	-	-	-
Allocation of attributable net income	21	2,542	11,016	3,389	-	-
Share of income transferred from IDB-OCR	22	21	89	28	**138**	312
Contributions from IDB-OCR for technical assistance grants and scholarship program	23	-	11,029	-	**11,029**	7,713
Income before grants and program expenses		**2,563**	**24,098**	**3,417**	**30,078**	22,832
Grants for causes	20	-	(32,361)	-	**(32,361)**	(31,497)
Program expenses	20	-	(11,569)	-	**(11,569)**	(11,787)
Net deficit for the year		**2,563**	**(19,832)**	**3,417**	**(13,852)**	(20,452)
Statement of changes in net assets						
Net assets/(liabilities) at the beginning of the year, as previously reported		763,291	(91,691)	144,118	**815,718**	846,405
Prior period adjustments	29	1,832	7,937	2,442	**12,211**	19,108
Net assets/(liabilities) at the beginning of the year, as restated		765,123	(83,754)	146,560	**827,929**	865,513
Net surplus (deficit) for the year		2,563	(19,832)	3,417	**(13,852)**	(20,452)
Fair value and other reserves		1,724	7,471	2,299	**11,494**	(3,622)
Movement in general reserve	9	-	-	-	**-**	(13,510)
Net assets/(liabilities) at the end of the year		**769,410**	**(96,115)**	**152,276**	**825,571**	827,929

The attached notes from 1 through 32 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 1434H (3 November 2013)
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Note	1434H	1433H Restated
Cash flows from operations:			
Net deficit for the year		**(13,852)**	(20,452)
Adjustments to reconcile net deficit to net cash used in operating activities:			
Depreciation	17	**1,150**	903
Provision for impairment	16	**1,542**	13,859
Share of (income) / loss in associates, net	11	**(1,239)**	3,196
Investments fair value losses	9	**1,928**	765
Gain on sale of units		**(5,421)**	-
Gain on sale of investment in equity capital		**(1,690)**	-
Foreign exchange loss / (gain)		**6,106**	(6,385)
Change in operating assets and liabilities:			
Investments in syndicated Murabaha		**(15,148)**	221
Instalment financing receivables		**1,417**	363
Istisna'a assets		**-**	756
Qurood		**(14,300)**	(10,302)
Accrued income and other assets		**1,319**	1,287
Due from related parties		**(10,160)**	35,599
Due to related parties		**(22,181)**	9,384
Accruals and other liabilities		**1,296**	(3,332)
Net cash (used in) / provided by operations		**(69,233)**	25,862
Cash flows from investing activities:			
Commodity placements through banks		**280,027**	30,951
Investments in associates	11	**-**	(13,019)
Additions to investments in equity capital	10	**(8,423)**	-
Disposal of equity investment	10	**14,183**	-
Disposal of investments in units		**76,523**	-
Investments in Sukuk	9	**(3,594)**	(16,131)
Redemption of Sukuk	9	**24,091**	18,139
Additions to other investments	15	**(17,439)**	(4,683)
Disposal of other investments	15	**37,616**	33,642
Specific deposit from IDB – Unit Investment Fund		**-**	(9,505)
Additions to fixed assets	17	**(282)**	(3,497)
Net cash provided by investing activities		**402,702**	35,897
Cash flows from financing activities:			
Commodity purchase liabilities		**(269,949)**	(91,347)
Net cash used in financing activities		**(269,949)**	(91,347)
Net change in cash and cash equivalents		**63,520**	(29,588)
Cash and cash equivalents at the beginning of the year		**29,716**	59,304
Cash and cash equivalents at the end of the year	4	**93,236**	29,716

The attached notes from 1 through 32 form an integral part of these financial statements.

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 Fund's investments in the international market shall be transferred to the principal amount of the Fund until it reaches one billion Islamic dinars. At such time, the Board of Governors shall, upon recommendation of the Board of Trustees, determine the purpose for which the amounts in excess of one billion Islamic Dinars shall be used. Such percentage will be reviewed each year on the basis of annual income earned for that year (see Note 21).

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 the 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 28).

The Bank, its affiliates and trust funds share the common objectives of mobilising financial resources in conformity with the Shari'ah, for the purposes of project financing, promotion of trade among Member Countries and providing technical assistance.

