



itfc

International  
Islamic Trade  
Finance Corporation

**ANNUAL REPORT**  
2014-2015 / 1436H

THE PARTNER IN A CHANGING WORLD



Member of Islamic  
Development Bank Group



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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# INTRODUCTION

01

In the Name of Allah, the Merciful, the Compassionate

H.E. the Chairman  
General Assembly of the International Islamic Trade Finance Corporation

Dear Mr. Chairman,

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Pursuant to Article 26(1) of the Articles of Agreement of the International Islamic Trade Finance Corporation (ITFC), I have the honor to present to the esteemed Members of the General Assembly, on behalf of ITFC's Board of Directors, the Annual Report of ITFC for the year 1436H (2014-2015G).

The report highlights ITFC's activities, achievements and audited financial statements for the year, which ended on 30/12/1436H (13/10/2015G).

Please accept, Mr. Chairman, the assurances of my highest consideration.

Yours Sincerely,



Dr. Ahmad Mohamed Ali,  
Chairman, Board of Directors

# Letter of the Board of Directors to the General Assembly





In the name of Allah,  
the most Gracious and Merciful.

It is my great honor and privilege to present the ITFC Annual Report for 1436H (2014-15). I am delighted to report that the Corporation has once again reached new heights and demonstrated outstanding performance during the year, with approvals reaching US\$6.05 billion, and disbursements of US\$4.55 billion, a phenomenal increase compared to US\$2.5 billion and US\$1.2 billion respectively in the first year of its operation (1429H). Funds mobilized from the market to finance big-ticket trade deals in the Member Countries also showed impressive growth-- from US\$0.9 billion in 1429H to US\$4.2 billion in the year under review. The gross income of the Corporation went up from US\$28.7 million in 1429H to US\$54.04 million in 1436H --and the net income from US\$17.5 million to US\$29.12 million. This is a growth of 39% for the shareholders' equity from US\$613 million to US\$858 million in the last eight years, which, by all accounts, is an impressive achievement.

During the eight years since its inception in 1429H, ITFC's achievements have been remarkable in both trade financing and trade development arenas. The cumulative approvals stood at US\$31.3 billion, the disbursements - US\$22.0 billion, and funds mobilization - US\$24.5 billion from the partner banks and financial institutions.

In 1436, the Framework Murabaha Agreements were signed with Egypt, Bangladesh, Jordan and Pakistan worth US\$3 billion each for a period of three years, which resulted in the surge of trade finance approvals for these countries. In addition, Framework Mudaraba Agreements were signed with the Bangladesh Bank and the Central Bank of Brunei Darussalam for funds mobilization, which simplified and accelerated

the process of raising funds from these institutions. From the very beginning of its founding, ITFC has been maintaining close working relationship with all the entities of the IDB Group so that it can benefit from the knowledge sharing and group synergy. The Corporation has developed new financing products during the last few years; most notable being the Structured Trade Finance, which has positively impacted the trade finance volumes, contributing to the cooperation and integration of the Member Countries' economies.

In the trade development domain, the Trade Cooperation and Promotion Program (TCPP) has provided consistent support to trade finance through its six lines of business, namely Trade Promotion, Trade Facilitation, Capacity Building, Development of Strategic Products, Trade Mainstreaming and Support to Trade Finance. It is worth mentioning here that the Aid for Trade Initiative for Arab States, Trade Development Forum, and Arab-Africa Trade Bridge Program are the flagship programs of TCPP, which have achieved significant progress. Furthermore, ITFC has created a Waqf Trade Development Fund and focused on mobilization of funds from external resources to support its trade development activities.

These achievements have been possible with the unwavering support and guidance of the Board of Directors, to whom I would like to convey my sincere thanks and appreciation. Let me also take this opportunity to thank all the ITFC team members, who have worked tirelessly and diligently towards achieving the steady growth of the Corporation, and I am confident they will take the institution to greater heights and glory in the future.

Best Regards,

**Dr. Waleed A. Al-Wohaib**  
Chief Executive Officer



# BOARD OF DIRECTORS



Hon. Br  
Abdul Rahman Raouya



Hon. Br  
Ali Hamdane Ahmed



Hon. Br  
Burhanettin Aktas



Hon. Eng  
Fahad A. Al-Nowaiser



Hon Dr. Ahmad Mohamed Ali  
Chairman



Hon. Dr  
Hamad Bin Suleiman Al Bazai



Hon. Br  
Khalid A. Al-Muftah



Hon. Br  
Mohammad Hossein Mehrani



Hon. Br  
Moses Kaggwa



Hon. Br  
Saoud Bin Abdullah Al-Sayyari



Hon. Br  
Zia-ur-Rahman Haleemi

# MANAGEMENT TEAM



**Abou Jallow**  
GM, Operations &  
Acting GM, Risk Management



**Ahmed J. Sabbagh**  
GM, Human & Corporate  
Resources



**M. Hafiz Emrith**  
GM Finance & Head of Strategy  
Planning Office



**Mahanna Sobieh**  
GM Treasury



**Dr. Waleed Al-Wohaib**  
CEO



**Syed Habib**  
GM Trade Cooperation &  
Promotion Program



**Nazeem Noordali**  
GM Corporate &  
Structured Finance



**Eng. Hani Salem Sonbol**  
Deputy CEO



**M. Iqbal Azad**  
Advisor & Special  
Assignment Manager



**Mohammed Al-Sayed**  
Head BIU



**Mubarak El-Tayeb El-Amin,**  
Advisor to Deputy CEO

# About the International Islamic Trade Finance Corporation

The International Islamic Trade Finance Corporation is an autonomous entity within the Islamic Development Bank Group. It was created with the purpose of advancing trade, which would ultimately contribute to the overarching goal of improving socioeconomic condition of the people across the Islamic world. ITFC has since consolidated all the trade finance businesses that used to be handled by various windows within IDB Group. It commenced operations in Muharram 1429H (January 2008G). The consolidation of IDB Group's trade finance activities under a single umbrella enhanced the Corporation's efficiency in service delivery by responding swiftly to customer needs in a market-driven business environment.

As a leader in Shari'ah-compliant trade finance, ITFC deploys its expertise and funds to businesses and governments in its Member Countries. Its primary focus is to encourage more intra-trade among OIC Member Countries. As a member of IDB Group, ITFC has unique access to Member Countries' governments and it works as a facilitator to mobilize resources towards achieving its objectives of fostering economic development through trade. The Corporation helps entities in Member Countries gain better access to trade finance and provides them with the necessary trade-related capacity building tools in order to help them compete successfully in the global market.

## Our Mission

“We exist to be the catalyst for the development of trade among OIC member countries and with the rest of the world”

The mission statement is aligned with the Corporation's mandate as stated in the Article 5 of ITFC's Articles of Agreement (AOA).

“Our purpose shall be to promote trade of Member Countries of the Organization of Islamic Cooperation (OIC) through providing trade finance and engaging in activities that facilitate intra-trade and international trade.”

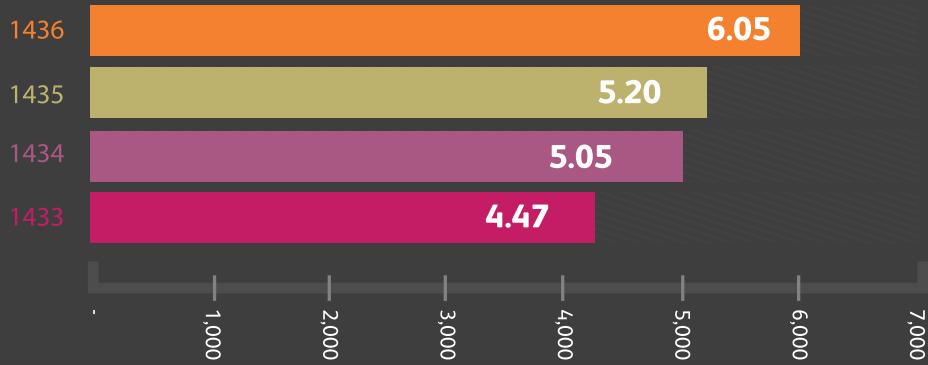
## Our Vision

“ITFC is to be a recognized provider of trade solutions for OIC member countries' needs”

## NEW COMMITMENTS/ APPROVALS

1436H Approvals: US\$ 6.05 billion  
Up 16 % (compared with 1435H)

Total Approvals (US\$ billion)

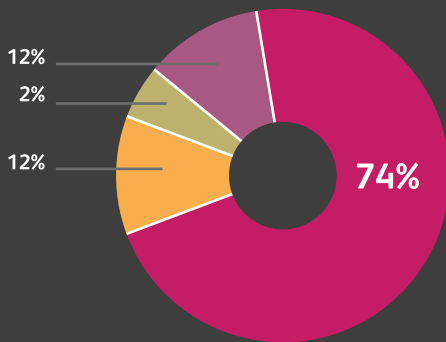


## DISBURSEMENTS

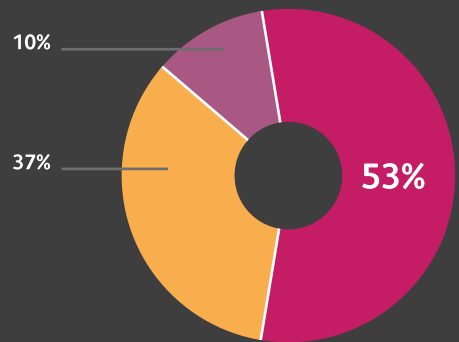
USD 4.55 billion  
75 % of Total Approvals

US\$ **4.2** billion  
Funds mobilized from  
financial institutions

APPROVALS BY SECTOR  
(% of total commitments)

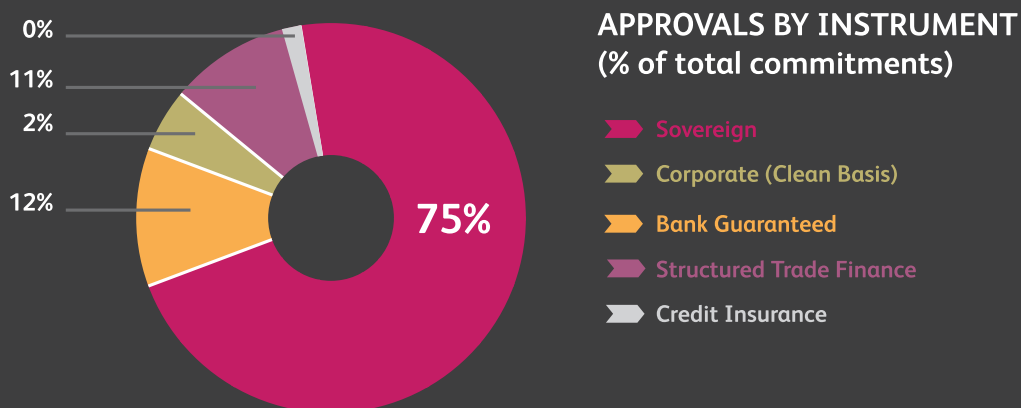


APPROVALS BY REGION  
(% of total commitments)

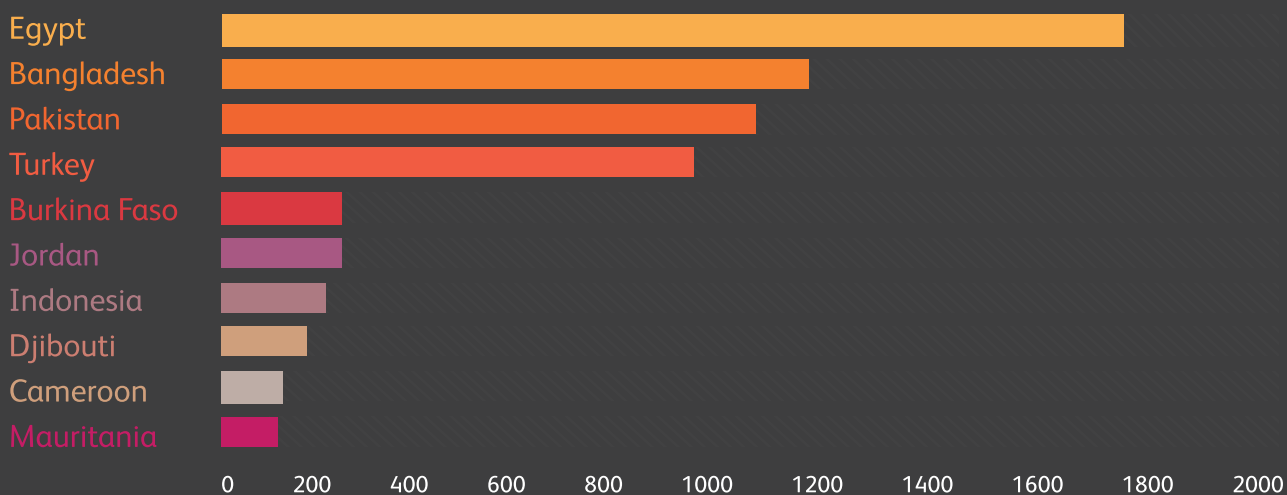


Energy Food & Agriculture  
Industrial Financial Institution

ASIA/CIS MENA  
Sub Saharan Africa



### APPROVALS BY COUNTRY (\$m for the top 10 countries)



### FINANCIAL HIGHLIGHTS

		1436H	1435H
1	Approvals \$Bn	6.05	5.20
2	Disbursements \$Bn	4.55	2.83
3	Total members equity \$Mn	862	827
4	Mobilized Funds \$Bn	4.2	3.57
5	Total Income \$Mn	54	45.4
6	Cost income Ratio	45.4 %	46.2 %
7	Net Profit \$Mn	29.12	27.22
8	ROE (p.a)	3.4 %	3.3 %

(US\$ million)



02

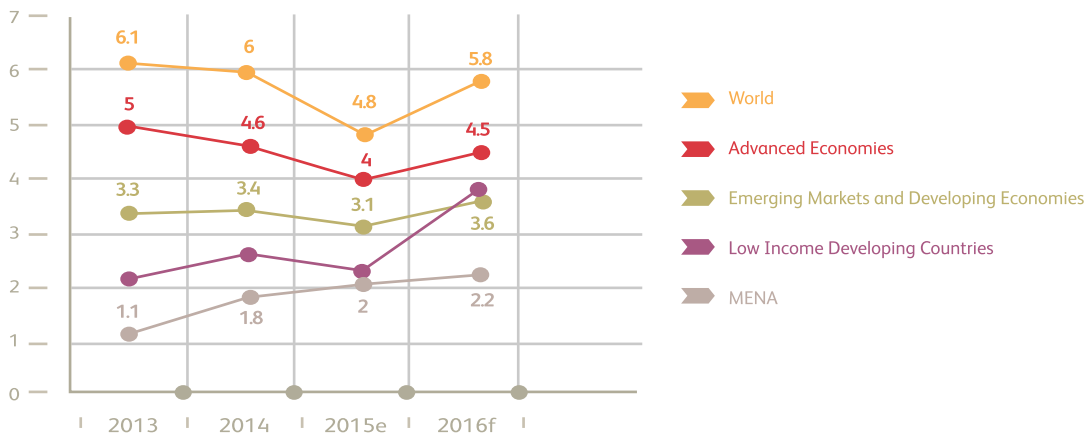
SUPPORTING TRADE DEVELOPMENT  
IN OIC MEMBER COUNTRIES

## Global Economic and Trade Overview

For 2015, Global growth is forecasted to drop to 3.1% from 3.4% in 2014. However, according to IMF projections, this growth is forecasted to increase to 3.6% in 2016. In 2015, growth in advanced economies is expected to slightly improve due to low oil prices and the recovery in the United States, where the growth rate is expected to pick up by the end of the year to 2.6%, up from 2.4% in 2014. However, it falls short of catching up with the pre-crisis rates (Figure 1).

Economic recovery in Europe remains modest and fragile. The euro zone is expected to record a growth rate of about 1.5% in 2015 and 1.6% in 2016, up from 0.9% in 2014. This is largely because of low oil prices and low interest rates as well as the depreciation in the Euro, which improved European exports' competitiveness.

