ISLAMIC DEVELOPMENT BANK

Financial Statements 1436H (2015)

TOGETHER WE BUILD A BETTER FUTURE

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Joint Auditors' Report
Year ended 30 Dhul Hijjah 1436H (13 October 2015)

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Financial Statements 30 Dhul Hijjah 1436H (13 October 2015)

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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 Islamic Development Bank - Ordinary Capital Resources (the "Bank") as of Dhul Hijjah 30, 1436H (October 13, 2015) and the related statements of income, changes in members' equity and cash flows for the year then ended and the attached notes from 1 to 34 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 Dhul Hijjah 30, 1436H (October 13, 2015), and the results of its operations, changes in members' equity and its 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 Bank.

PricewaterhouseCoopers

Ali. A. Alotaibi
Certified Public Accountant
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KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
Certified Public Accountant
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Jumad-ul-Awwal 29, 1437H
March 9, 2016
Jeddah

PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

KPMG Al Fozan & Partners
Certified Public Accountants

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
STATEMENT OF FINANCIAL POSITION
AS OF 30 DHUL HIJJAH 1436H

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

	Notes	1436H	1435H (Restated)
Cash and cash equivalents	4	235,724	1,043,659
Commodity placements	5	1,699,794	1,731,444
Sukuk investments	6	1,764,101	1,047,793
Murabaha financing	7	272,138	253,911
Treasury assets		**3,971,757**	**4,076,807**
Istisna'a assets	9	4,125,553	3,692,588
Restricted Mudaraba	10	527,763	225,576
Instalment sale	11	1,399,026	1,334,409
Ijarah assets	12	2,515,584	2,268,273
Loans	13	1,845,397	1,770,911
Project assets		**10,413,323**	**9,291,757**
Equity investments	15	739,769	777,641
Investment in associates	16	656,872	633,150
Other investments		90,671	87,172
Investment assets		**1,487,312**	**1,497,963**
Property and equipment		64,255	52,939
Other assets	17	160,796	155,799
Other assets		**225,051**	**208,738**
Total Assets		**16,097,443**	**15,075,265**
Liabilities			
Commodity purchase liabilities	19	676,159	1,031,228
Sukuk issued	18	7,317,434	6,104,949
Other liabilities	20	254,353	218,017
Total Liabilities		**8,247,946**	**7,354,194**
Members' Equity			
Paid-up capital	22	4,939,998	4,853,867
Reserves	23	2,751,839	2,702,155
Net income for the year		157,660	165,049
Total Members' Equity		**7,849,497**	**7,721,071**
Total Liabilities and Members' Equity		**16,097,443**	**15,075,265**
Restricted Investment Accounts	28	**73,888**	**64,067**

The notes from 1 to 34 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
INCOME STATEMENT
FOR THE YEAR 30 DHUL HIJJAH 1436H
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1436H	1435H (Restated)
Income from:			
Commodity placements		17,959	26,517
Sukuk investments	6	48,228	38,978
Murabaha financing		9,887	7,319
Treasury assets		**76,074**	**72,814**
Istisna'a		149,209	153,091
Restricted mudaraba		12,807	-
Instalment sale		64,767	61,746
Ijarah		236,301	203,109
Depreciation of assets under Ijarah	12	(173,972)	(160,381)
Loans		20,847	14,004
Project assets		**309,959**	**271,569**
Equity investments		42,203	36,293
Associates	16	16,095	13,409
Other investments		3,815	1,343
Investment assets		**62,113**	**51,045**
Other income		13,505	4,639
Foreign exchange losses		(32,292)	(14,444)
Losses from swap	17	(27,600)	(5,429)
Others		**(46,387)**	**(15,234)**
Total income		**401,759**	**380,194**
Financing costs	18,19	(110,705)	(84,367)
Impairment charge	14	(18,867)	(12,946)
Net income before operating expenses		**272,187**	**282,881**
Administrative expenses	24	(109,293)	(110,146)
Depreciation		(5,234)	(7,686)
Total operating expenses		**(114,527)**	**(117,832)**
Net income for the year		**157,660**	165,049

The notes from 1 to 34 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
YEAR ENDED 30 DHUL HIJJAH 1436H
STATEMENT OF CHANGES IN MEMBERS' EQUITY
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	Paid-up capital	Reserves: General reserve	Reserves: Fair value reserve	Reserves: Pension and medical obligation	Reserves: Other reserves	Total reserves	Net income	Total
Balance at 29 Dhul Hijjah 1434H, Previously reported		4,799,791	1,987,975	390,634	(91,180)	(12,983)	**2,274,446**	170,413	**7,244,650**
Prior year adjustment	30	-	257,704	-	-	-	**257,704**	-	**257,704**
Reclassification No. 1	30	-	-	26,492	-	(26,492)	**-**	-	**-**
Balance at 29 Dhul Hijjah 1434H, Restated		**4,799,791**	**2,245,679**	**417,126**	**(91,180)**	**(39,475)**	**2,532,150**	**170,413**	**7,502,354**
Increase in paid-up capital		54,076	-	-	-	-	-	-	**54,076**
Fair value gains from equity and other investments	15	-	-	60,820	-	-	**60,820**	-	**60,820**
Increase in actuarial losses relating to retirement pension and medical plans	21	-	-	-	(1,736)	-	**(1,736)**	-	**(1,736)**
Contribution to the principal amount of ISFD	25	-	(64,879)	-	-	-	**(64,879)**	-	**(64,879)**
Share in associates reserve movement	16	-	-	-	-	19,409	**19,409**	-	**19,409**
Net income for 1435H		-	-	-	-	-	-	165,049	**165,049**
Transfer to general reserve		-	170,413	-	-	-	**170,413**	(170,413)	**-**
Allocation for grants	23	-	(14,022)	-	-	-	**(14,022)**	-	**(14,022)**
Balance at 30 Dhul Hijjah 1435H		**4,853,867**	**2,337,191**	**477,946**	**(92,916)**	**(20,066)**	**2,702,155**	**165,049**	**7,721,071**
Increase in paid-up capital		86,131	-	-	-	-	-	-	**86,131**
Fair value losses from equity investments	15	-	-	(48,463)	-	-	**(48,463)**	-	**(48,463)**
Decrease in actuarial losses relating to retirement pension and medical plans	21	-	-	-	5,534	-	**5,534**	-	**5,534**
Contribution to the principal amount of ISFD	25	-	(69,835)	-	-	-	**(69,835)**	-	**(69,835)**
Share in associates reserve movement	16	-	-	-	-	8,674	**8,674**		**8,674**
Net income for 1436H		-	-	-	-	-	-	157,660	**157,660**
Transfer to general reserve		-	165,049	-	-	-	**165,049**	(165,049)	**-**
Allocation for grants	23	-	(11,275)	-	-	-	**(11,275)**	-	**(11,275)**
Balance at 30 Dhul Hijjah 1436H		**4,939,998**	**2,421,130**	**429,483**	**(87,382)**	**(11,392)**	**2,751,839**	**157,660**	**7,849,497**

The notes from 1 to 34 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Year ended 30 Dhul Hijjah 1436H
Statement of Cash Flows
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1436H	1435H (Restated)
Cash flows from operations			
Net income for the year		**157,660**	**165,049**
Adjustments for non-cash items			
Depreciation of property and equipment		5,234	7,686
Share of income in associates and other	16	(16,095)	(13,409)
Provision for impairment of financial assets, net	14	18,867	12,946
Unrealised fair value losses / (gains) on Sukuk	6	1,421	(13,312)
Amortization of other income (Deferred grant)		(567)	(566)
Foreign exchange losses		32,292	14,444
Gain on disposal of equity investment		(20)	(332)
Loss on disposal of other investment		-	1,914
Changes in accrued income		8,000	(84,160)
Changes in accrued expenses		(16,768)	18,852
Operating income before changes in operating assets and liabilities		**190,024**	**109,112**
Changes in operating assets and liabilities:			
Istisna'a		(406,194)	(388,798)
Restricted Mudaraba		(292,536)	(225,576)
Instalment sales		(144,030)	(14,762)
Ijarah		(207,157)	(120,396)
Loans		(44,541)	(54,812)
Other assets		(25,811)	170,195
Other liabilities		54,629	(208,249)
Net cash used in operating activities		**(875,616)**	**(733,286)**
Cash flows from investing activities			
Commodity placements		90,798	831,743
Acquisition of Sukuk investments	6	(765,732)	(469,921)
Proceeds from disposal/redemption of sukuk investments	6	125,453	59,749
Murabaha		6,984	(16,370)
Acquisition of equity investments	15	(12,450)	(9,965)
Proceeds from disposal of equity investments		870	5,494
Acquisition of other investments		347	(10,891)
Proceeds from disposal of other investments		-	11,310
Dividend from associates	16	1,047	618
Additions to property and equipment		(16,550)	(3,363)
Net cash used in /generated from investing activities		**(569,233)**	**398,404**
Cash flows from financing activities			
Increase in paid-up capital		86,131	54,076
Technical assistance and scholarship grants		(11,275)	(14,349)
Contribution to the principal amount of ISFD		(69,835)	(64,552)
Proceeds from issuance of sukuk		1,127,280	2,947,747
Redemption of sukuk		(170,338)	(1,235,160)
Commodity purchase liabilities		(327,447)	(519,827)
Net cash from financing activities		**634,516**	**1,167,935**
Net change in cash and cash equivalents		(810,333)	833,053
Exchange difference on cash and cash equivalents		2,398	148
Cash and cash equivalents at 1 Muharram		1,043,659	210,458
Cash and cash equivalents at 30 Dhul Hijjah	4	**235,724**	1,043,659

The notes from 1 to 34 form an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

Islamic Development Bank (the “Bank” or “IsDB”) is a multilateral development bank established pursuant to Articles of Agreement signed and ratified by its member countries in 1394H (1974). The Bank’s headquarters is located in Jeddah, Kingdom of Saudi Arabia. The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities in accordance with the principles of Shari'ah. The Bank has 56 member countries.

As a supranational institution, the Bank is not subject to any national banking regulation, is neither supervised by any external regulatory authority and is not subject to any taxes or tariffs.

The Bank is required to carry out its activities in accordance with the principles of Shari’ah. The Bank established its own Shari’ah committee whose functions are set out in Note 27.

IsDB affiliates and Special Funds have separate and distinct assets and liabilities and the Bank does not control any of the affiliates and Special Funds for the purpose of acquiring of benefits and, therefore, they are not considered as subsidiaries of the Bank.

The Bank’s financial year is the lunar Hijri year. The Bank will be changing its financial year to Solar Hijri from next financial year (see note 34).

The Bank’s official address is Jeddah 8111 King Khalid Street, Unit No. 1, Al Nuzlah Yamania Dist, Jeddah 22332-2444, Kingdom of Saudi Arabia.

The financial statements were authorized by the Resolution of the Board of Executive Directors on 5 Jamad-ul-Awwal 1437H (14 February 2016) for submission to the Board of Governors 41st Annual Meeting.

2. BASIS OF PREPARATION

Statement of compliance

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. In accordance with the requirements of AAOIFI, for principal accounting matters for which no AAOIFI standard exists, the Bank follows the relevant International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (IASB). These matters include:

- IAS 19 “Employee benefits” to account for various pension and medical benefits provided by the Bank;
- IAS 39 “Financial Instruments: Recognition and Measurement” to account for profit rate and cross currency profit rate swaps; and
- IAS 7 “Statement of Cash Flows”.

Basis of measurement

The financial statements are prepared under the historical cost convention except for the following items:

- Listed equity investments are measured at fair value through equity;
- Certain investments in sukuk are measured at fair value through income statement designated as such at the time of initial recognition; and
- Profit rate and cross-currency profit rate swaps are measured at fair value through income statement.

Functional and presentation currency

In accordance with the Bank's Articles of Agreement, Islamic Dinar ("ID") is the unit of account of the Bank and is equal to one Special Drawing Right ("SDR") of the International Monetary Fund ("IMF"). Also see Note 34.

3. 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.

Financial assets and liabilities

Financial assets and liabilities are recognised in the statement of financial position when the Bank assumes related contractual rights or obligations.

Financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Bank.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

The table below summarises IsDB's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below.

Item	Recognition principles
Cash equivalents	Cost less impairment
Commodity placements	Amortised cost less impairment
Murabaha	Amortised cost less impairment
Investments in sukuk classified as either:	
	Fair value through income statement – debt investment
	Amortised cost – debt investments
Istisna'a and Installment sale	Amortised cost less impairment
Restricted mudaraba	Cost less repayment and impairment
Ijarah assets	Cost less depreciation and impairment
Loans	Disbursement plus accrued service fee less impairment
Equity investments	Fair value through equity or cost less impairment for unlisted investments
Other investments	Fair value through income statement – debt investment
Commodity purchase liabilities	Amortised cost
Sukuk issued	Amortised cost

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legal enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Treasury assets

Treasury assets include cash and cash equivalent, commodity placements, investments in Sukuk and Murabaha financing.

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 from the date of placement that are subject to an insignificant risk of changes in their fair value. Cash and cash equivalents are carried at cost, less impairment, in the statement of financial position.

Commodity placements

Commodity placements are made through banks and comprise 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 carried at amortised cost less any provision for impairment.

Investments in sukuk

Sukuk are debt-type instruments that have determinable payments and fixed maturity dates and bear a coupon yield.

Pursuant to introduction of the new liquidity policy of the Bank in 1435H, IsDB's investments (including sukuk investments) are classified under (i) Transactional Operational Portfolio (TOP), (ii) Core Operational Portfolio (COP) or (iii) Stable Portfolio (SP) (details on and definitions of these portfolios are provided in Note 31 "Liquidity risk" section).

Sukuk that are (a) acquired for short term liquidity purposes and that are (b) managed on a fair value basis and (c) their performance is evaluated internally by management on a fair value basis are classified as initially designated at fair value through income statement. Such securities are grouped under either TOP or COP. On initial recognition, these investments are measured at fair value based on quoted market prices. At the end of each reporting period, such investments are re-measured at fair value with the resulting gain or loss recognized in the income statement within income from sukuk investments.

Sukuk that are acquired with positive intent and ability to hold them to contractual maturity are classified under SP and are measured at amortised cost less any impairment provision.

In accordance with AAOIFI, after the initial designation, investments in debt-type securities are not to be reclassified into or out of the fair value or amortized cost categories.

Murabaha financing

Murabaha financing receivables are deferred sale 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 financing receivables are stated at selling price less unearned income at the reporting date less repayments and provision for impairment.

Project assets

Project assets include Istisna'a assets, Restricted Mudaraba, Instalment sale, Ijarah Muntahia Bittamleek ("Ijarah") assets and Loans.

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 constructed or manufactured by the purchaser on behalf of the Bank according to agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as the accrued income as of the date of the statement of financial position against assets being either constructed or manufactured.

After completion of the project, the Istisna'a asset is transferred to the Istisna'a receivable account and carried at the value of amounts disbursed, plus income accumulated over the manufacturing period, less repayments received and provision for impairment.

Instalment sale

Instalment sale receivables are deferred sale agreements whereby the Bank sells to a customer 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 instalment sales are stated at selling price less unearned income at the reporting date less repayments and provision for impairment.

Restricted Mudaraba

Restricted Mudaraba is based on the traditional profit-sharing and loss-bearing Mudaraba contract where profits are shared between the parties based on the terms of the Mudaraba agreement. IDB as a "Rab al Maal" provides capital under a line of financing facility to an intermediary as a "Mudarib" who invests this capital based on prescribed investment criteria such as sector, commercial terms, security package, etc. IDB also obtains a third party sovereign guarantee covering the investment risk in addition to the underlying projects' security package. Restricted Mudaraba contracts are stated at the amounts of disbursement made, less impairment (if any).