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

The Fund of the Bank which is a multilateral development bank is not subject to any local or foreign external regulatory authority and is not supervised by any external regulatory authority. The Fund is managed in accordance with its regulations by the Bank. The regulations provide that the Bank's Board of Executive Directors shall be the Board of Trustees of the Fund. It is also supervised by the Bank's Board of Governors (Board of Governors). Moreover, in each Member Country the Fund has been granted an exemption from all taxes and tariffs on assets, property or income, and from any liability involving payment, withholding or collection of any taxes.

The Fund is required to carry out its activities in accordance with the principles of Shari'ah. The fundamental principle underlying the Shari'ah approach to financial matters is that to earn a profit it is always necessary to take a risk. In practice, Shari'ah means that all Islamic finance is asset based.

1. INCORPORATION AND ACTIVITIES (continued)

The principles of Shari'ah are regularly clarified by the Islamic Fiqh Academy (the Fiqh Academy), an institution established by the Organization of the Islamic Cooperation (the OIC) to interpret and develop Islamic jurisprudence. The Bank's has established its own Shari'ah committee to give its opinion on matters across the Bank's members on which the Fiqh Academy has not yet made any pronouncement.

The principal office of the Fund is located at King Khalid Street, P.O. Box 5925, Jeddah-21432 in the Kingdom of Saudi Arabia.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements of the Fund 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 Fund follows the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

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

- investments in equity capital and other investments are measured at fair value through changes in net assets; and
- Investments in Sukuk which are measured at fair value through income statement (statement of activities).

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 judgment is as follows:

Provision for impairment of financial assets:

The Fund exercises judgement in the estimation of provision for impairment of financial assets. The methodology for the estimation of the provision is set out in note 2(o).

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"). With effect from 1 January 2011, the IMF has assigned the following weights to the four component currencies of the SDR: U.S. Dollar (41.9 percent), Euro (37.4 percent), Japanese Yen (9.4 percent) and British Pound Sterling (11.3 percent).

(ii) Transactions and balances

Foreign currency transactions are translated into Islamic Dinars 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 capital which are taken to fair value reserve account under the statement of 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 and subsequently measured at cost less any provision for impairment.

f) Investment in syndicated Murabaha

The amounts receivable from Investment in syndicated Murabaha are stated at the selling price less unearned income 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 capital and other assets

i) Equity-type instruments

Investments in units, equity and other assets are equity-type instruments and 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 or losses arising from the change in their fair value are recognized in 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, equity capital, 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.

ii) Debt-type instruments

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

h) Investment in associates

Associates are entities over which the Fund has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost (including transaction costs directly related to acquisition of investment in associate). The Fund's investment in associates includes goodwill (net of any accumulated impairment loss), if any, identified on acquisition. The Fund's share of its associates' post-acquisition profits or losses is recognized in the statement of income; its share of post-acquisition movements in reserve is recognized in the statement of changes in net assets.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Fund's share of losses equals or exceeds its interest in the investment, including any other unsecured receivables, the Fund does not recognize further losses, unless it has incurred obligations or made payments on behalf of these investments. The Fund determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case the Fund calculates the amount of impairment as being the difference between the fair value of the investment and the carrying value and recognizes the amount in the statement of activities.

The Fund's share of the results of these investments are based on financial statements available up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform to the accounting policies of the Fund. The accounting policies of investments have been changed where necessary to ensure consistency with policies adopted by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investments in Sukuk

Debt-type instruments

Investments in Sukuk are classified as investments at fair value through income statement (statement of activities). These investments are in itially 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. Transaction costs are expensed on the date the contract is entered into.

j) Investments in syndicated Ijarah

Investment in syndicated Ijarah is measured at cost less provision for any impairment in the value of such investments. These are investments managed by third parties or Bank's related parties in which the Fund has participated.

k) Qurood

Qurood is stated when cash is disbursed to the borrowers. Amounts receivable from Qurood represent amounts disbursed in respect of projects plus the Qurood service fees due, less repayments received relating to the outstanding capital portion and service fees of the Qurood as determined according to the Qurood agreements and provision for impairment.

l) 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.

Assets are depreciated using the straight-line method over their estimated useful lives as follows:

	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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) 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.

