ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Auditor's Report

For the year ended 31 December 2020

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INDEPENDENT AUDITOR'S REPORT TO

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Islamic Development Bank – Ordinary Capital Resources (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the related income statement, statement of changes in members' equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and the results of the operations, its cash flows and changes in members' equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

In our opinion, the Bank has also complied with the Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Bank during the period under audit.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the '*Auditor's Responsibilities for the Audit of the Financial Statements*' section of our report. We are independent of the Bank in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code), International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements as prevailing in the local jurisdiction, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against treasury assets and project assets	
As at 31 December 2020, the gross treasury assets and project assets of the Bank were ID 7,493 million and ID 15,900 million, respectively, against which an expected credit loss ("ECL") allowance of ID 16.4 million and ID 380.6 million, respectively, was maintained. We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the financial statements of the Bank. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty about the economic outlook in particular and increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1. Categorisation of exposures into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Bank has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 3. The need to apply post model adjustments using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model. Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policy note 3 for the impairment of treasury assets and project assets including the disclosure of critical accounting judgements, estimates and assumptions*	▪ The Bank adopted and applied requirements and guidance of FAS 30 '*Impairment, Credit Losses and Onerous Commitments*', issued by AAOIFI and effective from 1 January 2020, to assess ECL againt treasury assets and project assets. ▪ We have updated our understanding of management's assessment of impairment of treasury assets and project assets including the Bank's internal rating model, impairment allowance policy and the ECL modelling methodology, including the enhancements made in light of the COVID-19 pandemic. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including IT general and application controls) over: • the IT systems and applications underpinning the ECL model. • the modelling process, including governance over the monitoring of the model and *its validation (where applicable)* including approval of key assumptions and post model adjustments, if any; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model. ▪ For a sample of counterparties, we assessed: • the internal ratings determined by management based on the Bank's internal rating model and assessed these assigned ratings against external market conditions and available industry information in particular considering the impacts of the COVID-19 pandemic and also assessed that these were in line with the ratings used in the ECL model; • the staging as identified by management; and • management's computations for ECL.

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Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
relating to impairment losses on treasury assets, project assets and the impairment assessment methodology used by the Bank; note 14 which contains the disclosure of impairment against treasury assets and project assets; and note 31 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	▪ We tested the appropriateness of the Bank's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Bank's staging categorisation including in particular counterparties in vulnerable member countries affected by the COVID-19 pandemic. ▪ We assessed the qualitative factors which were considered by the Bank to recongnise any post model adjustments, in case of data or model limitations. Where such post model adjustments were applied, we assessed those post model adjustments and the governance process around them. ▪ We assessed the reasonableness of the underlying assumptions used by the Bank in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic . ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. ▪ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in post model adjustments (if any). ▪ We assessed the adequacy of disclosures in the financial statements.
Valuation of investments not traded in an active market Investments classified as fair value through other comprehensive income ("FVOCI") comprise both debt and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other	We assessed the design and implementation and tested the operating effectiveness of key controls over - management's processes for performing valuation of investments classified as

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
comprehensive income. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market (i.e. unquoted) and where the internal modelling techniques use: ○ significant observable valuation inputs (i.e. level 2 investments); and ○ significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 3 investments. The business disruptions and economic impacts of the COVID-19 pandemic have further raised the degree of estimation uncertainty involved in fair valuing unquoted investments. As at 31 December 2020, the Bank held ID 92.8 million of unquoted investments. The valuation of the Bank's unquoted investments in level 2 and 3 categories was therefore considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. Refer to the significant accounting policies note 3 to the financial statements, note 3 which explain the investment valuation methodology used by the Bank and the critical judgments and estimates.	FVOCI which are not traded in an active market; and - Data integrity of the investment portfolio information held. We evaluated the valuation techniques, inputs and reasonableness of assumptions used by management to value FVOCI and FVIS investments. We tested the valuation of a sample of FVOCI investments not traded in an active market. As part of these audit procedures, we assessed the key inputs used in the valuation such as comparable entity data and liquidity discounts by benchmarking them with external data. We assessed the adequacy of the financial instrument hierarchy disclosure and also considered AAOIFI related disclosures.

Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2020 Annual Report

Other information consists of the information included in the Bank's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

These financial statements and the Bank's undertaking to operate in accordance with Shari'ah Rules and Principles are the responsibility of the Bank's management and those charged with governance.

The management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by AAOIFI and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Audit of the Financial Statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

06 July 2021
26 Dhul-Qi'dah 1442H

Jeddah

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2020

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

	Notes	31 December 2020	31 December 2019
Cash and cash equivalents	4	363,923	854,174
Commodity murabaha placements	5	5,320,823	4,424,022
Sukuk investments	6	1,466,183	1,724,211
Murabaha financing	7	325,892	343,698
Treasury assets		**7,476,821**	**7,346,105**
Istisna'a assets	9	7,955,365	7,378,187
Restricted mudaraba	10	732,834	849,606
Instalment sale	11	2,225,787	1,906,569
Ijarah assets	12	2,826,878	2,845,652
Loans (Qard)	13	1,779,003	1,781,830
Project assets		**15,519,867**	**14,761,844**
Equity investments	15	454,723	541,130
Investment in associates	16	728,904	756,875
Other investments		55,394	55,161
Investment assets		**1,239,021**	**1,353,166**
Property, equipment and intangibles		53,754	53,464
Other assets	17	132,474	59,310
Total Assets		**24,421,937**	**23,573,889**
Liabilities			
Sukuk issued	18	14,307,777	12,181,904
Commodity murabaha liabilities	19	308,962	1,613,652
Wakala (due to)	20	347,221	361,763
Other liabilities	21	343,416	351,315
Total Liabilities		**15,307,376**	**14,508,634**
Members' Equity			
Paid-up capital	23	5,940,601	5,785,122
Reserves	24	3,057,744	3,139,738
Net income for the year		116,216	140,395
Total Members' Equity		**9,114,561**	**9,065,255**
Total Liabilities and Members' Equity		**24,421,937**	**23,573,889**
Restricted Investment Accounts	29	78,190	80,921

Notes 1 to 36 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Income Statement

For the year ended 31 December 2020

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

	Notes	**For the year ended 31 Dec 2020**	For the year ended 31 Dec 2019
Income / (Loss) from:			
Commodity murabaha placements		71,666	108,017
Sukuk investments	6	57,587	60,095
Murabaha financing		10,752	13,037
Treasury assets		**140,005**	**181,149**
Istisna'a assets		260,822	244,784
Restricted mudaraba		25,160	32,444
Instalment sale		71,097	63,687
Ijarah assets, net of depreciation of assets under Ijarah	12.4	68,346	83,762
Loans (Qard)		9,658	11,836
Project assets		**435,083**	**436,513**
Equity investments		8,148	18,078
Investment in associates	16	(10,560)	(29,418)
Other investments		1,173	864
Investment assets		**(1,239)**	**(10,476)**
Foreign exchange losses		(1,253)	(2,452)
Swap hedging gains	21	13,522	10,365
Other		6,661	6,684
Other income		**18,930**	**14,597**
Total income		**592,779**	**621,783**
Financing costs	18, 19, 20, 21	(277,702)	(296,195)
Impairment charge	14	(29,769)	(28,739)
Net income before operating expenses		**285,308**	**296,849**
Administrative expenses	25	(163,145)	(148,271)
Depreciation / amortization on property, equipment and intangibles		(5,947)	(8,183)
Total operating expenses		**(169,092)**	**(156,454)**
Net income for the year		**116,216**	**140,395**

Notes 1 to 36 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Changes in Members' Equity

For the year ended 31 December 2020

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

			Reserves						
	Notes	Paid-up capital	General reserve	Fair value reserve	Pension and medical obligations	Other reserves	Total reserves	Net income	Total members' equity
Balance at 1 January 2019		**5,595,416**	**2,878,346**	**255,381**	**(47,554)**	**(25,347)**	**3,060,826**	**83,903**	**8,740,145**
Increase in paid-up capital	23	189,706	-	-	-	-	-	-	**189,706**
Net changes in fair value of investments		-	-	70,281	-	-	70,281	-	**70,281**
Actuarial losses relating to retirement pension and medical plans	22	-	-	-	(60,642)	-	(60,642)	-	**(60,642)**
Hedge accounting reserve	21	-	-	-	-	(541)	(541)	-	**(541)**
Share in investments in associates reserve movement	16	-	-	-	-	(1,497)	(1,497)	-	**(1,497)**
Net income for the year		-	-	-	-	-	-	140,395	**140,395**
Transfer to general reserve	24	-	83,903	-	-	-	83,903	(83,903)	**-**
Allocation for grants	24	-	(12,592)	-	-	-	(12,592)		**(12,592)**
Balance at 31 December 2019		**5,785,122**	**2,949,657**	**325,662**	**(108,196)**	**(27,385)**	**3,139,738**	**140,395**	**9,065,255**
Adjustment against credit losses – FAS 30 (Note 14)		-	(64,263)	-	-	-	**(64,263)**	-	**(64,263)**
Revised balance as at 1 January 2020 after FAS 30 adjustment		**5,785,122**	**2,885,394**	**325,662**	**(108,196)**	**(27,385)**	**3,075,475**	**140,395**	**9,000,992**
Increase in paid-up capital	23	155,479	-	-	-	-	**-**	-	**155,479**
Net changes in fair value of investments		-	-	(46,658)	-	-	**(46,658)**	-	**(46,658)**
Actuarial losses relating to retirement pension and medical plans	22	-	-	-	(45,169)	-	**(45,169)**	-	**(45,169)**
Hedge accounting reserve	21	-	-	-	-	(3,026)	**(3,026)**	-	**(3,026)**
Share in associates' reserve movements	16	-	(20,443)	-	-	(31,974)	**(52,417)**	-	**(52,417)**
Net income for the year		-	-	-	-	-	**-**	116,216	**116,216**
Transfer to general reserve	24	-	140,395	-	-	-	**140,395**	(140,395)	**-**
Allocation for grants	24	-	(10,856)	-	-	-	**(10,856)**	-	**(10,856)**
Balance at 31 December 2020		**5,940,601**	**2,994,490**	**279,004**	**(153,365)**	**(62,385)**	**3,057,744**	**116,216**	**9,114,561**

Notes 1 to 36 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Cash Flows

For the year ended 31 December 2020

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

	Notes	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
Cash flows from operations			
Net income for the year		116,216	140,395
Adjustments for non-cash items:			
Depreciation / amortization		5,947	8,183
Loss from investment in associates	16	10,560	29,418
Credit losses against financial assets	14	29,769	28,739
Unrealized fair value gains on sukuk	6	(5,154)	(5,694)
Amortization of other income		(567)	(567)
Foreign exchange losses		1,253	2,452
Loss/(gain) on disposal of investment in equity capital		3,928	(902)
Operating income before changes in operating assets and liabilities		**161,952**	**202,024**
Changes in operating assets and liabilities:			
Istisna'a assets		(703,639)	(713,360)
Restricted mudaraba		83,683	28,792
Instalment sale		(350,049)	(316,162)
Ijarah assets		(67,330)	(126,903)
Loans (Qard)		18,366	26,504
Other assets		(59,238)	11,680
Other liabilities		(50,339)	(154,069)
Commodity murabaha placements		(1,050,771)	(230,297)
Murabaha financing		11,517	(38,793)
Net cash used in operating activities		**(2,005,848)**	**(1,310,584)**
Cash flows from investing activities			
Acquisition of sukuk investments	6	(164,289)	(227,568)
Proceeds from disposal/redemption of sukuk investments	6	368,305	171,388
Acquisition of equity investments	15	-	(8,349)
Proceeds from disposal of equity and other investments		34,734	3,821
Acquisition of other investments		(12,852)	(5,348)
Acquisition/increase in share of associate	16	(48,618)	(66,744)
Dividends from associates	16	577	1,328
Proceeds from capital repayment/disposal of investment in associates	16	2,947	33,442
Additions to property, equipment and intangibles		(6,237)	(4,999)
Net cash from/(used in) investing activities		**174,567**	**(103,029)**
Increase in paid-up capital		155,479	189,706
Allocation for grants	24	(10,856)	(12,592)
Proceeds from issuance of sukuk		3,991,039	3,372,412
Redemption of sukuk		(1,491,011)	(2,899,552)
Commodity murabaha liabilities		(1,308,676)	833,095
Redemption of Wakala (due to)		(86)	(28,946)
Net cash from financing activities		**1,335,889**	**1,454,123**
Net change in cash and cash equivalents		(495,392)	40,510
Exchange difference on cash and cash equivalents		5,141	(1,861)
Cash and cash equivalents at the beginning of the year		854,174	815,525
Cash and cash equivalents at the end of the year	4	**363,923**	**854,174**

Notes 1 to 36 form an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

Islamic Development Bank (the "Bank" or "IsDB") is a Multilateral Development Bank established pursuant to Articles of Agreement signed and ratified by its Member Countries in 1394H (1974). The Bank's headquarter is located in Jeddah, Kingdom of Saudi Arabia. The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities, in accordance with the Islamic Shari'ah principles. The Bank has 57 Member Countries (2019: 57).