Ijarah assets

Ijarah is an agreement (either direct or through a syndicate) 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 right to use it to the lessee for a rental payment for the lease period. Throughout the Ijarah period, the Bank retains ownership of the leased asset. At the end of the Ijarah period IsDB transfers the title of the asset to the lessee without consideration.

Ijarah assets under construction are stated at the cost of asset's manufacturing or acquisition. Assets under construction are not depreciated. No rental income is recognised on the assets during the period of construction/manufacturing.

Once manufactured and acquired, Ijarah assets are transferred to the customer at which time they are classified as Ijarah assets in use. Ijarah assets in use are stated at the aggregate of the minimum lease payments, less the accumulated depreciation as at the reporting date and provision for impairment. Ijarah assets are depreciated on the estimated usage basis.

Loans

Loan is a long term concessional facility provided to Member Countries bearing the service fee rate sufficient to cover the Bank's administrative expenses.

Loan amounts outstanding represent amounts disbursed in respect of projects plus the accrued loan service fees, less repayments received and provision for impairment.

Equity investments designated at fair value through members' equity

Equity investments are intended to be held for a long-term period and may be sold in response to liquidity needs, changes in market prices or within the overall context of the Bank's developmental activities. Accordingly, the Bank has opted to designate all of its equity investments at fair value through members' equity.

Listed investments recognised at fair value

Initially and subsequently such investments are measured at fair market value, and any unrealized gains or losses arising from the change in their fair values are recognized directly in the fair value reserve under members' equity until the investment is derecognized, at which time the cumulative gain or loss previously recorded under the members' equity is recognized in the income statement.

Unlisted investments measured at cost less impairment

Unlisted equity investments, real estate and other funds whose fair value cannot be reliably measured are carried at cost and are tested for impairment at the end of each reporting period. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. Impairment losses recognised in income statement are reversed through changes in members' equity.

After the initial designation, investments in equity-type securities shall not be reclassified into or out of the fair value through members' equity category.

Investments in associates

In accordance with IsDB's Articles of Agreement, Articles 17.2 and 17.5 "The Bank shall not acquire a majority or controlling interests in the share capital of the project in which it participates except when it is necessary to protect the Bank's interest or to ensure the success of such project or enterprise" and "The Bank shall not assume responsibility for managing any project or enterprise in which it has invested except when necessary to safeguard its investment".

Consequently, Bank does not exercise control over any of its investments regardless of percentage of voting rights. For investments in which the Bank holds 20 per cent or more of the voting rights the Bank is presumed to have significant influence and hence such investments are accounted for and classified as investments in associates.

Investments in associates are accounted for using the equity method of accounting and are initially recognised 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) identified on acquisition. The Bank's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in reserves is recognised in reserves in members' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends. 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in reserves is classified to income statement where appropriate.

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 recognises the amount in the income statement. Intergroup unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses in associates are recognised in the income statement. The Bank's share of the results of associates is 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 Bank. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Bank.

Profit rate and cross currency profit rate swaps

The Bank uses profit rate and cross currency profit rate swaps for asset/liability management purposes to modify mark-up rate or currency characteristics of the sukuk issued. This economic relationship is established on the date the sukuk is issued and maintained throughout the terms of the contracts. 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.

The Bank uses widely recognized valuation models for measuring the fair value of profit rate and profit rate and cross currency profit rate swaps that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with the measurement of fair value.

Impairment of financial assets

Project assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets is impaired. There are several steps required to determine the appropriate level of provisions.

The Bank first assesses whether objective evidence of impairment exists for individual sovereign and non-sovereign exposures. If such objective evidence exists, specific impairment is determined as follows:

(i) For the loan portfolio to member countries under the Heavily Indebted Poor Countries Program ("HIPC") by taking the lower of: the net present value discounted at the implicit rate of return; or carrying amount.

    HIPC is a debt relief initiative whereby IsDB reschedules loans to certain heavily indebted member countries

(ii) For other projects assets except those provided for under HIPC:

- full provision is made against instalments overdue by 6 months or more; or
- provision could also result from the consideration of defaults or delinquencies by a counterparty, restructuring of a financing facility by the Bank on the terms the Bank would not otherwise consider, indications that a counterparty will enter a bankruptcy, or other observable data such as adverse changes in the payment status of a counterparty or cash flow difficulties experienced by the counterparty and breach of financing covenants or conditions.

In addition to specific impairment provision, a provision for collective impairment is calculated on portfolio basis against the sovereign credit losses not individually identified as impaired. A collective impairment reflects a potential loss that may occur as a result of currently unidentifiable risks in relation to sovereign exposures.

There are three steps required to calculate collective impairment provision. First, each sovereign counterparty is assigned a credit risk rating from 1 to 21. The 21 scales are then grouped into 7 category starting from “A” to “G”. Second, each risk rating is mapped to an expected default frequency from 0.0014% to 100% according to the internal scoring model calibrated against the international rating agencies ratings. The determination of risk ratings and expected default frequencies is reviewed and updated annually. The severity of loss is a judgemental assessment of the Bank’s experience with Member Countries payment track records over the years and ranges from 0% to 20%.

Finally, the provision is calculated by multiplying the outstanding sovereign exposure by the expected default rate multiplied by the severity of the loss given default rate.

Adjustments to the provision are recorded as a charge or credit in the Bank’s income statement. Impairment is deducted from the relevant project asset category in the statement of financial position.

When the non-sovereign exposure is deemed uncollectible, it is written-off against the related impairment provision and any excess loss is recognised in the income statement. Such assets are written-off only after all necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the Bank’s income statement. Sovereign exposures are not written-off.

Other financial assets

An assessment is made at each reporting 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 recoverable amount. Adjustments to the provision are recorded as a charge or credit in the Bank’s income statement.

Impairment calculation methodologies for debt and equity type investments are provided in the relevant sections.

Commodity purchase and sale agreements

The Bank enters into commodity purchase and sale agreements with certain banks for liquidity management purposes. 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 purchased commodity under these agreements is recognised at the value of consideration paid and is presented as commodity purchase liabilities in the statement of financial position. The difference between the sale and purchase prices is recognised as financing cost and accrued on an amortised cost basis over the period of the agreement.

Sukuk liability

The Bank issues medium and long-term sukuk certificates mainly denominated in USD with fixed and variable rates of return. Sukuk certificates represent undivided shares of sukuk investors in the ownership of the Bank's assets, which shall be separate and independent from all other assets. These assets shall comprise of:

- at least 33 % tangible assets comprising of Ijarah assets, disbursing Istisna'a assets, Shari'ah compliant equity instruments (and the assets underlying those equity instruments) and/or sukuk certificates (and the assets underlying those sukuk certificates); and

- no more than 67 % intangible assets comprising of Istisna'a receivables and/or Murabaha receivables.

Aggregate amount of sukuk issued at any date cannot exceed the gross carrying amount of the above-mentioned assets at the same date. Sukuk financing costs are recognised in the income statement and include the amortisation of the issuance costs. Sukuk liability is recognised at amortised cost.

De-recognition of financial assets and financial liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. Any interest in transferred financial assets that qualify for de-recognition that is retained by the Bank is recognised as an asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Post-employment benefit plans

The Bank has two defined post-employment benefit plans, the Staff Retirement Pension 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 percentage of final gross salary. Independent actuaries calculate the defined benefit obligation on an annual basis by using the projected unit credit method to determine the present value of the defined benefit plan and the related service costs. The underlying actuarial assumptions are used to determine the projected benefit obligations.

The present value of the defined benefit obligation due until the retirement date is determined by discounting the estimated future cash outflows (relating to service accrued to the reporting date) using the yields available on high-quality corporate bonds. The bonds should be denominated in currencies in which the benefits will be paid and that have terms to maturity closely matching the terms of the actual pension obligation. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions.

The current service cost of the defined benefit plan recognised in the income statement reflects the increase in the defined benefit obligation resulting from employee service in the current year.

The Past service costs are directly recognized in the income statement.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions, if material, are recognized in the reserves under members' equity in the year they arise. The pension liability is recognized as part of other liabilities 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.

The Retirement Plan Committee, with advice from the Bank's actuaries, determines the Bank's contributions to the defined benefit scheme and the contributions are transferred to the scheme's independent custodians.

Revenue recognition

Commodity placements

Income from placements with other Islamic and conventional banks is recognized using the effective yield basis.

Investments in sukuk

Income from investments in sukuk is accrued on an effective yield basis and is recognised in the income statement. For the sukuk designated at fair value through income statement, the gains and losses resulting from the re-measurement of the fair values at the reporting date are also recognised in the income statement.

Murabaha financing income, Istisna'a income, income from instalment sale

Murabaha financing income, Istisna'a income and income from instalment sale are recognised using the effective yield over the period of respective transactions.

Restricted Mudaraba

Income on restricted Mudaraba is recognized when the right to receive payment is established (usually semiannually).

Ijarah

Ijarah rental revenue is recongnized on straight line basis over the lease term. No Ijarah rental is recognized before the right to use the Ijarah assets is transferred to the lessee.

Loan service fees

IsDB charges loan service fee only to cover its administrative costs related to the signature of an agreement and disbursements made to the member countries. Thus, the loan service fee is calculated during the financial periods starting from the signature date through to the date of the last disbursement.

The loan service fee is allocated and recognised in the income statement over the financial periods as follows:

- 4% of the cumulative service fee is allocated/recognised during the financial periods between the signature date and the 1st disbursement date;
- 40% of the cumulative service fee is allocated/recognised during the financial periods between the 1st disbursement date and the last disbursement date; and
- 56% of the service fee is allocated/recognised during 5 years from the last disbursement date.

Dividend income

Dividend income is recognized when the right to receive the dividend is established i.e. according to its declaration date.

Foreign currency

Foreign currency transactions and balances

Monetary and non-monetary transactions denominated or requiring settlement in a foreign currency are translated into Islamic Dinar at the spot exchange rates at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Foreign currency differences resulting from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as foreign exchange gains/losses.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value (Equity investments) are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences resulting from translation of such investments are recognised in the fair value reserve account under members' equity.

Translation differences relating to the changes in the amortized cost are recognized in the income statement.

Foreign operations – investments in associates

The results and the net investment in the Bank's associates are translated into Islamic dinar as follows:

- IsDB's share of net income/loss of an associate is translated at the average annual exchange rate. All resulting exchange differences are recognised within other reserves under members' equity.
- Exchange differences arising from the translation of the net investment in associates (opening equity and movements in equity during the reporting year) are taken to members' equity.

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 any taxes.

Earnings prohibited by Shari'ah

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

Critical accounting judgments and estimates

The preparation of financial statements in accordance with AAOIFI requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. 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. The most significant judgements and estimates are summarised below:

Significant judgements

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 79% weight in SDR, to which ID is equalised. Therefore, Management concluded that Islamic Dinar represents the aggregation of economic effects of the underlying transactions, events and conditions of the Bank and is accordingly the Bank's functional and presentation currency.

Designation of investments in sukuk

Investments in sukuk are designated as either amortized cost or at fair value through income statement.

Amortised cost designation is driven by the intent and ability of the Bank to hold these securities to contractual maturity. Their liquidation is necessitated only in extreme stressed market conditions and with Board approval.

Designation of Investments in equity capital

Designation of Investments in equity capital, real estate and other funds at fair value through equity is driven by the intention of management to hold these for a long-term.

Significant influence

Significant influence over investments with 20% and more holdings - In accordance with IsDB's Articles of Agreement, the Bank shall not acquire a majority or controlling interests in the share capital of the project in which it participates except when it is necessary to protect the Bank's interest or to ensure the success of such project or enterprise. On this basis, the Bank is not deemed to exercise control over any of its investments.

Subsequent events

The financial statements are adjusted to reflect events that occurred between the reporting date and date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date (see note 34).

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

Significant estimates

Provision for impairment of financial assets

The Bank exercises judgement in estimation of provision for impairment of financial assets and, in particular, its project assets. The methodology for the estimation of the provision is set out in the Significant Accounting Policies section "Impairment of financial assets".

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 actual experiences. These estimates are updated every year and revised every three years when actuarial estimate of the benefits plans are carried out.

4. CASH AND CASH EQUIVALENTS

	1436H	1435H
Cash in hand	1,485	196
Current and call accounts with Banks	53,204	103,963
Commodity placements less than 3 months (Note 5)	191,491	949,956
Less: Provision for impairment	(10,456)	(10,456)
	235,724	**1,043,659**

Commodity placements included within cash equivalents are those interbank placements, which have an original tenor equal to, or less than three months. Placements with original maturities of above three months are disclosed in Note 5.

5. COMMODITY PLACEMENTS

	1436H	1435H
Placements with Islamic banks	281,860	422,727
Placements with Islamic windows of conventional banks	1,606,180	2,257,666
Accrued income	6,929	4,509
Commodity placements less than 3 months, (Note 4)	(191,491)	(949,956)
Less: Provision for impairment	(3,684)	(3,502)
	1,699,794	**1,731,444**

6. SUKUK INVESTMENTS

	1436H	1435H
Balance at 1 Muharram	1,047,793	595,450
Movements during the year:		
Additions	765,732	469,921
Sales/redemptions	(125,453)	(59,749)
Accrued income	4,930	1,578
Unrealized fair value (losses)/ gains	(1,421)	13,312
Unrealized exchange revaluation gains	72,520	27,281
Balance at 30 Dhul Hijjah	**1,764,101**	**1,047,793**

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

	Counterparty rating					
1436H	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value though income statement:						
- Financial institutions	-	-	92,519	61,340	-	**153,859**
- Governments	-	95,321	28,228	157,273	1,452	**282,274**
- Other entities	-	76,677	10,714	-	3,582	**90,973**
	-	**171,998**	**131,461**	**218,613**	**5,034**	**527,106**
Sukuk classified at amortised cost:						
- Financial institutions	32,411	152,392	2,161	72,932	106,461	**366,357**
- Governments	106,997	10,849	188,920	418,676	-	**725,442**
- Other entities	-	133,144	-	-	12,052	**145,196**
	139,408	**296,385**	**191,081**	**491,608**	**118,513**	**1,236,995**
Total	**139,408**	**468,383**	**322,542**	**710,221**	**123,547**	**1,764,101**

	Counterparty rating					
1435H	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value though income statement:						
- Financial institutions	-	-	110,078	56,059	43,453	**209,590**
- Governments	-	89,627	27,512	152,595	-	**269,734**
- Other entities	-	-	82,683	-	3,824	**86,507**
	-	**89,627**	**220,273**	**208,654**	**47,277**	**565,831**
Sukuk classified at amortised cost:						
- Financial institutions	-	4	138,710	18,328	17,048	**174,090**
- Governments	-	10,870	10,350	286,652	-	**307,872**
	-	**10,874**	**149,060**	**304,980**	**17,048**	**481,962**
Total	**-**	**100,501**	**369,333**	**513,634**	**64,325**	**1,047,793**

Income from sukuk investments is comprised of the following:

	1436H	**1435H**
Coupon income	49,792	25,642
Realised (losses)/gains on the sale of Sukuk	(143)	24
Unrealised fair value (losses)/gains	(1,421)	13,312
	48,228	**38,978**

7. MURABAHA FINANCING

	1436H	**1435H**
Gross amount receivable	315,844	308,273
Less: Unearned income	(4,089)	(4,608)
Less: Provision for impairment	(39,617)	(49,754)
	272,138	**253,911**

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

8. PROJECT ASSETS

	1436H			1435H (Restated)		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Istisna'a	4,082,431	66,600	**4,149,031**	3,601,360	105,566	3,706,926
Restricted Mudaraba	527,763	-	**527,763**	225,576	-	225,576
Instalment sale	1,368,560	44,605	**1,413,165**	1,294,887	48,353	1,343,240
Ijarah	1,559,865	984,665	**2,544,530**	1,371,962	937,719	2,309,681
Loans	1,911,123	1,089	**1,912,212**	1,827,833	-	1,827,833
	9,449,742	**1,096,959**	**10,546,701**	**8,321,618**	**1,091,638**	**9,413,256**
Less: Impairment provision	(132,956)	(422)	**(133,378)**	(100,482)	(21,017)	(121,499)
	9,316,786	**1,096,537**	**10,413,323**	**8,221,136**	**1,070,621**	**9,291,757**

Notes 9-13 provide detailed information on each type of project assets. Note 14 provides detailed information on credit risk, impairment provisions and quality of financial assets.

