IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

2019 FINANCIAL STATEMENTS

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

This is the second of two volumes of the Annual Report of the Islamic Development Bank. The first volume reviews the development impact of the Bank's investments, projects and policies, highlights innovation in key sectors and initiatives during the year. This is published separately as the Annual Report. Both volumes are available online at **www.isdb.org**.

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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 2019, 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 2019, 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 Islamic 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 2019. 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
Impairment of project assets and Murabaha financing	
As at 31 December 2019, the Bank's gross project assets and murabaha financing amounted to ID 15,002 million (2018: ID 13,918 million) and ID 346 million (2018: ID 336 million), respectively, against which an impairment of ID 304 million (2018: ID 277 million) and ID 2 million (2018: ID 32 million), respectively, has been recognised to the year end date.	Our audit procedures in response to the significant risk associated with the impairment on Bank's project assets and murabaha financing included assessing the appropriateness of the corresponding impairment allowances.
Please refer to notes 7 to 14 for details of project assets and murabaha financing and corresponding impairment charge, and note 3 for details of the accounting policy adopted by the Bank for the identification and recognition of related credit losses.	Based on our understanding of the process and key controls, we focused on the identification of loss events and the governance controls over the impairment process, including the continuous re-assessment by management.
Judgment is applied to determine appropriate parameters, assumptions and estimates used to calculate impairment allowances. The Bank uses historical experience, evaluating the characteristics including forward looking prospects of the sovereign and non-sovereign exposures, appropriateness of collaterals and the expected future cash flows.	We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year.
Impairment allowance is a highly subjective area due to significant level of judgment applied by the management in the determination of impairment allowances. Due to materiality of project assets and murabaha financing balances and the level of judgment, assumptions and estimates involved in the calculation of impairment allowances for project assets and murabaha financing, this has been considered as a key audit matter.	Where impairment allowances were individually calculated (sovereign and non-sovereign exposures), we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment allowance. We tested a sample of project assets and murabaha financing to determine whether management had identified and appropriately accounted for all impairment events and to assess whether impairment had been identified on a timely manner and formed our own judgment as to whether that was appropriate.
	For impaired project assets and murabaha financing, we obtained an understanding of the basis of measuring impairment allowances and considered whether the management's key judgments, assumptions and estimates were appropriate given the beneficiaries' circumstances, including the assessment of future prospects and the assessment of whether historical experience is appropriate when assessing the likelihood of incurred losses. We also re-checked the impairment allowance calculation on a sample basis.

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Report on the Audit of the Financial Statements (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td></td><td>In addition, we tested key inputs to the impairment allowance calculation including the expected future cash flows, and performed tests to determine whether calculations were up to date and appropriate for the purpose.
Where impairment allowance was calculated on a collective basis, we tested, on a sample basis, the completeness and accuracy of the inputs to the impairment calculation model used by management, including underlying information, the financial assessment of the beneficiaries and other various inputs, by agreeing details to the Bank’s source systems as well as recomputing the impairment allowance calculation.

Moreover, for a sample of sovereign exposures we checked the appropriateness of assumptions used in the impairment calculation model to determine the probability of default, against the respective countries’ long-term market outlook, as assessed by independent rating agencies.

Furthermore, we assessed the adequacy of financial statements disclosures with respect to impairment on project assets and murabaha financing.</td></tr>
<tr><td>Impairment of treasury and investment assets (excluding murabaha financing and investments carried at fair value through income statement (FVIS))

As at 31 December 2019, the gross treasury and investment assets (excluding murabaha financing and investments carried at fair value through income statement (FVIS)) (collectly referred to as “investments”), amounted to ID 8,265 million (2018: ID 7,880 million), against which an impairment of ID 65 million (2018: ID 80 million) has been recognised to the year end date.

Please refer to notes 4, 5, 6, 14, 15 and 16 for details of these investments and corresponding impairment charge, and note 3 for details of the accounting policy adopted by the Bank for the identification and recognition of related impairment.</td><td>Our audit procedures in response to the significant risk associated with the impairment on Bank’s investments included:

• an assessment of consistency in application of Bank’s methodology for impairment assessment and computation.
• testing relevant internal controls over determination of appropriate impairment triggers, occurrence of impairment events and estimating the amount of impairment losses.