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

The Bank is required to carry out its activities in accordance with its Articles of Agreement, Financial Regulations and the principles of Shari'ah. The Bank established Group Shari'ah Board whose functions are set out in Note 28.

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

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

The financial statements were authorized by the Resolution of the Board of Executive Directors on 24 April 2021 (corresponding to 12 Ramadan 1442 H) for submission to the Board of Governors 46th Annual Meeting.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements are prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Bank. In accordance with the requirements of AAOIFI, for principal accounting matters for which no AAOIFI standard exists, the Bank seeks guidance from relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") provided they do not contradict with the rules and principles of Shari'ah as determined by the Group Shari'ah Board of the Bank.

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

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

Unit of Account

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial assets and liabilities

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

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

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

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

Item	Recognition principles
Commodity murabaha placements	Amortized cost less impairment
Murabaha financing	Amortized cost less impairment
Investments in sukuk classified as either:	Fair value through income statement; or amortized cost less impairment
Istisna'a and Installment sale	Amortized cost less impairment
Restricted mudaraba	Amortized cost less impairment
Ijarah assets	Amortized cost less depreciation and impairment
Loans (Qard)	Disbursements plus accrued service fee less impairment
Equity investments	Fair value through members' equity
Other investments	Cost less impairment
Sukuk issued	Amortized cost
Commodity murabaha liabilities	Amortized cost
Wakala due	Amortized cost

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legal enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under Financial Accounting Standards ("FAS") issued by AAOIFI, or for gains and losses arising from a group of similar transactions.

Treasury assets

Treasury assets include cash and cash equivalents, commodity murabaha placements, sukuk investments and murabaha financing.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity murabaha placements through banks having a maturity of three months or less from the date of placement that are subject to an insignificant risk of changes in their fairvalue. Cash and cash equivalents are carried at amortized cost less impairment in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Commodity murabaha placements

Commodity murabaha placements entails the purchase and sale of commodities at agreed profit rates. The buying and selling of commodities is limited by the terms of agreement between the Bank and other Islamic and conventional financial institutions. Commodity murabaha placements are carried at amortized cost less provision for impairment.

Sukuk investments

Sukuk are certificates of equal value representing undivided share in ownership to tangible assets, usufructs, services or (in the ownership) of assets of a particular project, classified as either measured at amortised cost or at fair value through income statement.

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

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

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

After the initial designation, such investments are not permitted to be reclassified into or out of the fair value or amortized cost categories.

Murabaha financing

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

Amounts receivable from Murabaha financing receivables are stated at selling price, less unearned income, less repayments and provision for impairment.

Project assets

Project assets include istisna'a assets, restricted mudaraba, instalment sale, ijarah assets and loans (Qard).

Istisna'a assets

Istisna'a is an agreement whereby the Bank sells to the customer an asset which is either constructed or manufactured with agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as accrued income against assets being either constructed or manufactured.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Mudaraba

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

Instalment sale

Sale whereby the Bank sells to a customer, an asset which it has purchased and acquired based on a promise from that customer to buy. The selling price includes the profit margin. Amounts receivable from the instalment sale transactions are stated at selling price, less unearned income, less repayments and provision for impairment (if any).

Ijarah assets (Ijarah Muntahia Bittamleek)

Ijarah is an agreement (either direct or through a syndicate) whereby the Bank, acting as a lessor, purchases assets according to the customer request (lessee), based on his promise to lease the asset for an agreed rent for a specific period. The Bank transfers the right to the lessee for a rental payment for the lease period. Throughout the Ijarah period, the Bank retains ownership of the leased asset. At the end of the Ijarah period, the Bank transfers title of the asset to the lessee without consideration.

Ijarah assets under construction are stated at cost of manufacturing or acquisition and are not depreciated. No rental income is recognized on the assets during the construction/manufacturing period. Rental income received during the construction period (advance rental) is recorded under Other liabilities and amortized to Ijarah income after the asset is transferred to Ijarah asset in use (Note 21).

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

Loans (Qard)

Loan (Qard) is a long-term concessional (non-interest bearing) facility provided to finance development projects in Member Countries bearing a service fee at a rate sufficient to cover the Bank's actual administrative expenses.

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

Investment Assets

Investment assets include Equity investments, investments in funds, Investments in associates and other investments.

Equity investments at fair value through members' equity

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

Listed investments measured at fair value

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Unlisted investments in equities and funds measured at fair value through equity

Unlisted investments in equities and funds are carried at fair values determined by independent valuers. Fair value gains/losses are reported in fair value reserve in equity. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. Impairment losses recognized in income statement are reversed through statement of changes in members' equity.

After the initial designation, the Bank shall not reclassify investments in equity-type securities into or out of the fair value through its statement of changes in members' equity category.

Investments in associates

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

Consequently, the Bank does not exercise control over any of its investments regardless of percentage of voting rights. For investments in which the Bank holds 20 per cent or more of the voting rights and having significant influence, such investments are accounted for and classified as investments in associates, unless they are held for sale.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost (including transaction costs directly related to acquisition of investment in associate). The Bank's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss). The Bank's share of its associates' post-acquisition profits or losses is recognized in the income statement; its share of post-acquisition movements in reserves is recognized in reserves in members' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends and return of capital. When the Bank's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables from the respective associate, the Bank does not recognize further losses,unless it has incurred obligations or made payments on behalf of the associate.

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

The Bank determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognizes the amount in the income statement. Intergroup unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interests in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses in associates are recognized in the income statement. The Bank's share of the results of associates is based on financial statements available up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform to the accounting policies of the Bank. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Bank.

Profit rate and cross currency profit rate swaps

The Bank uses profit-rate and cross currency profit-rate swaps for asset/liability management purposes to modify mark-up rate or currency characteristics of sukuk issued. Swaps are commitments to exchange one set of cash flows for another. For profit-rate swaps, counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency profit-rate swaps, principal and fixed and floating profit payments are exchanged in different currencies.

These instruments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured at fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement, unless designated in a hedge relationship, with positive fair values recognized within other assets and those with negative fair values recognized within other liabilities.

The Bank uses widely recognized valuation models for measuring the fair value of profit-rate and cross-currency profit-rate swaps that use only observable market data and require little management judgment and estimation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

The Bank designates certain hedging instruments, i.e. profit-rate and cross-currency profit-rate swaps, in respect of foreign currency risk and profit rate risk, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement immediately, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognized in the income statement in the line item relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to income statement from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in statement of changes in members' equity and accumulated under the heading of other reserves. The gain or loss relating to the ineffective portion is recognized immediately in the income statement, and is included in the "gains/(losses) from swap valuations" line item.

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of other reserves are reclassified to income statement only when the hedged transaction affects the income statement.

Amounts previously recognized in the statement of changes in members' equity are reclassified to income statement in the periods when the hedged item affects the income statement, in the same line as the recognized hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Impairment of financial assets

Impairment of Financial Assets held at amortized cost

The Bank applies the credit loss approach to financing instruments measured at amortized cost, loan commitments, and treasury investments held at amortized cost. To assess the extent of credit risk, the financial assets are divided into three (3) categories:

i. *Stage 1 – No significant increase in credit risk;*
ii. *Stage 2 – Significant increase in credit risk (SICR); and*
iii. *Stage 3 – Credit impaired financial assets.*

Allocation to different stages is based on the degree of deterioration in the credit quality of the financial asset. At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.
All financial assets are allocated to stage 1 on initial recognition. However, if a significant increase in credit risk is identified at the reporting date compared with initial recognition, then the asset is transferred to stage 2 (Refer to Note 31 Risk management). If there is objective evidence of impairment, then the asset is credit-impaired and allocated to stage 3 as described in Note 31 Risk management .

The Bank applies 12-month Expected Credit Loss (ECL) measurement to stage 1 instruments. 12-month ECLs represent the ECLs that result from possible default events within the 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The Bank recognizes an allowance amount based on Lifetime ECL (i.e. ECLs that result from all possible default events over the expected life of the financial instrument) for stage 2 instruments.

As for instruments classified in stage 3, loss allowance is quantified as the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Impairment of financial assets held at fair value through members' equity

The Bank exercises judgment to consider impairment on the financial assets including equity investments held at fair value through members' equity, at each reporting date. This includes determination of a significant or prolonged decline in the fair value of equity investments below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share prices. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Other financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. The amount of the impairment losses for other financial assets is calculated as the difference between the asset's carrying amount and its estimated recoverable amount. Adjustments to the provision are recorded as a charge or credit in the Bank's income statement.

Commodity murabaha purchase and sale agreements

The Bank enters into commodity murabaha purchase and sale agreements with certain banks for liquidity management purposes. Under the terms of the agreements, the Bank purchases certain commodities from these banks on a deferred payment basis and sells these through those banks to third parties. The payable related to the purchased commodity under these agreements is recognized at the value of consideration paid and is presented as commodity murabaha purchase liabilities in the statement of financial position. The difference between the sale and purchase prices is recognized as financing cost and accrued on an amortized cost basis over the period of agreements.

Wakala (due to)

Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital. The agent decides in respect to the investments to be made from the Wakala Capital, subject to the terms of the Wakala agreement. However, the Wakeel bears the loss in cases of misconduct, negligence or violation of any of the terms of the Wakala agreements accordingly they are recognized on the statement of financial position. The return on invested principal (Wakala capital) amount payable to the Muwakkil (principal) is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Sukuk issued

The Sukuk assets have been recognised in the IsDB financial statements, as IsDB is the Service Agent, whilst noting that IsDB has sold these assets at a price to the sukukholders through the SPV by a valid sale contract transferring ownership thereof to the sukukholders.

De-recognition of financial assets and financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment and intangibles

Property, equipment and intangibles are measured at cost less accumulated depreciation, accumulated amortization and impairment loss, if any. Land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The depreciable amount of other property, equipment and intangibles is depreciated/amortized using the straight-line method over the estimated useful lives.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

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

Subsequent expenditures are capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

All such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Post-employment benefit plans

The Bank operates two defined post-employment benefit plans for its employees, the Staff Retirement Pension Plan ("SPP") and the Post-Employment Medical Scheme ("SRMP"). Both of these plans require contributions to be made to separately administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and percentage of final gross salary. Independent actuaries calculate the defined benefit obligation on an annual basis by using the Projected Unit Credit Method to determine the present value of the defined benefit plan and the related service costs. The underlying actuarial assumptions are used to determine the projected benefit obligations.