9. ISTISNA'A ASSETS

	1436H	1435H (Restated)
Istisna'a assets in progress	2,111,075	2,341,035
Istisna'a receivable	2,342,654	1,752,258
Accrued income	155,218	128,641
Less: unearned income	(459,916)	(515,008)
Less: provision for impairment	(23,478)	(14,338)
	4,125,553	**3,692,588**

10. RESTRICTED MUDARABA

	1436H	1435H
Opening Balance	225,576	101,895
Additions	292,536	123,681
Foreign exchange gains	9,651	-
Restricted Mudaraba assets, net	**527,763**	**225,576**

11. INSTALMENT SALE

	1436H	1435H (Restated)
Gross amount receivable	1,620,741	1,517,013
Accrued income	14,306	81,666
Less: Unearned income	(221,882)	(255,439)
Less: Provision for impairment	(14,139)	(8,831)
	1,399,026	**1,334,409**

12. IJARAH ASSETS

	Note	1436H	1435H (Restated)
Assets under construction	*12.1*	1,101,448	1,030,864
Assets in use	*12.2*	2,648,998	2,304,765
Less: Accumulated depreciation of assets in use	*12.3*	(1,205,916)	(1,025,948)
Balance, net of accumulated depreciation		**2,544,530**	**2,309,681**
Less: Provision for impairment	*14*	(28,946)	(41,408)
		2,515,584	**2,268,273**

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

12.1 Assets under construction	**1436H**	**1435H (Restated)**
At 1 Muharram	1,030,864	868,124
Additions	414,817	313,409
Transferred to assets in use	(344,233)	(150,669)
At 30 Dhul Hijjah	**1,101,448**	**1,030,864**

12.2 Assets in use	**1436H**	**1435H (Restated)**
At 1 Muharram (Note 30)	2,304,765	2,154,096
Transferred from assets under construction	344,233	150,669
At 30 Dhul Hijjah	**2,648,998**	**2,304,765**

12.3 Accumulated depreciation of assets in use	***1436H***	**1435H (Restated)**
At 1 Muharram (Note 30)	(1,025,948)	(861,287)
Charge for the year	(173,972)	(160,381)
Share of syndication participants	(5,996)	(4,280)
At 30 Dhul Hijjah	**(1,205,916)**	**(1,025,948)**

12.4 Net balance of Ijarah assets	**1436H**	**1435H (Restated)**
Balance net of accumulated depreciation	2,544,530	2,309,681
Less: Provision for impairment	(28,946)	(41,408)
	2,515,584	**2,268,273**

13. LOANS

	1436H	**1435H (Restated)**
Loans	1,912,212	1,827,833
Less: provision for impairment	(66,815)	(56,922)
	1,845,397	**1,770,911**

14. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

Provision for impairment of the assets by types at 30 Dhul Hijjah are comprised of the following:

		1436H			**1435H**		
	Note	**Specific**	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Cash and bank	4	10,456	-	**10,456**	10,456	-	**10,456**
Commodity placement	5	3,684	-	**3,684**	3,502	-	**3,502**
Murabaha	7	37,595	2,022	**39,617**	47,757	1,997	**49,754**
Istisna'a	9	138	23,340	**23,478**	273	14,065	**14,338**
Instalment sale	11	11,100	3,039	**14,139**	7,469	1,362	**8,831**
Ijarah	12	19,059	9,887	**28,946**	35,142	6,266	**41,408**
Loans	13	37,517	29,298	**66,815**	32,202	24,720	**56,922**
Equity investments	15	52,097	-	**52,097**	68,575	-	**68,575**
Other investments		4,208	-	**4,208**	4,208	-	**4,208**
		175,854	**67,586**	**243,440**	**209,584**	**48,410**	**257,994**

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

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

	1436H			1435H		
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Balance at 1 Muharram	209,584	48,410	**257,994**	225,598	19,450	**245,048**
(Reversals) charge for the year	(310)	19,176	**18,866**	(16,014)	28,960	**12,946**
Write offs / Disposals	(33,420)	-	**(33,420)**	-	-	**-**
Balance at 30 Dhul Hijjah	**175,854**	**67,586**	**243,440**	**209,584**	**48,410**	**257,994**

As at the end of the years 1436H and 1435H, the following is the ageing of the overdue instalments:

	1436H						
In months	**0-6**	**6-12**	**12-24**	**Over 24**	**Total**	**Sovereign**	**Non Sovereign**
Murabaha financing	4,743	-	-	37,595	**42,338**	**3,181**	**39,157**
Istisna'a assets	3,314	-	-	138	**3,452**	**3,452**	**-**
Instalment sale	4,723	2,147	3,940	2,875	**13,685**	**12,972**	**713**
Ijarah assets	3,074	2,022	3,899	11,260	**20,255**	**19,919**	**336**
Loans	8,794	1,113	1,081	8,916	**19,904**	**19,904**	**-**
Total	**24,648**	**5,282**	**8,920**	**60,784**	**99,634**	**59,428**	**40,206**

	1435H						
In months	**0-6**	**6-12**	**12-24**	**Over 24**	**Total**	**Sovereign**	**Non Sovereign**
Murabaha financing	-	-	-	38,953	**38,953**	**90**	**38,863**
Istisna'a assets	1,559	272	-	-	**1,831**	**1,831**	**-**
Instalment sale	9,425	2,309	286	2,610	**14,630**	**13,413**	**1,217**
Ijarah assets	3,661	2,354	5,788	25,809	**37,612**	**16,676**	**20,936**
Loans	1,832	2,495	1,428	9,052	**14,807**	**14,807**	**-**
Total	**16,477**	**7,430**	**7,502**	**76,424**	**107,833**	**46,817**	**61,016**

15. EQUITY INVESTMENTS

	1436H	**1435H**
Equity investments at 30 Dhul Hijjah:		
Listed	618,307	666,771
Unlisted	173,559	179,445
	791,866	**846,216**
Less: Provision for impairment	(52,097)	(68,575)
	739,769	**777,641**

	1436H	**1435H**
Balance at 1 Muharram	777,641	713,064
Movements during the year:		
Additions	12,450	9,965
Disposals	(850)	(5,162)
Provision for impairment	-	(885)
Transfer from associates	-	1,228
Transfer to Other Investments	(1,009)	-
Net unrealised fair value (losses)/ gains	(48,463)	59,431
Balance at 30 Dhul Hijjah	**739,769**	**777,641**

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

16. INVESTMENTS IN ASSOCIATES

	1436H	1435H
Balance at 1 Muharram	633,150	602,178
Foreign currency translation and other movements	8,674	19,409
Transfer (to) / from investments in equity capital	-	(1,228)
Share of net results	15,452	17,716
Net gain/(Loss) on acquisition and disposal of associates	643	(4,307)
Cash dividend received	(1,047)	(618)
Balance at 30 Dhul Hijjah	**656,872**	**633,150**

Name of the entity	Country of incorporation	Entity's activities	1436H	1435H
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	23.71%	23.71%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
International Leasing and Investment Company (ILIC)	Kuwait	Investment Co.	31.24%	31.24%
Sonali Paper & Board Mills	Bangladesh	Manufacturing	24.61%	24.61%
Northern Jute Company	Bangladesh	Manufacturing	30.00%	30.00%
National Fibres Limited	Pakistan	Manufacturing	21.15%	21.15%
Tatarstan International Investment Company (TIIC)	Russia	Investment Co.	20.32%	20.32%
Islamic Bank of Senegal	Senegal	Banking	33.26%	33.26%
Islamic Corporation for the Development of the Private Sector (ICD)	Saudi Arabia	Private Sector Investment	45.50%	46.74%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	37.63%	37.90%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	38.60%	38.60%

The financial position, revenue and results of associates based on their financial statements for the interim and final periods in 1436H and 1435H are as follows:

	Year	IDB's share in net assets	Total assets	Total liabilities	Revenue	Net income/ (loss)
Allied Cooperative Insurance Group	1436	4,420	101,998	79,900	52,406	1,916
	1435	3,896	58,738	39,264	28,583	943
Bosna Bank International	1436	17,639	260,218	221,414	9,480	1,371
	1435	17,633	244,787	205,995	11,205	870
Islamic Bank of Guinea	1436	2,921	30,648	24,804	2,095	(1,222)
	1435	3,582	30,614	23,448	1,873	(227)
Bank Muamalat Indonesia	1436	41,779	2,952,448	2,776,241	308,832	7,621
	1435	57,405	3,324,474	3,075,925	226,554	1,723
Syrikat Takaful Indonesia	1436	1,495	61,877	56,212	7,393	113
	1435	1,843	69,178	62,193	9,011	(26)
Sonali Paper & Board Mills	1436	304	73,795	72,559	9,586	247
	1435	231	69,016	68,080	9,040	157
Islamic Bank of Senegal	1436	10,367	250,829	219,660	15,207	3,652
	1435	10,252	210,832	180,008	11,781	3,049
TIIC	1436	110	557	15	236	(29)
	1435	173	868	17	0	(178)

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

	Year	IDB's share in net assets	Total assets	Total liabilities	Revenue	Net income/ (loss)
ICD	1436	324,693	1,212,644	491,942	68,849	8,405
	1435	304,774	1,024,030	371,968	67,743	16,911
ITFC	1436	229,720	624,325	13,772	37,522	20,066
	1435	211,145	576,624	19,514	30,437	18,542
APIF	1436	23,424	62,838	2,154	4,268	1,491
	1435	22,217	58,046	490	3,759	1,877
ILIC	Fully impaired					
National Fibres Limited	Fully impaired					
Northern Jute Company	Fully impaired					

Allied Cooperative Insurance Group is a listed entity and the value of investment based on the quoted market price at 30 Dhul Hijjah 1436H is ID 14.206 million (1435H: ID18.45 million).

17. OTHER ASSETS

	1436H	1435H
Accrued income – Loans, Ijarah and Restricted mudaraba	71,554	77,301
Accrued income – Investments in sukuk carried at fair value through profit and loss account.	4,920	5,598
Related party balances (Note 29)	22,571	12,084
Positive fair value of swaps	17,787	27,826
Staff loans and advances	22,708	22,644
Other	21,256	10,346
	160,796	**155,799**

Swaps represent the following Murabaha based profit rate and cross currency profit rate swaps with financial institutions at 30 Dhul Hijjah:

1436H	Currency	Notional amount in: Original currency	Notional amount in: ID equivalent	Net fair value ID: Asset	Net fair value ID: Liability (Note20)
Profit rate swaps	USD	1,000,000	708,406	2,171	(354)
Cross currency profit rate swap	GBP/USD	100,000	107,983	-	(5,988)
Cross currency profit rate swap	GBP/EUR	60,000	64,790	15,616	-
Cross currency profit rate swap	SAR/USD	1,875,000	354,205	-	(36,440)
	ID		**1,235,384**	**17,787**	**(42,782)**

1435H	Currency	Notional amount in: Original currency	Notional amount in: ID equivalent	Net fair value ID: Asset	Net fair value ID: Liability (Note20)
Profit rate swaps	USD	1,000,000	673,360	8,735	-
Cross currency profit rate swap	GBP/USD	200,000	216,015	9,909	-
Cross currency profit rate swap	GBP/EUR	60,000	64,805	9,182	-
Cross currency profit rate swap	SAR/USD	1,875,000	336,679	-	(23,910)
	ID		**1,290,859**	**27,826**	**(23,910)**

The following realised and unrealised fair value gains and losses have been reported for the years ended 1436H and 1435H:

	1436H fair value gains/(losses): Unrealised	Realised	Total	1435H fair value gains/(losses): Unrealised	Realised	Total
Profit rate swaps	(7,378)	2,789	**(4,589)**	(16,165)	14,200	(1,965)
Cross currency profit rate swap	(16,628)	(6,383)	**(23,011)**	3,240	(6,704)	(3,464)
	(24,006)	**(3,594)**	**(27,600)**	**(12,925)**	**7,496**	**(5,429)**

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

Profit rate swaps
Under the arrangement, the Bank swaps fixed profit rate with floating profit rate or vice versa with the counterparty.

Cross currency swap
The Bank has issued sukuk amounting to Saudi Riyal SAR 1,875 million (ID 354.2 million), and Pound Sterling GBP160 million (ID 172.7 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 swaps for the contract amount of SAR 1,875 million and GBP 160 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 profit rate swaps and cross currency profit rate swaps, the counterparties act as agents of the Bank to buy and sell Shari'ah compliant assets for immediate delivery. Under these arrangements Murabaha contracts generate fixed payments (comprising both a cost price and a fixed rate profit mark-up) or vice versa. Corresponding Reverse Murabaha contracts generate the floating leg payments (the cost price is fixed but the profit rate mark-up is floating) or vice versa.

18. SUKUK LIABILITY

IDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 30 Dhul Hijjah 1436H and 1435H sukuk issued were as follows:

Date of issue		Issue	ID equivalent		Maturity	
Gregorian	Hijri equiv.	currency	1436H	1435H	date	Rate
Listed						
27-10-10	19-11-1431	USD	357,096	339,424	27-10-15	1.775 % Fixed
25-05-11	22-06-1432	USD	535,988	509,670	25-05-16	2.35 % Fixed
26-06-12	06-08-1433	USD	568,735	540,650	26-06-17	1.357 % Fixed
04-06-13	25-07-1434	USD	711,620	676,460	04-06-18	1.535 % Fixed
31-07-13	23-09-1434	MYR	Redeemed	62,152	31-07-18	3.60 % Fixed
06-03-14	05-05-1435	USD	1,063,720	1,011,402	06-03-19	1.8125 % Fixed
17-07-14	20-09-1435	USD	711,503	676,516	17-07-19	1.8818 % Fixed
25-09-14	01-12-1435	USD	1,062,590	1,010,559	25-09-19	2.111 % Fixed
12-03-15	21-05-1436	USD	708,473	-	12-03-20	1.83 % Fixed
			5,719,725	**4,826,833**		
Not listed						
20-09-10	11-10-1431	SAR	177,336	168,672	20-09-20	2.55 % Fixed
20-09-10	11-01-1431	SAR	177,137	168,357	20-09-20	6 Month LIBOR + 15 BP
17-02-11	14-03-1432	GBP	64,863	64,882	17-02-16	3 Month LIBOR +0.15%
30-01-12	07-03-1433	GBP	108,219	108,271	30-01-17	3 Month LIBOR +.50%
07-08-12	19-09-1433	GBP	Matured	108,162	07-08-15	3 Month LIBOR +0.19%
11-10-12	25-11-1433	USD	354,185	336,703	11-10-17	3 Month LIBOR +0.30%
22-04-14	22-06-1435	USD	71,029	67,445	22-04-17	0.90 % Fixed
20-10-14	26-12-1435	EUR	242,386	255,624	20-10-18	0.3330% Fixed
13-07-15	26-09-1436	EUR	80,606	-	13-07-20	0.31% Fixed
15-09-15	02-12-1436	EUR	80,556	-	15-09-20	0.23% Fixed
09-10-15	26-12-1436	EUR	241,392	-	09-10-20	0.318% Fixed
			1,597,709	**1,278,116**		
			7,317,434	**6,104,949**		

The sukuk certificates confer on certificate holders the right to receive periodic distribution amounts arising from the Bank's Murabaha, Istisna'a, Instalment sale and Ijarah assets. The Bank guarantees as a third party and on behalf of member countries, any shortfall in the scheduled instalments. Financing cost incurred on sukuk issued during 1436H was ID110.2 million (1435H: ID81.16 million).