Figure 1: Growth Rate in 2015 and 2016 (In percentages)



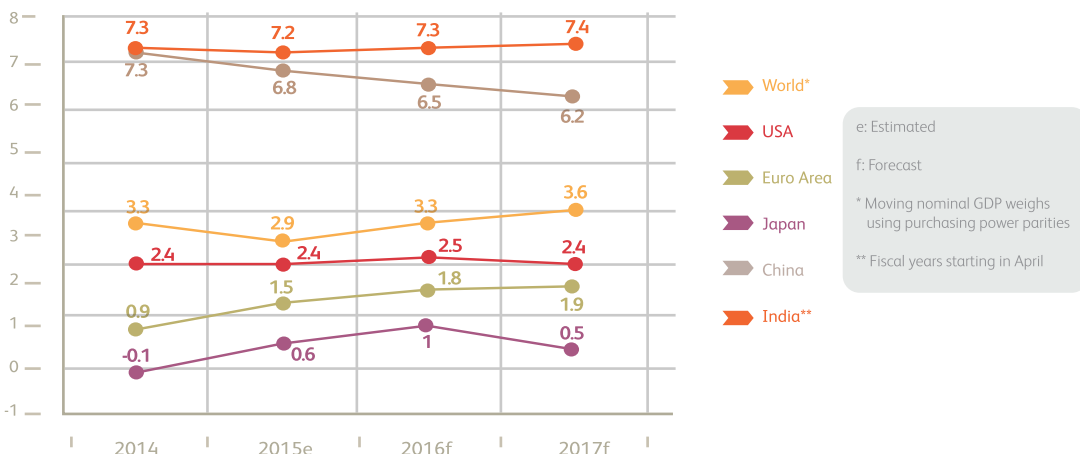
Source: IMF (October 2015)

In emerging and developing economies, the growth rate, even if higher than in developed countries, is expected to slow for the fifth year in a row due to “declining commodity prices, reduced capital flows to emerging markets and pressure on their currencies, and increasing financial market volatility<sup>1</sup>”. The growth for these two economies is

estimated at 4% in 2015, down from 4.6% in 2014, before bouncing back to 4.5% in 2016. The decrease in 2015 can be explained by the relatively poor economic performance of some major emerging and developing countries such as China, Brazil and Russia (Figure 2).

<sup>1</sup> IMF – WEO 2015

Figure 2: Growth Rate Variation for Some Developed and Emerging Countries (In Percentages)

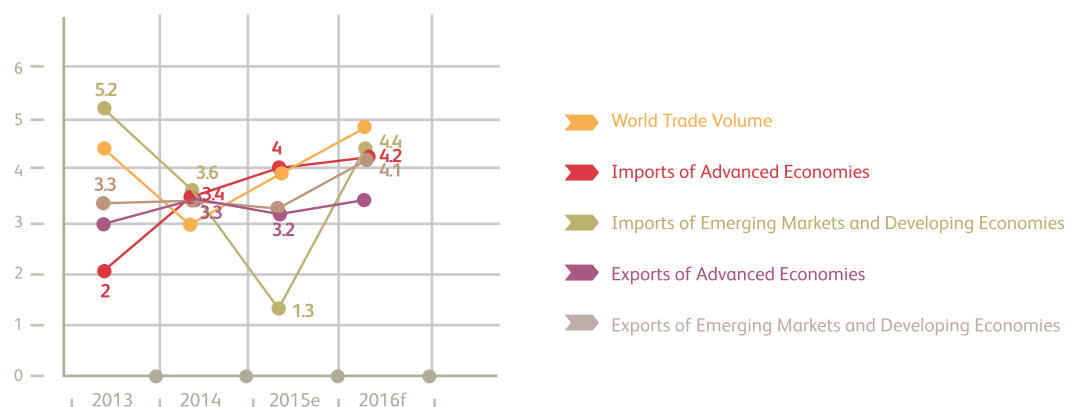


Source: OECD November 2015 Economic Outlook Database

In the MENA (Middle East and North Africa) region, the growth rate is expected to slightly drop in 2015 (2.3%, compared to 2.6% in 2014) before improving progressively to reach 3.8% in 2016, according to the IMF. Low oil prices are expected to somewhat slow the growth of oil-producing countries while sustaining recovery in importing countries of the region whose growth rate is projected to reach 3.9% in 2015 and 4.1% in 2016. These countries are also expected to benefit from the progressive economic recovery in Europe. As for the growth in world trade evaluated at US\$

18,422 billion in 2014, it remained sluggish in early 2015 after three years of limited expansion. Increases in merchandise trade in volume were very modest since 2012, measuring just 2.5% in 2014 and 2013, and 2.2% in 2012. It is noteworthy, however, that exports of developing and emerging economies grew at a higher rate than those of developed countries in 2014, i.e. 3.1% for the former and 2% for the latter (Figures 3). On the other hand, imports of developing and emerging countries increased at a slower pace than those of developed economies, 1.8% compared to 2.9%<sup>2</sup>.

Figure 3: Trade Growth between 2013 and 2016 (In Percentages)



Source: IMF (2015), WTO (2015)

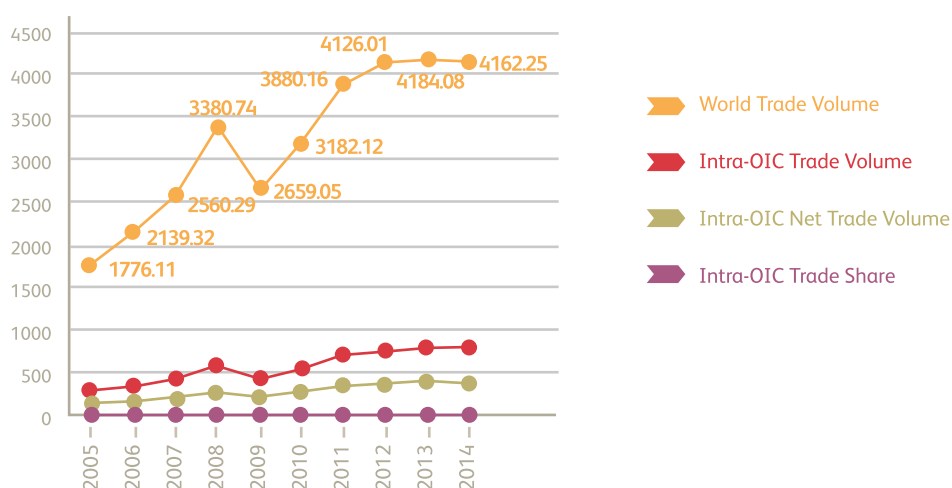
<sup>2</sup> WTO – World Trade Report, 2015

## Economic and Trade Performance of OIC Countries

In 2014, the total trade volume of OIC Member Countries recorded a slight decrease of 0.52%. On the other hand, total value of intra-OIC trade in 2014 increased by 3.37% (from US\$776.13 million in 2013 to US\$802.25 million in 2014). Such an increase is also reflected in the share of intra-OIC

trade in the total trade of Member Countries, which went up from 18.64% in 2013 to 19.33% in 2014, representing an increase of 3.71%, and almost reaching the 20% target set by the OIC 10 year program of action (Figure 4).

Figure 4: Evolution of Intra-OIC Trade between 2005 and 2014 (US\$ Billion and in Percentages)



Sources: National Data, DOTS-IMF September 2015, and WITS October 2015



As for intra-OIC exports, and despite strong growth of 182% between 2005 and 2014, their proportion in the world export recorded a slight decrease in 2014 as compared to 2013--from US\$379.15 billion to US\$378.91 billion over the period. The top five OIC exporting Member Countries, namely Saudi Arabia, Malaysia, United Arab Emirates, Indonesia, and Turkey accounted for about 54% of all intra-OIC exports in 2014. With regard to intra-OIC imports, they increased from US\$396.98 billion in 2013 to US\$423.34 billion in 2014, registering a growth of 6.64%. The top five OIC importing countries (Turkey, United Arab Emirates, Malaysia, Indonesia and Saudi Arabia) accounted for about 57% of all intra-OIC imports in 2014.

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### **The Prevailing Market Context**

The year 1436H (2014G-2015G) was challenging for the OIC Member Countries. Political upheavals and depressed commodity prices (including the steep decline in oil prices) affected several Member Countries. Notwithstanding the difficult operating environment, ITFC, in response to the needs of its Members Countries, expanded its trade support interventions as evidenced by the record approvals, which reached US\$6,047 million in 1436H, representing an increase of 16% over the previous year.

### **Plummeting Commodity Prices and Depreciating Currencies**

The drastic drop in oil prices is having an increasingly pronounced impact on the global economy. For the oil-importing countries, the benefits have so far been limited, although it would help bring down overall energy cost. In oil-exporting countries, lower prices are affecting economic activity with increased pressures on their fiscal situation, exchange rate and inflation.

Oil prices began their sharp decline in the second half of 2014. Prices are expected to remain well below their 2013 levels over the next decade. Following their rebound from the 2008 crisis, oil prices remained in the US\$90–US\$120/barrel range for about three and half years. However, in mid-2014, prices started plummeting due to increased supply and declining demand in the emerging countries. By December 2015, oil prices decreased to a six-year low of \$36 a barrel.

In addition to weak global demand (including in China), this situation has put pressure on non-oil commodity prices, particularly for natural gas, fertilizer, and food (natural gas is a key raw material for fertilizer production). Fertilizer prices have fallen more than 40% below their mid-2011 peak. Following the post-2005 drop in natural gas prices in the United States (due to the shale gas boom), many fertilizer companies began moving their production plants to that country.

On the other hand, several Member Countries are faced with heightened risk of currency depreciation amid a gradual tightening of financial rules and moderating capital flows. The announcement of quantitative easing by the European Central Bank (ECB) in January 2015, continued monetary easing in Japan, and the interest rate increase in the United States have been associated with a broad-based appreciation of the U.S. dollar and some financial market volatility. Currency depreciations have been largest in developing countries with deteriorating growth prospects, most notably for countries dependent on commodity exports.

## ITFC'S CONTINUED TRADE SUPPORT IN THE FACE OF CHALLENGING ENVIRONMENT

### Providing Trade for the Development of Member Countries

ITFC registered another year of record performance in 1436H, further expanding its trade support to its Member Countries. As mentioned above, many Member Countries faced significant challenges and ITFC was steadfast in not only sustaining but also growing its trade support for Member Countries, as evidenced by the 16% increase in the trade finance approvals for the year.

Overall, the Corporation was able to strengthen its position in Asia-CIS and MENA countries, while expanding its footprint in African and South American countries. Improving energy security, support to the key agricultural sector, and contribution to the private sector helped make 1436H another successful with the Corporation supporting the improvement of the socio-economic condition of people in Member Countries, through the provision of trade.

A breakdown of the trade finance approvals by region is provided in the table below.

Table 1 - ITFC Trade Approvals by Region (US\$ million)

Region	1435H Actual	%	1436H Actual	%
ASIA/CIS	2,464	47	3,229	53
MENA	2,291	44	2,228	37
Sub Saharan Africa	448	9	590	10
<b>Total Approvals</b>	<b>5,204</b>	<b>100</b>	<b>6,047</b>	<b>100</b>

In terms of portfolio breakdown by security type, Sovereign exposure continued to comprise the bulk of the portfolio, accounting for 75% of the total, similar to previous years. ITFC's sovereign exposure is primarily driven by large-ticket sovereign deals to finance the key sectors of energy and agriculture and is mainly extended under strategic framework agreements signed with Member Countries, in line with their economic development priorities. A breakdown of the portfolio by security type is provided in the table below.

Table 2 - ITFC Trade Approvals by Type of Security (US\$ million)

Type of Security	1435H Actual	%	1436H Actual	%
Sovereign	3,788	73	4,531	75
Bank Guarantee	399	8	724	12
Corporate	262	5	125	2
STF	720	14	644	11
Credit Insurance	35	1	23	0
<b>Total</b>	<b>5,204</b>	<b>100</b>	<b>6,047</b>	<b>100</b>

## MIDDLE EAST AND NORTH AFRICA



of ITFC's portfolio at USD 2,228 Bln. Being active in 12 countries, ITFC is one the most active development institution in the MENA region and was recognized to be the Best Islamic Trade Finance Provider in the region for 2015 by the Global Banking and Finance Review Magazine.

Countries in this region are actively experimenting to find a sustainable development model that can satisfy the economic and social aspirations of their young and fast-growing population.

To build inclusive growth, ITFC has chosen to focus its efforts on supporting the region's access to energy in good terms and conditions. With the custom solutions extended to big economies like Egypt as well as small ones like Comoros and Djibouti, ITFC is able to help sustain economic development in the region.

ITFC plans to open offices in Rabat and Dubai.

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## SOUTH AMERICA

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On the other hand, in 1436, ITFC reinforced its commitment to Suriname, our only MC in South America, with one new operation approved for the country in support of improving access to energy.

## SUB-SAHARAN AFRICA



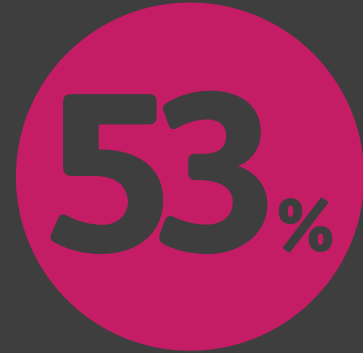
of ITFC's portfolio is in Sub-Saharan, a fast growing region. Over the past 10 years, the region has repositioned itself, showing unprecedented economic and social vitality.

Demographic growth, abundant natural resources, human capital, agricultural and energy potential, an emerging middle class and a truly domestic market all create new opportunities for the region. But there are still challenges to overcome before Sub-Saharan Africa can transform this potential into sustainable and equitable growth for its population. To contribute to the efforts in addressing these challenges, ITFC continues to place a high priority on the region in its strategy, mainly operating in two areas: supporting SME's & the private sector and promoting agriculture and energy security.

ITFC has been recognized as the "Best structured finance house in Africa" by The EMEA finance magazine.

ITFC presence is supported by one office in Dakar.

## ASIA-CIS COUNTRIES



of new commitments in went to finance ASIA and CIS countries, mainly in the energy and agri business.

The region is considered very important for the global economy. This situation creates new opportunities as well as unprecedented challenges related to currency devaluation and more.

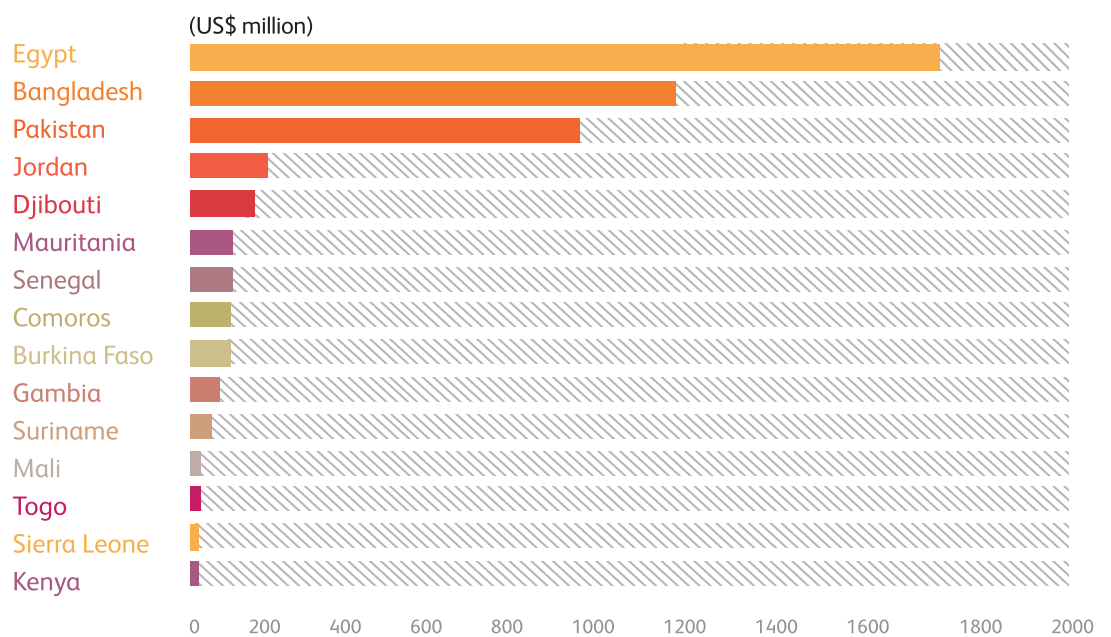
In 1436, ITFC provided major support to maintain sustainable energy access and promoting wheat exports to several countries in addition to developing their scope within private sector.