Investments in syndicated Murabaha
Income from investments in syndicated Murabaha 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. For income recognized due to the re-measurement of Sukuk at fair values, please see note 2(i).

Investments in syndicated Ijarah
Income from investments in syndicated Ijarah are allocated proportionately in the financial periods over the term of the investments.

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

Dividend income
Dividend income from investment in units, equity capital and other investments is recognized when the right to receive the payment is established.

n) Commodity purchase liabilities and sale agreements

The Bank on behalf of the Fund enters into commodity purchase liabilities 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 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)

o) 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 financial position date to determine whether there is evidence that a financial asset or a 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 statement of financial position 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 statement of financial position 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 statement of activities. 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.

Equity-type investments

An assessment is made at each statement of financial position date to determine whether there is objective evidence that an investment in equity-type instruments may be impaired. In case of investments carried at fair value through equity, a significant or prolonged decline in fair value of the investment below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the investment in equity previously recognised in the statement of changes in net assets is removed from statement of changes in net assets and recognised in the statement of activities. Impairment losses on equity investments previously recognised in the statement of activities are not subsequently reversed through the statement of activities.

Other financial assets

An assessment is made at each statement of 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 recognized in the statement of activities. Subsequent recoveries of amounts previously written-off are credited to the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) 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.

q) Zakat and tax

Since the Fund's resources are part of Bait-ul- Mal (public money), the Fund is not subject to zakat or tax.

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

The Committee has the following functions:

i. to consider all transactions and products introduced by the Bank, its affiliates and trust funds 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, its affiliates and trust funds 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, its affiliates and trust funds 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, its affiliates and trust funds;

iv. to contribute to the Bank, its affiliates and trust funds 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/Trustees of the Bank, its affiliates and trust funds a comprehensive report showing the measure of the Bank, its affiliates and trust funds commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed.

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

4. CASH AND CASH EQUIVALENTS

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

	1434H	1433H
Cash in hand	**84**	38
Cash at banks	**20,503**	16,303
Commodity placements through banks (Note 5)	**72,649**	13,375
Total	**93,236**	29,716

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

5. COMMODITY PLACEMENTS THROUGH BANKS

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

	1434H	1433H
Commodity placements through Islamic banks	**10,416**	26,842
Commodity placements through conventional banks	**166,310**	370,637
Total	**176,726**	397,479
Less: maturity of three months or less at the date of placement (Note 4)	**(72,649)**	(13,375)
Commodity placements through banks, net	**104,077**	384,104

6. INVESTMENT IN SYNDICATED MURABAHA

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

	1434H	1433H
Gross amounts receivable	**15,408**	**-**
Less: unearned income	**(260)**	-
Investment in Murabaha, net	**15,148**	**-**

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

7. RELATED PARTY TRANSACTIONS

The Fund is managed by the IDB and its transactions are done through the IDB and its related entities. Principal arrangements related to commodity placements, investment in syndicated Murabaha, investment in Sukuk, investment in equity capital, Qurood and investments in syndicated Ijarah are between IDB and its related entities and counter parties. The Fund participates in such arrangements with IDB and its related entities. During the ordinary course of its business, the Fund has transactions with the Bank and its related entities relating to investments, realization of investments and other transactions made through the inter-fund accounts. The balances due to/from the Bank and other related entities as at the end of the year are as follows:

	1434H		1433H	
	Assets	**Liabilities**	Assets	Liabilities
Islamic Corporation for the Development of the Private Sector (ICD)	**65,420**	**-**	-	-
IDB – World Waqf Fund	**5,620**	**-**	4,411	-
IDB – Pension Fund	**3,264**	**-**	2	-
IDB – Fael Al Khair Fund	**3,211**	**-**	3,221	-
Awqaf Properties Investment Fund	**242**	**-**	330	-
Kafala Program	**46**	**-**	68	-
Sacrificial Meat Project	**-**	**-**	5,303	-
IDB – Ordinary Capital Resources (OCR) – Receivable under Wakala agreement (Note 7(a))	**-**	**-**	54,198	-
Islamic Solidarity Fund for Development	**-**	**-**	54	-
IDB – Al Quds Fund	**-**	**-**	-	-
International Islamic Trade Finance Corporation	**-**	**-**	57	-
Ordinary Capital Resources	-	**(5,507)**	-	(29,318)
IDB – Special Assistance Fund	-	**(4,015)**	-	(1,634)
Islamic Corporation for Insurance of Investment and Export Credit (ICIEC)	-	**(10)**	-	-
IDB – Pension Plan	-	**-**	-	(288)
IDB – Medical Plan	-	**-**	-	(409)
IDB – Al Aqsa Fund	1	**-**	-	(64)
Total	**77,804**	**(9,532)**	**67,644**	**(31,713)**