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

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

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

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

Further detail and analysis of the post-employment benefit plans are included in Note 22.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Commodity murabaha placements

Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on an effective yield basis over the period of the contract based on the principal amounts outstanding.

Investments in sukuk

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

Murabaha financing income, Istisna'a income, income from instalment sale and Restricted Mudaraba income

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

Ijarah assets

Income from Ijarah assets is recognized using the effective yield basis (which represents the Ijarah rental net of depreciation against the Ijarah assets) starting from the date the right to use the asset is transferred to the lessee.

Loan (Qard) service fees

The Bank charges loan (Qard) service fee only to cover its actual administrative costs related to loans provided to the member countries. Thus, the loans (Qard) service fee is calculated during the financial periods starting from the signature date.

The loan (Qard) service fee is allocated and recognized in the income statement over the specified financial periods.

Dividend income

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

Foreign currency

Foreign currency transactions and balances

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

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

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

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

Foreign operations – investments in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing cost

Sukuk financing costs are recognized in the income statement and include the amortization of the issuance costs and swap financing cost element. Sukuk issued is recognized at amortized cost, except for those sukuk used as hedged items. Amortized cost of such sukuk is adjusted for the hedging gains/losses.

Zakat and Tax

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

Earnings prohibited by Islamic Shari'ah

Any income earned by the Bank from sources, which are forbidden by the Islamic Shari'ah, is not included in the Bank's income statement but is transferred to the Special Account Resources Waqf Fund, in accordance with the Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Bank.

Subsequent events

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

Critical accounting judgments and estimates

The preparation of financial statements in accordance with FAS issued by AAOIFI, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires Management to exercise its judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. The most significant judgements and estimates are summarized below:

Significant judgements

Unit of Account

The Bank conducts its operations mainly in USD and EUR that take up 73.1% (2019: 73.4%) weight in SDR, to which ID is equalized. Therefore, Management (including Board of Executive Directors) concluded that Islamic Dinar represents the aggregation of economic effects of the underlying transactions, events and conditions of the Bank and is accordingly the Bank's unit of account.

Designation of investments in sukuk

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

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

Designation of Investments in equity capital

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

Going Concern

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant estimates

Expected credit losses against financial assets

Expected credit losses against financial assets – The measurement of credit losses under FAS 30 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

i) The Bank's internal credit grading model, which assigns PDs to the individual grades;

ii) The Bank's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment;

iii) Development of ECL models, including the various formulas and the choice of inputs

iv) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

v) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Impact of COVID'19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the globe including Saudi Arabia. During the year ended 31 December 2020, the Saudi Arabian government rightly took many initiatives to contain the spread of virus, which included restrictions on travel, gathering of people and enactment of curfew timings. This resulted in many non-essential businesses to curtail or suspend activities until further notice.

Considering these factors, the Bank's management carried out an impact assessment on the overall Bank's operations and business aspects including factors like dealing with member countries, continued day to day business activities, financing, investment and collection as well as working capital projections, etc. and concluded that, as at the issuance date of these financial statements, the Bank did not have significant adverse impact on its operations and businesses due to COVID-19 pandemic and no significant changes are required to the judgements, assumptions and key estimates.

To preserve the health of the employees and support the prevention of contagion in the operational and administrative areas, the Bank took measures, in line with the recommendations of the World Health Organisation and Ministry of Health - Kingdom of Saudi Arabia, such as working from home, social distancing at work place, rigorous cleaning of workplaces and staff accommodation, distribution of personal protective equipment, testing of suspected cases, limiting non-essential travel, self-health declarations and measuring body temperature. In addition, the Bank's nature of activities facilitated seamless operations during the pandemic.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these financial statements. The strong financial position, including access to funds, nature of activities coupled with the actions taken by the Bank to date and the continued operations ensures that the Bank has the capacity to continue through the challenges caused by impacts of the COVID-19 pandemic. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Post-employee benefits plans

The Bank uses the projected unit credit method to determine the present value of its defined benefit plans and the related service costs. In this regard, the Bank uses certain assumptions of discount rates, expected return on plan assets and rate of salary increases, which may differ from actual experiences. These estimates are updated on an annual basis.

Valuation of sukuk and associated swaps

The Bank uses systems based on industry standard pricing models and valuation techniques to value sukuk issued and their associated swaps. The models use market-sourced inputs.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The fair values of financial instruments that are not quoted in active markets is measured by using valuation techniques and external valuations, which require a certain degree of judgement and estimation. Nonetheless, the actual amounts that are realised in future transactions may differ from the current estimates at fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Useful lives of property, equipment and intangibles and Ijarah assets

The Bank's management determines the estimated useful lives of its property, equipment and intangibles and Ijarah assets for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from the previous estimates.

The effect of new and revised financial accounting standards

In these financial statements, the Bank has applied FAS 30 Financial Instruments effective for annual periods beginning on or after 1 January 2020, for the first time.

FAS 30 Impairment, credit losses and onerous commitments
FAS 30 replaces FAS 11 Provisions and Reserves, for annual periods beginning on or after 1 January 2021, with earlier adoption permitted. The Bank decided to adopt the standard from 1 January 2020.

As permitted by the transitional provisions of FAS 30, the Bank elected not to restate comparative figures. Therefore, the comparative information for financial instrument impairment in 2019 is reported under FAS 11 and is not comparable to the information presented for 2020. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening equity reserves of the current period without restating prior year numbers.

Differences arising from the adoption of FAS 30 have been recognized directly in the equity reserves as at 1 January 2020 and are disclosed below.

Changes to the impairment calculation
The adoption of FAS 30 has fundamentally changed the Bank's accounting for loan loss impairments by replacing FAS 11's specific and portfolio loss approach with a forward-looking expected credit loss (ECL) approach. FAS 30 requires the Bank to record an allowance for ECLs for all treasury and project assets not held at FVPL, together with project financing commitments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination when a lifetime ECL applies.

The table below, reconciles the closing impairment allowances for financial assets as at 31 December 2019 under FAS 11 and the opening impairment allowances determined in accordance with FAS 30 as at 1 January 2020.

	Impairment allowance under FAS 11 as at 31 December 2019	Adjustment to credit losses on adoption of FAS 30	Credit loss under FAS 30 after adjustment as at 1 January 2020
Cash and cash equivalents	10,456	-	10,456
Commodity murabaha placements	3,684	181	3,865
Sukuk investments	-	56	56
Murabaha financing	2,114	(1,083)	1,031
Istisna'a assets	46,435	42,303	88,738
Restricted Mudarabah	-	2,118	2,118
Instalment sale	36,829	5,095	41,924
Ijarah assets	112,870	16,069	128,939
Loans (Qard)	108,170	(10,671)	97,499
Other investments	475	10,195	10,670
Total	321,033	64,263	385,296

The introduction of FAS 30 increased the total impairment allowance held by the Bank by approximately ID 64,263 thousand from ID 321,033 thousand as at 31 December 2019 to ID 385,296 thousand as at 1 January 2020. The determination of impairment allowance under FAS 30 considers both the disbursed and the undisbursed counterparty exposure.

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2020	31 Dec 2019
Cash in hand	-	2
Current and call accounts with Banks	119,544	399,349
Commodity murabaha placements with maturities less than 3 months from origination date (Note 5)	254,835	465,279
Less: Credit loss against cash and cash equivalents (note 14)	(10,456)	(10,456)
	363,923	**854,174**

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

5. COMMODITY MURABAHA PLACEMENTS

	31 Dec 2020	31 Dec 2019
Placements with Islamic banks	587,060	652,540
Placements with conventional banks	4,964,150	4,196,793
Accrued income	28,972	43,652
Commodity murabaha placements less than 3 months, (Note 4)	(254,835)	(465,279)
Less: Credit loss against commodity murabaha placements (note 14)	(4,524)	(3,684)
	5,320,823	**4,424,022**

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	1,724,211	1,653,815
Movements during the year:		
Additions	165,401	227,410
Redemptions/sales	(368,305)	(171,388)
Accrued income	(1,112)	158
Unrealized fair value gains	5,154	5,694
Unrealized exchange revaluation (losses)/gains	(59,006)	8,522
Credit loss against sukuk investments (note 14)	(160)	-
Closing balance	**1,466,183**	**1,724,211**

	Counterparty rating					
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
31 Dec 2020						
Sukuk classified at fair value though income statement:						
- Governments	-	45,866	2,912	14,616	-	63,394
- Other entities	-	-	91,309	-	-	91,309
	-	**45,866**	**94,221**	**14,616**	**-**	**154,703**
Sukuk classified at amortized cost:						
- Financial institutions	-	35,114	304,565	89,634	-	429,313
- Governments	-	14,035	408,967	344,286	-	767,288
- Supranational	-	21,189	-	-	-	21,189
- Other entities	-	-	93,690	-	-	93,690
	-	**70,338**	**807,222**	**433,920**	**-**	**1,311,480**
Total	**-**	**116,204**	**901,443**	**448,536**	**-**	**1,466,183**

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

6. SUKUK INVESTMENTS (continued)

	Counterparty rating					
31 Dec 2019	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value through income statement:						
- Governments	-	46,609	3,063	14,823	-	64,495
- Other entities	-	-	91,045	-	-	91,045
	-	**46,609**	**94,108**	**14,823**	**-**	**155,540**
Sukuk classified at amortized cost:						
- Financial institutions	8,328	58,436	392,987	68,207	-	527,958
- Governments	-	124,693	422,795	394,890	-	942,378
- Other entities	-	-	98,335	-	-	98,335
	8,328	**183,129**	**914,117**	**463,097**	**-**	**1,568,671**
Total	**8,328**	**229,738**	**1,008,225**	**477,920**	**-**	**1,724,211**

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Coupon income	52,433	54,401
Unrealized fair value gains	5,154	5,694
	57,587	**60,095**

7. MURABAHA FINANCING

	31 Dec 2020			31 Dec 2019		
	Sovereign	**Non-Sovereign**	**Total**	**Sovereign**	**Non-Sovereign**	**Total**
Gross amount receivable	310,502	21,276	**331,778**	347,514	4,681	**352,195**
Less: Unearned income	(4,417)	(178)	**(4,595)**	(6,276)	(107)	**(6,383)**
Less: Credit losses (note 14)	(1,208)	(83)	**(1,291)**	(2,086)	(28)	**(2,114)**
	304,877	**21,015**	**325,892**	**339,152**	**4,546**	**343,698**

8. PROJECT ASSETS

	31 Dec 2020			31 Dec 2019		
	Sovereign	**Non-sovereign**	**Total**	**Sovereign**	**Non-sovereign**	**Total**
Istisna'a assets	7,800,718	264,117	**8,064,835**	7,139,121	285,501	**7,424,622**
Restricted Mudaraba	734,702	-	**734,702**	849,606	-	**849,606**
Instalment sale	2,255,981	17,547	**2,273,528**	1,938,880	4,518	**1,943,398**
Ijarah assets	2,215,230	740,827	**2,956,057**	2,064,184	894,338	**2,958,522**
Loans (Qard)	1,871,148	185	**1,871,333**	1,890,000	-	**1,890,000**
	14,877,779	**1,022,676**	**15,900,455**	**13,881,791**	**1,184,357**	**15,066,148**
Less: Credit losses	(360,022)	(20,566)	**(380,588)**	(304,055)	(249)	**(304,304)**
	14,517,757	**1,002,110**	**15,519,867**	**13,577,736**	**1,184,108**	**14,761,844**

Notes 9-13 provide detailed information on each type of project assets. Note 14 provides detailed information on impairment provisions on treasury, project and investment assets. Note 31 provides information on the credit quality of the treasury, project and investment assets.