ITFC's plans for the region received a major boost with the opening of offices in Istanbul, Jakarta and Dhaka in order to strengthen its presence, being recognized since several years for several operations as deal of the year from Trade Finance Magazine and Trade and Forfeiting Review. This is the result of the implementation of innovative tailor made

## Contributing to Energy Security in Member Countries

Sustainable access to energy is a key driver of economic and social development. Energy services have multiple impacts on productivity, people's health, education, food security, and so on. According to estimates, 3 billion people around the world are without access to electricity and more than 95% of these people are in sub-Saharan African or developing Asia and 84% are in rural areas. A lack of infrastructure and access to energy are the main reasons for the sector's underperformance in those countries.

Therefore, improving access to energy is crucial to unlocking the potential for faster economic and social development. It is in this context that ITFC considers supporting the energy sector as one of the main pillars of its strategy in its interventions in Member Countries. As such, ITFC remains a historical partner for providing financing to secure fuel oil in order to maintain stability for electricity generation reaching large number of the disadvantaged population (See graph below).



### ITFC's financing towards the energy sector is characterized by the following:

- As of 1436H, energy products financing represented 74% of total approval, with 34% for crude oil and 40% for petroleum products financing;
- The bulk of the energy-related financing are for countries in Asia and MENA followed by countries in Sub-Saharan Africa;
- ITFC sustained similar level of financing for the sector despite the drop in oil prices. As a result, its financing for energy commodities had greater impact than last year as more volumes of energy were secured for the same amount of financing. As a testimony to this, the IMF in its report on Comoros acknowledged the economic benefits of ITFC energy financing for that country.

The following are highlights of ITFC's support to the energy sector in some of its Member Countries



US\$ **7.8**  
billion worth of investments

Egypt is the largest non-OPEC oil producer in Africa and the second-largest dry natural gas producer on the continent. The country also serves as a major transit route for oil shipment from the Arabian Gulf to Europe and the United States.

The country is also the largest oil and natural gas consumer in Africa, accounting for about 20% of petroleum and other liquids consumption and 40% of dry natural gas consumption on the continent. The oil and gas sector is crucial to Egypt's economy. Crude oil and oil products account for 47% of the country's merchandise exports, making these commodities a major generator of much-needed foreign currency for Egypt. Furthermore, almost 72% of total Foreign Direct Investments (FDIs) flow in 2013/2014 was in the area of oil and gas (US\$7.8 billion worth of investments).

In terms of imports, crude oil and its products accounted for 22% of total imports and registered a growth of 9.3% last year (approximately an additional US\$1 billion) compared to the previous year. ITFC has played an important role in covering a significant portion of this growth,

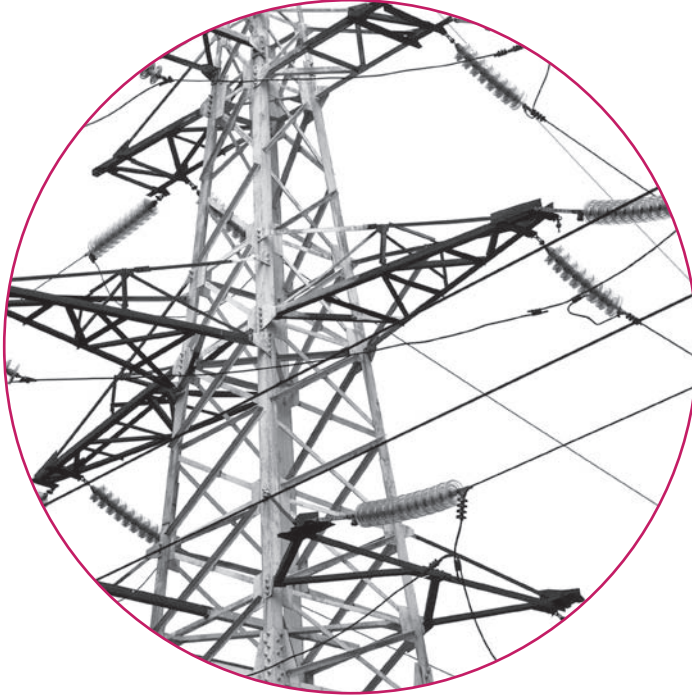
by having increased its financing of Egypt's oil and gas imports by a remarkable 83.4% -- from US\$955 million in 1435H (2014) to US\$1.7 billion in 1436H (2015).

During the Egypt Economic Development Conference, which took place in mid-March 2015, ITFC signed a US\$3 billion agreement with the Government of Egypt, whereby ITFC is expected to mobilize the amount from international and regional financial institutions. The agreement was meant to contribute to Egypt's energy security by covering a portion of the country's needs of petroleum and petroleum products in particular. The first operation under this agreement was implemented for US\$1.115 billion during the year.

ITFC's financing, which reached 13% of the country's imports of its hydrocarbons requirements, has helped the government in reducing the pressure on foreign currency reserves and has actually highlighted the Corporation's strength in mobilizing considerable amounts from the international and regional market at critical times.

## THE PAKISTAN CASE

### BOX 2



US\$ **1.0**  
billion to support the country  
cope with the electricity shortages

With a population exceeding 200 million people, Pakistan is the 70th largest export economy in the world. In 2015, Pakistan exported US\$21.9 billion and imported US\$37 billion, resulting in a negative trade balance of US\$15.1 billion. The top exports are house linen, cotton yarn and rice.

Pakistan is a net importer of crude oil and refined products. The country currently has six oil refineries, running mostly on imported crude oil, and a total crude oil distillation capacity of 186,000 barrels per day.

However, the country is facing severe electricity shortages as power plants run short of fuel oil, despite falling international oil prices. Discrepancies to track the fall in oil reserves accurately, refinery breakdowns, delays in shipping imports and lack of infrastructure have all contributed to

these shortages. However, the main cause of the fuel shortage is the huge circular (inter-corporate) debt burden plaguing the entire energy sector.

ITFC signed a framework agreement with the Government of Pakistan in 2014 to secure a US\$500 million financing and this limit has been increased to US\$1 billion in 2015 in order to support the country cope with the electricity shortages. The beneficiary is a joint venture between the Government of Pakistan and the Emirate of Abu Dhabi, incorporated as a public limited company in 1974. Government of Pakistan holds 60% of the shareholding while Emirate of Abu Dhabi through its Abu Dhabi Petroleum Investment Company L.L.C. (ADPI) holds 40% of the shares.



US\$ **180**  
million ITFC financing Djibouti's  
imports of petroleum products

In 2015, ITFC financed Djibouti Government's whole imports of Petroleum Products, with a cumulative financing of US\$180 million. The transaction enhanced Djibouti energy security and helped the country reduce its cost of supply considerably by decreasing premiums as well as financing costs.

The country was facing a unique situation for its energy supply. The relatively small size of Djibouti's energy market made it difficult to negotiate lower supply premiums. ITFC's intervention offered a global response to all of these challenges. ITFC undertook a series of consultations with all stakeholders; the Government, the state-owned petroleum company (SIHD), distributors and the central bank, following of which ITFC structured a tailor made financing that is aligned with petroleum products life cycle in Djibouti and its financial flows. At the same time, it ensured the application of international standards of procurement for products supply. Moreover, ITFC advised to

conduct a joint tendering process with Ethiopia to benefit from bigger economy of scale.

The financing enabled the Government of Djibouti achieve a significant and positive macroeconomic impact. Savings represented more than 4% (US\$18 million) of Government budget in 2015, allowing for increasing investments in growth generating activities. Furthermore, by securing Djibouti petroleum products supplies, ITFC is directly contributing to social welfare and economic development by providing cooking fuel to households and fuel for transportation and power generation. In addition, SIHD became one of the biggest companies in Djibouti with a turnover of almost US\$200 million, allowing for job creation and additional revenues for the Government.



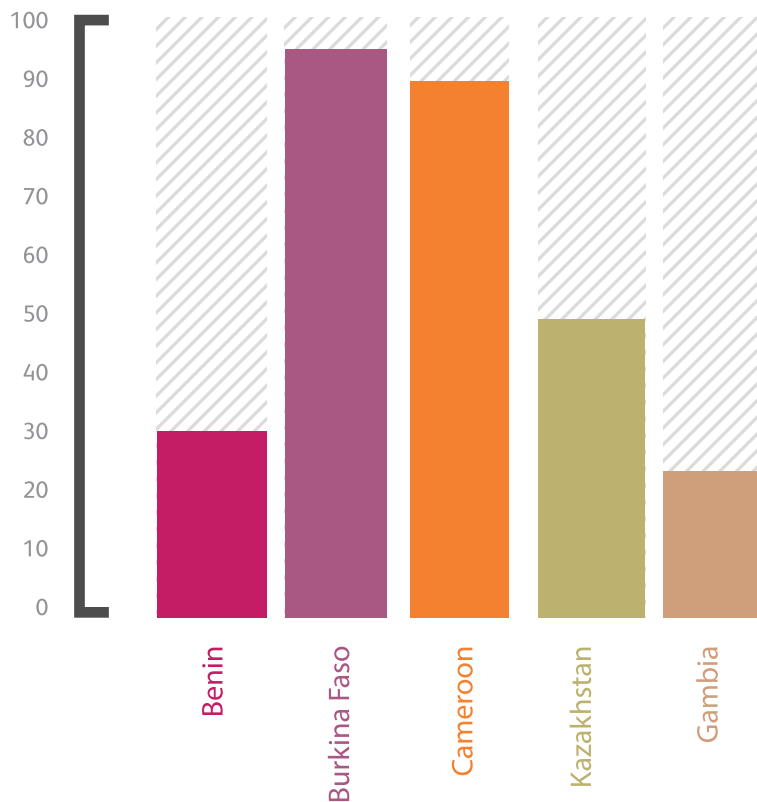
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## Supporting Agricultural Exports of Key Commodities

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ITFC interventions in the agriculture sector continued to cover a wide range of commodities, which helped to create jobs, improving productivity, alleviating poverty, and bolstering food security. In 1436H, approvals for the sector amounted to US\$733 million, which received the second largest allocation after energy. During the year, ITFC approved 16 operations in eight Member Countries (See Appendix 3 for more details on operations by country)

### Top 5 Beneficiaries (US\$ million)



The following are the key features of ITFC's financing in the agriculture sector:

- The bulk of the financing is towards support of key export commodities such as cotton and groundnuts; Financing was also provided for wheat export (mainly in Kazakhstan);
- Africa accounts for the largest share in this portfolio with Burkina Faso, Cameroon, and The Gambia being the main beneficiaries.





## WEST AFRICA

US\$ **646**  
million funding provided since  
inception in 2008

West Africa region ranks sixth among the world's cotton producing areas. Its contribution has been on an upward trend with new production attaining new heights in 2014-2015. More particularly, Francophone West Africa seed cotton production has increased by 10%, reaching an estimated 2.04 million metric tons (MT), with growth in Mali, Côte d'Ivoire and Benin offsetting a slight drop in Burkina Faso.

After three consecutive years of stagnating output, Mali's cotton production surged by 25% to 552,000 MT, thanks to good rains and an increase in harvested area. Côte d'Ivoire, which has overtaken Benin as the region's third largest cotton producer, boosted its output by 11% to 450,000 MT, owing to an increase in harvested area. Although Benin consolidated gains in seed cotton production, rising by 18% to 360,000 MT, it is still facing lingering problems in its value chain that led to lower than expected cotton fiber volumes. Burkina Faso maintained its status as the region's largest producer, with 680,000 MT. For the coming 2015-2016 season, global production for the West Africa region is expected to keep growing.

Cotton is an essential commodity in Sub Saharan Africa. The "white gold" is almost exclusively grown by smallholding farmers with only very few large plantations. It is a major cash crop for farmers and takes about six months from planting to harvesting of cotton. As a result, farmers are

using some of the available agricultural inputs (fertilizer, insecticides) provided by ITFC for the remaining period to grow their own food in subsistence farming.

Cotton plays an important role in guaranteeing rural food security and is an important export and revenue-generating vehicle for Sub Saharan African countries. Thus, cotton production appears to be a promising tool for poverty alleviation.

Given the above, ITFC's strategic area of intervention since its inception has been to support cotton farming by funding the supply of necessary agricultural inputs and by purchasing cotton seeds directly from farmers and cooperatives, which are processed into fiber before export. Thus, over the years, ITFC has established itself as a major player in Member Countries' cotton sector. To date, the Corporation has approved financing operations in the cotton sectors of Burkina Faso, Cameroon, Côte d'Ivoire, Mali, and Benin.

Thus, despite a challenging global environment with depressed commodity markets, ITFC has been able to fulfill one of its main strategic objectives in Sub Saharan Africa and become the leading financing partner of the cotton sector, with more than US\$646 million funding provided since inception in 2008

# THE CAMEROON CASE

## TESTIMONIALS



## CAMEROON

Mr. Abdou Namba  
Director General, Sodecoton

ITFC's support for the agricultural sector of the Republic of Cameroon started in 2011 when ITFC approved a financing operation under the government's Fertilizer Support Fund Program for the cotton sector. Accordingly, since 2011, ITFC has been successfully extending financing to the government of Cameroon to finance the acquisition of farm inputs for farmers through the cooperatives and the National cotton company. The financing, which started as supporting the purchase for inputs, was expanded in 2015 to cover the entire cotton production cycle, from the acquisition of farm inputs to the processing of the seed cotton, and to the final export of the cotton fiber.

As a direct result of this co-operation with the government of Cameroon, the country has been successfully boosting its annual production and

export of seed cotton since 2011. For instance, overall cotton exports rose from 160,000 tons in 2010/11 to 239,500 tons in 2013/14 with projections expected to go as high as 260,000 tons in 2015/16, as confirmed by the Director General of National Cotton Company, Sodecoton, Mr. Abdou Namba.

In addition to its significant impact on the population of over 300,000 farmers from the cotton production regions of Garoua and Maroua in the North, the two-tier pricing strategy adopted in the 2015 financing ensured that farmers got a cost-competitive financing for their farm inputs (fertilizers, pesticides, etc.) while at the same time making it attractive to syndicate participants. This enabled ITFC to mobilize sufficient financial resources for the country.



## KAZAKHSTAN

# 80%

Wheat output, for Annual Cereal Production

Kazakhstan is the world's largest landlocked country by land area and the ninth largest in the world. Agriculture remains a small-scale sector of Kazakhstan's economy. Its contribution to GDP is under 10% and it employs only 20% of the labor force. At the same time, more than 70% of its land is used for crops and animal husbandry.

Kazakhstan's largest crop is wheat, which it exports. It ranks as the sixth largest wheat producer in the world. Minor crops include cotton, sugar beet, sunflower, flax, and rice.

Wheat output, which accounts for over 80% of annual cereal production, is estimated at 14 million tons, up 8% compared to 2014 levels,

representing the largest increase since the bumper harvest of 2011. This reflects an improvement in yields because of favorable weather conditions.

In 1436, ITFC strengthened its relationship with AIC, one of the leading privately owned agricultural companies in Kazakhstan by enhancing its wheat export capacity, going mostly to Member Countries (75% average). This also contributes to the Government efforts to develop non-oil sector.

This transaction was specifically designed to capitalize on the advantages of the unique grain legislation in Kazakhstan enacted in 2001 through which grain warehouse receipts system was introduced.