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

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 676.2 million as of 30 Dhul Hijjah 1436H (1435H: ID 1,031.2 million) represents the purchase price under these agreements. Financing cost incurred on commodity purchase liabilities during 1436H was ID 0.5 million (1435H: ID3.2 million)

20. OTHER LIABILITIES

	1436H	1435H
Payables against commodity purchase liabilities	28,804	6,761
Related party balances (Note 29)	8,242	14,884
Investment Deposits	3,318	2,891
Accrued expense	8,411	22,165
Deferred income – Ijarah and Istisna'a	34,652	13,678
Accrued staff retirement and medical benefit scheme liability (Note 21)	87,382	92,916
Swaps (Note 17)	42,782	23,910
Deferred grant income	10,203	10,770
Others	30,559	30,042
	254,353	**218,017**

21. RETIREMENT BENEFITS

IsDB Group staff retirement plan comprises of a defined staff retirement pension plan (SPP) and a staff retirement medical plan (SRMP). Every person employed by the Bank and its affiliates on a full-time basis, as defined in the Bank and affiliates employment policies, is eligible to participate in the SRMP, upon completion of 6 months service without interruption of more than 30 days.

Staff Pension Plan (SPP)

The SPP is a defined benefit pension plan and became effective on 1st Rajab 1399H. Every person employed by the Bank and its affiliates on a full-time basis except for fixed term employees, as defined in the Bank and its affiliates employment policies, is eligible to participate in the SPP, upon completion of the probationary period of service, generally 1 year.

The Pension Committee appointed by the President, IDB Group on behalf of its employees administers SPP as a separate fund. The Pension Committee is responsible for the oversight of investment and actuarial activities of the SRPP. The SPP's assets are invested in accordance with the policies set out by the Pension Committee. The Bank and its affiliates underwrite the investment and actuarial risk of the SRP and share the administrative expenses.

The main features of the SPP 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 SPP, the employee contributes at a rate of 9% of the basic annual salary while the Bank and its affiliates contribute 21%.

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

Staff Retirement Medical Plan (SRMP)

Effective 1st Muharram 1421H, the Bank established a medical benefit scheme for retired employees via the Board of Executive Director (BED) resolution dated 18 Shawwal 1418H. This was extended to eligible staff members of the Bank's affiliates i.e. on SPP.

The Bank and its affiliates at rate 1% and the staff at a rate 0.5% of the basic salaries respectively fund the SRMP.

The purpose of the SRMP is to pay a monthly amount to eligible retired employees towards their medical expenses. The administration of the SRMP is independent of the SPP and contributions are invested in a similar manner to that of the SPP under the management of the Pension Committee.

The monthly entitlements payable for each retired employee is computed according to the following formula:

{Highest average remuneration X contributory period X 0.18%} / 12

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

	SPP		SRMP	
	1436H	**1435H**	**1436H**	**1435H**
Benefit obligation at 1 Muharram	270,133	225,811	17,318	13,466
Current Service costs	15,255	11,137	1,404	1,042
Interest cost on Defined Benefit Obligation(DBO)	13,126	12,006	863	739
Plan participations contributions	5,134	4,369	275	239
Disbursements from Plan Assets	(6,637)	(7,622)	(219)	(213)
Net actuarial (gain)/loss	(8,452)	24,432	(587)	2,045
Currency translation loss	21,676	-	1,358	-
Benefit obligation at 30 Dhul Hijjah	**310,235**	**270,133**	**20,412**	**17,318**

The movements in the plan assets are as follows:

	SPP		SRMP	
	1436H	**1435H**	**1436H**	**1435H**
Fair value of plan assets at 1 Muharram	186,917	141,345	7,618	6,752
Interest income on Plan Assets	8,748	7,305	363	355
Return on Plan Assets greater/(less) than discount rate	15,331	29,545	(24)	11
Plan participations contributions	11,926	4,369	552	474
Employer contribution	5,134	11,975	275	239
Disbursements from Plan Assets	(6,637)	(7,622)	(219)	(213)
Currency translation gain	12,653	-	628	-
Fair value of plan assets at 30 Dhul Hijjah	**234,072**	**186,917**	**9,193**	**7,618**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 20)	**76,163**	**83,216**	**11,219**	**9,700**

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.

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year 1436H and 1435H for the Bank and its affiliates comprised the following:

	SPP		SRMP	
	1436H	**1435H**	**1436H**	**1435H**
Gross current service costs	15,255	11,137	1,404	1,042
Interest cost on DBO	13,126	12,006	863	739
Interest income on assets	(8,748)	(7,305)	(363)	(355)
Cost recognized in income statement	**19,633**	**15,838**	**1,904**	**1,426**
Actuarial (gain)/loss due to assumptions	(8,452)	24,453	(587)	1,828
Return on plan assets (less)/greater than discount rate	(15,331)	(29,578)	24	(11)
Foreign exchange loss	16,730	-	2,082	-
Cost recognized in statement of changes of equity	**(7,053)**	**(5,125)**	**1,519**	**1,817**

Principal assumptions used in the actuarial valuations dated 28 Safar 1436H (20 December 2014) and extended as at end of the years are as follows:

	SPP		SRMP	
	1436H	**1435H**	**1436H**	**1435H**
Discount rate	4.4%	4.3%	4.4%	4.3%
Rate of expected salary increase	4.5%	4.5%	4.5%	4.5%

The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AA Corporate Bonds.

The following table presents the plan assets by major category:

	SPP		SRMP	
	1436H	**1435H**	**1436H**	**1435H**
Cash and cash equivalent and commodity placements	3,741	14,087	509	858
Syndicated Murabaha	6,866	4,031	566	1,184
Managed funds and Instalment sales	40,857	29,182	-	-
Investments in sukuk	149,786	107,361	8,131	5,740
Land	35,533	29,344	-	-
Other (net)	(2,711)	2,912	(13)	(164)
Plan assets	**234,072**	**186,917**	**9,193**	**7,618**

1.2% of staff retirement plan assets (1436H: 3.9%) are invested respectively within the Bank and its affiliates as of 30 Dhul Hijjah 1436H.

The following table summarizes the funding status of the SPP at end of the last five reporting years:

	1436H	**1435H**	**1434H**	**1433H**	**1432H**
Present value of defined benefit obligation	(310,235)	(270,133)	(225,811)	(193,033)	(161,496)
Fair value of plan assets	234,072	186,917	141,345	131,899	108,077
Plan deficit	**(76,163)**	**(83,216)**	**(84,466)**	**(61,134)**	**(53,419)**

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

The following table summarizes the funding status of the SRMP at end of the last five reporting years:

	1436H	1435H	1434H	1433H	1432H
Present value of defined benefit obligation	(20,412)	(17,318)	(13,466)	(12,199)	(9,686)
Fair value of plan assets	9,193	7,618	6,752	5,867	4,953
Plan deficit	**(11,219)**	**(9,700)**	**(6,714)**	**(6,332)**	**(4,733)**

The amounts recognized in the pension and medical obligations reserve are as follows:

	SPP	SRMP	1436H Total	1435H Total
Balance at 1 Muharram	83,216	9,700	92,916	91,180
Movements during the year	(7,053)	1,519	(5,534)	1,736
Balance at 30 Dhul Hijjah	**76,163**	**11,219**	**87,382**	**92,916**

22. PAID UP CAPITAL

Capital includes subscriptions paid-up by Member Countries. The Bank is not exposed to any externally imposed capital requirements. As at the reporting date, IsDB's shareholders consist of 56 member countries from Asia, Africa, Europe and South America.

The capital of the Bank as at 30 Dhul Hijjah was as follows:

		1436H	1435H
Authorized capital	10,000,000 shares of ID 10,000 each	**100,000,000**	100,000,000
Issued capital	5,058,202 shares of ID 10,000 each	**50,582,020**	50,582,020
Less: available for subscription		**(663,610)**	(716,300)
Subscribed capital		**49,918,410**	49,865,720
Callable capital		**(40,563,770)**	(40,511,080)
Called up capital		**9,354,640**	9,354,640
Amount not yet due		**(4,279,042)**	(4,392,588)
Instalments overdue		**(135,600)**	(108,185)
Paid up capital		**4,939,998**	**4,853,867**

23. RESERVES

Reserves consist of the general reserves, net result for the previous year, fair value reserve for recognition of fair value gains and losses on Investments designated at fair value through equity, pension and medical obligations and other reserves mainly intended to report reserve movements related to investments in associates.

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. As at 30 Dhul Hijjah 1436H, general reserve made up 4.8% of the subscribed capital (1435H: 4.7%). Any excess of the net income over the above limit is available for distribution to Member Countries.

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

According to the Board of Governors' resolution dated 12 Rajab 1434H (22 May 2013), the following allocations were made from the general reserve during 1436H:

- the higher of 5% of the Bank's 1435H normalised net income and USD5 million was allocated to finance technical assistance operations in the form of grants amounting to ID6.0 million (1435H: ID 8.1million).

- higher of 2% of the Bank's 1435H normalised net income and USD2 million was allocated to the merit scholarship programme in the form of grants amounting to ID2.4 million (1435H: ID3.2 million).

- higher of 2% of the Bank's 1435H normalised net income and USD4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 2.8 million (1435H: ID 2.7).

24. ADMINISTRATIVE EXPENSES

	1436H	1435H
Staff cost	85,217	80,187
Business travel	6,039	5,220
Consultancy fees	3,141	8,219
Other	14,896	16,520
	109,293	**110,146**

25. COMMITMENTS

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet needs of its customers. These instruments comprise commitments to make project related disbursements, equity contribution commitments and other items and are not reflected in the statement of financial position.

Commitment date of the IsDB for all Project Financing Operations was changed during financial year 1436H to be the "date of effectiveness" of the respective financing agreements rather than previously defined the "signature +60 days or effectiveness whichever comes first". Hence, 1435H figures have been revised to align with the new definition.

The Bank uses same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet operations.

Undisbursed commitments	**1436H**	**1435H Restated**
Istisna'a	5,462,694	4,465,889
Restricted Mudaraba	138,907	205,375
Instalment sales	824,946	692,262
Loans	874,036	919,235
Ijarah	2,027,599	1,261,068
Equity investments – capital contributions	173,938	138,813
Principal contributions to ISFD	141,681	202,703
	9,643,801	**7,885,345**

Capital contributions to ISFD

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 various productive and service projects and programmes that help in reducing poverty in Member Countries of the OIC. The target principal amount of the Fund is USD10.0 billion and the Bank has committed to contribute USD1.0 billion, payable in 10 annual instalments of USD100.0 million each (ID69.8 million) (1435H: ID64.9 million). The Bank as at 30 Dhul Hijjah 1436H has already paid the first eight instalments amounting to USD800.0 million. The remaining amount of ID142.0 (USD200.0 million) represents undisbursed commitments.

26. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to Special Account Resources Waqf Fund where the Bank uses these funds for charitable purposes as defined by the Shari'ah Supervisory Board.

Income realised during the year from transactions which are not permitted by Shari'ah amounted to ID 0.14 million (1435H: ID 0.10 million).

27. SHARI'AH COMMITTEE

The Bank's business activities are subject to the supervision of a Shari'ah Committee consisting of members appointed by the Bank's General Assembly. Shari'ah Committee for the Bank, its affiliates and trust funds was established pursuant to the Board Resolution. Members of the Shari'ah Committee of the Bank, its affiliates and trust funds are appointed for a period of 3 years renewable.

The Committee has the following functions:

- to consider all products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on their conformity with the principles of the Shari'ah, and lay down basic principles for drafting of related contracts and other documents;

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

- to respond to the Shari'ah related questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank, its affiliates and trust funds;

- to contribute to the Bank, its affiliates and trust funds programme for enhancing the awareness of its staff members of Islamic banking and deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and

- to submit to the Board of Executive Directors of the Bank, its affiliates and trust funds a comprehensive report showing the measure of the Bank's, 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)

28. RESTRICTED INVESTMENT ACCOUNTS

The Bank in its capacity as a Mudarib has invested funds of holders of restricted investment accounts for a fixed fee and does not participate in the investment results. Restricted investment 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 30 Dhul Hijjah 1436H amounted to ID73.9 million (1435H: ID64.1 million).

29. 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.

The 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:

	1436H		1435H	
	Assets	**Liabilities**	**Assets**	**Liabilities**
World Waqf Foundation	120	-	369	-
APIF	1,482	-	-	(2,703)
UIF	195	-	70	-
ICIIEC	1,336	-	1,442	-
Special Account Resources Waqf Fund	-	(1,299)	-	(2,947)
IDB Special Assistance Fund	-	(4)	-	-
IDB Pension Fund	9,840	-	-	-
IDB Medical Fund	55	-	236	-
Al-Aqsa Fund	198	-	-	(6,537)
ICD	2,116	-	2,989	-
Arab Bank for Economic Development in Africa	39	-	39	-
ITFC	372	-	126	-
Fael Khair Program	55	-	4	-
ISFD	-	(6,290)	657	-
Sacrificial Meat Project	3,609	-	3,429	-
GCC Program for Reconstruction of Gaza	268	-	16	-
Kafala Program	-	-	7	-
Dueauville Partnership	-	(105)	-	-
Somalia Trust Fund	-	(290)	2,697	-
Myammar Fund	-	(26)	3	-
Mobile Clinic	-	(228)	-	(2,697)
Ebola Program	1,779	-	-	-
Kuwait Fund	1,107	-	-	-
Total	**22,571**	**(8,242)**	**12,084**	**(14,884)**

The Bank provides management services to affiliates and special trust funds.

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

(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)

(b) Compensation of Key management and expenses of the Board of executive Directors

Key management comprises the President and the three Vice Presidents. The compensation paid or payable to key management for their services and expenses related to the Board of Executive Directors are shown below:

	1436H	1435H
Board of Executive Directors expenses	1,292	1,198
Salaries and other short-term benefits	1,373	1,756
Accumulated post-employment benefits	1,349	1,446

30. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATION

Revenue recognition policy change

In 1436H, the Bank changed its accounting policy with respect to the recognition of income from Istisna'a, Instalment Sales and Ijarah modes of finance. The new accounting policy uses the effective yield basis in recognizing income from these assets. Under this basis, the incomes for Istisna'a, Instalment Sales and Ijarah are calculated by applying the contractual rates of return to carrying amounts of assets at each reporting period. Prior to 1436H, the Bank applied the Time Apportionment method using straight-line basis whereby the income was recognised evenly over the life of the asset irrespective of the carrying amounts at each reporting date.