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

9. ISTISNA'A ASSETS

	31 Dec 2020	31 Dec 2019
Istisna'a assets in progress	4,309,163	3,813,025
Istisna'a receivable	4,289,707	4,176,542
Accrued income	275,313	221,598
Less: unearned income	(809,348)	(786,543)
Less: Credit losses (note 14)	(109,470)	(46,435)
	7,955,365	**7,378,187**

10. RESTRICTED MUDARABA

	31 Dec 2020	31 Dec 2019
Restricted Mudaraba assets in progress	119,256	252,364
Restricted Mudaraba receivable	674,351	668,979
Accrued income	12,759	19,299
Less: unearned income	(71,664)	(91,036)
Less: Credit losses (note 14)	(1,868)	-
	732,834	**849,606**

11. INSTALMENT SALE

	31 Dec 2020	31 Dec 2019
Gross amount receivable	2,404,011	2,131,610
Accrued Income	35,145	18,094
Less: Unearned income	(165,628)	(206,306)
Less: Credit losses (note 14)	(47,741)	(36,829)
	2,225,787	**1,906,569**

12. IJARAH ASSETS

	Note	31 Dec 2020	31 Dec 2019
Assets under construction	12.1	1,313,185	1,200,749
Assets in use	12.2	3,976,519	3,864,590
Less: Accumulated depreciation of assets in use	12.3	(2,314,906)	(2,088,206)
Balance, net of accumulated depreciation		**2,974,798**	**2,977,133**
Accrued income		54,562	64,577
Less: Share of syndication participants		(73,303)	(83,188)
Balance, net of share of syndication participants		**2,956,057**	**2,958,522**
Less: Credit loss (note 14)	14	(129,179)	(112,870)
		2,826,878	**2,845,652**

12.1 Assets under construction

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	1,200,749	1,132,494
Additions	224,365	370,970
Transferred to assets in use	(111,929)	(302,715)
Closing balance	**1,313,185**	**1,200,749**

12.2 Assets in use

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	3,864,590	3,561,875
Transferred from assets under construction	111,929	302,715
Closing balance	**3,976,519**	**3,864,590**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	(2,088,206)	(1,863,118)
Charge for the year	(226,700)	(225,088)
Closing balance	**(2,314,906)**	**(2,088,206)**

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

12.4 Income from Ijarah Assets

	31 Dec 2020	31 Dec 2019
Gross Income	297,251	316,236
Less: Depreciation of assets under Ijarah	(226,700)	(225,089)
Income before share of Syndication participants	**70,551**	**91,147**
Less: Share of syndication participants	(2,205)	(7,385)
Net rental income	**68,346**	**83,762**

13. LOANS (QARD)

	31 Dec 2020	31 Dec 2019
Loans (Qard)	1,871,333	1,890,000
Less: Credit loss (note 14)	(92,330)	(108,170)
	1,779,003	**1,781,830**

14. PROVISION FOR IMPAIRMENT OF TREASURY, PROJECT AND INVESTMENT ASSETS

Provision for impairment comprised of the following:

	Note	31 Dec 2020			
		Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	4	-	-	10,456	10,456
Commodity murabaha placements	5	840	-	3,684	4,524
Sukuk investments	6	160	-	-	160
Murabaha financing	7	1,209	82	-	1,291
Istisna'a assets	9	32,316	25,964	51,190	109,470
Restricted Mudarabah	10	1,868	-	-	1,868
Instalment sale	11	10,403	1,181	36,157	47,741
Ijarah assets	12	23,305	2,362	103,512	129,179
Loans (Qard)	13	24,242	4,164	63,924	92,330
Other investments		4,926	1,345	1,456	7,727
		99,269	35,098	270,379	404,746
Equity Investments	15				49,324
Investment in Associate	16				10,088
					464,158

	Note	31 Dec 2019		
		Specific	Collective	Total
Cash and bank	4	10,456	-	**10,456**
Commodity murabaha placements	5	3,684	-	**3,684**
Murabaha financing	7	-	2,114	**2,114**
Istisna'a assets	9	2,081	44,354	**46,435**
Instalment sale	11	30,871	5,958	**36,829**
Ijarah assets	12	40,140	72,730	**112,870**
Loans (Qard)	13	58,731	49,439	**108,170**
Equity investments	15	50,700	-	**50,700**
Other investments		475	-	**475**
		197,138	**174,595**	**371,733**

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

14. PROVISION FOR IMPAIRMENT OF TREASURY, PROJECT AND INVESTMENT ASSETS (continued)

An analysis of changes in ECL allowances in relation to Bank's financial assets were as follows:

	31 Dec 2020			
	Stage 1	Stage 2	Stage 3	Total
Provisions as at 1 Jan 2020*	90,461	32,191	262,644	385,296
New assets originated or purchased	7,101	-	-	7,101
Assets derecognized or repaid (excluding write offs)	(1,332)	-	-	(1,332)
Transfer from stage 1 to Stage 2	(2,662)	2,662	-	-
Transfer from stage 2 to Stage 3	-	(893)	893	-
Transfer from stage 2 to Stage 1	181	(181)	-	-
Transfer from stage 1 to Stage 3	(5,917)	-	5,917	-
New and increased provision (net of releases)	11,437	1,319	925	13,681
ECL Allowance as at 31 Dec 2020	99,269	35,098	270,379	404,746
Equity Investment				49,324
Investment in Associates				10,088
				464,158

* Opening credit loss as at 1 January 2020 amounting to ID 371.7 million excludes impact of opening adjustment of FAS 30 amounting to ID 64.3 million and includes provision against equity investments amounting to ID 50.7 million. Opening credit loss mentioned in table above amounting to ID 385.3 million as at 1 January 2020, excludes credit loss against equity investments amounting to ID 50.7 million and includes additional provision on adoption of new FAS 30 amounting to ID 64.3 million.

The movement in provision for impairment is as follows:

	Year Ended 2020	Year Ended 2020
Opening Balance	371,733	388,318
Additional provision on adoption of new FAS 30 impairment rule	64,263	-
Adjusted Opening Balance	435,996	388,318
Charge for the year	29,769	28,739
Write offs / Reversals	(1,607)	(45,324)
Closing Balance	**464,158**	**371,733**

As at 31 December 2020 and 31 December 2019, the following is the ageing of the overdue instalments:

In months	31 Dec 2020						
	0-6	7 - 12	13 - 24	Over 24	Total	Sovereign	Non-Sovereign
Murabaha financing	-	-	-	-	-	-	-
Istisna'a assets	21,275	-	-	-	**21,275**	**21,275**	-
Instalment sale	2,731	2,245	4,489	24,214	**33,679**	**33,679**	-
Ijarah assets	3,735	1,950	3,899	32,707	**42,291**	**38,556**	**3,735**
Loans (Qard)	4,033	4,166	8,679	34,832	**51,710**	**51,645**	**65**
Total	**31,774**	**8,361**	**17,067**	**91,753**	**148,955**	**145,155**	**3,800**

In months	31 Dec 2019						
	0-6	7 - 12	13 - 24	Over 24	Total	Sovereign	Non-Sovereign
Murabaha financing	-	-	-	-	-	-	-
Istisna'a assets	877	699	1,382	-	**2,958**	2,958	-
Instalment sale	3,505	3,161	6,439	19,121	**32,226**	31,744	482
Ijarah assets	3,178	3,115	6,229	28,847	**41,369**	41,304	65
Loans (Qard)	4,469	5,003	9,585	25,807	**44,864**	44,864	-
Total	**12,029**	**11,978**	**23,635**	**73,775**	**121,417**	**120,870**	**547**

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

15. EQUITY INVESTMENTS

	31 Dec 2020	31 Dec 2019
Equity investments:		
Listed	372,400	446,278
Unlisted	131,647	145,552
	504,047	**591,830**
Less: Provision for impairment (note 14)	(49,324)	(50,700)
	454,723	**541,130**

The movement in provision for impairment is as follows:

	31 Dec 2020	31 Dec 2019
Opening	50,700	65,151
Charge for the year	231	625
Transfer of accumulated impairment to fair value reserve	(966)	(11,915)
Reversal of impairment on disposal	(641)	(3,161)
Closing balance	**49,324**	**50,700**

The movement in Equity Investments is as follows:

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	541,130	466,038
Movements during the year:		
Additions	-	8,349
Disposals	(39,303)	(6,080)
Reversal of impairment on disposal	641	3,161
Impairment charge	(231)	(625)
Net unrealized fair value (losses)/gains	(47,514)	70,287
Closing balance	454,723	541,130

During both the 2019 and 2020 the Bank has revalued its investments in unlisted equities based on valuation performed by independent valuers. The carrying values of the investments were adjusted to reflect the changes in fair values.

Unlisted equity investments of ID 93 million at 31 December 2020 (2019 – ID 106 million) have been revalued by the independent valuers, resulting in fair value loss of ID 12 million (2019: fair value gains of ID 35 million).

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

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Opening balance	756,875	755,816
Additions	48,618	66,744
Disposals / Capital repayments	(2,947)	(33,442)
Foreign currency translation and other movements	(31,974)	(1,497)
Impairment (note 14)	(10,088)	-
Impact of FAS 30 on associates' opening reserves	(20,443)	-
Share of net results	(8,114)	(24,933)
Net loss on acquisition and disposal of associates	(2,446)	(4,485)
Dividends received	(577)	(1,328)
Closing balance	**728,904**	756,875

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2020	31 Dec 2019
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	20.00%	20.00%
Bosnia Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	31.55%	31.55%
Bank Muamalat Indonesia	Indonesia	Banking	23.71%	23.71%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
International Leasing and Investment Company (ILIC)	Kuwait	Investment Co.	-	31.24%
National Fibres Limited	Pakistan	Manufacturing	21.15%	21.15%
Tatarstan International Investment Company (TIIC)	Russia	Investment Co.	20.32%	20.32%
Islamic Bank of Senegal	Senegal	Banking	33.26%	33.26%
Islamic Corporation for the Development of the Private Sector (ICD)	Saudi Arabia	Private Sector Investment	43.25%	42.83%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	35.75%	35.90%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	29.93%	36.91%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.67%	26.67%
The Islamic Infrastructure Fund L.P.	Saudi Arabia	Investment Co.	49.40%	49.40%
Saudi SME Fund Al- Malaz Capital	Saudi Arabia	Investment Co.	25.00%	25.00%
Zeitouna Tamkeen	Tunisia	Investment Co.	20.00%	20.00%

International Leasing and Investment Company (ILIC) was disposed off during the year.

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

16. INVESTMENT IN ASSOCIATES (continued)

The financial position, revenue and results of associates in IDs, based on their latest available financial statements as at the statement of financial position date were as follows:

	Year	IsDB's Share of investment	Total assets	Total liabilities	Revenue	IsDB's Share of Net income/(loss)
Allied Cooperative Insurance Group	2020	5,621	115,161	87,054	65,466	195
	2019	5,464	111,288	83,966	68,817	(53)
Bosna Bank International	2020	28,000	543,584	481,986	11,970	(2,127)
	2019	28,632	496,716	433,727	10,949	2,178
Islamic Bank of Guinea	2020	2,636	85,703	77,347	2,661	233
	2019	2,674	59,958	51,480	3,867	(11)
Bank Muamalat Indonesia	2020	10,088	2,414	473	77	-
	2019	20,176	2,708	432	111	(510)
Syrikat Takaful Indonesia	2020	1,466	87,603	78,049	3,825	54
	2019	1,447	83,250	77,850	5,500	49
Islamic Bank of Senegal	2020	19,818	466,525	406,941	10,795	2,615
	2019	16,286	423,520	374,557	9,641	2,670
ICD	2020	298,997	2,269,326	1,578,041	(37,308)	(4,699)
	2019	299,470	1,828,914	1,129,708	(203,935)	(32,824)
ITFC	2020	242,674	794,475	115,610	39,430	2,931
	2019	251,824	751,378	49,819	41,355	8,738
APIF	2020	23,742	81,135	1,803	2,768	539
	2019	24,698	68,587	1,677	2,693	829
IsDB Infrastructure Fund II	2020	92,878	341,458	367	14,813	(6,676)
	2019	99,039	363,761	436	9,111	(707)
The Islamic Infrastructure Fund L.P.	2020	2,430	5,189	269	(704)	(637)
	2019	3,998	8,234	141	1,748	(3,847)
Saudi SME Fund Al- Malaz Capital	2020	421	9,745	3,137	343	(406)
	2019	2,898	25,648	1,720	857	(1,227)
Zeitouna Tamkeen	2020	132	11,295	10,636	1,214	(135)
	2019	269	10,800	9,454	1,503	(245)

Allied Cooperative Insurance Group is a listed entity and the value of IsDB's share of investment based on the quoted market price at 31 December 2020 is ID 32.750 million (2019: ID 15.931 million).