## Promoting Islamic Banking while Serving SMEs in Member Countries

In order to reach a larger number of Small and Medium Enterprises (SMEs) in Member Countries, ITFC provides Murabaha Financing to local financial institutions and commercial banks, which in turn extend the financing to SMEs. This not only contributes to creating badly needed access to finance for SME, but it also helps promote Islamic Banking as partner banks are introduced to Islamic financing instruments. The following are highlights of ITFC's support to the SME sector.



In 1436, ITFC concluded landmark export syndication for US\$350 million in favor of Turk Eximbank. The facility is utilized to support the exports of Turkey by providing financing to end users who are Turkish based manufacturers and exporters.

Turk Eximbank is a state-owned entity, which acts as the government's major export incentive instrument in Turkey's sustainable export strategy. As the official export credit agency, Turk Eximbank has been mandated to support foreign trade and Turkish contractors/investors operating overseas. Its main objectives are to promote Turkey's exports through diversification of exported goods and services by increasing the share of Turkish exporters in international trade, finding new markets for traditional and non-traditional export items and providing exporters and overseas contractors with support to enhance their competitiveness and to ensure a risk-free environment in international markets. As a means of aiding export development, Turk Eximbank

offers specialized financial services through a variety of credit, insurance and guarantee programs.

Most developed countries have an export credit agency (ECA) like Turk Eximbank to promote exports. An export financing system usually is a joint effort between ECAs on the one hand, offering insurance and guarantee programs to facilitate exports (in preference to direct credits), and commercial banks on the other, responsible for financing export operations. However, Turk Eximbank is different, in that it is one of the few ECAs in the world, which engages in direct financing activities as well as implementing insurance and guarantee schemes within the same institution.

ITFC financing facility to Turk Eximbank which was designed to contribute to the Turkish export sector has received an important award from Trade Finance Magazine, which recognized it as the deal of the year



US\$ **144**  
million in Two-Step Murabaha  
financing in Sub-Saharan Africa.

Africa has a population of over a billion, which is expected to almost double by 2050. Both the continent and its market are experiencing sweeping changes. Growth rates have been high in recent years – roughly 5% a year – well above those of the Organization for Economic Cooperation and Development (OECD) countries. Yet this growth is not enough to eradicate poverty: a third of the world's extreme poor live in Africa, mainly Sub-Saharan Africa. The continent has crucial financial needs and is particularly vulnerable to risks stemming from the global economic situation.

In order to face Africa's major challenges, it is essential to boost its growth and make it inclusive and sustainable. The private sector plays a key role towards achieving the twin goals. To that end, SMEs are also recognized as important tools for gaining economic prosperity and sustained GDP growth. However, despite their importance to enhance economic output, market conditions and regulatory environments are not always supportive of the growth of SMEs and they still have inadequate access to finance and other banking services.

Therefore, an important role of ITFC is to support the banking sector so that SMEs can develop in Africa. To do this, ITFC uses the Two-Step

Murabaha approach to reach out to local and regional financial institutions by providing them a line of financing (first step) with the aim that these institutions will then provide financing (second step) to the SMEs within the region. In other words, the selected financial institution becomes an intermediary for ITFC to reach SMEs.

In 1436H, ITFC approved a total of US\$144 million in Two-Step Murabaha financing in Sub-Saharan Africa. This amount represents about 25% of the total approvals in the region and about 20% of the Total Two-Step Murabaha Operations approved by ITFC during the year.

ITFC is currently providing Murabaha Financing to eight Intermediary Financial Institutions in five countries; Nigeria, Cote D'Ivoire, Mozambique, Burkina Faso and Togo, with more financing planned to reach additional Member Countries.

In addition to efforts towards expanding the portfolio of Two-Step Murabaha financing in SSA, ITFC is looking at collaboration with new strategic partners and other affiliates of the Islamic Development Bank Group in order to further create awareness and promote Islamic financing in the region.

## Employing Innovative Solutions to support Private Sector

Structured Trade Finance (STF) is a secure mechanism through which funding is provided outside of the balance sheet-based traditional forms of short-term financing. In a typical STF transaction, the financing bank seeks to isolate (ring-fence through pledge or ownership) certain assets (usually commodity), which have predictable cash flows from other assets of the obligor and use them to mitigate the various risks in the transaction. Compared to standard balance sheet-based financing, STF helps reduce the expected loss through lower loss given default because of the higher recovery rate due to the asset-backed nature of STF transactions. Instruments used for STF include import

financing, pre-export financing, and inventory financing. One of the key advantages of STF is that it allows for wider reach, contributing to greater access to finance, an important goal for ITFC.

Through STF, ITFC can provide funding to private sector entities in Member Countries. This way, it can be argued that STF provides a win-win solution allowing ITFC to deliver on its mandate while maintaining portfolio with acceptable risk profile.

As of end 1436H, STF transactions represented 11 % of ITFC portfolio.



DIMAGAZ is a private company owned by Al Jerari Family in Morocco. The company has stakes in importation, storage, filling and gas distribution. Established in 1972, DIMAGAZ has concentrated its marketing efforts towards developing the distribution network of Butane in the less developed areas of Morocco. Over a three-year period (2009-2012), the company managed to double the number of distributors across the country, making it one of the most important entities in LPG business in the country.

ITFC signed a Murabaha financing agreement with Dimagaz for an amount of US\$50 million, dedicated to LPG imports, a heavily subsidized

commodity vital for providing energy in rural and desert areas.

The particularity of the above financing structure is that it uses the assignment of receivables coming from the Subsidy Fund in Morocco (Subsidies received are the difference between the International LPG price and the local Butane Price). This deal features a tripartite agreement signed between ITFC, Dimagaz and the Subsidy Fund. Likewise, another Facility Management Agreement was signed with the beneficiary and a local bank to manage the transfers received from the Subsidy Fund.



## TURKEY

# 80%

of Calik's cotton imports from Turkmenistan is financed by ITFC

Turkey is one of the active countries in ITFC's portfolio. Between 1429H and 1436H, ITFC provided 63 financing operations to Turkey for a total of US\$2.5 billion. ITFC financing in Turkey is diversified in terms of number of beneficiaries and sectors.

There is a growing demand for Shari'ah-compliant financing in the Turkish market, and ITFC has been well positioned to address that demand through several products such as Structured Trade Finance. ITFC trade finance approvals reached US\$935 million in the country during the year, which was US\$445 million in 1435H.

Shari'ah-compliant STF is an attractive financing mechanism for many Turkish companies because it offers transactional structures that can be tailored to match the clients' needs.

ITFC also supported reverse linkage opportunities by opening up new markets for its clients using its brand value. It has facilitated and financed the trade between Calik Cotton (a Turkish cotton trader) and its African suppliers. It also financed around 80% of Calik's cotton imports from Turkmenistan, thus enhancing OIC intra-trade.

### BOX 9

### TURKISH TRADERS LOOKING TO SHARI'AH-COMPLIANT FINANCING



03

LEVERAGING PARTNERSHIPS  
TO ACHIEVE BIGGER IMPACT



In 1436H, partnership once again proved to be one of the key factors behind ITFC's ability to grow its trade finance business, especially in the current challenging global and regional political and economic environment. Ensuring optimum ways of balancing between risk and expanding ITFC's portfolio in the context of the prevailing operating environment had been one of the major challenges. Nevertheless, ITFC was able to expand its network of partners from international, regional and local financial institutions and banks. It now enjoys a diverse network that includes more than 70 active partners from all over the world. The partnership with the IDB Group and the funds within the IDB also played an important role in raising many successful syndications by ITFC during 1436H.

Through this network of partners, ITFC was able to mobilize US\$4,179 million in 25 syndicated operations in favor of 15 Member Countries, which represents about 68% of the total trade financing provided by ITFC in 1436H.

Supported by this strong base, ITFC will continue expanding its network by solidifying its relationship with its current partners, especially strategic long-standing partners, and bring on board additional ones to meet the growing financing needs of its clients in the coming years. These partnerships are critical to cater for the financing packages in some Member Countries with sizes that exceed US\$1 billion per package. Such large packages call for strong strategic partnership approach by ITFC.

#### **REINFORCING THE CAPACITY FOR MANAGEMENT OF LIQUID RESOURCES**

In 1436H, ITFC continued its efforts to further strengthen its internal infrastructure and capacity in managing its liquid funds to generate additional sources of revenue.

IDB continues to be the main partner of ITFC in investing the liquid funds of ITFC. Through IDB and its various windows, ITFC conducts its investment transactions that resulted in quality and diversified portfolio of placements with banks, Sukuk issued by sovereign and corporate entities, and Murabaha facilities for banks.

Furthermore, to meet the expected growing level of disbursements in the coming years, the Corporation signed additional six Wakala agreements through which ITFC is expected to have solid and diversified sources of funding. Additionally, ITFC studied and assessed its future needs for the treasury-related information systems and human resources to determine the gaps and the optimal infrastructure it will need to conduct its activities efficiently.

Trade development challenges and needs of Member Countries have grown over time and become complex in terms of their economic development and growth. This diverse development needs and challenges can be addressed through bringing various resources and expertise together. In 1436H, ITFC focused on partnership development and resource mobilization to leverage technical and financial resources from development partners and Member Countries in order to develop comprehensive regional/thematic trade development programs.

As part of its mandate to promote trade and trade cooperation among its Member Countries, ITFC has primarily geared its efforts towards providing trade-related technical assistances (TRTA) under four business lines: trade promotion, trade facilitation, development of strategic commodities and trade-related capacity building activities. The following sections provide a brief description about ITFC's flagship trade development and cooperation initiatives.



### AID FOR TRADE INITIATIVE FOR THE ARAB STATES: DELIVERING RESULTS

The Aid for Trade Initiative for the Arab States (AfTIAS) programme was launched in 2013 by ITFC, in collaboration with the United Nations Development Programme (UNDP), the International Labour Office (ILO), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO). AfTIAS Programme was funded by seven donors: Kingdom of Saudi Arabia, State of Kuwait, Kingdom of Sweden, Arab Republic of Egypt, UNDP, IDB and ITFC.

As part of the global Aid for Trade initiatives, AfTIAS Programme aims to foster Arab trade through enhancing enterprise competitiveness and facilitating trade. More specifically, AfTIAS objectives are:

- Enhance regional competitiveness through trade reforms;
- Strengthen trade supply side and value chain integration; and
- Strengthen regional and sub-regional organizations' capacity to foster trade integration.

As a technical assistance vehicle for the development of trade between Arab countries, the AfTIAS raised interest, over a relatively short period, among development partners and donors, as well as in the target countries. It revealed itself as a programme with huge potentials that could be effective for trade cooperation, trade facilitation, capacity building and for the intensification of trade flows in the region, both for goods and services, thus significantly fostering regional integration and economic development.

Among the important projects that benefitted from AfTIAS resources during the current phase, the following ongoing projects can be mentioned:

- Support to the League of Arab States in promoting regional trade integration, through the strengthening of the capacity of the Department of Economic integration, Economic Affairs at the Secretariat of the Arab League (implemented by UNDP);
- Performance improvement of the trade and transport corridors between Sudan and Egypt, Egypt and Saudi Arabia, Saudi Arabia and Jordan, through the enhancement of customs procedures and the equipment of the border centres (implemented by the UNDP);
- Improvement of regional competition by addressing non-tariff measures in Egypt, Jordan, Morocco, Palestine, Saudi Arabia, Sudan, and Tunisia and identifying concrete actions at national and regional levels to eliminate non-tariff restrictions (implemented by ITC);
- Support to the accession of Sudan and the Comoros to the World Trade Organization (WTO) by providing technical support and capacity building in the field of trade policy, institutional and legal frameworks related to trade reform ( UNCTAD);
- Enhancing the skills of workers in selected export sectors in Egypt through the application of training tools that aim to help matching the needs of the industry and the skills of job seekers in the sectors of food industry, wood and furniture (implemented by ILO);
- Strengthening of trade support institutions in Algeria, Egypt, Kuwait, Lebanon, Oman and Saudi Arabia (implemented by the ITC);
- Support to small and medium-sized companies in the Gulf Cooperation Council (GCC) for access to foreign markets project (implemented by UNIDO);
- Rehabilitation and employment of young people in Egypt through training new graduates and preparing them for suitable jobs in the export industries (implemented by Foreign Trade Training Center (FTTC), Egypt).

## **FOSTERING INCLUSIVE AND SUSTAINABLE DEVELOPMENT THROUGH PARTNERSHIPS**

### **Trade Development Forum**

During 1436H, ITFC continued to work together with Member Countries in launching a number of joint trade development initiatives. The Trade Development Forum is one of ITFC's partnership development programs in the Member Countries. The Forum is a public-private partnership platform of OIC, which aims at bringing trade policy makers and businesspersons together so that they can find solutions to address common challenges faced by IDB Member Countries.

### **Arab Africa Trade Bridge Program**

Arab Africa Trade Bridge Program is ITFC's other partnership development initiative, which is designed in consultation with some regional partners, in particular Arab Bank for Economic Development in Africa (BADEA), Islamic Corporation for Insurance of Investment and Export Credit (ICIEC), Arab Coordination Group Members, and Saudi Export Program (SEP). Launched in 1436H, it is a regional trade promotion program aimed at supporting trade exchange between Arab and African regions. Business matchmaking activities, international exhibitions and some capacity building activities are supported through the program. Two international exhibitions, held in Egypt and in Jordan, were supported under this initiative. Participation of African businesspersons in these activities was sponsored by ITFC that enabled African companies to develop business partnerships with their Egyptian and Jordanian counterparts.

### **The Executive Program of the Road Map for Enhancing Intra-OIC Trade**

In compliance with the relevant resolution of 30th Session of COMCEC, ITFC and the Islamic Centre for Development of Trade (ICDT) organized the 7th Meeting of the Consultative Group (CG) for enhancing intra-OIC trade during 2-3 March 2015 in Casablanca, Morocco. The main objective of the meeting was to review and assess the implementation of the Executive Program. The meeting also discussed the roles of the OIC institutions in the implementation of the OIC Ten Year Plan of Action for 2016-2025 and the way forward.

### **Regional Workshop on Reducing Trade Costs for Inclusive, Sustainable Growth**

As part of its preparation of the 5th Global Review of Aid for Trade, ITFC organized a regional seminar in Amman, Jordan, during 21-23 April 2015 with the participation of Arabic-speaking Member Countries, as well as international and regional organizations to discuss IDB Member Countries' experiences and needs as to how to reduce trade costs and associated impacts. During the seminar, participants delivered presentations on how to address market access issues, removal of non-tariff measures (NTMs), implementation of WTO Trade Facilitation Agreement, usage of ICT solutions in trade transactions, regional trade facilitation programs, and government trade facilitation policies and programs.

### **ITFC's Cooperation with the International Chamber of Commerce (ICC)**

In a testimony to the importance of the role played by ITFC in international trade and development, the International Chamber of Commerce (ICC), has dedicated a 7-page special article on ITFC and its role in the ICC flagship annual report "Rethinking Trade, 2015". Furthermore, this signifies the beginning of a strong cooperation between ITFC and the ICC in the years to come for the benefit of our Member Countries and International Trade as a whole.