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

7. RELATED PARTY TRANSACTIONS (continued)

The Fund has entered into the following significant related party transactions:

a) During the year ended 29 Dhul Hijjah 1433, the Fund entered into two Wakala agreements with OCR. The OCR borrowed an amount of Euro 65 million from the Fund. The OCR has paid Muwakkil profit of 0.04% and 0.1% respectively to the Fund. These transactions has matured on 16 Muharram 1434 (30 November 2012) and 26 Rabiul'awwal 1434 (7 February 2013), respectively.

b) 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 the related depreciation was split according to the following proportions:

IDB – Ordinary Capital Resources	65%
The Fund	35%

8. INVESTMENTS 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 Bourse. During the year ended 29 Dhul Hijjah 1434H, the fund has sold 108,922,425 UIF units to Islamic Corporation for the Development of the Private Sector ("ICD") for USD 118.5 million (ID 77.36 million) and has retained 10,919,320 units.

9. INVESTMENTS IN SUKUK

Investments in Sukuk represent a portion in the Sukuk issued by various governments, financial institutions and certain other entities, as allocated by IDB to the fund.

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

	1434H	1433H
Government	**25,479**	30,880
Financial Institutions	**4,706**	21,864
Other entities	**20,069**	20,412
	50,254	73,156

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

9. INVESTMENTS IN SUKUK (continued)

The movement in investments in Sukuk is summarized as follows:

	1434H	1433H
Balance at the beginning of the year	**73,156**	87,831
Additions during the year	**3,594**	16,131
Sales/redemptions during the year	**(24,091)**	(18,139)
Transfer to other funds	**-**	(13,510)
Unrealized fair value losses	**(1,928)**	(765)
Exchange revaluation (losses) / gains	**(477)**	1,608
Balance at the end of the year	**50,254**	73,156

During the year 1433H, the Fund transferred Sukuk amounting to ID 13.51 million to World Waqf Foundation.

The details of income from investments in Sukuk is as follows:

	1434H	1433H
Coupon income	**2,438**	6,595
Realized gains	**796**	3,590
Unrealized fair value losses	**(1,928)**	(765)
Total	**1,306**	9,420

The details of the investment in Sukuk by the credit ratings of the issuers are as follows:

Rating	**A**	**A-**	**BBB**	**BBB-**	**Unrated**	**Total**
1434H	**4,679**	**2,929**	**1,362**	**5,411**	**35,873**	**50,254**
1433H	4,762	2,964	1,398	5,766	58,266	73,156

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

10. INVESTMENTS IN EQUITY CAPITAL

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 comprised of the following:

	1434H	1433H
Equity investments:		
- Listed	**6,961**	15,435
- Unlisted	**11,830**	5,812
	18,791	21,247
Provision for impairment	**(1,923)**	(1,923)
	16,868	19,324

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

	1434H	1433H
Balance at the beginning of the year	**19,324**	19,324
Additions during the year	**8,423**	-
Sales during the year	**(12,493)**	-
Unrealized fair value gains	**1,614**	-
	16,868	19,324

The Fund intends to hold these investments for the long-term as strategic investments and exit from such investments would be made within the overall context of the Fund’s developmental activities.

11. INVESTMENTS IN ASSOCIATES

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

	1434H	1433H (Restated)
Opening balance	**95,270**	89,147
Additions during the year	**-**	13,019
Share of results	**2,421**	1,853
Loss on dilution	**(1,182)**	(5,049)
Dividend	**-**	(437)
Foreign exchange and other reserves	**1,074**	(3,263)
	97,583	95,270
Less: provision for impairment	**(1,335)**	-
Investment in associates, net	**96,248**	95,270