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

17. OTHER ASSETS

	31 Dec 2020	31 Dec 2019
Swaps designated in Hedge accounting relationships (Note 21a)	44,883	-
Related party balances (Note 30)	41,733	23,211
Advance to Trust Fund (Note 30-c)	6,943	-
Staff loans and advances (Qard & Financings)	31,400	32,950
Others	7,515	3,149
	132,474	**59,310**

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2020 and 31 December 2019, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent 31 Dec 2020	ID equivalent 31 Dec 2019	Maturity date	Rate per annum
Listed	03/12/2015	USD	-	726,626	03/12/20	1.831 % Fixed
	02/29/2016	EUR	253,944	243,077	03/01/23	0.255% Fixed
	03/10/2016	USD	1,028,751	1,068,357	03/10/21	1.775 % Fixed
	12/07/2016	USD	869,017	904,634	12/07/21	2.263% Fixed
	04/12/2017	USD	872,108	908,018	04/12/22	2.393 % Fixed
	09/26/2017	USD	872,604	908,664	09/26/22	2.261 % Fixed
	03/15/2018	USD	875,429	911,522	03/15/23	3.100% Fixed
	09/26/2018	USD	910,040	947,809	09/26/23	3.389% Fixed
	11/07/2018	EUR	549,014	525,979	11/07/23	0.554% Fixed
	11/26/2018	USD	327,951	341,441	11/26/21	3.2867% Fixed
	04/25/2019	USD	1,045,783	1,089,579	04/25/24	2.843 % Fixed
	10/02/2019	USD	1,045,285	1,089,173	10/02/24	1.957% Fixed
	12/04/2019	EUR	843,775	808,560	12/04/24	0.037% Fixed
	01/16/2020	EUR	253,820	-	01/06/27	0.3150% Fixed
	02/26/2020	USD	1,395,874	-	02/26/25	1.8090% Fixed
	05/28/2020	GBP	92,308	-	05/28/29	0.9640% Fixed
	06/25/2020	USD	1,040,002	-	06/25/25	0.9080% Fixed
			12,275,705	**10,473,439**		
Not listed	09/20/2010	SAR	-	182,772	09/20/20	2.550 % Fixed
	09/20/2010	SAR	-	183,133	09/20/20	6 Month LIBOR + 0.15%
	07/13/2015	EUR	-	80,972	07/13/20	0.310 % Fixed
	09/15/2015	EUR	-	80,908	09/15/20	0.230 % Fixed
	10/09/2015	EUR	-	242,736	10/09/20	0.318 % Fixed
	06/29/2016	MYR	59,897	61,499	06/28/24	4.360 % Fixed
	09/19/2016	USD	69,419	72,318	09/19/21	3 Month LIBOR + 0.43%
	02/24/2017	EUR	254,164	243,332	02/24/24	0.374 % Fixed
	02/27/2017	EUR	126,951	121,638	02/27/24	0.350 % Fixed
	07/19/2018	USD	69,587	73,042	07/19/23	6 Month LIBOR + 0.20%
	01/16/2019	EUR	42,364	40,576	01/16/24	0.385 % Fixed
	12/10/2019	USD	69,435	72,342	12/10/24	3 Month LIBOR + 0.43%
	12/10/2019	USD	69,429	72,342	12/10/24	3 Month LIBOR + 0.43%
	12/11/2019	USD	173,745	180,855	12/11/24	2% Fixed
	01/21/2020	USD	382,168	-	01/21/25	6 Month LIBOR + 0.37%
	02/10/2020	CNY	108,867	-	02/10/23	2.85 % Fixed
	06/26/2020	GBP	156,765	-	06/26/23	0.40 % Fixed
	07/16/2020	USD	69,611	-	07/16/25	0.88 % Fixed
	09/30/2020	EUR	379,670	-	09/30/26	0.10 % Fixed
			2,032,072	**1,708,465**		
Total			**14,307,777**	**12,181,904**		

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

18. SUKUK ISSUED (continued)

The trust certificates (Sukuk) confer Certificate Holders to receive payments (Periodic Distribution) on specified dates (Periodic Distribution Dates) out of the profit elements of Ijarah assets, Equity Investments, Sukuk Investments and receivables in respect of Murabaha and Istisnaa contracts, Restricted Mudaraba assets and Qard (the Portfolio) sold at each Series (issuance) by IsDB to IsDB Trust Services Limited and Tadamun Services Berhad (the Trustees).

After the sale of the Portfolio, IsDB as a third party, guarantees performance to the Trustees (obligors) of the Portfolio, that if any beneficiary is unable to pay any amount owed under the Portfolio, IsDB will make the payment. Also, IsDB undertakes to purchase the portfolio on the Maturity Date or Early Dissolution Date for an amount equivalent to the Aggregate Nominal Amount (i.e. price of the original sale). In the event that IsDB is unable to provide resources for the redemption of the Sukuk under any Series (whether on Maturity or Dissolution), the Board of Governors of IsDB may call such part of the callable capital as may be sufficient for IsDB to meet its obligations under such Series. Sukuk costs incurred on sukuk issued during the year ended 31 December 2020 amounted to ID 268.2 million (2019: ID 263.4 million). Sukuk issued, amounting to ID 1,041.4 million (2019: ID 1,265.4 million) have been designated as hedged items. The accumulated amount of hedge adjustment included in the carrying amount of the fair value hedged sukuk as at 31 December 2020, amounts to ID 5.9 million (2019: ID 9.3 million).

19. COMMODITY MURABAHA LIABILITIES

The Bank has entered into commodity murabaha purchase and sale agreements with certain counter parties. Under the terms of the agreements, the Bank has purchased certain commodities from these counter parties on deferred payment basis and has simultaneously sold these through those banks to third parties. The outstanding balance as of 31 December 2020 of ID 308.9 million (2019: ID 1,613.7 million) represents the purchase price under these agreements. Financing cost incurred on commodity murabaha purchases during 2020 was ID 3.8 million (2019: ID 21.4 million).

20. WAKALA (DUE TO)

The Bank received deposits from the below related parties under Wakala agreements as follows:

Affiliates	Currency	ID Equivalent in '000 2020	2019	Placement Date	Maturity Date
Islamic Solidarity Fund for Development	USD	138,889	144,705	12/21/2017	6/21/2023
Islamic Solidarity Fund for Development	USD	208,332	217,058	12/21/2017	6/21/2023
		347,221	**361,763**		

These Wakala placements have expected floating rate of return on invested capital up to 0.66%, per annum (2019: 3.27% per annum). Actual amount of returns paid to the related parties on the wakala placements during the year was ID 5.6 million (2019: ID 11.4 million).

21. OTHER LIABILITIES

	31 Dec 2020	31 Dec 2019
Payables against commodity murabaha liabilities	2,938	27,594
Related party balances (Note 30)	11,486	30,347
Investment deposits	2,238	2,338
Accrued expenses	15,101	10,847
Deferred income – Ijarah	99,562	105,600
Accrued staff retirement and medical benefit scheme liability (Note 22)	186,423	133,663
Staff related liabilities	12,620	11,492
Swaps designated in hedge accounting relationships – (Note 21 (a))	-	11,992
Deferred grant income	2,834	3,401
Others	10,214	14,041
	343,416	**351,315**

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

21. OTHER LIABILITIES (continued)

21(a) SWAPs

Detailed information on equity, income statement and position impacts of the cash flow hedges and fair value hedges is provided in the table below.

31 Dec 2020

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing Cost/(credit)	Gain on changes in fair values
Fair value hedges	1,041,471	55	(1,072)	11,124
Cash flow hedges	226,419	(3,064)	363	2,398
		(3,009)	**(709)**	**13,522**

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Fair value hedges	-	5,975
Cash flow hedges	-	38,908
	-	**44,883**

31 Dec 2019

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing cost / (credit)	Gain / (loss) on changes in fair values
Fair value hedges	1,265,474	31	14,467	6,029
Cash flow hedges	180,750	(14)	3,041	4,336
		17	**17,508**	**10,365**

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Fair value hedges	(9,300)	-
Cash flow hedges	(2,692)	-
	(11,992)	**-**

22. POST EMPLOYMENT BENEFIT PLANS

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

IsDB Group is a multi- employer plan and includes Islamic Development Bank - Ordinary Capital Resources (IsDB-OCR), SpecialAccount Resources Waqf Fund (WAQF), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation forDevelopment (ICD), Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) and Islamic Solidarity Fund for Development (ISFD).

Staff Pension Plan (SPP)

The SPP is a defined benefit pension plan and became effective on 1st Rajab 1399H (corresponding to 27 May 1979). Every person employed by the Bank and its Affiliates on a full-time basis except for fixed term employees, as defined in the employment policies of the Bankand its Affiliates, is eligible to participate in the SPP, upon completion of the probationary period ofservice, generally 1 year.

The main features of the SPP are:

(i) Normal retirement age is the 62nd anniversary of the participant's birth;
(ii) On retirement, the eligible retired employee is entitled to 2.5% of the highest average remuneration (basic salary plus cost of living allowance) for each year of pensionable service.

Under the SPP, the employee contributes at a rate of 11.1% (2019-11.1%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2019-25.9%).

Staff Retirement Medical Plan (SRMP)

Effective 1st Muharram 1421H (corresponding to 6 April 2000), the Bank established the medical benefit scheme for retired employee via the BED resolution dated 18 Shawwal 1418H (corresponding to 15 February 1998). This was extended to eligible staff members of the Bank's Affiliates i.e. for SPP.

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

The purpose of the SRMP is to pay a monthly amount to eligible retired employee towards their medical expenses.