**Dr. Marc Auboin**  
Counsellor, responsible for Trade and  
Finance - World Trade Organization

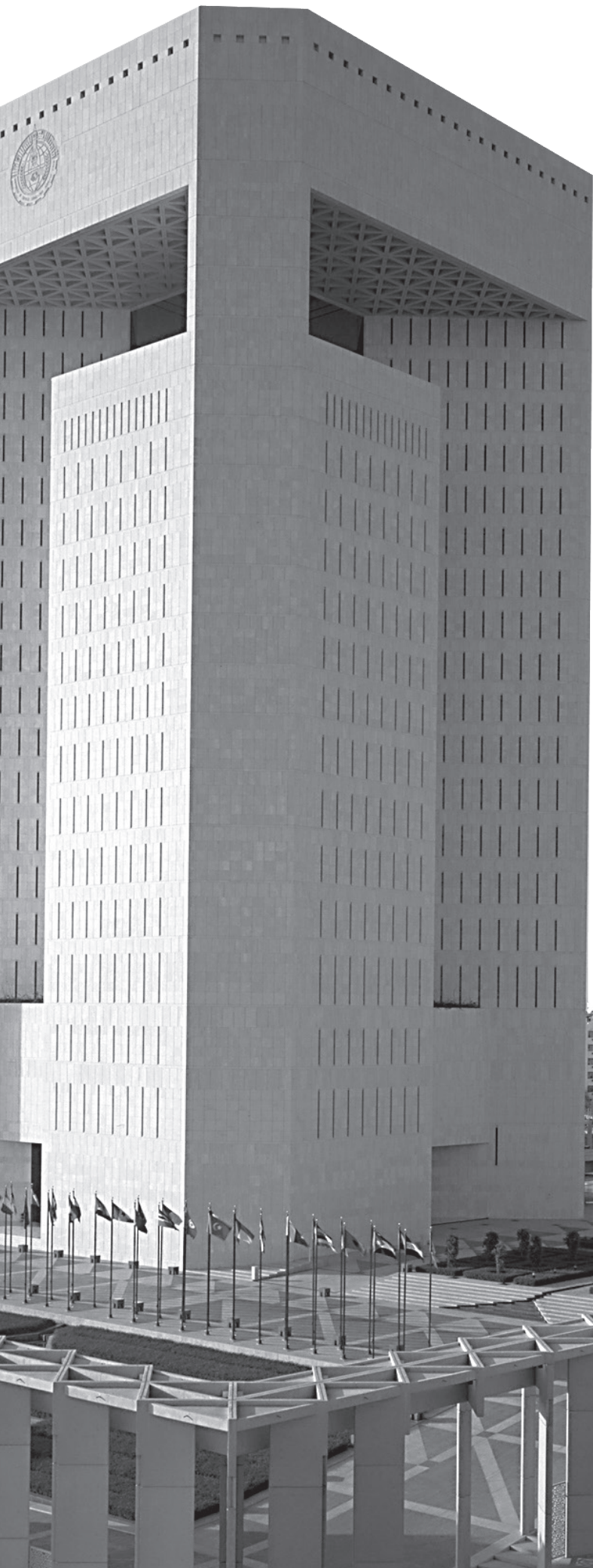
Recent studies and surveys show that access to trade finance is one of the main obstacles encountered by SMEs in going international – almost at par with the delays and obstacles in passing borders. Lack of access to finance for trade can be a significant non-tariff barrier to trade, notably for SMEs in developing countries. According to surveys the financing gap is estimated to be as high as US\$120 billion in Africa, and US\$700 billion in developing Asia. Studies have revealed that over half of trade finance requests made by SMEs are rejected, while the rejection rate is less than 10% for multinational companies. Over the recent years, the World Trade Organization (WTO) and its development partners, eminently the IsDB group, have aimed at addressing this challenge.

A network of trade finance facilitation programs has been established in multilateral development banks (MDBs), comprising the International Finance Corporation, Asian Development Bank, African Development Bank, the Inter-American Development Bank, the Islamic Development Bank Group/ITFC and the European Bank for Reconstruction and Development, which together, support about US\$30 billion in (small) trade transactions in the poorest countries.

Collaboration also extends to areas of capacity building, market intelligence and dialogue with international regulators on trade finance.

However, with an estimated global gap of around US\$800 billion to US\$1 trillion, more needs to be done. This has been acknowledged in the "financing for development" agenda post-2015, and on the occasion of the Addis Ababa Conference in July 2015, in which Director-General of the WTO Roberto Azevedo made this the central topic of his speech, indicating the launching of a new initiative by the WTO and its development partners.

For years, WTO has been partnering with the ITFC and its highly competent team on trade finance. It has witnessed the remarkable progress made by the ITFC in establishing its footprint in some of the most challenging markets in the world. With its local partners, ITFC has supported over US\$30 billion in trade transactions. It is willing to do more, and to associate itself with other multilateral bodies under the trade finance initiative, as it has already done in the Aid-for-Trade context. Let us wish for a fruitful, joint collaboration between the WTO and ITFC in 2016, along with other multilateral institutions.



## **SYNERGY WITH IDB GROUP**

### **ITFC's Participation in the Deep Dive Initiative**

Another global partnership program ITFC is involved in is under the Strategic Partnership Framework through its “Deep Dive Initiative” between the World Bank and the IDB Group, which aims at addressing development challenges of common Member Countries through launching joint projects and programs. Within the framework of this initiative, ITFC is taking the lead in trade and transport facilitation field. Close cooperation is on-going in an effort to modernize border controls and harmonize custom regulations and related procedures to improve trade and transport facilitation and reduce border crossing delays in Member Countries. The primary objective of the joint efforts is to contribute to the regional economic cooperation by addressing trade facilitation challenges faced at national and regional levels.

### **Preparation of SPCA**

Similarly, ITFC is closely cooperating with the IDB Group in the preparation of Special Program for Central Asia (SPCA), which is a regional economic development program of the Group with a focus on development of trade and economic cooperation.

### **Publication of Arabic Version of Trade Facilitation Implementation Guide**

ITFC, in collaboration with United Nations Economic Commission for Europe (UNECE) sponsored the publication of Trade Facilitation Implementation Guide (TFIG) in Arabic language. The formal launch of this was done during the regional seminar held in Amman for the preparation of IDB Group's participation in the 5th Global Review of Aid for Trade. The purpose of the translated version of the TFIG was to facilitate better understanding of the implementation guide for Arabic speaking Member Countries.



# DRIVING ORGANIZATIONAL EFFECTIVENESS

04



### General Assembly

The General Assembly (GA) is the highest governing body of ITFC. The powers of the Corporation are vested in the GA. It is composed of representatives from Member Countries and other financial institutions holding shares in ITFC. The Assembly is responsible for laying down the rules and regulations governing the overall function of the Corporation.

### Board of Directors (BoD)

The ITFC Board is comprised of 10 members and the Chairman, who is the President of IDB Group. The Board is responsible for the Corporation's general conduct including the adoption of policies, approval of the operational plan, strategy and budget, as well as ITFC's operations within the powers delegated to it by the General Assembly.

### Audit Committee

The Audit Committee is responsible for overseeing the financial and internal control aspects of ITFC as well as its compliance with its mandate. The Committee reports to the BoD.

### ITFC'S STRATEGIC FOCUS

ITFC uses the balance scorecard approach to supplement financial measures for its strategy performance. Objectives and initiatives are planned according to measures, targets and initiatives that are tracked and reported for prompt actions. The previous strategy map, which covered the 1431H-1435H period, clearly defined and emphasized on the strategic focus and directions of ITFC priorities.

ITFC's strategy remains focused on the following priorities:

- Foster Member Countries' trade and trade integration;
- Be responsive to customers' needs with innovative Shari'ah compliant solutions;
- Be the preferred financier of choice for trade solutions; and
- Deliver fair returns for shareholders

Currently, ITFC is in the process of updating its strategy map. The new Strategy Map will be developed in line with IDBG's 10-year Strategy Framework. Going forward and taking into consideration the IDB strategic directions and its own mandate, ITFC will come up with an updated strategic focus that will be reflected in the new strategy map 1437-1441H.

### LEVERAGING ON INFORMATION TECHNOLOGY FOR HIGHER ORGANIZATIONAL EFFECTIVENESS

Information Technology has enabled the strategic transformation of ITFC, which helped to position itself as a leading global Islamic trade finance organization. Automated business solutions and office automation products have become critical enablers of business transformation and growth, where ITFC continues to reinforce its technology infrastructure and establishment of innovative IT solutions and products for enhancing its business model and operational efficiency.

ITFC has started a journey to reengineer and optimize existing business processes, where it

### OUR EMPLOYEES: OUR MOST IMPORTANT ASSET

ITFC encourages diversity in the workplace to inspire all its employees so that they can perform to their highest ability. Representing 37 countries, our employees bring innovative solutions and global best practices to serve ITFC's clients and Member Countries. Its employees are operating out of the headquarters in Jeddah, Saudi Arabia as well as through Regional Offices and Country Gateway Offices based in Senegal, Turkey, Indonesia and Bangladesh, with a plan to expand our presence to Morocco, UAE and Nigeria.

With a total of 98 employees and an average age of 42 years, ITFC employee profile is a source of dynamism for our young institution. This diversity enriches our perspectives and underpins ITFC's unique position in the service of Member Countries towards equipping the organization to provide trade solutions for inclusive and sustainable development.

launched a project to implement and realign core business processes and enhance policies and procedures for improved performance, reducing turnaround times, increasing efficiency gains and improving business effectiveness.

In 1436, iMAL continued to support the business as an enterprise-level banking and investment solution automating the complete transaction lifecycle for facility management, trade finance operations and Islamic investment and syndicated finance. iMAL enforces sound governance, full compliance with corporate policies and enhances risk management operations. It also provides business intelligence dashboards and analysis tools to assist corporate executives and business users. This is done to accelerate and improve decision-making, optimize internal business processes, increase operational efficiency, drive new revenues, and gain competitive advantages.

Moreover, as talent management continues to be a main driving force for ITFC, enhancing and managing such talents has led to the selection and implementation of Lumesse ETWeb, which is a top-of-the-line integrated talent management solution allowing ITFC to improve employee engagement, positively impacting retention, performance, productivity, innovation and learning.

## **RISK MANAGEMENT**

Success in any venture in general and financing in particular depends on how well an institution manages its risk. ITFC's business model involves risks that must be understood and managed effectively in order to successfully deliver optimum return and play a key role in advancing trade and improving lives.

The primary goal of risk management is to minimize risk and be proactive in efficiently identifying, assessing, measuring, monitoring and controlling risks to an organization's strategic advantage.

ITFC plans to continue diversifying its business aimed at ensuring sustained growth and profitability while increasing competitiveness. It also wants to continue its work on implementing comprehensive risk management and internal control standards. To this end, ITFC has a well-defined framework comprising of an effective policy tool and a risk management structure. This structure (as detailed below) is represented by various lines of defense in order to ensure that risks are managed effectively at the organizational level.

### **Board of Directors (BoD)**

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that ITFC is/may be exposed to, and for ensuring that the required human resources, systems, practices and culture are in place to address such risks. In discharging these responsibilities for the overall risk management, the Board has established Audit Committee of the Board. The Board dispenses most of the functions of risk management through this Committee.

### **Group Risk Management Committee (GRMC)**

This Committee is an IDB Group-level senior management body, headed by the Vice President of IDB.

It mainly covers risks on Group basis from an overall perspective of strategy, policy/framework development, assessment/measurement tools, MIS framework and compliance, whereas routine aspects in relation to such risks are managed by designated departments of the entities. The GRMC is a platform where all Group risk-related policy matters are discussed to ensure consistency of application of risk policies across the IDB Group.

### **Management Committee (MC)**

In addition to the GRMC, ITFC's risk-related issues are taken up by the Management Committee as well to manage credit, market, funding and operational risks at a more granular level.

### **Credit Committee (CC)**

At the functional level, this committee has the responsibility to translate the decisions about strategy into practice, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits. The Committee is chaired by the CEO with the members drawn from ITFC and IDB. The secretariat is run by the Risk Management Department.

### **Technical Committee (TC)**

The credit review function is performed through this Committee, which draws its membership from various departments of IDB and ITFC. The TC examines all the credit proposals and subjects them to a robust review and then challenges them from the risk and compliance angles.



### **Asset & Liability Committee (ALCO)**

This Committee is the focal point for defining and leading the entire asset liability management process within ITFC. It also has the responsibility for oversight of all market and liquidity risks. The Committee is chaired by the CEO and has representation from the business, control and support functions.

### **Internal Audit**

Internal Audit provides to the Board and the senior management, inter-alia, an independent assessment of the robustness and suitability of ITFC's internal control mechanisms including risk management policies, procedures, methodologies, reporting and systems.

### **Risk Management Department (RMD)**

For effective implementation of the risk management framework, the Risk Management Department operates within ITFC. The RMD is independent of other business units, support functions as well as the Internal Audit function. It is responsible for performing the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. RMD has designated separate functions to cater to the following significant areas:

#### **Credit Risk Management**

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of ITFC's risk exposures. The credit process is guided by the centrally established IDB Group credit guidelines and policies as well as its internally developed guidelines and policies. This is aimed at maintaining a good quality and well-diversified portfolio of credit risk, which produces a reliable and consistent return and cater to the development needs of Members Countries. It ensures that the financing decisions are in line with the organization's risk appetite.

ITFC has a system of checks and balances in place around the extension of credits, i.e.:

- i) the Business Unit's assessment of the credit risk;
- ii) an independent review by the risk management; and
- iii) an independent audit review.

Limit control and disbursement monitoring of credit facilities are managed by Credit Administration. ITFC monitors its credit portfolio on a continuous basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss.

### **Market and Liquidity Risk Management**

Market risk relates to a loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates, and equity prices. It emanates from the trading activities mainly carried out by the treasury function in the form of investments and foreign exchange dealings. Market risk at ITFC is managed by the RMD under the supervision of ALCO. A unique market risk to which ITFC is exposed primarily comes out of the banking book in the form of commodities holdings against the financing it provides in the form of Structured Trade Finance (STF). ITFC's assets are typically funded in the same currency as that of the business transaction to eliminate foreign exchange fluctuation risks.

Liquidity risk emanates when ITFC will be unable to meet its cash flow obligations as they become due, because of its inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. ITFC follows a liquidity management policy duly approved by the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of the Corporation's liquidity under normal and crisis situations.

### **Operational Risk Management (ORM)**

Operational Risk relates to direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risks are inherent in ITFC's business activities. The key risks include external suppliers, fraud, financial reporting, information, legal, payments, people, premises & security, regulatory/reputational, technology and transaction operations. ITFC has instituted an ORM function that is in the process of formulating policy document to address the significant areas of Operational Risk Management.

05

# AUDITED FINANCIAL STATEMENTS



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**THE INTERNATIONAL ISLAMIC TRADE  
FINANCE CORPORATION**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

**30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)**

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## AUDITORS' REPORT

To the General Assembly  
The International Islamic Trade Finance Corporation  
Jeddah, Kingdom of Saudi Arabia

### Scope of Audit

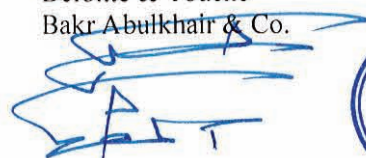
We have audited the accompanying statement of financial position of the International Islamic Trade Finance Corporation (the "Corporation") as of 30 Dhul Hijjah 1436H (October 13, 2015) and the related statements of income, cash flows and changes in members' equity for the year then ended and note 1 to 23 which form integral part of the financial statements. These financial statements and the Corporation's undertaking to operate in accordance with Islamic Shari'ah are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of 30 Dhul Hijjah 1436H (October 13, 2015), and the results of its operations and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Corporation.

Deloitte & Touche  
Bakr Abulkhair & Co.