The Bank believes the new policy, which is also within the AAOIFI framework, provides more reliable and relevant information on the Bank's financial position and performance by effectively matching income with related asset balances. The impact of this voluntary change in accounting policy on the financial statements as at the beginning of 1435H is shown in the table below:

Pre-1435H impact	As previously reported	Restatement	As Restated
Istisna'a assets	3,181,353	127,332	**3,308,685**
Instalment sales	1,174,984	75,500	**1,250,484**
Ijarah assets	2,069,506	54,872	**2,124,378**
Opening balance of reserves	2,274,446	257,704	**2,532,150**

The impact of the accounting policy change and certain reclassifications on the financial statements for the year ended 30th Dhul Hijjah 1435H is shown in the summary table below:

1435H	As previously reported	Restatement	Reclassification No.1	Reclassification No.2	Reclassification No.3	As restated
Income Statement	-	-	-	-	-	-
Income from Istisna'a assets	130,400	22,691	-	-	-	153,091
Income from Instalment sale	51,461	10,285	-	-	-	61,746
Depreciation of Ijarah assets	(150,744)	(9,637)	-	-	-	(160,381)
Net Income for the year	141,710	23,339	-	-	-	165,049
Financial Position	-	-	-	-	-	-
Commodity placements	1,726,935	-	-	-	4,509	1,731,444
Sukuk investments	1,046,215	-	-	-	1,578	1,047,793
Istisna'a assets	3,639,500	150,023	-	(225,576)	128,641	3,692,588
Restricted Mudaraba	-	-	-	225,576	-	225,576

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

1435H	As previously reported	Restatement	Reclassification No.1	Reclassification No.2	Reclassification No.3	As restated
Instalment sale	1,166,958	85,785	-	-	81,666	1,334,409
Ijarah assets	2,223,038	45,235	-	-	-	2,268,273
Loans	1,768,480	-	-	-	2,431	1,770,911
Other assets	379,327	-	-	-	(223,528)	155,799
Total Assets	14,798,925	281,043	-	-	(4,703)	15,075,265
Commodity purchase liabilities	1,030,279	-	-	-	949	1,031,228
Sukuk issued	6,086,068	-	-	-	18,881	6,104,949
Other liabilities	242,550	-	-	-	(24,533)	218,017
Total Liabilities	7,358,897	-	-	-	(4,703)	7,354,194
General Reserves	2,079,487	257,704	-	-	-	2,337,191
Fair value reserves	451,454	-	26,492	-	-	477,946
Other reserves	6,426	-	(26,492)	-	-	(20,066)

Reclassification (No.1) from fair value reserve to other reserve

In the opening balance of 1435H, an amount of ID 26.5 million relating to negative fair value reserves on account of associates reserve movements were classified under other reserves. This amount has now been reclassified from other reserves to fair value reserves.

Reclassification (No.2) from Istisna'a to Restricted mudaraba

In 1435H, the Bank reported its restricted mudaraba balances within Istisnaa assets due to insignificance of the balance. In 1436H with the increase in restricted mudaraba operations, the Bank decided to disclose restricted mudaraba as a separate line item on the face of the statement of financial position. This disclosure resulted in reclassification of ID 225,576 of restricted mudaraba balance as at 30th Dhul Hijja 1435H from Istisna'a assets.

Reclassification (No.3) of accrued income

Prior to 1436H, the Bank reported its accrued income and costs separately from the related assets and liabilities. At 30th Dhul Hijja 1436H, the Bank reported such accrued income and financing costs together with the respective asset and liability balances and, accordingly, reclassified the related balances as at the end of 1435H.

31. RISK MANAGEMENT

The Bank's risk management philosophy is to manage the key risk dimensions to preserve asset value and income streams and safeguard the interests of both the shareholders and sukuk holders. Risks inherent in the Bank's activities are managed through a process of ongoing identification, measurement, mitigation and monitoring. Risk limits are in place as a primary mitigating measure in addition to other controls.

The Bank is exposed mainly to credit, liquidity, market and operational risks. The degree of risk the Bank is willing to assume in pursuing the developmental mandate is limited by its risk-bearing capacity, risk tolerance and commitment to maintain a prudent risk profile consistent with maintaining the 'AAA' credit rating. The risks and processes to mitigate these risks have not significantly changed from the previous year.

The highest level of risk management oversight in the Bank is assured by the Board of Executive Directors and is delegated to the Bank's President. The Board is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Audit Committee of the Board regularly reviews trends in the Bank's risk profiles and performance to ensure compliance with the underlying policies.

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

Three management level committees perform risk monitoring and oversight roles: the Asset and Liability Management Committee (ALCO), the Operations and Investment Committees (OC and IC) and Group Risk Management Committee (GRMC). The ALCO is the oversight and control organ of the Bank's finance and treasury risk management activities. OC and IC ensure effective implementation of the Bank's credit policies and oversees all credit risk issues related to sovereign and non-sovereign operations. The GRMC ensures that there is appropriate monitoring and oversight on all major risks arising from financing and investment operations through adopting relevant risk management frameworks, policies, guidelines and risk reports.

Further, the Bank has a Group Risk Management Department ("GRMD") that is responsible for identification, assessment, mitigation and reporting on key financial risks. Day-to-day operational responsibility for implementing the Bank's financial and risk management policies and guidelines are delegated to the appropriate business departments.

The following sections describe in detail the manner in which the Bank manages the different sources of risks.

Credit Risk

Credit risk is the risk that an obligor (i.e. sovereign, financial institution, corporate, project company, etc.) may fail to discharge its contractual obligation resulting in financial loss to the Bank. Credit risk is the largest source of risk for the Bank arising essentially from its financing and investment operations.

The Bank manages three principal sources of credit risk: (i) credit risk pertaining to its sovereign financing operations portfolio; (ii) credit risk pertaining to its non-sovereign financing portfolio (projects, corporates, and financial institutions); and (iii) counterparty credit risk in its treasury portfolio. The Bank has put in place a comprehensive credit risk management framework including policies, guidelines, and tools on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by GRMD, which ensures that business departments comply with relevant guidelines and prudential limits established by the Board of Executive Directors ("BED") and Management. The Bank uses a 21-scale risk rating system, with "1" being the best rated exposure and corresponding to "AAA" on the international rating agencies scale and 21 as selective default. The 21 scales are again grouped into 7 category starting from "A" to "G".

The Bank's total outstanding exposure as at 30 Dhul Hijjah on its sovereign and non-sovereign Project assets and Murabaha financing are summarized below:

1436H **Country**	**Total outstanding exposure**	**% of total outstanding exposure**
Turkey	952,516	8.8%
Pakistan	927,604	8.5%
Morocco	793,809	7.3%
Iran	628,777	5.8%
Indonesia	508,409	4.7%
Tunisia	480,446	4.4%
Bahrain	440,481	4.1%
Saudi Arabia	397,942	3.7%
Azerbaijan	382,608	3.5%
Sudan	327,015	3.0%
Total Top 10 Countries	**5,839,607**	**53.8%**
Total Other Countries	**5,018,849**	**46.2%**

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

1436H Country	**Total outstanding exposure**	**% of total outstanding exposure**
Total All Countries	**10,858,456**	**100.0%**
Total sovereign exposure	9,663,725	89.0%
Total non-sovereign exposure	1,194,731	11.0%
Total	**10,858,456**	**100.0%**

1435H Country	**Total outstanding exposure**	**% of total outstanding exposure**
Morocco	860,152	8.9%
Pakistan	813,584	8.4%
Iran	578,939	6.0%
Turkey	511,897	5.3%
Tunisia	500,202	5.1%
Indonesia	443,060	4.6%
Bahrain	406,011	4.2%
Azerbaijan	364,266	3.7%
Saudi Arabia	336,405	3.4%
Sudan	323,547	3.3%
Total Top 10 Countries	**5,138,063**	**52.9%**
Total Other Countries	**4,578,858**	**47.1%**
Total All Countries	**9,716,921**	**100.0%**
Total sovereign exposure	8,548,701	88.0%
Total non-sovereign exposure	1,168,220	12.0%
Total	**9,716,921**	**100.0%**

Sovereign credit risk

When the Bank finances sovereign entities, it requires a full sovereign guarantee or the equivalent. In extending such financing, the Bank is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk, taking into consideration its preferred creditor treatment, through appropriate policies and guidelines covering the end-to-end process including country risk assessment and limit setting, operations planning, quality at entry of project proposals, disbursement, repayment and overdue management. Portfolio monitoring is performed on regular basis to ensure adherence to guidelines and limits and appropriate actions are taken to preserve the quality of the portfolio.

The table below provides analysis of the credit quality of sovereign exposures related to gross Project assets and Murabaha financing:

	1436H		**1435H**	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	1,054	0.0%	1,480	0.0%
Category "B"	3,284,831	34.0%	2,799,909	32.8%
Category "C"	1,697,672	17.6%	1,564,694	18.3%
Category "D"	2,738,612	28.3%	2,403,614	28.1%
Category "E"	1,184,750	12.3%	1,035,232	12.1%
Category "F"	452,103	4.7%	107,150	1.3%
Category "G"	304,703	3.1%	636,622	7.4%
Total	**9,663,725**	**100.0%**	**8,548,701**	**100.0%**

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

Non-sovereign credit risk

Exposure to non-sovereign credit risk arises from financing operations extended to projects, corporates, and financial institutions without explicit guarantees of concerned governments. Such financing are however limited to strategic entities and projects in member countries whereby the government is generally a major stakeholder as a shareholder or guarantor of supplier/off-taker, such as in Private Public Partnership projects.

The Bank manages credit risk inherent in non-sovereign financing operations at two levels; transaction level and portfolio level. At the transaction level, the Bank adopts comprehensive risk assessment guidelines and rating models for projects, corporates and financial institutions to enhance the due diligence process and ensure quality at entry of new proposals. The Bank has in place a limit management framework to determine maximum exposure to any financing operation based on its credit profile. Moreover, appropriate guarantees and securities are obtained for non-sovereign operations based on the risk assessment and due diligence process. The due diligence and approval process is vetted through the technical committees and the operations committees before submission to the President or Board for approval.

At the portfolio level, monitoring is performed on regular basis within an established early warning system. Based on the outcome of the assessment, the risk rating of the operations are updated accordingly and appropriate actions taken as regards any operation showing signs of deterioration of its credit profile.

The table below provides analysis of the credit quality of non-sovereign exposures related to gross Project assets and Murabaha financing:

	1436H		1435H	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	487	0.0%	11,379	1.0%
Category "B"	396,237	33.1%	365,207	31.2%
Category "C"	392,814	32.9%	366,553	31.4%
Category "D"	299,442	25.1%	314,584	26.9%
Category "E"	67,772	5.7%	57,263	4.9%
Category "F"	0	0.0%	0	0.0%
Category "G"	37,980	3.2%	53,234	4.6%
Total	**1,194,732**	**100.0%**	**1,168,220**	**100.0%**

Treasury assets

The assets subject to credit risk within treasury assets include cash equivalents, commodity placements, sukuk investments and Murabaha-based profit-rate and cross-currency project rate swaps. The Bank minimizes these credit risks through a prudential framework of: (i) approved counterparties, (ii) minimum credit rating thresholds for specific instruments and counterparty banks, (iii) prudential exposure limits and (iv) counterparty credit risk mitigation measures.

The credit quality of Sukuk investments is provided in note 6 to the financial statements. The table below provides an analysis of the credit quality of the gross liquid fund portfolio (cash equivalents and commodity placements):

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

	1436H		1435H	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	16,626	0.9%	268,878	9.6%
Category "B"	1,886,337	96.8%	2,436,030	87.4%
Category "C"	31,861	1.6%	47,045	1.7%
Category "D"	107	0.0%	22,651	0.8%
Category "E"	275	0.0%	271	0.0%
Category "F"	-	0.0%	-	0.0%
Category "G"	14,452	0.7%	14,186	0.5%
Total	**1,949,658**	**100.0%**	**2,789,061**	**100.0%**

Concentration of financial assets with credit risk exposure

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The exposure management framework adopted by the Bank addresses country limits at the level of total portfolio and limits for single non-sovereign obligor or group of connected obligors. To maintain appropriate diversification, the framework also covers concentration limits relating to single country, at the level of total portfolio and treasury portfolio, to single counterparty, at the level of treasury portfolio and non-sovereign portfolio, and to sector, at the level of non-sovereign portfolio.

The distribution of the Bank's assets by geographic region is as follows:

1436H	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	203,199	3,310,675	551	457,332	**3,971,757**
Project assets	3,800,446	6,612,877	-	-	**10,413,323**
Investment assets	361,666	1,106,082	17,639	1,925	**1,487,312**
Other assets	14,407	210,644	-	-	**225,051**
Total assets:	**4,379,718**	**11,240,278**	**18,190**	**459,257**	**16,097,443**
%	**27%**	**70%**	**0%**	**3%**	**100%**

1435H	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	140,220	3,084,066	229,165	623,356	**4,076,807**
Project assets	3,571,527	5,720,230	-	-	**9,291,757**
Investment assets	278,530	1,199,791	17,654	1,988	**1,497,963**
Other assets	13,960	194,778	-	-	**208,738**
Total assets:	**4,004,237**	**10,198,865**	**246,819**	**625,344**	**15,075,265**
%	**27%**	**68%**	**2%**	**4%**	**100%**

The distribution of the Bank's assets by industry sector is as follows:

1436H	**Public utilities**	**Transport and telecom**	**Agriculture**	**Industry and mining**	**Social services**	**Others**	**Total**
Treasury assets	-	-	-	-	-	3,971,757	**3,971,757**
Project assets	4,180,542	2,786,808	1,024,012	507,776	1,401,458	512,727	**10,413,323**
Investment assets	-	-	-	-	-	1,487,312	**1,487,312**
Other assets	-	-	-	-	-	225,051	**225,051**
Total assets:	**4,180,542**	**2,786,808**	**1,024,012**	**507,776**	**1,401,458**	**6,196,847**	**16,097,443**
%	**26%**	**17%**	**6%**	**3%**	**9%**	**39%**	**100%**

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

1435H	Public utilities	Transport and telecom	Agriculture	Industry and mining	Social services	Others	Total
Treasury assets	-	-	-	-	-	4,076,807	**4,076,807**
Project assets	4,468,895	2,427,865	609,900	481,490	913,172	390,435	**9,291,757**
Investment assets	-	-	-	-	-	1,497,963	**1,497,963**
Other assets	-	-	-	-	-	208,738	**208,738**
Total assets:	**4,468,895**	**2,427,865**	**609,900**	**481,490**	**913,172**	**6,173,943**	**15,075,265**
%	**30%**	**16%**	**4%**	**3%**	**6%**	**41%**	**100%**

Liquidity Risk

Liquidity risk arises when there is insufficient liquidity to meet cash flow needs in a timely manner including adverse impact on reputation caused by the inability to maintain normal lending operations; and inability to sell an investment at a reasonable price within the required period of time. In light of the above, the liquidity risk management framework designed to identify, measure and mitigate these risks consists of the Liquidity Policy, Liquidity Investment Strategy and Liquidity Risk Management Guidelines.

The over-arching objectives of the Banks' liquidity risk management activities are to ensure that:
(i) the Bank has sufficient liquid funds to meet future contractual obligations (essentially disbursement obligations and debt service requirements); and
(ii) maintain uninterrupted financial operations in the event of stress or unattractive market conditions. For this purpose, the Bank has to maintain a prudential minimum liquidity (PML) as a safeguard against cash flow interruptions and highly-liquid investments for operational and day-to-day cash management.