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

11. INVESTMENTS IN ASSOCIATES (continued)

Name of the Company	Country of Incorporation	Company's Activities	Ownership % 1434H	1433H
Caspian International Investment Company (CIIC)	Azerbaijan	Investment Company	27	27
Islamic Bank of Niger (IBN)	Niger	Banking	38.5	38.5
ICIEC	Saudi Arabia	Insurance	45	50
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	99.98	99.98

Summarized financial information as of 29 Dhul Hijjah and for the year then ended is as follows:

Name of the Company	Total assets	Total liabilities	Total revenues	Net income or (loss)
1434H				
CIIC	**25,504**	**111**	**82**	**(274)**
IBN	**39,684**	**34,140**	**5,328**	**914**
ICIEC	**158,439**	**19,986**	**9,027**	**(829)**
BBIL	**36,858**	**12,520**	**6,173**	**2,518**
1433H				
CIIC	25,948	375	1,025	(281)
IBN	27,503	18,065	4,310	995
ICIEC	155,871	24,862	8,692	(413)
BBIL	35,100	15,302	4,354	1,751

None of the associates is listed on any stock exchange.

12. INSTALLMENT FINANCING RECEIVABLES

Installment financing receivable at the end of the years comprised of the following:

	1434H	1433H
Gross amounts receivable	**-**	1,522
Less: unearned income	**-**	(105)
	-	1,417

13. INVESTMENT IN SYNDICATED IJARAH

	1434H	1433H
Balance at the beginning of the year	**18,665**	18,539
Revaluation gain	**478**	126
Balance as at the end of the year	**19,143**	18,665

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

14. QUROOD

Qurood at the end of the years comprised of the following:

	1434H	1433H
Qurood	**188,758**	174,458
Less: provision for impairment	**(7,436)**	(7,436)
Qurood, net	**181,322**	167,022

15. OTHER INVESTMENTS

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

	Notes	**1434H**	1433H
Real estate, equity and other funds	15.1	**100,435**	118,345
Infrastructure Fund	15.2	**40,630**	42,325
Infrastructure and Growth Capital Fund (“IGCF”)	15.3	**19,780**	17,653
		160,845	178,323
Less: provision for impairment		**(14,066)**	(13,859)
Other investments, net		**146,779**	164,464

The movement in other investments is summarized as follows:

	1434H	1433H
Balance at the beginning of the year	**164,464**	202,552
Additions during the year	**17,439**	4,683
Sales/redemptions during the year	**(37,616)**	(33,642)
Unrealized fair value gains	**9,880**	(358)
Provision for impairment	**(207)**	(13,859)
Unrealized exchange revaluation (losses)/gains	**(7,181)**	5,088
Balance at the end of the year	**146,779**	164,464

15.1 Equity, real estate and other funds are equity-type investments managed by third party institutions in which the Fund has made specific investments as part of its management of liquidity.

15.2 Investment in the Infrastructure Fund is equity-type instrument and 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 seeks 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: 478.63 million) (1433H: USD 730.5 million, ID 478.63 million).

The Waqf Fund has committed USD 100 million (ID 65.52 million) (1433H: USD100 million, ID 65.52 million) of which USD 37.99 million (ID 24.80 million) was not paid up to 29 Dhul Hijjah 1434H (1433H: USD 64.59 million, ID 42.32 million). The investment is currently stated at cost, as fair value cannot be reliably measured.

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

15. OTHER INVESTMENTS (continued)

15.3 IGCF is equity-type instrument and is classified as investment at fair value through equity and represents investment made by the 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 22.9 million), out of which a net amount of USD 22.78 million (ID 14.8 million) has been disbursed.

16. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

	1434H	1433H
Balance at the beginning of the year	**23,218**	10,738
Provision for the year	**1,542**	13,859
Write-off during the year	**-**	(1,379)
Balance at end of the year	**24,760**	23,218

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

	1434H	1433H
Qurood	**7,436**	7,436
Investment in associates	**1,335**	-
Equity investments	**1,923**	1,923
Other investments	**14,066**	13,859
Balance at end of the year	**24,760**	23,218

17. FIXED ASSETS

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

	Buildings	**Furniture and equipment**	**Total**
1434H			
Cost			
At the beginning of the year	44,465	182	44,647
Additions	180	102	282
At the end of the year	44,645	284	44,929
Accumulated depreciation			
At the beginning of the year	17,967	99	18,066
Charge for the year	1,111	39	1,150
At the end of the year	19,078	138	19,216
Net book value			
29 Dhul Hijjah 1434H	**25,567**	**146**	**25,713**