Al-Mutahhar Y. Hamiduddin  
Registration No. 296



13 Rajab, 1437  
April 20, 2016

**THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION**

**STATEMENT OF FINANCIAL POSITION**

**AS OF 30 DHUL HIJAH 1436H (OCTOBER 13, 2015)**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	1436H	1435H
<b>ASSETS</b>			
Cash and cash equivalents	4	28,288	216,888
Commodity placements through banks	5	42,330	5,000
Murabaha financing, net	6,7	697,804	519,869
Investments in Sukuk	8	98,425	99,648
Due from related parties	13	1,264	243
Accrued income and other assets	10	11,649	8,429
Fixed assets	11	2,016	2,268
<b>TOTAL ASSETS</b>		<b>881,776</b>	<b>852,345</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>LIABILITIES</b>			
Due to related parties	13	395	1,709
Accruals and other liabilities	12	19,047	24,257
<b>TOTAL LIABILITIES</b>		<b>19,442</b>	<b>25,966</b>
<b>MEMBERS' EQUITY</b>			
Paid-up capital	14	708,968	702,128
General reserve	16	153,366	124,251
<b>Total members' equity</b>		<b>862,334</b>	<b>826,379</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>		<b>881,776</b>	<b>852,345</b>
<b>UNDISBURSED COMMITMENTS</b>	17	<b>450,000</b>	<b>283,000</b>

The accompanying notes form an integral part of these financial statements

**THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION**

**STATEMENT OF INCOME**

**YEAR ENDED 30 DHUL HIJAH 1436H (OCTOBER 13, 2015)**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Note	1436H	1435H
<b>INCOME FROM:</b>			
Commodity placements		839	800
Murabaha financing		19,020	17,665
Investment in Sukuk		2,739	3,244
LC Opening fees		8,464	4,537
Mudarib and upfront fees		22,910	18,444
Other		86	728
		<u>54,058</u>	<u>45,418</u>
Administrative expenses:			
Staff costs		(19,207)	(15,407)
Depreciation	11	(669)	(500)
Other	15	(4,679)	(5,087)
		<u>(24,555)</u>	<u>(20,994)</u>
Exchange gain		-	294
Unrealized (loss)/gain on revaluation of Sukuk	8	(388)	2,498
<b>NET INCOME FOR THE YEAR</b>		<u>29,115</u>	<u>27,216</u>

The accompanying notes form an integral part of these financial statements

**THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY  
YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)**

(All amounts in thousands of United States Dollars unless otherwise stated)

	<b>Note</b>	<b>Paid-up capital</b>	<b>General reserve</b>	<b>Fair value reserve</b>	<b>Total</b>
Balance at 1 Muharram 1435H		701,961	97,035	(5,032)	793,964
Capital contributed	14	167	-	-	167
Net income for the year transferred to general reserve	16	-	27,216	-	27,216
Disposal during the year		-	-	5,032	5,032
<b>Balance at 30 Dhul Hijjah 1435H</b>		<b>702,128</b>	<b>124,251</b>	<b>-</b>	<b>826,379</b>
Capital contributed	14	6,840	-	-	6,840
Net income for the year transferred to general reserve	16	-	29,115	-	29,115
<b>Balance at 30 Dhul Hijjah 1436H</b>		<b>708,968</b>	<b>153,366</b>	<b>-</b>	<b>862,334</b>

The accompanying notes form an integral part of these financial statements



**THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED 30 DHUL HIJAH 1436H (OCTOBER 13, 2015)**

(All amounts in thousands of United States Dollars unless otherwise stated)

	Note	1436H	1435H
<b><u>Cash Flows from Operations:</u></b>			
Net income for the year		29,115	27,216
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation		669	500
Provision for impairment of Murabaha		12	-
Unrealized loss/(gain) on revaluation of Sukuk	8	388	(2,498)
Gain on disposal of fixed assets		(20)	-
Write-back on disposal of investment at fair value through equity		-	(707)
Changes in operating assets and liabilities:			
Commodity placements		(37,330)	2,000
Murabaha financing		(177,935)	(172,388)
Accrued income and other assets		(3,232)	(3,260)
Due from / to related parties, net		(2,335)	(3,465)
Accruals and other liabilities		(5,210)	(19,261)
<b>Net cash utilized in operating activities</b>		<b>(195,878)</b>	<b>(171,863)</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Investments in Sukuk		(45,000)	(24,911)
Proceeds from disposal of Sukuk		45,835	21,340
Proceeds from disposal of Investment at fair value through equity		-	37,766
Purchase of fixed assets		(577)	(1,551)
Proceeds from disposal of fixed assets		180	-
<b>Net cash from investing activities</b>		<b>438</b>	<b>32,644</b>
<b><u>Cash Flows from Financing activities:</u></b>			
Capital contribution		6,840	167
<b>Net cash generated from financing activities</b>		<b>6,840</b>	<b>167</b>
<b>Net change in cash and cash equivalents</b>		<b>(188,600)</b>	<b>(139,052)</b>
Cash and cash equivalents at the beginning of year		216,888	355,940
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	4	<b>28,288</b>	<b>216,888</b>
<b><u>NON CASH TRANSACTION</u></b>			
Gain on disposal of investment at fair value through equity transferred to earnings prohibited by Shari'ah		-	3,985

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

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#### 1. INCORPORATION, ACTIVITIES AND OTHER

The International Islamic Trade Finance Corporation (the "Corporation") was established, pursuant to the decision taken by the Board of Governors ("BOG") of the Islamic Development Bank ("IDB" or the "Bank") in their 30th meeting held on 17 Jumada-al-Awwal 1426H (24 June 2005). The Corporation is governed by the terms of the Articles of Agreement of the Corporation. The Corporation is an international organization and derives its legal personality from public international law. As a result, it is able to enter into contracts, acquire and dispose of property, and take legal action. As an international institution, the Corporation is not subject to any external regulatory authority.

The purpose of the Corporation is to promote trade of member countries of the Organization of the Islamic Cooperation through providing trade finance and engaging in activities that facilitate intra-trade and international trade. The majority of the Corporation's operational assets are considered sovereign debts made to or guaranteed by the respective member countries or investments in member countries, which are guaranteed in a manner acceptable to the Corporation.

The Corporation carries out its business activities through the Bank's headquarters in Jeddah, Saudi Arabia. The financial statements of the Corporation are expressed in thousands of United States Dollars ("USD") and the financial year of the Corporation is the lunar Hijri year.

The financial statements were authorized for issue by the Corporation's Board of Directors on 26 Jumada Awal, 1437H (05 March, 2016G).

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### a) Basis of preparation

The financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Corporation. For matters which are not covered by AAOIFI standards, the Corporation uses the relevant standard issued or adopted by the International Accounting Standards Board ("IASB") and the relevant interpretation issued by the International Financial Reporting Interpretations Committee of IASB.

The accompanying financial statements are prepared under the historic cost convention except for the measurement at fair value of investments in Sukuk.

##### b) Critical accounting judgments and estimates

The preparation of financial statements in conformity with AAOIFI Financial Accounting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. Management is also required to exercise its judgments in the process of applying the Corporation's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. The Corporation exercises judgement in the estimation of the provision for impairment of Murabaha financing assets. The methodology for the estimation of the provision is set out in note 2 (j).

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

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#### **c) Foreign currency translation**

##### *(i) Functional and presentation currency*

These financial statements are presented in thousands of United States Dollars ("USD") which is the functional and presentation currency of the Corporation.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into USD using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date exchange rates are recognized in the statement of income except for unrealized gains and losses on investment in equity capital, if any, which are recorded in the fair value reserve account under members' equity.

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

#### **d) Cash and cash equivalents**

Cash and cash equivalents comprise bank balances and other short term highly liquid investments and commodity placement through banks having an original maturity of three months or less at the date of placement.

#### **e) Commodity placements through banks**

Commodity placements are made in Shari'ah compliant instruments with both Islamic and conventional banks and at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Corporation and the various banks. The placements are initially recorded at cost, including acquisition charges, and subsequently measured at cost less amounts written off (if any).

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

#### **f) Murabaha financing**

Murabaha is an agreement whereby the Corporation sells to a customer a commodity or an asset, which the Corporation 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 are stated at the cost of goods sold or disbursements made to the beneficiaries plus profit recognized by the Corporation up to the reporting date, less repayments received and provision for impairment.

Unearned income represents the unamortized portion of total Murabaha financing income committed at the time of actual disbursement of funds.

Commodities under Murabaha are stated at cost, less impairment, if any

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DHUL HIJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

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#### g) Investments in Sukuk

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

#### h) Investments at fair value through equity

Investments in equity instruments, if any, are intended to be held for a long-term period, and may be sold in response to needs for liquidity or changes in prices. Such investments are classified as investments at fair value through equity. These investments are initially measured at fair value, whereas unrealized gain or losses resulting from re-measurement at fair value are recognized in the fair value reserve under Members' equity until the investment is derecognized or an impairment loss is recognized. At that time the gain or loss previously recognized in equity is transferred to statement of income.

#### i) Financial assets and liabilities

Financial assets comprise cash and cash equivalents, commodity placements through banks, investments in Sukuk, Murabaha Financing and due from related parties. These financial assets are initially measured at their fair values and thereafter stated at their cost as reduced by appropriate allowance for estimated irrecoverable amounts, if any.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include due to related parties and other payables and are initially measured at their values and thereafter stated at their cost

#### j) Policy for the impairment of financial assets

##### *Murabaha financing:*

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. Accordingly, the Corporation determines the provision for impairment losses based on an assessment of incurred losses. This involves a review of the financial assets at the reporting date in order to determine if there are any indications of impairment in their value individually; and also the losses that the Corporation suffers as a result of rescheduling the dues from certain countries or individuals and from settlement plans mutually agreed. The loss results from the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the implicit rate of return of the financial asset mentioned in the agreement. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. In addition, a general provision / portfolio provision is created for losses where there is objective evidence that unidentified losses are present in the portfolio at the reporting date. These are estimated based on country risk ratings, the current economic conditions and the default pattern that are embedded in the components of the portfolio.

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

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

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#### *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 financial assets carried at cost is calculated as the difference between the asset's carrying amount and its estimated fair value.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, it is written-off against the allowance account and any excess loss is recognized in the statement of income. Subsequent recoveries of amounts previously written-off are credited to the statement of income. The impairment provision for investments at fair value through equity is recognized when the decrease in fair value below cost is significant or prolonged.

#### **k) Fixed assets**

Fixed assets are recorded at cost, less accumulated depreciation. Depreciation is charged to the statement of income, using the straight line method, to allocate their cost to their residual values over the following estimated useful lives:

Office and computer equipment	4 years
Motor vehicles	5 years

Maintenance and repair costs which do not materially extend the estimated useful life of an asset are expensed and charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

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

Assets under construction represent cost incurred on ongoing projects and are to be transferred to the related asset category once the project is completed.

#### **l) Provisions**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably measured.

#### **m) Revenue recognition**

##### *Murabaha financing*

Income from Murabaha financing is accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to the scheduled repayment date of instalments.

##### *Commodity placements through banks*

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

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

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#### *Investments in Sukuk*

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

#### *Mudarib share of profit*

Income from Mudarib share of profit is recognized on accrual basis when the service has been provided.

#### *Upfront fee income and Letter of Credit issuance income*

Income from Upfront fee and Letter of Credit issuance is recognized at the commencement of the related deals, as per contractual agreements.

#### *Earnings prohibited by Shari'ah*

Any income from cash and cash equivalents and other investments, which is considered by management as forbidden by Shari'ah, is not included in the Corporation's statement of income. Such income is included in accrued liabilities until the Board of Directors takes a decision where to transfer such income.

#### **n) Offsetting**

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

#### **o) Zakat and income tax**

The Corporation is not subject to Zakat or income tax. Any liability for zakat and income tax is the responsibility of the individual members.

#### **p) Post-employment benefits plan**

The Corporation subscribes to the group defined-benefits pension plan of IDB. Under the plan, the staff members contributes a fixed percentage of their remuneration on a monthly basis and the Corporation contributes the proportionate balance of the cost of funding the plan based on regular actuarial valuation. The contribution accumulated to date are managed and invested by IDB.

### **3. SHARI'AH COMMITTEE**

The Corporation's business activities are subject to the supervision of the IDB Group Sharia Committee consisting of members appointed by Resolution of the Board of Directors of the Corporation No. ITFC/BD/24/432/(24)/5. Members of the Shari'ah Committee of IDB Group are appointed for a renewable period of 3 years.

The Committee has the following functions:

- i. To consider all that are referred to it of transactions and products introduced by the Corporation 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.

## THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)

(All amounts in thousands of United States Dollars unless otherwise stated)

- ii. To give its opinion on the Shari'ah alternatives to conventional products which the Corporation 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 Corporation's experience in this regard.
- iii. To respond to the questions, enquiries and explications referred to it by the Board of Directors or the Management of the Corporation.
- iv. To contribute to the Corporation's program 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.
- v. To submit to the Board of Directors a comprehensive report showing the measure of the Corporation's commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed.

#### 4. CASH AND CASH EQUIVALENTS

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

	<u>1436H</u>	<u>1435H</u>
Cash at banks	28,288	163,100
Commodity placements with maturity of three months or less at the date of placement	-	53,788
Total	<u>28,288</u>	<u>216,888</u>

#### 5. COMMODITY PLACEMENTS THROUGH BANKS

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

	<u>1436H</u>	<u>1435H</u>
Commodity placements	42,330	58,788
Less: Commodity placements with maturity of three months or less at the date of placement	-	(53,788)
Total	<u>42,330</u>	<u>5,000</u>

Commodity placements through banks are utilized in the purchase and sale of commodities. Trading is conducted by both Islamic and conventional banks on behalf of the Corporation. The discretion of the banks over buying and selling is limited by the terms of the agreements between the Corporation and the banks.

**THE INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 30 DHUL HIJJAH 1436H (OCTOBER 13, 2015)**

(All amounts in thousands of United States Dollars unless otherwise stated)

**6. MURABAHA FINANCING, NET**

Murabaha financing at end of Dhul Hijjah are comprised of the following:

	<u>1436H</u>	<u>1435H</u>
a) Receivable under Murabaha		
Gross amounts receivable	3,728,826	2,325,239
Less: share of syndicate members	(3,049,577)	(1,746,864)
Less: unearned income	(9,358)	(9,764)
Total	<u>669,891</u>	<u>568,611</u>
Less: provision for impairment of murabaha financing, (note 7)	(74,719)	(74,707)
Net receivable under Murabaha financing	<u>595,172</u>	<u>493,904</u>
b) Commodities under Murabaha		
Gross amounts	255,565	79,645
Less: share of syndicate members	(152,933)	(53,680)
Total commodities under Murabaha	<u>102,632</u>	<u>25,965</u>
Murabaha financing, net	<u>697,804</u>	<u>519,869</u>

6 (b) (i) This represents commodities under Murabaha financing transaction where is a time-lag difference between the actual purchase of commodities and transfer of their risk and reward to customer under murabaha agreement.

All goods purchased for resale under murabaha financing are made on the basis of specific purchase for resale to a specific customer. The promise of the customer is considered to be binding. Consequently, any loss suffered by the Corporation as a result of impairment of commodities or default by the customer prior to the sale of goods would be made good by the customer. The Corporation also participates in syndicated murabaha financing.

The Corporation has entered into joint murabaha financing agreements with certain entities. The share of syndicate members represent the portion of gross amounts receivable relating to those entities.

**7. PROVISION FOR IMPAIRMENT OF MURABAHA FINANCING**

The movement in the provision for impairment of murabaha financing at end of Dhul Hijjah is as follows:

	<u>1436H</u>	<u>1435H</u>
Balance at 1 Muharram	74,707	74,707
Adjustment	12	-
Balance at end of Dhul Hijjah	<u>74,719</u>	<u>74,707</u>

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

Income on the impaired murabaha financing assets included in the statement of income for the years ended 30 Dhul Hijjah 1436H and 1435H was Nil.



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Included in murabaha financing assets at end of Dhul Hijjah 1436H is an amount of USD 2.70 million (1435H: USD 0.83 million) that are past due at the reporting date for which the Corporation has not made provisions, as the amounts are still considered recoverable. The following is the aging of these past due amounts:

	<u>1436H</u>	<u>1435H</u>
Less than three months	2.68	830
Three months to twelve months	0.02	-
One year to five years	-	-

Disclosures relating to the credit quality of the operating assets have been presented in note 22 c.

**8. INVESTMENTS IN SUKUK**

The movement in investments in Sukuk is summarized as follows:

	<u>1436H</u>	<u>1435H</u>
Balance 1 Muharram	99,648	93,579
Investments during the year	45,000	24,911
Disposals during the year	(45,835)	(21,340)
Unrealized (loss)/gain on revaluation	(388)	2,498
	<u>98,425</u>	<u>99,648</u>

Investments in Sukuk at end Dhul Hijjah 1436H and 1435H represent the Sukuk issued by various governments and certain other entities, which have been measured at fair value through statement of income.

Fair value of investments in Sukuk is measured based on inputs other than quoted prices that are observable (See note 21(c)).