Consistent with the fundamental Asset and Liability Management principle, the liquidity portfolio has been structured into three distinct portfolios:
(i) Transactional Operational Portfolio (TOP):
(ii) Core Operational Portfolio (COP); and
(iii) Stable Portfolio (SP)

These portfolios are subdivided in currency specific sub-portfolios.
The TOP is a liquidity portfolio earmarked to meet the Bank's short-term cash flow needs (i.e. normal operational expenses). It is funded by floating-rate market mobilized funds and short term liabilities. The period that liquid assets in the TOP can sustain operations without access to the markets should be at least one month.

The main objective of the COP is to build flexibility in the Bank's resource mobilization program and serve as a cushion for market-funded liquid assets during times when market conditions are favourable, and to draw upon these assets when markets are not so favourable. The Portfolio provides a readily available source of liquidity to cover unexpected cash outflows.

The main objective of the SP is to maintain the prudential minimum liquidity (PML) and is not available to meet ordinary operational needs at normal times. The portfolio is funded primarily by the Bank's equity and to a certain extent by long-term market-based mobilized resources. Generally, investments in the Stable portfolio are represented by sukuk investments, which are held to maturity.

The tables below summarises the maturity profile of the Group's assets and liabilities. These contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

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

The maturity profile of assets and liabilities as at 30 Dhul Hijjah was as follows:

1436H	**Up to 3 months**	**3-6 months**	**6 months to 1 year**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Cash & Cash equivalents	235,724	-	-	-	-	-	**235,724**
Commodity placements	825,402	385,606	153,501	335,285		-	**1,699,794**
Sukuk Investments	23,489	7,178	34,509	834,345	864,580	-	**1,764,101**
Murabaha Financing	153,462	75,792	42,884	-	-	-	**272,138**
Istisna'a	74,869	40,745	105,915	1,104,342	2,799,682	-	**4,125,553**
Restricted Mudaraba	-	-	5,060	100,010	422,693	-	**527,763**
Instalment sale	48,492	24,804	64,725	492,689	768,316	-	**1,399,026**
Ijarah	61,546	39,450	79,094	739,786	1,595,708	-	**2,515,584**
Loans	56,067	259	57,024	471,703	1,260,344	-	**1,845,397**
Equity investments	-	-	-	-	-	739,769	**739,769**
Investments in associates	-	-	-	-	-	656,872	**656,872**
Other investments	-	-	-	-	-	90,671	**90,671**
Property and equipment	6,426	3,213	6,426	48,190	-	-	**64,255**
Other assets	84,260	2,210	4,424	22,862	47,040	-	**160,796**
Total Assets	**1,569,737**	**579,257**	**553,562**	**4,149,212**	**7,758,363**	**1,487,312**	**16,097,443**
Liabilities							
Commodity purchase Liabilities	285,797	201,436	-	188,926	-	-	**676,159**
Sukuk liability	421,959	-	535,988	6,005,014	354,473	-	**7,317,434**
Other liabilities	55,793	20,337	1,705	22,374	154,144	-	**254,353**
Total Liabilities	**763,549**	**221,773**	**537,693**	**6,216,314**	**508,617**	**-**	**8,247,946**

1435H	**Up to 3 months**	**3-6 months**	**6 months to 1 year**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Cash & Cash equivalents	1,043,659	-	-	-	-	-	**1,043,659**
Commodity placements	529,781	805,021	396,642	-	-	-	**1,731,444**
Sukuk Investments	43,681	22,844	22,828	521,841	436,599		**1,047,793**
Murabaha Financing	145,989	74,361	9,355	24,206	-	-	**253,911**
Istisna'a	338,750	42,440	144,422	1,171,997	1,994,979	-	**3,692,588**
Restricted Mudaraba	-	-	2,163	42,746	180,667	-	**225,576**
Instalment sale	42,061	23,398	62,187	458,540	748,223	-	**1,334,409**
Ijarah	31,832	55,253	65,381	472,925	1,642,882	-	**2,268,273**
Loans	77,991	20	71,462	534,590	1,086,848	-	**1,770,911**
Equity investments	-	-	-	-	-	777,641	**777,641**
Investments in associates	-	-	-	-	-	633,150	**633,150**
Other investments	-	-	-	-	-	87,172	**87,172**
Property and equipment	-	-	-	10,768	42,171	-	**52,939**
Other assets	81,643	2,141	4,286	22,151	45,578	-	155,799
Total Assets	**2,335,387**	**1,025,478**	**778,726**	**3,259,764**	**6,177,947**	**1,497,963**	**15,075,265**
Liabilities							
Sukuk liability	-	-	108,343	5,658,882	337,724	-	**6,104,949**
Commodity purchase liabilities	855,726	175,502	-	-	-	-	**1,031,228**
Other liabilities	90,387	34,432	539	2,157	90,502	-	**218,017**
Total Liabilities	**946,113**	**209,934**	**108,882**	**5,661,039**	**428,226**	**-**	**7,354,194**

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

Market Risks

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in profit rate, currency and equities and funds, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The overall authority for market risk is vested in ALCO. GRMD is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day-to-day management of all market risks. The main objective of the market risk management is identification, classification and management of market risk in a prudent way to ensure safeguarding interests of shareholders and sukuk holders.

(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. The Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. 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. Because equity resources, which are reported in Islamic dinars, fund a large part of its assets, the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Islamic Dinars by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR. In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition.

Net assets in foreign currencies as at 30 Dhul Hijjah were as follows:

	1436H	1435H
USD (1ID = 1.41162 USD)	**1,108,748**	845,377
EUR (1ID = 1.24109 EUR)	**793,913**	799,506
Pound Sterling (1GBP = 0.92607ID)	**263,240**	226,417
Japanese Yen (1JPY = 169.18200ID)	**145,064**	125,536

(ii) Mark-up risk

Mark-up risk arises from the possibility that changes in mark-up will affect the value of financial assets and liabilities. The Bank is exposed to mark-up risk on its commodity placements, sukuk investments, Murabaha financing, Istisna'a assets, Instalment sales, Ijarah assets and sukuk liability. In respect of the financial assets, the Bank's returns are based on a benchmark and vary 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.

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

The effective mark-up rates for the various financial assets and financial liabilities are as follows:

	1436H	1435H Restated
Commodity placements	**0.8%**	0.9%
Sukuk investments (coupon)	**3.5%**	3.5%
Murabaha	**3.5%**	3.5%
Istisna'a	**4.0%**	4.1%
Instalment sales	**4.8%**	5.2%
Ijarah	**2.6%**	2.0%
Sukuk liability	**1.6%**	1.6%
Commodity purchase liabilities	**0.1%**	0.2%

The Bank uses Shari'ah-approved Murabaha based profit rate and cross-currency 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 (Note 17).

(iii) Equity price risk

Equity price risk is the risk that the fair values of equities decrease because of changes in the levels of equity indices and the value of individual stocks.

The Bank's investments in equities are held for strategic rather than trading purposes and are not actively traded. While the Bank has certain exposure to equity price risk, net income would remain unaffected if equity prices changed during the year as gains and losses from changes in the fair values of investments in equities are taken directly to equity under fair value reserve.

Operational Risk

IsDB defines operational risk as the risk of loss resulting from inadequate or failed processes, people and systems; or from external events. This also includes possible losses resulting from Sharia non-compliance, failure in fiduciary responsibilities and legal risk.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. IsDB manages operational risk based on a consistent framework that enables the Bank to determine its operational risk profile and systematically identify and assess risks and controls to define risk mitigating measures and priorities.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 Dhul Hijjah:

1436H	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk and Other Investments)	-	1,760,141	-	**1,760,141**
Murabaha based profit rate and cross currency profit rate swap (reported within other assets)	-	17,787	-	**17,787**
Equity type Investments at fair value through equity:				**-**
Equity and Other Investments	618,307	58,573	-	**676,880**
Total Financial Assets at fair value	**618,307**	**1,836,501**	**-**	**2,454,808**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	42,782	-	**42,782**
Total Financial Liabilities	**-**	**42,782**	**-**	**42,782**

1435H	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk and Other Investments)	-	1,081,819	-	1,081,819
Murabaha based profit rate & cross currency profit rate swap (reported within other assets)	-	27,826	-	27,826
Equity type Investments at fair value through equity:				
Equity and Other Investments	666,771	51,568	-	718,339
Total Financial assets at fair value	**666,771**	**1,161,213**	**-**	**1,827,984**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	23,910	-	23.910
Total Financial Liabilities at fair value	**-**	**23,910**	**-**	**23,910**

During 1436H there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

33. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its Member Countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Bank actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position, which are financed, by the Bank's equity and external funding. 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 30.

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

34. SUBSEQUENT EVENTS

Determining the Start and End of the Financial Year of the Bank

The Board of Governors of IDB passed a resolution BG/4-436 approving the use of the Solar Hijri calendar (SH) in determining the start and end dates of the financial year whilst maintaining the Lunar Hijri as the official calendar of the Bank.

The above decision will result in the next financial year being longer than the corresponding period (i.e. lunar hijri 1436H) thus making two periods incomparable as is presented below:

Reporting period	Period (from/to)	Number of days
Next reporting period **Lunar Hijri** equivalent	1 Muharram 1437 – 2 Rabi ul Awal 1438	
Next reporting **Solar Hijri** year	22 Mizan – 11 Jadi	444 days
Next reporting period **Gregorian** equivalent	14 October 2015G – 31 December 2016G	
Corresponding Lunar Hijri year	1 Muharram 1436H – 30 Dhul Hijja 1436H	353 days

Change of the ID component currency

The IMF, in its latest review of the SDR basket composition on 30th November 2015, decided to include the Renminbi (known as Chinese Yuan) effective from 1st October 2016 as part of the SDR basket and existing criteria. Effective then, the Renminbi (10.9%) will be included in the ID basket as a fifth currency, along with the U.S. dollar (41.8%), Euro (30.9%), Japanese yen (8.3%), and British pound (8.1%).

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

Financial Statements and Independent Joint Auditors' Report

Year ended 30 Dhul Hijjah 1436H (13 October 2015)

pwc
PricewaterhouseCoopers
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Kingdom of Saudi Arabia

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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 Dhul Hijjah 30, 1436H (October 13, 2015) 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 27 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 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 Dhul Hijjah 30, 1436H (October 13, 2015), 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 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 Fund.

PricewaterhouseCoopers

Ali A. Alotaibi
Certified Public Accountant
Registration No. 379

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

KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

Jumad-ul-Awwal 29, 1437H
March 9, 2016
Jeddah

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Financial Position **30 Dhul Hijjah 1436H (13 October 2015)**

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

	Notes	1436H	1435H
Assets			
Treasury assets			
Cash and cash equivalents	4	**45,551**	39,611
Commodity placements	5	**278,112**	235,255
Syndicated Murabaha	6	**5,589**	1,035
Investments in Sukuk	7	**135,356**	133,146
Investments assets			
Equity capital	8	**29,300**	29,301
Associates	9	**126,050**	114,139
Funds	10	**55,698**	81,758
Syndicated Ijarah	11	**12,589**	19,435
Loans	12	**164,276**	184,387
Other assets			
Other assets		**13,969**	35,493
Fixed assets		**23,634**	24,780
Total assets		**890,124**	898,340
Liabilities			
Commodity purchase liabilities	13	**80,576**	85,241
Accruals and other liabilities	14	**17,327**	13,035
Total liabilities		**97,903**	98,276
Net assets		**792,221**	800,064
Represented by:			
Waqf Fund principal amount		**773,908**	769,357
Special assistance		**(139,961)**	(121,499)
Special account for Least Developed Member Countries (LDMC)		**158,274**	152,206
Total Funds		**792,221**	800,064

The notes from 1 through 27 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Activities and
Statement of Changes in Net Assets **30 Dhul Hijjah 1436H (13 October 2015)**
(All amounts in thousands of Islamic Dinars unless otherwise stated)

Statement of activities		**1436H**				
	Notes	**Waqf Fund principal amount**	**Special assistance**	**Special account for LDMC**	**Total**	1435H
Income from:						
Treasury assets						
Commodity placements					**2,439**	2,966
Syndicated Murabaha					**19**	1,971
Investments in Sukuk	7				**3,626**	5,416
Investment assets						
Associates	9				**7,012**	305
Funds					**(1,277)**	5,980
Other					**3,630**	2,696
					15,449	19,334
Financing costs	13				**(4)**	(14)
Foreign exchange (loss)/gains					**(1,683)**	671
Income before impairment charge					**13,762**	19,991
Impairment charge					**(2,695)**	(32,389)
Attributable net income/(loss)					**11,067**	(12,398)
Allocation of attributable net income		3,216	3,563	4,288	**-**	-
Donations to Special Assistance			1,841		**1,841**	-
Islamic Technical Financial Assistance Grant from IsDB-OCR		-	129	-	**129**	19
Share of income transferred from IsDB-OCR		15	64	20	**99**	34
Contributions from IsDB-OCR for technical assistance grants and scholarship program	16	-	8,429	-	**8,429**	8,654
Income/(loss) before grants and program expenses		**3,231**	**14,026**	**4,308**	**21,565**	(3,691)
Grants for causes	15	-	(23,448)	-	**(23,448)**	(27,222)
Program expenses	15	-	(14,760)	-	**(14,760)**	(14,307)
Net deficit for the year		**3,231**	**(24,182)**	**4,308**	**(16,643)**	(45,220)
Statement of changes in net assets						
Net assets/(liabilities) at 1 Muharram		769,357	(121,499)	152,206	**800,064**	825,571
Net deficit for the year		3,231	(24,182)	4,308	**(16,643)**	(45,220)
Fair value and other reserves		1,320	5,720	1,760	**8,800**	19,713
Net assets/(liabilities) at end of Dhul Hijjah		**773,908**	**(139,961)**	**158,274**	**792,221**	800,064

The notes from 1 through 27 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Cash Flows **30 Dhul Hijjah 1436H (13 October 2015)**

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

	Note	1436H	1435H
Cash flows from operations			
Net deficit for the year		**(16,643)**	(45,220)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		**1,197**	1,160
Provision for impairment		**2,695**	32,389
Share of income in associates, net	9	**(7,012)**	(305)
Realised loss on sale of other funds		**607**	-
Investment fair value losses / (gains)	7	**2,348**	(2,626)
Foreign exchange revaluation differences		**(165)**	(7,527)
Change in operating assets and liabilities			
Syndicated Murabaha		**(4,554)**	14,113
Syndicated Ijarah		**6,846**	-
Loans		**20,111**	(3,065)
Other assets		**21,735**	50,982
Changes in accrued income		**(960)**	(3,157)
Accruals and other liabilities		**4,292**	(1,210)
Net cash generated from operations		**30,497**	35,534
Cash flows from investing activities			
Commodity placements		**(42,866)**	(131,178)
Acquisition of Investments in Sukuk	7	**(72,179)**	(85,472)
Redemption of investments in Sukuk	7	**69,776**	4,732
Additions to investments in equity capital	8	**-**	(16,686)
Acquisition of investments in associates	9	**-**	(12,486)
Disposal of investments in associates	9	**-**	3,231
Additions to investments in funds	10	**(10,953)**	(4,073)
Disposal of investments in funds	10	**34,953**	67,760
Dividends from associates	9	**1,427**	-
Additions to fixed assets		**(50)**	(228)
Net cash utilized in investing activities		**(19,892)**	(174,400)
Cash flows from financing activities			
Commodity purchase liabilities		**(4,665)**	85,241
Cash (utilized in) /provided by financing activities		**(4,665)**	85,241
Net change in cash and cash equivalents		**5,940**	(53,625)
Cash and cash equivalents at 1 Muharram		**39,611**	93,236
Cash and cash equivalents at end of Dhul Hijjah	4	**45,551**	39,611

The notes from 1 through 27 form an integral part of these financial statements

1. INCORPORATION AND OPERATIONS

The Special Account Resources Waqf Fund (the "Fund") of the Islamic Development Bank (the "Bank" or "IsDB" or "IsDB-OCR") was established on 1 Muharram 1418H (7 May 1997) based on the Board of Governors' Resolution. The Fund primarily caters to the development needs of the Muslim communities and organizations in non-Member Countries and Least Developed Member Countries ("LDMCs") with particular emphasis on social sector development.