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

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

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

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

22. POST EMPLOYMENT BENEFIT PLANS (continued)

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

	SPP		SRMP	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Benefit obligation opening balance	307,329	236,673	26,494	17,034
Current Service costs	13,556	9,445	1,242	853
Past Service costs	1,822	1,621	-	2,637
Expense on Defined Benefit Obligation ("DBO")	9,977	10,583	859	767
Plan participations contributions	5,220	5,190	234	236
Disbursements from Plan Assets	(13,020)	(9,831)	(817)	(630)
Net actuarial loss	40,894	52,347	4001	5,507
Currency translation gains	(14,098)	1,301	(1,231)	90
Benefit obligation closing balance	**351,680**	**307,329**	**30,782**	**26,494**

The movements in the plan assets are as follows:

	SPP		SRMP	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Fair value of plan assets opening balance	190,880	176,720	9,280	8,234
Other adjustments	(2,491)	1,112	-	20
Profit on Plan Assets	6,324	8,065	303	379
Return on plan assets (less) / greater than discount rate	(5,236)	(3,534)	313	(48)
Plan participation contributions	5,220	5,190	234	236
Employer contribution	12,232	12,152	1,006	1,042
Disbursements from Plan Assets	(13,020)	(9,831)	(817)	(630)
Currency translation gain	(7,786)	1,006	(403)	47
Fair value of plan assets closing balance	**186,123**	**190,880**	**9,916**	**9,280**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation overfair value of plan assets (Note 21)	**165,557**	**116,449**	**20,866**	**17,214**

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year ended 31 December 2020 and 31 December 2019 for the Bank comprised the following:

	SPP		SRMP	
	Year ended 31 Dec 2020	Year ended 31 Dec 2019	**Year ended 31 Dec 2020**	Year ended 31 Dec 2019
Current service costs	13,556	9,445	1,242	853
Past Service costs	1,822	1,621	-	2,637
Expense on DBO	9,977	10,583	859	767
Income on assets	(6,324)	(8,065)	(303)	(379)
Amounts recognized in income statement	**19,031**	**13,584**	**1,798**	**3,878**
Actuarial losses due to assumptions	40,894	52,347	4,001	5,507
Return on plan assets greater / (less) than discount rate	5,236	3,534	(313)	48
Other adjustments	2,491	(1,112)	-	(20)
Currency translation (gains)/ loss	(6,312)	295	(828)	43
Amounts recognized in statement of changes of equity	**42,309**	**55,064**	**2,860**	**5,578**

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

22. POST EMPLOYMENT BENEFIT PLANS (continued)

Principal assumptions used in the actuarial valuations are as follows:

	SPP		SRMP	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Discount rate	2.60%	3.30%	2.60%	3.30%
Rate of expected salary increase	4.50%	4.50%	N/A	N/A

The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AA rated Corporate Bonds. Actuarial loss of ID 40.9 million for SPP and ID 4.0 million for SRMP gave rise due to the decrease of the discount rate from 3.3% at 2019 year end to 2.6% at 2020 year end.

The following table presents the plan assets by major category:

	SPP		SRMP	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Cash and cash equivalent and commodity murabaha placements	82,564	71,572	5,556	4,174
Managed funds and instalment sales	24,293	30,223	-	-
Investments in sukuk	60,412	64,787	4,030	4,647
Land	17,484	18,095	-	-
Others (net)	1,370	6,203	375	459
Plan assets	**186,123**	**190,880**	**9,961**	**9,280**

The following table summarizes the funding status of the SPP at the end of the last four reporting years and expectations for the next year:

	31-Dec-21	**31-Dec-20**	31-Dec-19	31-Dec-18	31-Dec-17
Present value of defined benefit obligation	(372,965)	(351,680)	(307,329)	(236,673)	(233,418)
Fair value of plan assets	196,557	202,113	190,880	176,720	170,824
Plan deficit	**(176,408)**	**(165,557)**	**(116,449)**	**(59,953)**	**(62,594)**

Increase in plan deficit from ID 116,449 at 2019 year end to ID 165,557 at 2020 year end is primarily attributable to the decrease in the discount rate from 3.3% to 2.6% per annum in the respective year ends.

The following table summarizes the funding status of the SRMP at the end of the last four reporting years and expectation for the next year:

	31-Dec-21	**31-Dec-20**	31-Dec-19	31-Dec-18	31-Dec-17
Present value of defined benefit obligation	(32,642)	(30,782)	(26,494)	(17,034)	(17,384)
Fair value of plan assets	10,190	9,916	9,280	8,234	7,447
Plan deficit	**(22,452)**	**(20,866)**	**(17,214)**	**(8,800)**	**(9,937)**

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

	SPP	**SRMP**	**31 Dec 2020 Total**	31 Dec 2019 Total
Opening balance	97,206	10,990	108,196	47,554
Movements during the year	42,309	2,860	45,169	60,642
Closing balance	**139,515**	**13,850**	**153,365**	**108,196**

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

23. PAID UP CAPITAL

Capital includes subscriptions paid-up by Member Countries. The Bank is not exposed to any externally imposed capital requirements. As at the reporting date, IsDB's shareholders consist of 57 member countries from Asia, Africa, Europe and South America.

The capital of IsDB as at 31 December 2020 was as follows:

		31 Dec 2020	31 Dec 2019
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,406 (31 December 2019: 5,061,406) shares of ID10,000 each	50,614,060	50,614,060
Less: available for subscription		(353,570)	(388,750)
Subscribed capital		50,260,490	50,225,310
Callable capital		(40,888,595)	(40,853,415)
Called up capital		**9,371,895**	**9,371,895**
Amount not yet due		(3,175,735)	(3,404,388)
Instalments overdue		(255,559)	(182,385)
Paid up capital		**5,940,601**	**5,785,122**

The Bank received ID 155.48 million (2019: ID 189.71 million) against paid-up capital during the year.

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2020 ID 0.53 (31 December 2019: ID 0.57) of total accumulated reserves.

On 4 Jumad Al-Awwal 1442H (19 December 2020), the IsDB-OCR's subscribed capital was further increased by ID5.5 billion from ID50.3 billion to ID55.5 billion (the sixth General Capital Increase) in accordance with the resolution passed by the Board of Governors by circulation. The sixth GCI will be available for subscription by all member countries according to the rules and the resolution of the Board of Governors.

24. RESERVES

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

General reserve

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors until this reserve equals 25% of the Bank's subscribed capital. As at 31 December 2020, general reserve made up 5.96% of the subscribed capital (31 December 2019: 5.87%). Any excess of the net income over the above limit is available for distribution to Member Countries.

According to the Board of Governors' resolution no BG/5-441 and resolution no BG/6-441, the following allocations were made from the general reserve during the year ended 31 December 2020:

- 5% of the Bank's normalized net income (not less than US$ 5 million) for the year ended 31 December 2019 was allocated to finance technical assistance operations in the form of grants amounting to ID 7.8 million (31 December 2019: ID 9.0 million).

- 2% of the Bank's normalized net income (not less than US$ 2 million) for the year ended 31 December 2019 was allocated for financing the Bank's PhD/ Post-doctoral Research Program (formerly known as merit scholarship program) in the form of grants amounting to ID 3.1 million (31 December 2019: ID 3.6 million).

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

25. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Staff costs	130,065	110,834
Computerization	5,158	4,833
Consultancy fees	13,648	9,375
Other	14,274	23,229
	163,145	**148,271**

26. COMMITMENTS

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

The Bank uses same credit control and management policies in undertaking off-statement of financial position commitments as it does for on-statement of financial position operations.

Undisbursed commitments	**31 Dec 2020**	31 Dec 2019
Istisna'a assets	4,394,097	4,614,779
Restricted mudaraba	-	21,406
Instalment sale	2,043,944	1,491,947
Loans (Qard)	634,166	659,719
Ijarah assets	840,691	999,215
Capital contributions to ICD	-	45,197
Investment in equity and funds	28,850	44,969
	7,941,748	**7,877,232**

27. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH

Income from transactions not approved by the Shari'ah Board of the IsDB Group is not recorded in the income statement of the Bank but transferred to Special Account Resources Waqf Fund in accordance with Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the IsDB.

Income realized during the year from transactions which are not approved by the Group Shari'ah Board of the IsDB are as follows:

	2020		2019	
	No of Events	**Amount**	**No of Events**	**Amount**
Commitment fee	7	236	3	211
Interest from legacy accounts with conventional banks	11	71	4	103
Total		**307**		**314**

28. SHARI'AH BOARD

The Bank's business activities are subject to the supervision of the IsDB Group Shari'ah Board consisting of members appointed by the Chairman of the IsDB Group in consultation with the Board of Executive Directors of IsDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IsDB. The members of the Board are appointed for 3 years and may be reappointed.

The Board has the following functions:

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

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

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

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

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

29. RESTRICTED INVESTMENT ACCOUNTS

The Bank in its capacity as a Mudarib has invested funds of holders of restricted investment accounts for a mudarib's share of profit. Restricted investment accounts are not shown in the Bank's statement of financial position. Right of holders of restricted investment accounts realized from their investments and the total obligation as at 31 December 2020 amounted to ID 78,2 million (31 December 2019: ID 80.9 million).

30. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	31 Dec 2020		31 Dec2019	
	Due from	**Due to**	**Due from**	**Due to**
World Waqf Foundation	740	-	17	-
Awqaf Properties Investment Fund	-	(1,036)	-	(259)
Unit Investment Fund	-	(321)	-	(393)
Islamic Corporation for the Insurance of Investments and ExportCredit	433	-	6,083	-
Special Account Resources Waqf Fund	23,508	-	-	(6,386)
IsDB Special Assistance Fund	246	-	723	-
IsDB Pension Fund	-	(701)	-	(3,267)
IsDB Medical Fund	6	-	-	(550)
IsDB Retirees' Medical Solidarity Fund	-	(4,231)	-	(3,100)
Building Institutional Capacity	4	-	-	-
Economic Empowerment of the Palestinian people	1	-	-	-
Al-Aqsa Fund	650	-	781	-
Islamic Corporation for Development of Private Sector	2,447	-	309	-
Arab Bank for Economic Development in Africa	39	-	40	-
International Islamic Trade Finance Corporation	803	-	1,692	-
Fael Khair Bangladesh	-	(657)	35	-
Islamic Solidarity Fund for Development	-	(3,774)	-	(16,388)
Sacrificial Meat Project	9,228	-	9,637	-
GCC Program for Reconstruction of Gaza	-	-	-	(1)
Science, Technology and Innovation fund	-	-	9	-
Fael Khair Programs	3,142	(766)	-	(3)
Kuwait development fund	-	-	3,616	-
National Education Sector Fund	-	-	10	-
Lives and Livelihoods Fund	486	-	259	-
Total	**41,733**	**(11,486)**	**23,211**	**(30,347)**

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

Development activity transactions, which are entered into with Member Countries, represents all the sovereign financing activities (i.e. project assets) of the Bank and related income, which has been disclosed in the income statement. Other than the overall development activity transactions, the Bank entered into the following significant related party transactions:

(a) In 2008, the Bank's Board of Executive Directors' resolved to allocate USD 1 billion of IsDB OCR resources to ITFC for managing its Murabaha financing, where ITFC will act as a Mudarib (under a Mudaraba agreement). The respective Mudarib share of profits (i.e. ITFC's share of profit generated from the Mudaraba agreement) charged by ITFC during the year amounts to ID 1.7 million (2019: ID 2.4 million).

(b) The Bank has Wakala due outstanding as at 31 December 2020 with an affiliate, namely; Islamic Solidarity Fund for Development amounting to ID 347.2 million (2019 – ID 361.7 million) equivalent to USD 500 million. (Note 20).

(c) During 2020, The Bank has advanced an amount of ID 6.9 million equivalent to USD 10 million to a trust fund, Economic Empowerment of Palestinian People (Note 17)

(d) Interfund with Special Account Resources Waqf Fund represents repayment received on the project related to IsDB-OCR made through the Fund's bank account

(e) Compensation of Key management and expenses of the Board of Executive Directors.

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

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Board of Executive Directors expenses	717	1,208
Salaries and other short-term benefits	2,401	2.858
Accumulated post-employment benefits	677	553

31. RISK MANAGEMENT

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

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

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

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

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

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

Credit Risk

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

The Bank manages three principal sources of credit risk:

(i) credit risk pertaining to its sovereign financing operations portfolio;
(ii) credit risk pertaining to its non-sovereign financing portfolio (projects, corporates, and financial institutions)
(iii) counterparty credit risk in its treasury portfolio.