**9. INVESTMENTS IN IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH EQUITY**

The movement in investment in equity instruments is summarized as follows:

	<u>1436H</u>	<u>1435H</u>
Cost at 1 Muharram	-	33,074
Unrealized fair value loss	-	-
	<u>-</u>	<u>33,074</u>
Disposal during the year	-	(33,074)
	<u>-</u>	<u>-</u>
Balance at end of Dhul Hijjah	-	-

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**10. ACCRUED INCOME AND OTHER ASSETS**

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

	<u>1436H</u>	<u>1435H</u>
Accrued admin and LC fees	5,315	2,934
Accrued income on investments in Sukuk	1,010	926
Accrued income from commodity placements	93	7
Accrued mudarib fees	-	206
Prepayments and other assets	5,231	4,356
Total	<u>11,649</u>	<u>8,429</u>

**11. FIXED ASSETS**

Fixed assets at end of Dhul Hijjah are comprised of the following:

	<u>Assets under construction</u>	<u>Motor vehicles</u>	<u>Office and computer equipment</u>	<u>Total</u>
<u>Cost:</u>				
At 01 Muharram 1436H	536	173	2,561	3,270
Additions during the year	-	153	424	577
Disposals	-	(158)	(104)	(262)
At 30 Dhul Hijjah 1436H	<u>536</u>	<u>168</u>	<u>2,881</u>	<u>3,585</u>
<u>Less: Accumulated depreciation:</u>				
At 01 Muharram 1436H	-	(100)	(902)	(1,002)
Charge for the year	-	(43)	(626)	(669)
Disposals	-	59	43	102
At 30 Dhul Hijjah 1436H	<u>-</u>	<u>(84)</u>	<u>(1,485)</u>	<u>(1,569)</u>
<u>Net book value:</u>				
At 30 Dhul Hijjah 1436H	<u>536</u>	<u>84</u>	<u>1,396</u>	<u>2,016</u>
<u>Cost:</u>				
At 01 Muharram 1435H	-	173	1,546	1,719
Additions during the year	536	-	1,015	1,551
At 30 Dhul Hijjah 1435H	<u>536</u>	<u>173</u>	<u>2,561</u>	<u>3,270</u>
<u>Less: Accumulated depreciation:</u>				
At 01 Muharram 1435H	-	(66)	(436)	(502)
Charge for the year	-	(34)	(466)	(500)
At 30 Dhul Hijjah 1435H	<u>-</u>	<u>(100)</u>	<u>(902)</u>	<u>(1,002)</u>
<u>Net book value:</u>				
At 30 Dhul Hijjah 1435H	<u>536</u>	<u>73</u>	<u>1,659</u>	<u>2,268</u>

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**12. ACCRUALS AND OTHER LIABILITIES**

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

	1436H	1435H
Security deposit (see note 12-b below)	2,044	5,636
Earnings prohibited by Shari'ah (see note 18)	8,412	8,316
Accrued and other expenses	162	726
Excess capital receipts (see note 12-a below)	105	105
Office Rent Payable	4,454	3,174
Staff related provisions	2,262	2,077
Aid for trade	1,411	2,500
Other creditors	197	1,723
<b>Total</b>	<b>19,047</b>	<b>24,257</b>

- a) Excess capital receipts represent amounts received from members in respect of paid up capital that is not due.
- b) This represents amount received from the purchase orderer of commodities under Murabaha. This amount will be adjusted against repayment of the selling price.

**13. RELATED PARTY BALANCES**

In the ordinary course of its activities, the Corporation receives funding from IDB and executes business transactions with related parties. The terms of the funding that is provided by IDB and the transactions that are executed with related parties are approved by the Corporation's management and subject to current IDB rules, regulations and guidelines.

(a) **Significant transaction executed during the year are as follows:**

	1436H	1435H
Mudarib fees income from affiliate	3,726	3,400
Share of murabaha income to affiliate members	(25,206)	20,494

(b) **Due from related parties**

	1436H	1435H
BADEA Fund	64	64
IDB-special account resource Waqf fund	1,150	3
IDB-Fael Khaer	3	3
IDB Pension fund	45	173
Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)	1	-
Islamic Corporation for the Development of the Private Sector	1	-
	<b>1,264</b>	<b>243</b>

(c) **Due to related parties**

	1436H	1435H
IDB – Ordinary Capital Resources	385	1,696
IDB Medical Pension Fund	10	13
	<b>395</b>	<b>1,709</b>

- (i) The balance due from / to related parties are commission free and have no repayment terms.

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- (ii) According to the IDB's Board of Executive Directors' resolution number BED/27/12/428(249)/157, dated 27 Dhul Hijja 1428H (6 January 2008), the Board resolved to allocate USD 1 billion of IDB OCR resources for the Corporation, wherein the Corporation will act as Mudarib under a mudaraba agreement dated 10 Rabi al Awal 1429H (18 March 2008).
- (iii) The Corporation earns mudarib fees from IDB group entities based on its agreed share of profit related to murabaha financing transactions.

**(d) Key management compensation**

The compensation paid or payable to key management for their services is shown below:

	<u>1436H</u>	<u>1435H</u>
Salaries and other short-term benefits	<u>1,202</u>	<u>1,125</u>

**14. PAID-UP CAPITAL**

The capital of the Corporation at end of Dhul Hijjah is comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Authorized 300,000 shares of USD 10,000 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued: 75,000 shares of USD 10,000 each	<u>750,000</u>	<u>750,000</u>
Issued shares not subscribed	<u>(33,920)</u>	<u>(33,920)</u>
Subscribed and called up capital	<u>716,080</u>	<u>716,080</u>
Share capital premium	<u>500</u>	<u>500</u>
Share capital with premium	<u>716,580</u>	<u>716,580</u>
Share capital not yet called	<u>(6,000)</u>	<u>(6,000)</u>
Called-up share capital	<u>710,580</u>	<u>710,580</u>
Installments due, not yet paid	<u>(1,612)</u>	<u>(8,452)</u>
Paid-up capital	<u>708,968</u>	<u>702,128</u>

**15. OTHER ADMINISTRATIVE EXPENSES**

Other administrative expenses for the year ended Dhul Hijjah are comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Consultancy and marketing	<u>646</u>	<u>622</u>
Travel expenses	<u>1,017</u>	<u>963</u>
Support services	<u>481</u>	<u>362</u>
Meeting Expenses	<u>227</u>	<u>590</u>
Communication and membership	<u>719</u>	<u>687</u>
Office Rent	<u>1,280</u>	<u>1,272</u>
Other	<u>309</u>	<u>591</u>
Total	<u>4,679</u>	<u>5,087</u>

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**16. GENERAL RESERVE**

In accordance with chapter 6 of Article 27 of the Articles of Agreement of the Corporation, the annual net income of the Corporation is required to be transferred to the general reserve, when approved by the Board of Directors, until this reserve equals 25% of the Corporation subscribed capital. Any excess of the net income over the above limit is available for distribution to member countries.

**17. UNDISBURSED COMMITMENTS**

Undisbursed commitments at 30 Dhul Hijjah are comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Murabaha financing	<u>450,000</u>	<u>283,000</u>

**18. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH**

The accumulated earnings realized from transactions which are prohibited by Shari'ah are included in accruals and other liabilities amounting to USD 8.4 million as of 30 Dhul Hijjah 1436H (1435H: USD 8.3 million).

**19. FINANCIAL ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION**

1436H	<u>Maturity period determined</u>				Maturity period not determined	Total
	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>		
<b>Assets</b>						
Cash and cash equivalents	28,288	-	-	-	-	28,288
Commodity placements	17,330	20,000	5,000	-	-	42,330
Murabaha financing	46,557	555,698	95,549	-	-	697,804
Investments in Sukuk	-	-	9,033	89,392	-	98,425
Due from related parties	1,264	-	-	-	-	1,264
Total financial assets	<u>93,439</u>	<u>575,698</u>	<u>109,582</u>	<u>89,392</u>	-	<u>868,111</u>
<b>Liabilities</b>						
Due to related parties	395	-	-	-	-	395
Total financial liabilities	<u>395</u>	-	-	-	-	<u>395</u>
Undisbursed commitments	-	-	-	-	450,000	450,000

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1435H	Maturity period determined				Maturity period not determined	Total
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Assets</b>						
Cash and cash equivalents	216,888	-	-	-	-	216,888
Commodity placements	-	5,000	-	-	-	5,000
Murabaha financing	378,725	135,463	5,681	-	-	519,869
Investments in Sukuk	-	-	62,910	36,738	-	99,648
Due from related parties	243	-	-	-	-	243
<b>Total financial assets</b>	<b>595,856</b>	<b>140,463</b>	<b>68,591</b>	<b>36,738</b>	<b>-</b>	<b>841,648</b>
<b>Liabilities</b>						
Du to related parties	1,709	-	-	-	-	1,709
<b>Total financial liabilities</b>	<b>1,709</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,709</b>
Undisbursed commitments	-	-	-	-	283,000	283,000

**20. CONCENTRATION OF FINANCIAL ASSETS**

The geographical locations of financial assets are as follows:

1436H	Cash and cash equivalents	Commodity placements through banks	Murabaha financing	Investments in Sukuk	Receivable from related parties	Total
Azerbaijan	-	-	3,221	-	-	3,221
Bangladesh	-	-	209,232	-	-	209,232
Burkina Faso	-	-	11,953	-	-	11,953
Comoros	-	-	16,309	-	-	16,309
Djibouti	-	-	38,170	-	-	38,170
Egypt	-	-	198,286	-	-	198,286
Gambia	-	-	7,410	-	-	7,410
Indonesia	-	-	-	19,795	-	19,795
Jordan	-	-	5,002	-	-	5,002
Kazakhstan	-	-	2,300	-	-	2,300
Malaysia	-	-	-	7,839	-	7,839
Mauritania	-	-	12,342	-	-	12,342
Nigeria	-	-	25,043	-	-	25,043
Pakistan	-	-	63,477	-	-	63,477
Saudi Arabia	2,828	20,000	17,450	19,262	1,264	60,804
Senegal	-	-	3,039	-	-	3,039
Tajikistan	-	-	1,824	-	-	1,824
Togo	-	-	3,822	-	-	3,822
Tunisia	-	-	3,302	-	-	3,302
Turkey	-	5,000	68,775	14,629	-	88,404
UAE	-	-	6,847	36,900	-	43,747
United Kingdom	25,460	17,330	-	-	-	42,790
<b>TOTAL</b>	<b>28,288</b>	<b>42,330</b>	<b>697,804</b>	<b>98,425</b>	<b>1,264</b>	<b>868,111</b>

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<b>1435H</b>	Cash and cash equivalents	Commodity placements through banks	Murabaha financing	Investments in Sukuk	Receivable from related parties	Total
Azerbaijan	-	-	1,213	-	-	1,213
Bahrain	-	-	26	-	-	26
Bangladesh	-	-	191,386	-	-	191,386
Cameroun	-	-	3,988	-	-	3,988
Cote D'Ivoire	-	-	15,677	-	-	15,677
Egypt	-	-	122,998	-	-	122,998
Gambia	-	-	4,919	-	-	4,919
Indonesia	-	-	-	15,262	-	15,262
Jordan	-	-	8,904	-	-	8,904
Kazakhstan	-	-	17,008	-	-	17,008
Kuwait	30,000	-	-	-	-	30,000
Malaysia	-	-	-	3,052	-	3,052
Mali	-	-	2,718	-	-	2,718
Mauritania	-	-	7,428	-	-	7,428
Morocco	-	-	-	7,122	-	7,122
Pakistan	-	-	59,507	-	-	59,507
Qatar	-	5,000	-	3,059	-	8,059
Saudi Arabia	28,243	-	24,102	26,486	243	79,074
Senegal	-	-	6,025	-	-	6,025
Togo	-	-	1,676	-	-	1,676
Turkey	-	-	50,502	10,073	-	60,575
UAE	-	-	1,792	34,594	-	36,386
United Kingdom	158,645	-	-	-	-	158,645
<b>TOTAL</b>	<b>216,888</b>	<b>5,000</b>	<b>519,869</b>	<b>99,648</b>	<b>243</b>	<b>841,648</b>

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

**21. NET ASSETS IN FOREIGN CURRENCIES**

	<b>1436H</b>	<b>1435H</b>
Euro	-	13
Saudi Riyal	<b>2,868</b>	4,442

**22. RISK MANAGEMENT**

The Corporation's risk management is governed by the IDB's risk management guidelines. IDB's Risk Management Department ("RMD") also provides risk management services to the Corporation. The RMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile for the Corporation through the identification, measurement and monitoring of all types of risks inherent in its activities. The Corporation has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Corporation's risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Corporation's financial transactions.

**a) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

For all classes of financial assets held by the Corporation, the maximum credit risk exposure to the Corporation is their carrying value as disclosed in the statement of financial position. The assets which

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subject the Corporation to credit risk principally consist of commodity placements, Murabaha financing and investment in sukuk which are mainly covered by sovereign guarantees and commercial banks guarantees acceptable to the Corporation, in accordance with specific eligibility criteria and credit risk assessments. Murabaha financing is covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from Corporations whose ratings are acceptable to the Corporation per its policies. The Corporation benefits from preferred creditor status on murabaha financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses.

Credit risk includes potential losses arising from a counterparty's (i.e., countries and banks/financial institutions, customers, etc.) inability or unwillingness to service its obligation to the Corporation. In this respect, the Corporation 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 Corporation with a view to maintain overall credit risk appetite and profile within the parameters set by Management. The credit policy formulation, credit limit setting, monitoring of credit exceptions / exposures and review / monitoring functions are performed independently by the RMD, which endeavors to ensure that business lines comply with risk parameters established by the Board of Directors ("BOD") and Management.

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, Corporation has a well-developed limit structure, which is based on the credit strength of the beneficiary, the obligor.

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

Country risk refers to the risks associated with the economic, social and political environments of the beneficiary's home country. Guidelines were developed for monitoring country exposure to safeguard the Corporation against undue risk. The country exposure limits are determined and periodically reviewed and updated taking into consideration the recent macro-economic, financial, and other developments in the member countries, and the status of their business relationship with Corporation.

#### ***b) Market risks***

The Corporation 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. The Corporation does not hedge its currency exposure by means of hedging instruments. The Corporation monitors the composition of its assets and liabilities and adjusts balances regularly to limit its exposure to fluctuations in foreign exchange rates. A significant portion of the Corporation's financing operations are USD-denominated, the same currency in which the Corporation resources - i.e., equity are denominated. Financing in other than the functional currency are funded through external partners. The Corporation does not trade in currencies.



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#### ii) Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its net funding requirements. To guard against this risk, the Corporation adopts a conservative approach by maintaining high liquidity levels through investment in cash, cash equivalents, commodity placements and Murabaha financing with short-term maturity of three to twelve months. The liquidity profile of the Corporation's assets and liabilities has been presented in note 19.

#### iii) Mark-up risk

Mark-up risk arises from the possibility that changes in mark-up will affect the value of the financial instruments. The Corporation is exposed to mark-up on its investments in commodity placements, and murabaha financing. In respect of the financial assets, the Corporation's returns are based on a benchmark and hence vary according to the market conditions.

The sensitivity analysis have been determined based on the exposure to profit rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point change is used when reporting profit rate risk internally to key management personnel and represents management's assessment of the possible change in profit rates.

At reporting date, if profit rates had been 50 basis points higher/lower and all other variables were held constant, the Corporation's net income for the year and the Members Equity at year end would not be changed significantly.

#### c) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair values of operational assets are not significantly different from the carrying values included in the financial statements. Fair value of listed equity investments, if any, are measured based on market quotes (Level-1). Fair value of investments in Sukuk are measured based on inputs other than quoted prices that are observable (Level 2).

## 23. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Directors as this body is responsible for overall decisions about resource allocation to development initiatives. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Corporation actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed centrally through the Corporation's capital. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Directors monitors the performance and financial position of the Corporation as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programs. Further, the internal reports furnished to the Board of Directors do not present discrete financial information with respect to the Corporation's performance to the extent envisaged in FAS 22. The geographical distribution of the Corporation's financial assets is set out in note 20.