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

17. FIXED ASSETS (continued)

1433H

Cost			
At the beginning of the year	41,042	108	41,150
Additions	3,423	74	3,497
At the end of the year	44,465	182	44,647
Accumulated depreciation			
At the beginning of the year	17,106	57	17,163
Charge for the year	861	42	903
At the end of the year	17,967	99	18,066
Net book value			
29 Dhul Hijjah 1433H	26,498	83	26,581

18. 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 majority commodity purchase and sale agreements matured in Sha'aban 1434H. The related finance cost for the year ended 29 Dhul Hijjah 1434H was ID 0.6 million (1433H: ID 4.4 million).

19. ACCRUALS AND OTHER LIABILITIES

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

	1434H	1433H
Accrued expenses	**4,714**	3,418

20. SPECIAL ASSISTANCE

On 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.

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

20. SPECIAL ASSISTANCE (continued)

The Bank created the Islamic Research and Training Institute ("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.

The following amounts were distributed as grants from the Fund during the years ended Dhul Hijjah 1434H and 1433H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives:

	1434H	1433H
Relief against disasters and calamities	**1,223**	499
Assistance for Islamic causes	**5,988**	7,772
Technical assistance grants	**15,328**	12,514
Technical cooperative program	**-**	651
Scholarship program	**9,822**	10,061
Total	**32,361**	31,497

The following amounts were incurred as program expenses from the Fund during the years ended end of Dhul Hijjah 1434H and 1433H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives.

	1434H	1433H
IRTI, Program share and others	**6,210**	6,040
Technical cooperation office	**956**	955
Special Assistance office	**2,287**	2,500
Sacrificial meat project	**1,082**	1,010
Scholarship Program	**1,034**	1,282
Total	**11,569**	11,787

21. ALLOCATION OF FUND INCOME

The Fund's regulations stipulate that the net income of the Fund for the year is allocated to the Fund's Resources as follows:

	1434H	1433H
Fund principal	**15%**	15%
Special Assistance	**65%**	65%
Special Account for Least Developed Member Countries ("LDMC")	**20%**	20%

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

22. 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:

	1434H	1433H
Fund principal amount	**21**	47
Special Assistance	**89**	203
Special Account for LDMC	**28**	62
Total	**138**	312

23. CONTRIBUTION FROM IDB-OCR FOR TECHNICAL ASSISTANCE GRANT AND SCHOLARSHIP PROGRAMS AND ISLAMIC TECHNICAL FINANCIAL ASSISTANCE

According to the Board of Governors’ resolution No. BG/2-432 dated 12 Rajab 1434H (22 May 2013) and the Board of Executive Directors’ resolution No. BED/BG/3-434, 5% but not less than USD 5 million of the IDB-OCR 1433H net income was allocated to finance Technical Assistance Operations in the form of grants during the year 1434H.This amounts to ID 5.9 million (1433: ID 5.5 million).

According to the Board of Governors' resolution No. BG/5-434 dated 12 Rajab 1434H (22 May 2013) and the Board of Executive Directors' resolution No. BED/BG/5-434, an amount of USD 4 million of IDB-OCR net income for 1434H was to be allocated for the Islamic Finance Technical Assistance operations in the form of grant for the year 1434H provided that the amount to be allocated shall not be less than USD 4 million (ID 2.7 million).

According to the Board of Governors' resolution No. BG/3-432 dated 12 Rajab 1434H (22 May 2013) and the Board of Executive Directors' resolution No. BED/BG/4-434, an amount equivalent to 2% but not less than USD 2 million of IDB-OCR net income for 1433H was allocated for financing of Scholarship Programs in the form of grants for the year 1434H. This amounts to ID 2.4 million (1433: ID 2.2 million).