The Bank has put in place a comprehensive credit risk management framework including policies, guidelines, and tools on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by RMD, which ensures that business departments comply with relevant guidelines and prudential limits established by the Board of Executive Directors ("BED") and Management. The Bank uses a 21-scale risk rating system, with "1" being the best rated exposure and corresponding to "AAA" on the international rating agencies scale and 21 as selective default. The 21 scales are again grouped into 7 category starting from "A" to "G".

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

The Bank's total outstanding gross exposure as at the year end on its sovereign and non-sovereign project assets and Murabaha financing are summarized below:

31 Dec 2020

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,599,574	88,059	1,687,633	10.4%
Indonesia	1,110,049	-	1,110,049	6.8%
Pakistan	807,274	120,343	927,617	5.7%
Egypt	855,947	63,200	919,147	5.7%
Iran	899,941	138	900,079	5.5%
Senegal	821,814	36,346	858,160	5.3%
Morocco	661,367	97,534	758,901	4.7%
Tunisia	601,650	26,579	628,229	3.9%
Uzbekistan	613,320	2,928	616,248	3.8%
Oman	520,351	-	520,351	3.2%
Total top 10 countries	**8,491,287**	**435,127**	**8,926,414**	**55.0%**
Total other countries	**6,692,630**	**608,593**	**7,301,223**	**45.0%**
Total	**15,183,917**	**1,043,720**	**16,227,637**	**100.0%**
Total sovereign exposure			15,183,917	93.6%
Total non-sovereign exposure			1,043,720	6.4%
Total			**16,227,637**	**100.0%**

31 Dec 2019

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,603,906	85,422	1,689,328	11.0%
Pakistan	889,471	146,350	1,035,821	6.8%
Indonesia	1,028,932	-	1,028,932	6.7%
Egypt	839,824	47,238	887,062	5.8%
Iran	885,947	137	886,084	5.7%
Morocco	665,215	112,944	778,159	5.0%
Senegal	675,473	37,938	713,411	4.6%
Uzbekistan	574,002	3,380	577,382	3.7%
Tunisia	513,814	35,829	549,643	3.6%
Bahrain	468,724	-	468,724	3.0%
Total top 10 countries	**8,145,308**	**469,238**	**8,614,546**	**55.9%**
Total other countries	**6,077,910**	**719,503**	**6,797,413**	**44.1%**
Total	**14,223,218**	**1,188,741**	**15,411,959**	**100.0%**
Total sovereign exposure			14,223,218	92.3%
Total non-sovereign exposure			1,188,741	7.7%
Total			**15,411,959**	**100.0%**

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

Sovereign credit risk

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

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

	31 Dec 2020		31 Dec 2019	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	6	0.0%	6	0.0%
Category "B"	1,912,676	12.6%	2,236,858	15.8%
Category "C"	5,055,032	33.3%	4,394,138	30.9%
Category "D"	5,330,776	35.1%	4,999,220	35.1%
Category "E"	1,776,699	11.7%	1,694,763	11.9%
Category "F"	298,065	2.0%	100,603	0.7%
Category "G"	810,663	5.3%	797,630	5.6%
Total	**15,183,917**	**100.0%**	**14,223,218**	**100.0%**

Non-sovereign credit risk

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

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

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

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

	31 Dec 2020		31 Dec 2019	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	-	0.0%
Category "B"	404,547	38.8%	493,907	41.5
Category "C"	233,483	22.4%	252,219	21.2
Category "D"	329,688	31.6%	349,091	29.4
Category "E"	75,836	7.2%	93,358	7.9%
Category "F"	166	0.0%	166	0.0%
Category "G"	-	0.0%	-	0.0%
Total	**1,043,720**	**100.0%**	**1,188,741**	**100.0%**

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

31. RISK MANAGEMENT (continued)

Treasury assets

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

The table below provides an analysis of the credit quality of the liquid fund portfolio (gross cash and cash equivalents and commodity murabaha placements):

	31 Dec 2020		31 Dec 2019	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	6,361	0.1%	156,333	3.0%
Category "B"	5,466,028	95.9%	5,028,038	95.0%
Category "C"	187,422	3.3%	77,055	1.5%
Category "D"	1,747	0.0%	1,251	0.0%
Category "E"	-	0.0%	-	0.0%
Category "F"	-	0.0%	-	0.0%
Category "G"	38,167	0.7%	29,659	0.5%
Total	**5,699,725**	**100.0**	**5,292,336**	**100.0%**

Concentration of financial assets with credit risk exposure

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

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

31 Dec 2020	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	221,354	6,024,328	1,186,296	44,843	**7,476,821**
Project assets	6,374,075	8,830,330	303,246	12,216	**15,519,867**
Investment assets	306,157	894,049	34,673	4,142	**1,239,021**
Other assets	16,510	169,718	-	-	**186,228**
Total assets:	**6,918,096**	**15,918,425**	**1,524,215**	**61,201**	**24,421,937**
%	**29%**	**65%**	**6%**	**0%**	**100%**

31 Dec 2019	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	215,265	5,757,461	817,881	555,498	**7,346,105**
Project assets	5,722,334	8,707,359	324,933	7,218	**14,761,844**
Investment assets	102,080	1,209,825	38,844	2,417	**1,353,166**
Other assets	15,723	97,051	-	-	**112,774**
Total assets:	**6,055,402**	**15,771,696**	**1,181,658**	**565,133**	**23,573,889**
%	**26%**	**67%**	**5%**	**2%**	**100%**

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

31 Dec 2020	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	6,666,635	-	-	6,666,635	**27%**
Transport and telecom	-	4,132,934	-	-	4,132,934	**17%**
Agriculture	-	1,489,783	-	-	1,489,783	**6%**
Industry and mining	-	168,528	287,707	-	456,235	**2%**
Social Services	-	2,356,974	-	-	2,356,974	**10%**
Financial Institutions	6,114,058	-	903,140	-	7,017,198	**29%**
Governments	830,682	-	-	-	830,682	**3%**
Trade	325,892	-	-	-	325,892	**1%**
Other	206,189	705,013	48,174	186,228	1,145,604	**5%**
Total assets:	**7,476,821**	**15,519,867**	**1,239,021**	**186,228**	**24,421,937**	**100%**

31 Dec 2019	Treasury Assets	Project Assets	Investment Assets	Other Assets	Total	%
Public utilities	-	6,204,090	-	-	6,204,090	**26%**
Transport and telecom	-	3,899,669	-	-	3,899,669	**17%**
Agriculture	-	1,403,367	-	-	1,403,367	**6%**
Industry and mining	-	263,258	313,740	-	576,998	**2%**
Social Services	-	2,252,565	-	-	2,252,565	**10%**
Financial Institutions	5,806,154	-	987,073	-	6,793,227	**29%**
Governments	1,006,873	-	-	-	1,006,873	**4%**
Trade	343,698	-	-	-	343,698	**1%**
Other	189,380	738,895	52,353	112,774	1,093,402	**5%**
Total assets:	**7,346,105**	**14,761,844**	**1,353,166**	**112,774**	**23,573,889**	**100%**

Expected Credit Risk for financial assets measured at amortized cost

The Bank applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets measured at amortized cost.

Determining the stage for impairment

The Bank's staging model relies on a relative assessment of credit risk, because it reflects the significance increase in credit risk (SICR) since initial recognition of an asset. The staging assessment is made at the contract level rather than counterparty level, since the quantum of change in credit risk may be different for different contracts belonging to the same obligor. Also, different contracts of the same counterparty may have different credit risk at initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition and has not suffered a significant downgrade.

Stage 2 includes financial assets that experience an SICR. When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on its sovereign and non-sovereign exposures has increased significantly since initial recognition when contractual payments are more than 90 days past due for sovereign financings and more than 30 days past due for non-sovereign financings on a material repayment amount. When a stage 2 instrument shows a significant enhancement in credit quality at the assessment date, it can move back to stage 1.

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

Where there is objective evidence that an identified financial asset is impaired, specific provisions for impairment are recognized in the income statement, and under FAS 30, the asset is classified in Stage 3. The Bank presumes that assets are credit-impaired when contractual payments are more than 180 days past due for sovereign financings and more than 90 days past due for non-sovereign financings on a material repayment amount. Besides, the Bank may consider an asset as impaired if the Bank assesses that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realizing security.

A financial asset is no longer considered impaired when all past due amounts have been recovered, and it is determined that the outstanding amounts with future expected income are fully collectable in accordance with the original contractual terms or revised terms of the financial instrument with all criteria for the impaired classification having been remedied. The financial asset will be transferred back to stage 2 after a cure period.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Measurement of Expected Credit Losses (ECLs)

ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 instruments by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting the resulting provision using the instrument's effective profit rate (EPR).

These ECL parameters are generally derived from internally developed models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD represents the likelihood of a counterpart defaulting on its financial obligation over different time horizon (e.g., 1 year or lifetime). The estimates the PDs using internal rating tools tailored to the various categories of counterparties and exposures. These internal rating models are based on internally and externally compiled data comprising both quantitative and qualitative factors. They produce a relative credit risk grading, which is in turn are associated with a likelihood of default (PD) over a one-year horizon, that is calibrated to reflect the Bank's long run average default rate estimates (through-the-cycle (TTC) PD). The Bank uses a specific model based on country and industry parametrization to convert its TTC PDs into point-in time (PIT) PDs and derives a PIT PD term structure.

LGD is the magnitude of the potential loss in the event of a default. This is generally estimated as value lost plus costs net of recovery (if any) as percentage of outstanding amount. The Bank uses internal LGD estimation models that consider the structure, collateral, and seniority of the claim and the counterparty rating and jurisdiction. LGD estimates are calibrated to reflect the recovery experience of the Bank as well as the Multilateral Development Banks' consortium data.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial instrument is its gross carrying amount. For contract under disbursement and financial commitments such as guarantees, letter of credit…, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

FAS 30 requires ECLs to be forward-looking. The Bank uses a statistical model that links its counterparties' future performance to the current and future state of the macroeconomic environment. The model links macroeconomic scenarios to counterparty's default risk. Macroeconomic factors taken into consideration include, but are not limited to, gross domestic product, equity market prices, unemployment rates, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle. The Bank estimates its ECLs by calculating the weighted average ECL of its exposures across three (3) set of forward-looking macroeconomic scenarios.

Exposure Amounts and ECL coverage

The Bank recognizes 12-month ECL for stage 1 instruments and lifetime ECL for stage 2 instruments. For stage 3 instruments, the Bank calculates a loss allowance amount based on the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2020.

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

31 Dec 2020	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	14,855,318	505,365	802,103	16,162,786	76,196	31,199	265,239	372,633
Non-Sovereign	7,004,446	82,425	15,267	7,102,138	23,073	3,899	5,140	32,112
Total December 2020	**21,859,764**	**587,790**	**817,370**	**23,264,924**	**99,269**	**35,098**	**270,379**	**404,746**

31 Dec 2020	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.51%	6.17%	33.07%	2.31%
Non-Sovereign	0.33%	4.73%	33.67%	0.45%
Total December 2020	**0.45%**	**5.97%**	**33.08%**	**1.74%**

Liquidity Risk

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

The over-arching objectives of the Banks' liquidity risk management activities are to ensure that:

(i) the Bank has sufficient liquid funds to meet future contractual obligations (essentially disbursement obligations and debt service requirements); and

(ii) maintain uninterrupted financial operations in the event of stress or unattractive market conditions. For this purpose, the Bank has to maintain a prudential minimum liquidity ("PML") as a safeguard against cash flow interruptions and highly-liquid investments for operational and day-to-day cash management.

Consistent with the fundamental Asset and Liability Management principle, the liquidity portfolio has been structured into three distinct portfolios:

(i) Transactional Operational Portfolio (TOP):

(ii) Core Operational Portfolio (COP); and

(iii) Stable Portfolio (SP)

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

These portfolios are sub-divided into currency specific sub-portfolios.