The Fund is managed in accordance with its regulations by the Bank. The legal title of the Fund's assets is held with the Bank for the beneficial interest of the Fund.

The Fund is not subject to any local or foreign external regulatory authority and is not supervised by any external regulatory authority. 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 derives its income from returns on treasury, investments and other assets. As per the regulations of the Fund, a certain percentage of the total income of the Fund and the same percentage of the return from the IsDB's investments in the international market are allocated to the principal amount of the Fund every year until it reaches ID1.0 billion. The income of the Fund must be allocated as follows:

Principal Amount of the Fund: 15%;

Special Account for LDMCs: 20%; and

Special Assistance Programs: 65%.

Whereas Special Assistance Programs resources are to be used in the following programs:

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 principal amount of the Fund (and 15 % of the annual income of the Fund) can be invested for a longer term to maximise returns. Only 85% of the income are utilized to finance various programs under the Fund and can be kept in cash and in short-term placements.

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.

In accordance with the Board of Governors' Resolutions, income on IsDB balances with other banks (conventional investments) and other investments balances, which are considered by IsDB management to be forbidden by Shari'ah, are not included in the income statement (statement of activities) of IsDB but are transferred by IsDB to the Fund. The Funds's financial year is the lunar Hijri year. The Fund will be changing its financial year to Solar Hijri from next financial year (see note 26).

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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 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, its entities and funds. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund follows the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

The financial statements are prepared under the historical cost convention except for the following items:

- Investment in Funds are measured at fair value through net assets; and
- Certain investments in Sukuk are measured at fair value through income statement (statement of activities) designated as such at the time of initial recognition.

c) Functional and presentation currency

In accordance with the Bank's Articles of Agreement, Islamic Dinar ("ID") is the unit of account of the Bank and is equal to one Special Drawing Right ("SDR") of the International Monetary Fund ("IMF"). Also see note 26.

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognised in the statement of financial position when the Fund assumes related contractual rights or obligations.

Financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Fund.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Fund.

The table below summarises Fund's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below:

Item	Recognition principles
Cash equivalents	Cost
Commodity placements	Amortised cost less impairment
Syndicated Murabaha	Amortised cost less impairment
Investments in Sukuk classified as either:	Fair value through income statement (statement of activities)
	Amortised cost
Investments in equity capital	Fair value through net assets or cost less impairment
Investment in funds	Fair value through net assets or cost less impairment
Syndicated Ijarah	Disbursement less impairment
Loans	Amortised cost less impairment
Commodity purchase liabilities	Amortised cost

b) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legal enforceable right to set off the recognised amounts and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

c) 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 from the date of placement that are subject to an insignificant risk of changes in their fair value.

d) Commodity placements

Commodity placements are made through banks and comprise 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 (on behalf of the Fund) 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 amortized cost less any provision for impairment.

e) Syndicated Murabaha

The Fund participates in syndicated Murabaha transactions originated by IsDB's Affiliate International Islamic Trade Finance Cooperation (ITFC).

The amounts receivable from Investments in syndicated Murabaha are stated at the selling price less unearned income to the reporting date, less repayments received and any provision for impairment.

f) Investments in Sukuk

Investments in Sukuk are debt-type instruments classified as either measured at amortised cost or at fair value through income statement (statement of activities).

Sukuk is measured at amortised cost only if it is managed on a contractual yield basis or it is not held for trading and has not been designated at fair value through the income statement (statement of activities).

Sukuk classified and measured at fair value through income statement (statement of activities) 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 (statement of activities). Transaction costs are expensed immediately on the date the contract is entered into.

g) Investments in equity capital

Equity investments are intended to be held for a long-term period and may be sold in response to liquidity needs, changes in market prices or within the overall context of the Fund's developmental activities. Accordingly, the Fund has opted to designate all of its equity investments at fair value through net assets.

Quoted investments recognised at fair value through net assets

Initially and subsequently such investments are measured at fair market value, and any unrealized gains or losses arising from the change in their fair values are recognized directly in net assets until the investment is derecognized, at which time the cumulative gain or loss previously recorded under the net assets is recognized in the income statement (statement of activities).

Unquoted investments measured at cost less impairment

Unquoted investments in equity capital whose fair value cannot be reliably measured are carried at cost less impairment. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. All investment losses are recognised in income statement (statement of activities).

After the initial designation, investments in equity type securities shall not be reclassified into or out of the fair value through net assets category.

h) Investments in associates

In accordance with IsDB's Articles of Agreement, Articles 17.2 and 17.5 which is applicable to the Fund as well. "The Fund shall not acquire a majority or controlling interests in the share capital of the project in which it participates except when it is necessary to protect the Fund's interest or to ensure the success of such project or enterprise" and "The Fund shall not assume responsibility for managing any project or enterprise in which it has invested except when necessary to safeguard its investment".

Consequently, Fund does not exercise control over any of its investments to obtain benefits regardless of percentage of voting rights. For investments in which the Fund holds 20 per cent or more of the voting rights the Fund is presumed to have significant influence and hence such investments are accounted for and classified as investments in associates.

Investments in associates are accounted for using the equity method of accounting and are initially recognised 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) identified on acquisition. The Fund's share of its associates' post-acquisition profits or losses is recognised in the income statement (statement of activities); its share of post-acquisition movements in reserves is recognised in net assets. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends. When the Fund's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Fund does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Fund determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Fund calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the income statement (statement of activities). Dilution gains and losses in associates are recognised in the income statement (statement of activities). The Fund's share of the results of associates is based on financial statements available up to a date not different than three months of the date of the statement of financial position, adjusted to conform to the accounting policies of the Fund. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Fund.

i) Investments in funds

Investments in funds comprise of equity and other fund investments 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. 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 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 in the statement of changes in net assets is recognized in the income statement (statement of activities). Investments in funds whose fair value cannot be reliably measured are carried at cost less provision for any impairment in the value of such investments.

j) Investment in syndicated Ijarah

Investment in syndicated Ijarah is measured at amounts disbursed less provision for any impairment.

k) Loans

Loan is a long term concessional facility provided to Member Countries or borrowers therein bearing the service fee rate sufficient to cover the Bank's administrative expenses.

Loan amounts outstanding represent amounts disbursed in respect of projects plus the accrued loan service fees, less repayments received and provision for impairment.

l) Commodity purchase and sale agreements

The Bank (on behalf of the Fund) enters into commodity purchase and sale agreements with certain banks for liquidity management purposes on behalf of the Fund. Under the terms of the agreements, the Bank (on behalf of the Fund) 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 purchased commodity under these agreements is recognised at the value of consideration paid and is presented as commodity purchase liabilities in the statement of financial position. The difference between the sale and purchase prices is recognised as finance cost and accrued on a proportional allocation basis over the period of the agreements.

m) Revenue recognition

Commodity placements

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 the actual disbursement of funds to their scheduled repayment dates.

Investments in Sukuk

Income from investments in Sukuk is accrued on an effective profit rate method and is recognised in the income statement (statement of activities) and where the Sukuk is classified and measured at fair value, the fair value gains and losses (realized and unrealized) resulting from the re-measurement of the fair values at the reporting date are also recognised in the income statement (statement of activities).

Investments in equity capital

Dividend income from investments in equity capital and other investment are recognized when the right to receive the payments is established.

Investment in syndicated Ijarah

Income from investments in syndicated Ijarah is recognised on the effective yield method.

Loan service fees

The Fund charges loan service fee only to cover its administrative costs related to the signature of an agreement and disbursements made to the member countries. Thus, the loan service fee is calculated during the financial periods starting from the signature date through to the date of the last disbursement.

The loan service fee is allocated and recognised in the income statement (statement of activities) over the financial periods as follows:

- 4% of the cumulative service fee is allocated/recognised during the financial periods between the signature date and the 1st disbursement date;
- 40% of the cumulative service fee is allocated/recognised during the financial periods between the 1st disbursement date and the last disbursement date; and
- 56% of the service fee is allocated/recognised during 5 years from the last disbursement date.

Since the loan portfolio is managed and administered by the Bank, the loan service fee is transferred to the Bank's Ordinary Capital Resources (OCR).

n) Foreign currency

Foreign currency transactions and balances

Monetary and non-monetary transactions denominated or requiring settlement in a foreign currency are translated into Islamic Dinar at the exchange rates at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Foreign currency differences resulting from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (statement of activities) as foreign exchange gains/losses.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value (investments in equity capital and other equity investments) are retranslated into the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences resulting from translation of such investments are recognised in the statement of changes in net assets.

Foreign operations – investments in associates

The results and the net investment in the Fund's associates are translated into Islamic Dinar as follows:

- Fund's share of net income/loss of an associate is translated at the average annual exchange rate. All resulting exchange differences are recognised within net assets.
- Exchange differences arising from the translation of the net investment in associates (opening equity and movements in equity during the reporting year) are taken to reserves/net assets.

o) Impairment of financial assets

Loans

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets is impaired. There are several steps required to determine the appropriate level of provisions.

The Fund first assesses whether objective evidence of impairment exists for individual sovereign and non-sovereign exposures. If such objective evidence exists, specific impairment is determined as follows:

For the loan portfolio to member countries under the Heavily Indebted Poor Countries Program ("HIPC") by taking the lower of the net present value discounted at the implicit rate of return; or carrying amount.

HIPC is a debt relief initiative whereby IsDB reschedules loans to certain heavily indented member countries;

For other projects assets except those provided for under HIPC:

- full provision is made against repayments overdue by 6 months or more; or
- provision could also result from the consideration of defaults or delinquencies by a counterparty, restructuring of a financing facility by the Fund on the terms the Fund would not otherwise consider, indications that a counterparty will enter a bankruptcy, or other observable data such as adverse changes in the payment status of a counterparty or cash flow difficulties experienced by the counterparty and breach of financing covenants or conditions.

In addition to specific impairment provision, a provision for collective impairment is calculated on portfolio basis against the sovereign credit losses not individually identified as impaired. A collective impairment reflects a potential loss that may occur as a result of currently unidentifiable risks in relation to sovereign exposures.

There are three steps required to calculate collective impairment provision. First, each sovereign counterparty is assigned a credit risk rating from A to G. Second, each risk rating is mapped to an expected default frequency from 2.5% to 40% according to the internal scoring model calibrated against the international rating agencies ratings. The determination of risk ratings and expected default frequencies is reviewed and updated annually. The severity of loss is a judgemental assessment of the Fund's experience with Member Countries payment track records over the years and ranges from 0% to 20%.

Finally, the provision is calculated by multiplying the outstanding sovereign exposure by the respected default multiplied by the severity of the loss given default rate.

Adjustments to the provision are recorded as a charge or credit in the Fund's income statement (statement of activities). Impairment is deducted from the relevant assets category in the statement of financial position.

When the non-sovereign exposure is deemed uncollectible, it is written-off against the related impairment provision and any excess loss is recognised in the income statement (statement of activities). Such assets are written-off only after all necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the Fund's income statement (statement of activities). Sovereign exposures are not written-off.

Other financial assets

An assessment is made at each reporting 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 recoverable amount. Adjustments to the provision are recorded as a charge or credit in the Fund's income statement (statement of activities).

Impairment calculation methodologies for debt and equity type investments are provided in the relevant sections above.

p) Zakat and tax

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

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with AAOIFI requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. 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 advices and expectations of future events that are believed to be reasonable under the circumstances.

The most significant judgements and estimates are summarised below:

3.1 Significant judgments

a) Functional and presentation currency

The Fund conducts its operations mainly in USD and EUR that take up 79% weight in SDR, to which ID is equalised. Therefore, Management concluded that Islamic Dinar most faithfully represents the aggregation of economic effects of the underlying transactions, events and conditions of the Fund and is accordingly the Fund's functional and presentation currency.

b) Significant influence

Significant influence over investments with 20% and more holdings - In accordance with IsDB's Articles of Agreement, the Fund shall not acquire a majority or controlling interests in the share capital of the project in which it participates except when it is necessary to protect the Fund's interest or to ensure the success of such project or enterprise. On this basis, the Fund is not deemed to exercise control over any of its investments.

c) Subsequent events

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date.

3.2 Significant estimates

Provision for impairment of financial assets

The Fund exercises judgement in the estimation of provision for impairment of financial assets and, in particular, its project assets. The methodology for the estimation of the provision is set out in the Significant Accounting Policies section "Impairment of financial assets".

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

4. CASH AND CASH EQUIVALENTS

	1436H	1435H
Cash at banks	**12,710**	15,986
Commodity placements (maturities less than 3 months)	**32,841**	23,625
	45,551	39,611

Commodity placements included within cash equivalents are those interbank placements which have an original tenor equal to or less than three months. Placements with original maturities of above three months are disclosed in Note 5.