24. UNDISBURSED COMMITMENTS

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

	1434H	1433H
Special assistance grants	**52,000**	37,614
Qurood to LDMC	**27,030**	67,313
Special loans	**830**	2,340
Technical assistance grants	**34,000**	42,464
Scholarship program	**50,000**	46,220
Total	**163,860**	195,951

25. 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:

	1434H	1433H
United States Dollar	**295,473**	315,218
Euro	**161,635**	194,627
Japanese Yen	**38,111**	49,573
Pound Sterling	**52,042**	54,676
Saudi Riyal	**19,973**	11,351
Bangladesh Taka	**10,060**	6,684
Other currencies	**20,812**	16,804

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

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

1434H	Less than 3 months	3 months to 12 months	1 year to 5 years	Greater than 5 years	Maturity profile not determined	Total
ASSETS						
Cash at banks and in hand	20,587	-	-	-	-	20,587
Commodity placements through banks	72,649	104,077	-	-	-	176,726
Investment in syndicated Murabaha	560	14,588	-	-	-	15,148
Due from related parties	77,804	-	-	-	-	77,804
Investments in units	-	-	-	-	7,308	7,308
Investments in Sukuk	5,412	-	39,356	5,486	-	50,254
Investments in equity capital	-	-	-	-	16,868	16,868
Investments in associates	-	-	-	-	96,248	96,248
Instalment financing receivables	-	-	-	-	-	-
Investment in syndicated Ijarah	-	-	-	-	19,143	19,143
Qurood	3,469	3,575	29,296	144,982	-	181,322
Accrued income and other assets	-	5,917	-	-	-	5,917
Other investments	21,623	-	-	125,156	-	146,779
Fixed assets	-	-	292	25,421	-	25,713
TOTAL ASSETS	**202,104**	**128,157**	**68,944**	**301,045**	**139,567**	**839,817**
LIABILITIES						
Due to related parties	9,532	-	-	-	-	9,532
Accruals and other liabilities	4,714	-	-	-	-	4,714
TOTAL LIABILITIES	**14,246**	**-**	**-**	**-**	**-**	**14,246**

1433H	Less than 3 months	3 months to 12 months	1 year to 5 years	Greater than 5 years	Maturity profile not determined	Total
ASSETS						
Cash at banks and in hand	16,341	-	-	-	-	16,341
Commodity placements through banks	13,375	13,375	370,729	-	-	397,479
Due from related parties	67,644	-	-	-	-	67,644
Investments in units	-	-	-	-	78,410	78,410
Investment in Sukuk	-	3,324	64,337	5,495	-	73,156
Investment in equity capital	-	-	-	-	19,324	19,324
Investment in associates	-	-	-	-	95,270	95,270
Instalment financing receivables	-	-	-	1,417	-	1,417
Investment in syndicated Ijarah	-	-	-	18,665	-	18,665
Qurood	-	297	3,298	26,992	136,435	167,022
Accrued income and other assets	-	7,236	-	-	-	7,236
Other investments	-	-	-	164,464	-	164,464
Fixed assets	-	-	-	26,581	-	26,581
TOTAL ASSETS	**97,360**	**24,232**	**438,364**	**243,614**	**329,439**	**1,133,009**
LIABILITIES						
Commodity purchase liabilities	269,949	-	-	-	-	269,949
Due to related parties	31,713	-	-	-	-	31,713
Accruals and related liabilities	3,418	-	-	-	-	3,418
TOTAL LIABILITIES	**305,080**	**-**	**-**	**-**	**-**	**305,080**

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

27. 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 of the Fund are as follows:

	Member countries			Non-member	
	Asia	Africa	Europe	countries	Total
1434H	**555,625**	**147,941**	**50,276**	**85,975**	**839,817**
1433H	904,146	135,321	37,135	56,407	1,133,009

The geographical locations of assets and liabilities for 1434H and 1433H reflect the countries in which the beneficiaries of the assets are located.

28. 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.

29. PRIOR PERIOD ADJUSTMENTS

The Fund applied in 1434H the equity method of accounting to reflect the results of investee companies in which it exercises significant influence, including ICIEC and BBI Leasing and Real Estate Company (BBIL) which were presented in prior years as subsidiaries of the Fund.

The Fund, prior to 1434H, accounted for these equity investments on a cost basis in its standalone financial statements, which was complimented by a policy of preparing consolidated financial statements of the Fund.