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

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

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

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

The maturity profile of assets and liabilities as at 31 Dec was as follows:

31 Dec 2020	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Cash & Cash equivalents	363,923	-	-	-	-	-	**363,923**
Commodity murabaha placements	2,508,854	1,106,792	1,584,397	120,780	-	-	**5,320,823**
Sukuk Investments	38,378	20,890	57,846	1,221,442	127,627	-	**1,466,183**
Murabaha Financing	115,981	79,905	130,006	-	-	-	**325,892**
Istisna'a assets	159,302	196,759	413,483	2,902,107	4,283,714	-	**7,955,365**
Restricted Mudaraba	33,826	29,570	58,212	381,822	229,404	-	**732,834**
Instalment sale	128,683	62,049	157,557	740,582	1,136,916	-	**2,225,787**
Ijarah assets	91,214	90,233	149,702	1,116,809	1,378,920	-	**2,826,878**
Loans (Qard)	63,537	68,436	74,473	601,391	971,166	-	**1,779,003**
Equity investments	-	-	-	-	-	454,723	**454,723**
Investments in associates	-	-	-	-	-	728,904	**728,904**
Other investments	-	-	-	-	-	55,394	**55,394**
Property, equipment and intangibles	-	-	-	-	-	53,754	**53,754**
Other assets	37,529	5,647	9,993	56,640	22,665	-	**132,474**
Total Assets	**3,541,227**	**1,660,281**	**2,635,669**	**7,141,573**	**8,150,412**	**1,292,775**	**24,421,937**

Sukuk issued	1,028,751	-	1,266,38	11,286,841	725,797	-	**14,307,777**
Commodity murabaha liabilities	55,552	-	-	253,410	-	-	**308,962**
Wakala due	-	-	-	347,221	-	-	**347,221**
Other liabilities	83,407	12,969	10,138	50,819	186,083	-	**343,416**
Total Liabilities	**1,167,710**	**12,969**	**1,276,526**	**11,938,291**	**911,880**	-	**15,307,376**

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 Dec 2019	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Cash & Cash equivalents	854,174	-	-	-	-	-	**854,174**
Commodity murabaha placements	2,292,552	667,741	1,228,842	234,887	-	-	**4,424,022**
Sukuk Investments	145,104	146,262	77,341	1,005,136	350,368	-	**1,724,211**
Murabaha Financing	166,026	95,789	66,273	15,610	-	-	**343,698**
Istisna'a assets	140,021	132,559	270,236	2,623,076	4,212,295	-	**7,378,187**
Restricted Mudaraba	37,592	29,857	60,657	390,980	330,520	-	**849,606**
Instalment sale	61,694	35,523	77,358	687,202	1,044,792	-	**1,906,569**
Ijarah assets	80,439	69,517	145,606	1,116,208	1,433,882	-	**2,845,652**
Loans (Qard)	61,912	65,951	67,302	571,828	1,014,837	-	**1,781,830**
Equity investments	-	-	-	-	-	541,130	**541,130**
Investments in associates	-	-	-	-	-	756,875	**756,875**
Other investments	-	-	-	-	-	55,161	**55,161**
Property, equipment and intangibles	-	-	-	-	-	53,464	**53,464**
Other assets	44,629	7,986	6,695	-	-	-	**59,310**
Total Assets	**3,884,143**	**1,251,185**	**2,000,310**	**6,644,927**	**8,386,694**	**1,406,630**	**23,573,889**
Liabilities							
Sukuk issued	726,626	-	770,520	10,684,758	-	-	**12,181,904**
Commodity murabaha liabilities	1,205,035	-	32,365	376,252	-	-	**1,613,652**
Wakala due	-	-	-	361,763	-	-	**361,763**
Other liabilities	85,325	13,267	10,371	51,988	190,364	-	**351,315**
Total Liabilities	**2,016,986**	**13,267**	**813,256**	**11,474,761**	**190,364**	-	**14,508,634**

Market Risks

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

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

(i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the Bank's financial assets and liabilities denominated in foreign currencies. The Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. The Bank's policy is to regularly monitors and adjust the currency composition of the net assets by currency and regularly aligns it with the composition of the Islamic Dinar basket; namely US Dollar, Sterling Pound, Euro, Japanese Yen and Renminbi (Chinese Yuan).

In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition. Further, currency risk is managed by the use of Shari'ah-approved Murabaha based cross-currency swap instruments (Refer to Note 21). These hedging instruments are used to modify the currency characteristics of the sukuk issued and assets of the Bank.

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

31. RISK MANAGEMENT (continued)

Market Risk (continued)

Net assets in foreign currencies as at the year end were as follows:

	31 Dec 2020	31 Dec 2019
USD (1ID = 1.44027 USD)	2,025,242	2,021,422
EUR (1ID = 1.18385 EUR)	1,700,833	1,475,639
Pound Sterling (1ID = 1.07323 GBP)	413,436	365,279
Japanese Yen (1ID = 149.255 JPY)	413,262	342,039
Chinese Yuan (1ID = 9.41203 CNY)	560,615	484,362
Others	7,625	2,316
	5,121,013	**4,691,057**

(ii) Mark-up risk

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

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

	31 Dec 2020	31 Dec 2019
Commodity murabaha placements	1.3%	2.7%
Sukuk investments	3.3%	3.3%
Murabaha financing	3.6%	3.9%
Istisna'a assets	3.4%	3.5%
Instalment sale	3.5%	3.7%
Ijarah assets	2.4%	3.0%
Sukuk issued	1.9%	2.3%
Commodity murabaha liabilities	0.7%	2.0%

The Bank uses Shari'ah-approved Murabaha based profit rate swaps instruments in order to maintain an appropriate mix and alignment between fixed and floating rate assets and sukuk issued.

(iii) Equity price risk

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

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

Operational Risk

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

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

Shari'ah non-compliance risk (SNCR)

The Bank attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR) as part of its operational risk management. Shari'ah compliance forms an integral part of the Bank's purpose of establishment. Consequently, the Bank effectively manages SNCRs through leveraging on its wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the Shari'ah Compliance function of IsDB Group serves as the 2nd line of defence to strategically manage and monitor SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a risk based internal Shari'ah audit methodology.

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

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

Inputs, which are not based on observable market data, were applied in the valuation of unlisted equity investments for the year ended 31 December 2019 and the impact of the sensitivity is not material.

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

31 Dec 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Sukuk investments	154,703	-	-	**154,703**
Equity type Investments at fair value through equity:				
Equity investments	361,920	-	92,804	**454,724**
Total financial assets at fair value	**516,623**	**-**	**92,804**	**609,427**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	**-**	44,883	-	**44,883**
Sukuk liability (Fair value hedged)	**-**	1,041,471	-	**1,041,471**
Total financial liabilities	**-**	**1,086,354**	**-**	**1,086,354**

31 Dec 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Sukuk investments	155,540	-	-	155,540
Equity type Investments at fair value through equity:				
Equity investments	435,216	-	105,914	541,130
Total financial assets at fair value	**590,756**	**-**	**105,914**	**696,670**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	11,992	-	11,992
Sukuk liability (Fair value hedged)	-	1,265,474	-	1,265,474
Total financial liabilities at fair value	**-**	**1,277,466**	**-**	**1,277,466**

During the years ended 31 December 2020 and 31 December 2019, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

As at 31 December 2020, sukuk investment carried at amortized cost with carrying value amounting to ID 1.31 billion (2019- ID 1.57 billion) has fair value of ID 1.39 billion (2019 - ID 1.62 billion).

33. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body isresponsible for overall decisions about resource allocation to development initiatives within its Member Countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Bank actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position, which are financed, by the Bank's equity and external funding. Management has not identified separate operating segments within the definition of Financial Accounting Standards (FAS) 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Bank as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programs. Further, the internal reports furnishedto the Board of Executive Directors do not present discrete financial information with respect to the Bank's performance to the extent envisaged in FAS 22 - the sectorial and geographical distribution of the Bank's assets is set out in Note 31.

34. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year's presentation.

35. AAOIFI FINANCIAL ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards of The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") have been issued except for FAS 29 "sukuk issuances" which is in the stage of exposure draft and is expected to be issued in near future. The Bank intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

(i) Financial Accounting Standard – 29 "Sukuk Issuances"

The standard aims to provide guidance for accounting, classification and presentation for Sukuk issuances primarily based on the Sukuk structure, which may include on balance sheet, as well as, off balance sheet accounting. These classifications depend on the control of such assets comprising of power to control and nature of control i.e. for risks and rewards as well as varying benefits to the institution or the fiduciary responsibility on behalf of the Sukuk-holders. This standard shall be applied for accounting and financial reporting for Sukuk issuance in the books of the issuer.

(ii) Financial Accounting Standard – 30 "Impairment and credit losses"

FAS 30 will be replacing FAS 11 "Provisions and Reserves" and has been developed on the new approach towards identification and recognition of impairment and credit losses, in particular the forward looking expected losses approach, as introduced under International Financial Reporting Standard (IFRS) 9 "Financial Instruments". FAS 30 shall also apply to off-balance sheet exposures.

This standard became effective from the financial periods beginning on or after 1 January 2021. IsDB early adopted the FAS 30 starting from 1 January 2020. The effect of introducing FAS 30 has been disclosed in the Note 3 to the financial statements and elsewhere in the financial statements.

(iii) Financial Accounting Standard – 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)"

This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments to be in line with the ever-changing global best practices, in hand of both the principal and the agent.

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(iii) **Financial Accounting Standard – 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)" (continued)**

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture.

Under this approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under certain conditions.

Under this approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach whereby virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

An agent may maintain multi-level investment arrangements. Under such arrangement, the Fund will reinvest Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021, with early adoption permitted. The Bank is currently assessing the impact of this Standard on its financial statements.

(iv) **Financial Accounting Standard – 32 "Ijarah"**

This standard intends to set out principles for the classification, recognition, measurement, presentation, and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions on both ends of the transaction i.e. as a lessor and lessee.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021. Management believes the FAS 32 shall not have any material impact on the Bank as it primarily affected the lessee accounting.

(v) **Financial Accounting Standard – 33 "Investment in Sukuk, shares and similar instruments"**

This standard improves upon and supersedes the AAOIFI's Financial Accounting Standard (FAS) 25 "Investment in Sukuk, Shares, and Similar Instruments" issued in 2010. This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions).

The standard defines the key types of instruments of Shari'ah compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investment is made, managed and held.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021. Management believes that FAS 33 shall not significantly impact the way sukuk and other similar instruments are reported, classified and disclosed by the Bank.

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(vi) **Financial Accounting Standard – 34 "Financial reporting for Sukuk-holders"**

This standard intends to prescribe the accounting principles and reporting requirements for underlying assets of the Sukuk instrument. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-Holders.

This standard shall be applicable to Sukuk in accordance with the Shari'ah Rules and Principles issued by an Islamic Financial Institution or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with the requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard. This Standard shall be effective from the financial periods beginning on or after 1 January 2021. Since IsDB's sukuk are kept on-balance sheet IsDB management is currently assessing whether to apply this Standard.

(vii) **Financial Accounting Standard – 35 "Risk Reserves"**

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. This standard shall apply to risk reserves that are established by an IFI entity, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by stakeholders. On the other hand, operations risk is the responsibility of the IFI itself, so this standard shall not be applied on any risk reserve created to mitigate the operational risk.

This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments" and they shall be adopted simultaneously. Both of standards FAS 30 and FAS 35 together supersedes the earlier FAS 11 "Provisions and Reserves".

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021. Early adoption is permitted, only if the IFI decided to early adopt FAS 30 "Impairment, Credit Losses and Onerous Commitments". FAS 35 is not applicable to IsDB, given its business model, which does not include profit and loss taking investors.