# APPENDICES

06

### Establishment

The Islamic Development Bank (IDB) is an international financial institution established pursuant to Articles of Agreement done at the city of Jeddah, Kingdom of Saudi Arabia, on 21st Rajab 1394H corresponding to 12 August 1974. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the IDB formally began operations on 15 Shawwal 1395H (20 October 1975).

### Vision

By the year 1440H, the Islamic Development Bank will have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

### Mission

To promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

### Membership

The IDB has 56 member countries across various regions. The prime conditions for membership are that the prospective country should be a member of the Organization of the Islamic Cooperation (OIC), that it pays the first instalment of its minimum subscription to the Capital Stock of IDB, and that it accepts any terms and conditions that may be decided upon by the Board of Governors.

### Capital

At its 38th Annual Meeting, the IDB's Board of Governors approved the 5th General Capital Increase whereby the Authorized Capital was increased to ID100 billion and the Subscribed Capital (available for subscription) was increased to ID50 billion. By the same Resolution, the Board of Governors agreed to the calling in of the callable (in cash) portion of the 4th General Capital Increase. As at the end of 1436H, the subscribed capital of the IDB stood at ID49.92 billion.



### Islamic Development Bank Group

The IDB Group comprises five entities: the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD) and the International Islamic Trade Finance Corporation (ITFC).

### Head Office, Regional and Country Offices

Headquartered in Jeddah, the Kingdom of Saudi Arabia, the IDB has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and in Dakar, Senegal and Country Gateway offices in Turkey (Ankara and Istanbul), Indonesia, and Nigeria.

### Financial Year

The IDB's financial year used to be the lunar Hijra Year (H). However, starting from 1 January 2016, the financial year will be Solar Hijra year starting from 11th of Capricorn, (corresponding to 1 January) and ends on the 10th Capricorn (corresponding to 31 December of every year).

### Accounting Unit

The accounting unit of the IDB is the Islamic Dinar (ID), which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund.

### Language

The official language of IDB is Arabic, but English and French are also used as working languages.





### **Islamic Research and Training Institute (IRTI)**

Islamic Research and Training Institute (IRTI) was established in 1401H (1981) as the research and training arm of IDB. IRTI plays a key role in supporting the transformation of IDB Group into a world-class knowledge-based organization. IRTI's mandate is to support the development and sustenance of a dynamic and comprehensive Islamic Financial Services Industry that enhances socioeconomic development in IDB Member Countries. The Institute undertakes cutting edge applied and policy research as well as capacity building and advisory services in the field of Islamic economics and finance. IRTI aims to be a global knowledge center for Islamic economics and finance in line with its new vision. [www.irti.org](http://www.irti.org)



### **The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)**

ICIEC was established in 1415H (1994) by the Islamic Development Bank (IDB) and Member Countries of the Organization of Islamic Cooperation (OIC) as an independent entity within IDB Group. Its mandate is to: (i) help increase the scope of trade transactions of Member Countries; (ii) facilitate flow of foreign direct investments into Member Countries; and (iii) provide reinsurance facilities to Export Credit Agencies in Member Countries.

ICIEC fulfils these objectives by providing appropriate Islamic Shari'ah-compliant credit and country-risk insurance and reinsurance instruments. [www.iciec.com](http://www.iciec.com)



### **The Islamic Corporation for the Development of the Private Sector (ICD)**

ICD was established in 1420H (1999) as an independent entity within IDB Group and has been operational since 6 Rabi Thani 1421H (8 July 2000). The mission of ICD is to compliment the role played by IDB through development and promotion of the private sector as a vehicle for economic growth and prosperity in Member Countries.

The main objectives of ICD are: (i) support economic development of its Member Countries through provision of finance aimed at promoting private sector development in accordance with the principles of Shariah; and (ii) provide advice to governments and private organizations to encourage the establishment, expansion and modernization of private sectors. [www.icd-idb.com](http://www.icd-idb.com)



**Subscribed, Called-up, and Paid-up Capital  
As of 30/12/1436H (13/10/2015) - (Sorted by Subscribed)**

(No. of Shares)

Sr. No.	Member	Subscribed	% of Subscribed	Called-up	% of Called-up	Paid-up	% of Paid-up
1	Islamic Development Bank	26,637	33.251 %	26,637	37.355 %	26,637	37.625 %
2	Saudi Arabia	12,000	14.980 %	12,000	16.828 %	12,000	16.950 %
3	Iran	8,692	10.850 %	192	0.269 %	192	0.271 %
4	Saudi Fund for Development, Saudi Arabia	5,000	6.242 %	5,000	7.012 %	5,000	7.063 %
5	Kuwait	4,000	4.993 %	4,000	5.609 %	4,000	5.650 %
6	Public Investments Fund, Saudi Arabia	3,000	3.745 %	3,000	4.207 %	3,000	4.238 %
7	Turkey	2,915	3.639 %	2,915	4.088 %	2,915	4.117 %
8	Malaysia	2,898	3.618 %	2,898	4.064 %	2,898	4.093 %
9	Export Development Bank, Iran	2,500	3.121 %	2,500	3.506 %	2,486	3.511 %
10	Egypt	1,273	1.589 %	1,273	1.785 %	1,273	1.798 %
11	Nigeria	1,000	1.248 %	1,000	1.402 %	670	0.946 %
12	Qatar	1,000	1.248 %	1,000	1.402 %	1,000	1.413 %
13	Iraq	850	1.061 %	567	0.795 %	567	0.801 %
14	Pakistan	843	1.052 %	843	1.182 %	843	1.191 %
15	Albaraka Islamic Bank, Bahrain	818	1.021 %	818	1.147 %	818	1.155 %
16	Algeria	608	0.759 %	608	0.853 %	608	0.859 %
17	Faisal Islamic Bank of Egypt, Egypt	592	0.739 %	592	0.830 %	592	0.836 %
18	Brunei Darussalam	582	0.727 %	582	0.816 %	582	0.822 %
19	Tunisia	560	0.699 %	560	0.785 %	560	0.791 %
20	Morocco	510	0.637 %	510	0.715 %	510	0.720 %
21	Bank Mellat, Iran	500	0.624 %	500	0.701 %	500	0.706 %
22	Indonesia	206	0.257 %	206	0.289 %	206	0.291 %
23	Bangladesh	202	0.252 %	202	0.283 %	202	0.285 %
24	Bahrain	185	0.231 %	185	0.259 %	185	0.261 %
25	Syria	185	0.231 %	185	0.259 %	185	0.261 %
26	Palestine	184	0.230 %	184	0.258 %	184	0.260 %
27	UAE	184	0.230 %	184	0.258 %	184	0.260 %
28	Albaraka Investment Company, London	161	0.201 %	161	0.226 %	161	0.227 %
29	Libya	139	0.174 %	139	0.195 %	139	0.196 %
30	Jordan	130	0.162 %	130	0.182 %	130	0.184 %
31	Jordan Islamic Bank	118	0.147 %	118	0.165 %	118	0.167 %
32	Bank Keshavarzi, Iran	100	0.125 %	100	0.140 %	100	0.141 %
33	Bank Melli, Iran	100	0.125 %	100	0.140 %	100	0.141 %
34	Bank of Industry and Mine, Iran	100	0.125 %	100	0.140 %	100	0.141 %
35	EN Bank, Iran	100	0.125 %	100	0.140 %	100	0.141 %
36	Mauritania	100	0.125 %	100	0.140 %	33	0.047 %
37	Yemen	100	0.125 %	100	0.140 %	99	0.140 %
38	Sudan	77	0.096 %	77	0.108 %	77	0.109 %
39	Burkina Faso	75	0.094 %	75	0.105 %	75	0.106 %
40	Somalia	72	0.090 %	72	0.101 %	72	0.102 %
41	Cote D'Ivoire	70	0.087 %	70	0.098 %	70	0.099 %
42	Albaraka Turk Participation Bank	69	0.086 %	69	0.097 %	69	0.097 %
43	Lebanon	61	0.076 %	61	0.086 %	61	0.086 %
44	Mozambique	60	0.075 %	60	0.084 %	60	0.085 %
45	Bank Al baraka, Tunis	53	0.066 %	53	0.074 %	53	0.075 %
46	Azerbaijan	50	0.062 %	33	0.047 %	33	0.047 %
47	Bank Tejarat, Iran	50	0.062 %	50	0.070 %	50	0.071 %
48	Benin	50	0.062 %	50	0.070 %	50	0.071 %
49	Djibouti	50	0.062 %	50	0.070 %	-	0.000 %
50	Gambia	50	0.062 %	50	0.070 %	50	0.071 %
51	Niger	50	0.062 %	50	0.070 %	-	0.000 %
52	Uganda	49	0.061 %	49	0.069 %	49	0.069 %
53	Senegal	48	0.060 %	48	0.067 %	48	0.068 %
54	Nile Bank for Commerce & Dev. - Sudan	26	0.032 %	26	0.036 %	26	0.037 %
55	Sudanese Islamic Bank, Sudan	26	0.032 %	26	0.036 %	26	0.037 %
56	Tadamon Islamic Bank, Sudan	26	0.032 %	26	0.036 %	26	0.037 %
57	Gabon	22	0.027 %	22	0.031 %	22	0.031 %
58	Cameroon	2	0.002 %	2	0.003 %	2	0.003 %
<b>Sub Total</b>		<b>80,108</b>	<b>100.000 %</b>	<b>71,308</b>	<b>100.000 %</b>	<b>70,796</b>	<b>100.000 %</b>

- 1 **Azerbaijan**  
No. of Operations: 1  
Amount US\$ (Mil): 330  
Sector: Industrial  
Commodity: Steel Scrap and Direct Reduced Iron
- 2 **Bangladesh**  
No. of Operations: 6  
Amount US\$ (Mil): 1,000  
Sector: Energy  
Commodity: Petroleum Products & Crude Oil
- 3 **Benin**  
No. of Operations: 1  
Amount US\$ (Mil): 30  
Sector: Agriculture  
Commodity: Agricultural inputs, fertilizers insecticides, herbicides
- 4 **Burkina Faso**  
No. of Operations: 2  
Amount US\$ (Mil): 153,5  
Sector: Agriculture/Energy  
Commodity: Cotton Petroleum Products
- 5 **Cameroon**  
No. of Operations: 1  
Amount US\$ (Mil): 91.3  
Sector: Agriculture  
Commodity: Agricultural Inputs, (Fertilizers, Pesticides etc.), Seed Cotton
- 6 **Comoros**  
No. of Operations: 3  
Amount US\$ (Mil): 60  
Sector: Energy  
Commodity: Petroleum Products/Seed Cotton
- 7 **Cote D'Ivoire**  
No. of Operations: 1  
Amount US\$ (Mil): 44  
Sector: Agriculture  
Commodity: Agriculture/Inputs
- 8 **Djibouti**  
No. of Operations: 4  
Amount US\$ (Mil): 120  
Sector: Energy  
Commodity: Petroleum Products
- 9 **Egypt**  
No. of Operations: 7  
Amount US\$ (Mil): 1,760  
Sector: Energy  
Commodity: Crude Oil, Petroleum and Petroleum Products / LNG
- 10 **Gambia**  
No. of Operations: 1  
Amount US\$ (Mil): 45  
Sector: Energy  
Commodity: Petroleum Products
- 11 **Indonesia**  
No. of Operations: 3  
Amount US\$ (Mil): 129  
Sector: Agriculture  
Commodity: Livestock Raw and Refined Sugar
- 12 **Jordan**  
No. of Operations: 1  
Amount US\$ (Mil): 150  
Sector: Energy  
Commodity: LNG
- 13 **Kazakhstan**  
No. of Operations: 2  
Amount US\$ (Mil): 125  
Sector: Agriculture  
Commodity: Wheat, Grain, rice
- 14 **Kenya**  
No. of Operations: 1  
Amount US\$ (Mil): 10  
Sector: Energy  
Commodity: Refined Petroleum Products
- 15 **Mali**  
No. of Operations: 1  
Amount US\$ (Mil): 24  
Sector: Energy  
Commodity: Petroleum Products
- 16 **Mauritania**  
No. of Operations: 2  
Amount US\$ (Mil): 85  
Sector: Energy/Agriculture  
Commodity: Wheat, Sugar Oil and Gas

**17** Mozambique  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 5  
**Sector:** Other  
**Commodity:** All goods acceptable under ITFC Financing

**24** Tajikistan  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 10  
**Sector:** Agriculture  
**Commodity:** Petroleum, Wheat, Sugar

**18** Nigeria  
**No. of Operations:** 2  
**Amount US\$ (Mil):** 55  
**Sector:** Other  
**Commodity:** All Goods Acceptable Under ITFC Rules for Trade Financing

**25** Togo  
**No. of Operations:** 2  
**Amount US\$ (Mil):** 62  
**Sector:** Energy/Other  
**Commodity:** Refined Petroleum Products  
All goods acceptable under ITFC Financing

**19** Pakistan  
**No. of Operations:** 2  
**Amount US\$ (Mil):** 1,000  
**Sector:** Energy  
**Commodity:** Crude Oil and Petroleum Products

**26** Turkey  
**No. of Operations:** 11  
**Amount US\$ (Mil):** 935  
**Sector:** Agriculture/Other  
**Commodity:** Grain, rice, Wheat, Soybean, Cotton, sugar, Foodstuff & Raw Materials.  
All goods acceptable under the ITFC Rules for Trade Financing

**20** Saudi Arabia  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 12  
**Sector:** Industrial  
**Commodity:** Trucks, Heavy Equipment & Spare Parts

**27** UAE  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 11  
**Sector:** IT  
**Commodity:** Computer Products and Components

**21** Senegal  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 60  
**Sector:** Energy  
**Commodity:** Refined Petroleum Products

**22** Sierra Leone  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 10  
**Sector:** Energy  
**Commodity:** Petroleum Products

**23** Suriname  
**No. of Operations:** 1  
**Amount US\$ (Mil):** 30  
**Sector:** Energy  
**Commodity:** Oil and Gas

**Total No. of Operations: 61**  
**Total US\$ (Mil): 6,047**

 Asia / CIS

 MENA

 Sub-Saharan Africa

 South America

APPENDIX 4 – TRADE FINANCE APPROVALS FOR LDMCS IN 1436H (US\$ million)

S.No	Country	No of Operation	Amount (USD Mil)
2	Azerbaijan	1	330
3	Bangladesh	6	1,000
4	Benin	1	30
5	Burkina Faso	2	153.50
7	Comoros	3	60
8	Djibouti	4	120
9	Gambia	1	45
14	Mali	1	24
15	Mauritania	2	85
16	Mozambique	1	5
19	Senegal	1	60
20	Sierra Leone	1	10
23	Tajikistan	1	10
24	Togo	2	62
<b>Total Approvals for LDMCs</b>		<b>27</b>	<b>1,994.5</b>

APPENDIX 5 – 1436H TRADE FINANCE APPROVALS BY PRODUCT (US\$ million)

	Commodity	Amount (US\$ million)
	Petroleum	4,486.00
	Grains & Oilseeds	439.00
	Cotton	169.15
	Sugar	120.00
	Fertilizers	75.65
	Other Minerals	50.00
	Metals	30.00
	Machinery & Equipment	23.00
	Other Foodstuff	10.00
	Others	644.00
<b>Total Approvals</b>		<b>6,047</b>





- > Best Islamic Trade Finance Provider MENA 2015



- > Best DFI Middle East



- > Deals of the Year :

US\$120 million in Favor of Société Internationale des Hydrocarbures de Djibouti (SHD), Djibouti for the import of petroleum products

US\$91 million in Favor of Sofitex, for the support of Burkina Faso's cotton sector.



- > Murabaha Deal of the Year: US\$ 25 million in Favor of the Yayla Agro, Turkey



- > Murabaha Deal of the Year: US\$ 25 million in Favor of the Yayla Agro, Turkey



- > World's Best Islamic Financial Institutions 2016

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