The Management has determined during 1434H that assertions of control applied in determining control over these entities (ICIEC and BBIL) in prior years were not consistent with the Financial Accounting Standards issued by AAOIFI. Further, Article 17 of the Articles of Agreement of the Bank/Fund, (related to equity participation in an enterprise), among other, specifies that it shall not acquire majority or controlling interest in an enterprise except when necessary to protect its interest and shall not assume responsibility for managing any entity in which it has invested except to safeguard its investment. Accordingly, the Fund's strategic objective was to play a catalytic rather than controlling role in investee companies reflected as subsidiaries in prior years.

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

29. PRIOR PERIOD ADJUSTMENTS (continued)

As a consequence of above, the financial statements for the year ended 29th Dhul Hijjah 1433H and as at the beginning of 1433H have been restated to account for the correction for the impact on the balance of investments in associates and subsidiaries and certain other amounts/balances. The Fund has increased the opening balances of reserves and investments in associates balance at the beginning of 1433H by the amount of the adjustment relating to years prior to 1433H.

Effect on years prior to 1433H	
Increase in investment in associates at beginning of 1433H	19,108
Increase in the net assets at beginning of 1433H	19,108
Effect on 1433H	
Decrease in income from dividends	437
Increase in share of loss in associates	3,196
Decrease in fair value and other reserves	3,264
Decrease in investment in associates	6,897

The restatements made are reflected as follows:

	Amounts as previously reported	Restatement amounts	Restated amounts
At beginning of 1433H			
Investments in subsidiaries	60,516	(60,516)	-
Investments in associates	9,523	79,624	89,147
Net assets	846,405	19,108	865,513
As of and for the year ended 29 Dhul Hijjah 1433H			
Investments in subsidiaries	73,536	(73,536)	-
Investments in associates	9,523	85,747	95,270
Net assets	815,718	12,211	827,929
Share of loss in associates	-	3,196	3,196
Dividend income	437	(437)	-
Net deficit for the year	16,819	3,633	20,452
Fair value and other reserves	(358)	(3,264)	(3,622)

30. 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 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, its affiliates and its funds risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank, its affiliates and its funds financial transactions.

30. RISK MANAGEMENT (continued)

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, investment in Sukuk, Investment in syndicated Murabaha, installment financing, Qurood and investments in syndicated Ijarah, which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Fund, in accordance with specific eligibility criteria and credit risk assessments. The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Investment in syndicated Murabaha, Installment financing, Qurood and investments in syndicated Ijarah 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, its affiliates and its funds 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 balances. 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.

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 Fund 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 Fund with a view to maintain the overall credit risk appetite and profile within the parameters set by the management of the Fund. 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 and the Fund.

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 Fund 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 Fund. While extending financing to its member countries the Fund 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 Fund has in place a comprehensive counterparty's assessment criteria and detailed structured exposure limits in line with the best banking practices.

30. RISK MANAGEMENT (continued)

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 ID 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 Dinar 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) 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. 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.

iii) 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, Investment in syndicated Murabaha, investments in syndicated Ijarah and investments in Sukuk. In respect of the financial assets, the Funds invests in fixed income instruments to ensure that the effect of exposure on financial assets is minimized.

c) 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 Investment in syndicated Murabaha with short-term maturity of three to twelve months.

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

30. RISK MANAGEMENT (continued)

d) Fair values of financial assets and liabilities

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Fund's assets and liabilities that are measured at fair value at 29 Dhul Hijjah 1434H and 1433H:

	Level 1	Level 2	Level 3	Total
1434H				
Assets				
Financial assets at fair value through income statement:				
- Sukuk investments	**-**	**50,254**	**-**	**50,254**
Available for sale financial assets:				
- Other investments	**35,615**	**111,164**	**-**	**146,779**
- Investments in equity capital	**5,038**	**11,830**	**-**	**16,868**
Total assets	**40,653**	**173,248**	**-**	**213,901**
1433H				
Assets				
Financial assets at fair value through income statement:				
- Sukuk investments	-	73,156	-	73,156
Financial assets at fair value through equity:				
- Other investments	36,751	127,713	-	164,464
- Investments in equity capital	13,512	5,812	-	19,324
Total assets	50,263	206,681	-	256,944

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, fair value of investments in Sukuk and other investments carried at fair value are measured based on inputs other than quoted prices that are observable.

31. 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. 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.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized by the Resolution of the Board of Executive Directors on 20 Jamad Thani 1435H (20 April 2014) for submission to the Board of Governors 39th Annual Meeting.

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