5. COMMODITY PLACEMENTS

	1436H	1435H
Placements with Islamic banks	**-**	16,423
Placements with Islamic windows of conventional banks	**308,901**	240,396
Accrued income	**2,052**	2,061
Commodity placements (maturities less than 3 months)	**(32,841)**	(23,625)
	278,112	235,255

6. SYNDICATED MURABAHA

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	1436H	1435H
Gross amount receivable	**5,783**	1,037
Less: unearned income	**(194)**	(2)
	5,589	1,035

7. SUKUK INVESTMENTS

The movement in investments in Sukuk is summarised as follows:

	1436H	1435H
Balance at 1 Muharram	**133,146**	50,254
Movements during the year:		
Additions	**72,179**	85,472
Redemptions	**(69,776)**	(4,732)
Accrued coupon income on Sukuk at amortized cost	**761**	400
Unrealized fair value (losses)/ gains	**(2,348)**	2,626
Unrealized exchange revaluation gains / (losses)	**1,394**	(874)
Balance at end of Dhul Hijjah	**135,356**	133,146

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

	Counterparty rating				
1436H	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified as fair value through income statement (statement of activities)					
- Financial institutions	-	8,232	2,702	-	**10,934**
- Governments	-	-	1,539	-	**1,539**
- Other entities	-	-	-	3,701	**3,701**
	-	8,232	4,241	3,701	**16,174**
Sukuk classified at amortised cost					
- Financial institutions	-	12,215	59,896	-	**72,111**
- Governments	10,817	-	9,378	12,457	**32,652**
- Other entities	14,419	-	-	-	**14,419**
	25,236	12,215	69,274	12,457	**119,182**
Total	**25,236**	**20,447**	**73,515**	**16,158**	**135,356**
1435H					
Sukuk classified as fair value through income statement (statement of activities)					
- Financial institutions	-	-	1,415	17,614	19,029
- Governments	-	7,737	-	-	7,737
- Other entities	-	-	-	20,245	20,245
	-	7,737	1,415	37,859	47,011
Sukuk classified at amortised cost					
- Financial institutions	43,118	8,002	114	5,354	56,588
- Governments	-	-	23,076	-	23,076
- Other entities	-	-	-	6,471	6,471
	43,118	8,002	23,190	11,825	86,135
Total	43,118	15,739	24,605	49,684	133,146

Income from Sukuk investments is comprised of the following:

	1436H	1435H
Coupon income	**5,914**	2,801
Realised gains /(loss) on sale or redemption of Sukuk	**60**	(11)
Unrealised fair value (losses)/gains	**(2,348)**	2,626
	3,626	5,416

8. INVESTMENTS IN EQUITY CAPITAL

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

Equity investments:	**1436H**	1435H
- Unlisted	**29,300**	29,301
Balance at end of Dhul Hijjah	**29,300**	**29,301**

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

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

	1436H	1435H
Balance at 1 Muharram	**29,301**	11,113
Additions during the year	**-**	16,686
Impairment reversal	**-**	1,923
Unrealized exchange loss	**(1)**	-
Unrealized fair value loss	**-**	(421)
Balance at end of Dhul Hijjah	**29,300**	29,301

9. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	1436H	1435H
Balance at 1 Muharram	**114,139**	96,248
Foreign currency translation and other movements through statement of changes in net assets	**6,326**	7,130
Additions during the year	**-**	12,486
Disposal during the year	**-**	(3,231)
Share of net results	**7,012**	1,322
Net loss on acquisition and disposal of associates	**-**	(1,017)
Cash dividend received	**(1,427)**	(134)
Reversal of provision for impairment	**-**	1,335
Balance at end of Dhul Hijjah	**126,050**	114,139

Name of the entity	Country of incorporation	Entity's activities	1436H	1435H
Caspian International Investment Company (CIIC)	Azerbaijan	Investment Company	**27.78%**	27.78%
Islamic Bank of Niger (IBN)	Niger	Banking	**38.46%**	38.46%
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	**59.77%**	59.77%
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	**87.46%**	87.46%

The total assets, total liabilities, revenue and results of associates based on their financial statements for the interim and final periods in 1436H and 1435H are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share of net result
CIIC	**1436H**	**22,731**	**4,685**	**42**	**363**	**265**
	1435H	25,037	31	949	581	161
IBN	**1436H**	**100,305**	**59,884**	**16,904**	**7,716**	**2,889**
	1435H	55,067	33,038	5,841	1,887	417
ICIEC	**1436H**	**179,507**	**23,328**	**6,108**	**2,922**	**1,746**
	1435H	171,712	19,942	8,830	(2,611)	(1,560)
BBIL	**1436H**	**33,636**	**9,513**	**5,241**	**2,169**	**2,113**
	1435H	52,191	15,206	6,831	2,636	2,305

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

10. INVESTMENTS IN FUNDS

	1436H			1435H		
	Equity	**Other funds**	**Total**	Equity	Other funds	Total
Gross balance at 1 Muharram	**7,308**	**74,450**	**81,758**	7,308	152,534	159,842
Additions	**-**	**10,953**	**10,953**	-	4,073	4,073
Disposals	**-**	**(35,560)**	**(35,560)**	-	(67,760)	(67,760)
Unrealized fair value gains	**-**	**2,596**	**2,596**	-	5,306	5,306
Unrealized exchange (losses)/gains	**-**	**(1,354)**	**(1,354)**	-	9,201	9,201
Reversal of provision for impairment	**-**	**-**	**-**	-	4,821	4,821
Provision for impairment	**-**	**(2,695)**	**(2,695)**	-	(33,725)	(33,725)
Net balance at end of Dhul Hijjah	**7,308**	**48,390**	**55,698**	7,308	74,450	81,758

Equity and other funds comprising real estate, infrastructure and Murabaha funds are investments managed by third party institutions in which the Fund has made specific investments as part of its management of liquidity and classified as investment at fair value through net assets.

11. INVESTMENT IN SYNDICATED IJARAH

	1436H	1435H
Balance at the end of Dhul Hijjah	**12,589**	19,435

12. LOANS

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

	1436H	1435H
Loans	**171,712**	191,823
Less: provision for impairment	**(7,436)**	(7,436)
	164,276	184,387

13. 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 Bank (on behalf of the Fund) has purchased certain commodities from other banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The purchase price includes the accrued markup under these agreements. The related finance cost for the year ended 30 Dhul Hijjah 1436H was ID4 thousand (1435H: ID14 thousand).

14. ACCRUALS AND OTHER LIABILITIES

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

	1436H	1435H
Accruals and other liabilities	**14,193**	10,446
Due to related parties	**3,134**	2,589
Total	**17,327**	13,035

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

15. ASSISTANCE

The following amounts were distributed as grants from the Fund during the years ended Dhul Hijjah 1436H and 1435H as part of the activities of the Special Assistance accounts pursuant to its objectives:

	1436H	1435H
Technical assistance grants	**9,839**	12,052
Scholarship program	**8,691**	8,892
Assistance for Islamic causes	**4,294**	4,754
Technical cooperative program	**255**	1,070
Relief against disasters and calamities	**369**	454
Total	**23,448**	27,222

The following amounts were incurred as program expenses from the Fund during the year's ended end of Dhul Hijjah 1436H and 1435H as part of the activities of the Special Assistance accounts pursuant to its objectives.

	1436H	1435H
IRTI – Operational	**1,507**	1,307
Administrative	**6,420**	6,109
Technical cooperation office	**1,183**	1,111
Special Assistance office	**2,667**	2,940
Sacrificial meat project	**1,230**	1,194
Scholarship Program	**1,753**	1,646
Total	**14,760**	14,307

The Bank created the Islamic Research Training Institute (IRTI) which is an international organization devoted to technical research and training.

16. CONTRIBUTION FROM IsDB-OCR FOR TECHNICAL ASSISTANCE GRANT AND SCHOLARSHIP PROGRAMS AND ISLAMIC TECHNICAL FINANCIAL ASSISTANCE

According to the Board of Governors' resolution dated 12 Rajab 1434H (22 May 2013), the following allocations were made by the Bank during 1436H:

- the higher of 5% of the Bank's 1435H normalised net income and USD5 million was allocated to finance technical assistance operations in the form of grants amounting to ID 6.0 million (1435H: ID 8.1million).

- higher of 2% of the Bank's 1435H normalised net income and USD 2 million was allocated to the merit scholarship programme in the form of grants amounting to ID 2.4 million (1435H: ID 3.2 million).

- higher of 2% of the Bank's 1435H normalised net income and USD 4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 2.8 million (1435H: ID 2.7 million).

17. UNDISBURSED COMMITMENTS

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

	1436H	1435H
Special assistance grants	**51,405**	51,414
Loan to LDMC	**12,280**	24,850
Special loans	**600**	1,238
Technical assistance grants	**35,010**	40,985
Scholarship program	**45,450**	48,448
Total	**144,745**	166,935

18. 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:

	1436H	1435H
United States Dollar	**236,711**	253,051
Euro	**188,948**	142,018
Japanese Yen	**49,637**	34,982
Pound Sterling	**33,573**	51,868
Other currencies	**35,446**	18,592

19. 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:

- 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;
- 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;
- 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;
- 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
- 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)

20. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
1436H						
Assets						
Treasury assets						
Cash and cash equivalents	45,551	-	-	-	-	**45,551**
Commodity placements	58,508	123,478	96,126	-	-	**278,112**
Syndicated Murabaha	-	5,589	-	-	-	**5,589**
Investments in Sukuk	5,046	3,187	127,123	-	-	**135,356**
Investments assets						
Equity capital	-	-	-	-	29,300	**29,300**
Associates	-	-	-	-	126,050	**126,050**
Funds	-	-	-	-	55,698	**55,698**
Syndicated Ijarah	-	-	-	-	12,589	**12,589**
Loans	3,345	3,455	32,394	125,082	-	**164,276**
Other assets						
Accrued income and other assets and fixed assets	3,291	10,679	445	23,188	-	**37,603**
Total assets	**115,741**	**146,388**	**256,088**	**148,270**	**223,637**	**890,124**
Liabilities						
Commodity purchase liabilities	80,576	-	-	-	-	**80,576**
Accruals and other liabilities	3,132	14,195	-	-	-	**17,327**
Total liabilities	**83,708**	**14,195**	**-**	**-**	**-**	**97,903**

	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
1435H						
Assets						
Treasury assets						
Cash and cash equivalents	39,611	-	-	-	-	39,611
Commodity placements	55,097	180,158	-	-	-	235,255
Syndicated Murabaha	-	1,035	-	-	-	1,035
Investments in Sukuk	32,146	-	82,773	18,227	-	133,146
Investments assets						
Equity capital	-	-	-	-	29,301	29,301
Associates	-	-	-	-	114,139	114,139
Funds	-	-	-	-	81,758	81,758
Syndicated Ijarah	-	-	-	-	19,435	19,435
Loans	3,856	4,033	137,575	38,923	-	184,387
Other assets						
Accrued income and other assets and fixed assets	6,322	28,875	472	24,604	-	60,273
Total assets	137,032	214,101	220,820	81,754	244,633	898,340
Liabilities						
Commodity purchase liabilities	-	85,241	-	-	-	85,241
Accruals and other liabilities	-	13,035	-	-	-	13,035
Total liabilities	-	98,276	-	-	-	98,276

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

21. 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 Fund. The geographical locations of assets of the Fund are as follows:

	IsDB's Member countries			Non-member countries	Total
	Asia	Africa	Europe		
1436H	**632,061**	**142,907**	**55,803**	**59,353**	**890,124**
1435H	633,472	158,184	54,165	52,519	898,340

The geographical locations of assets for 1436H and 1435H reflect the countries in which the beneficiaries of the assets are located.

22. RELATED PARTY TRANSACTIONS AND BALANCES

The Fund is managed by the IsDB and its transactions are done through the IsDB and its related entities. Principal arrangements related to commodity placements, investment in syndicated Murabaha, investment in Sukuk, investment in equity capital and funds, Loans and investments in syndicated Ijarah. The Fund participates in such arrangements with IsDB and its related entities. During the ordinary course of the 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 from/to the Fund and other related entities as at the end of the year are as follows:

	1436H		1435H	
	Assets	**Liabilities**	Assets	Liabilities
Islamic Corporation for the Development of the Private Sector (ICD)	3	-	22,654	(13)
World Waqf Foundation	2,201	-	1,705	-
Orphan Kafala Program	-	(301)	66	-
Mobile Clinics Trust Fund	-	-	-	(326)
Sacrificial Meat Project Adahi	-	(87)	59	-
Somalia Trust Fund	-	(6)	344	-
Unit Investment Fund	-	-	-	(1,594)
ITFC	-	-	856	-
IsDB – OCR	1,086	(261)	2,946	-
IsDB – Special Assistance Fund	-	(312)	-	(281)
South East Asia Fund	-	-	-	(356)
ICIEC	-	(1,647)	-	(14)
IsDB – Pension Plan	-	(176)	345	-
IsDB – Medical Plan	-	-	-	(5)
Al Aqsa Fund	-	(344)	-	-
Total	**3,290**	**(3,134)**	28,976	(2,589)

The balances due from related entities / funds at the end of Dhul Hijjah 1435H and 1436H are included in other assets.

23. 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 Group 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.

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 and treasury investments.

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, Loan and Investments in syndicated Ijarah.

The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Liquid fund investment in commodity placements, syndicated Murabaha, Sukuk whose ratings are acceptable to the Bank per its policies. The Fund's loan and Investments in syndicated Ijarah are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks acceptable to the Bank per its policies. 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 GRMD, which endeavours to ensure that business lines comply with risk parameters and prudential limits established by the BED and 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 relevant guarantees for its financing operations and has to ensure that concerned beneficiaries as well as guarantors are able to meet their obligations. In addition to the above risk mitigation tools, the Fund has in place comprehensive counterparty assessment criteria and detailed structured exposure limits in line with the best banking practices.

b) Market risks

The Fund is exposed to following market risks:

i. Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's financing operations are 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. Price risk

The Fund is exposed to equity price risks arising from investments. Other Fund's investments comprise investments which are held for strategic rather than trading purposes. These investments are classified as fair value and adequate provision has been made for the 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 cash requirements. To guard against this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents, commodity placements and Investment in syndicated Murabaha with short-term maturity of three to twelve months.

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).

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

The following table presents the Fund's assets and liabilities that are measured at fair value at end of Dhul Hijjah 1436H and 1435H:

1436H	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through income statement (statement of activities):				
- Sukuk	-	16,174	-	16,174
Investments carried at fair value through net assets:				
- Investments in funds	-	48,390	-	48,390
	-	**64,564**	**-**	**64,564**
1435H				
Investments carried at fair value through income statement (statement of activities):				
- Sukuk	-	47,011	-	47,011
Investments carried at fair value through net assets:				
- Investments in funds	-	74,450	-	74,450
	-	**121,461**	**-**	**121,461**

24. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Trustees who 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 on behalf of 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 through the Fund's capital. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Trustees 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 Trustees do not present discrete financial information with respect to the Fund's performance to the extent envisaged in FAS 22.

25. RECLASSIFICATIONS

Prior to 1436H, the Fund reported its accrued incomes separately from the related assets. At 30th Dhul Hijja 1436H, the Fund reported such accrued incomes together with the respective asset balances. The summary table below shows the reclassifications of accrued incomes from other assets to respective asset categories as at end of Dhul Hijjah 1435H.

1435H	**As previously reported**	**Reclassification**	**Reclassified**
Financial Position			
Commodity placements	233,194	2,061	235,255
Sukuk investments	132,746	400	133,146
Accrued income and other assets	37,954	(2,756)	35,198
Investment in equity capital	35,056	(5,755)	29,301
Investment in Funds	76,003	5,755	81,758

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

26. SUBSEQUENT EVENTS

Determining the Start and End of the Financial Year of the Bank

The Board of Governors of IDB passed a resolution BG/4-436 approving the use of the Solar Hijri calendar (SH) in determining the start and end dates of the financial year whilst maintaining the Lunar Hijri as the official calendar of the Bank. The start and end dates of the financial year of the Fund has changed accordingly in order to coordinate with IDB the timings of the Group Annual Meetings and other key activities.

The above decision will result in the next financial year being longer than the corresponding period (i.e. lunar hijri 1436H) thus making two periods incomparable as is presented below:

Reporting period	**Period (from/to)**	**Number of days**
Next reporting period **Lunar Hijri** equivalent	1 Muharram 1437 – 2 Rabi ul Awal 1438	444 days
Next reporting **Solar Hijri** year Next reporting period **Gregorian** equivalent	22 Mizan – 11 Jadi 14 October 2015G – 31 December 2016G	
Corresponding Lunar Hijri year	1 Muharram 1436H – 30 Dhul Hijja 1436H	353 days

Change of the ID component currency

The IMF, in its latest review of the SDR basket composition on 30th November 2015, decided to include the Renminbi (known as Chinese Yuan) effective from 1st October 2016 as part of the SDR basket and existing criteria. Effective then, the Renminbi (10.9%) will be included in the ID basket as a fifth currency, along with the U.S. dollar (41.8%), Euro (30.9%), Japanese yen (8.3%), and British pound (8.1%).

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized by the Resolution of the Board of Executive Directors on 5 Jamad-ul-Awwal 1437H (14 February 2016) for submission to the Board of Governors 41st Annual Meeting.

PROVIDING RESOURCES
FIGHTING POVERTY
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