• an assessment of relevance and comprehensiveness of assumptions corresponding to specific instruments.</td></tr>
</table>

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
As at the statement of financial position date, the Bank's exposure to impairment in non-FVIS investments is represented by debt and equity instruments classified at amortised cost, cost and fair-value through equity categories. These instruments are respectively susceptible to credit and market risks. The estimation of impairment losses on Bank's debt instruments requires the Bank to exercise judgment in defining and monitoring objective evidence of impairment, represented by: • the establishment of impairment triggers (including credit rating downgrades, financial or repayment difficulties); • identification of the occurrence of trigger events; and • estimation of incurred losses at the reporting date using internal methodologies and relevant assumptions (including expected timing of cashflows and other default factors). With respect to equity instruments, the financial accounting standards require the recognition of an impairment loss if there is objective evidence that an impairment loss has been incurred. This includes determination of a significant or prolonged decline in the fair value. The amount of impairment is measured as the difference between the carrying amount of the instrument and its expected recoverable amount. Accordingly, the Bank's management exercises judgment in determining the impairment triggering event. Due to the significance of amount involved and the exercise of significant judgment by management in the process for determination of impairment losses on treasury and investment assets (excluding murabaha financing and investments carried at FVIS), we have determined it to be a key audit matter.	Furthermore, for a selected sample of investments, we have checked the impairment loss estimated by the Bank using its loss computation methodologies, including sensitivity of the impairment loss to any significant assumptions used. We also assessed the adequacy and appropriateness of financial statements disclosures with respect to impairment of investments.

Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 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 Islamic 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.

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.

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Report on the Audit of the Financial Statements (continued)

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

- 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.

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

30 March 2020
6 Sha'ban 1441 H

Jeddah

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2019

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

	Notes	31 December 2019	31 December 2018
Cash and cash equivalents	4	854,174	815,525
Commodity murabaha placements	5	4,424,022	4,173,355
Sukuk investments	6	1,724,211	1,653,815
Murabaha financing	7	343,698	304,092
Treasury assets		7,346,105	6,946,787
Istisna'a assets	9	7,378,187	6,667,470
Restricted mudaraba	10	849,606	873,252
Instalment sale	11	1,906,569	1,602,775
Ijarah assets	12	2,781,075	2,684,473
Loans (Qard)	13	1,781,830	1,813,720
Project assets		14,697,267	13,641,690
Equity investments	15	541,130	466,038
Investment in associates	16	756,875	755,816
Other investments		55,161	49,596
Investment assets		1,353,166	1,271,450
Property, equipment and intangibles		53,464	56,648
Other assets	17	123,887	130,871
Total Assets		23,573,889	22,047,446
Liabilities			
Sukuk issued	18	12,181,904	11,683,136
Commodity murabaha liabilities	19	1,613,652	789,133
Wakala due	20	361,763	388,661
Other liabilities	21	351,315	446,371
Total Liabilities		14,508,634	13,307,301
Members' Equity			
Paid-up capital	23	5,785,122	5,595,416
Reserves	24	3,139,738	3,060,826
Net income for the year		140,395	83,903
Total Members' Equity		9,065,255	8,740,145
Total Liabilities and Members' Equity		23,573,889	22,047,446
Restricted Investment Accounts	29	80,921	79,107

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

Income Statement

For the year ended 31 December 2019

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

	Notes	For the year ended 31 Dec 2019	For the year ended 31 Dec 2018
Income / (Loss) from:			
Commodity murabaha placements		108,017	85,889
Sukuk investments	6	60,095	50,074
Murabaha financing		13,037	11,469
Treasury assets		181,149	147,432
Istisna'a assets		244,784	237,175
Restricted mudaraba		32,444	34,598
Instalment sale		63,687	59,187
Ijarah assets		303,541	276,267
Depreciation of assets under Ijarah	12	(219,779)	(207,913)
Loans (Qard)		11,836	13,653
Project assets		436,513	412,967
Equity investments		18,078	65,172
Loss from investment in associates	16	(29,418)	(103,501)
Income from other investments		864	812
Investment assets		(10,476)	(37,517)
Other income		6,684	6,487
Foreign exchange losses		(2,452)	(3,939)
Gains from swaps valuation	21	10,365	12,269
Other income		14,597	14,817
Total income		621,783	537,699
Financing costs	18, 19, 20, 21	(296,195)	(244,067)
Impairment charge	14	(28,739)	(49,354)
Net income before operating expenses		296,849	244,278
Administrative expenses	25	(148,271)	(152,101)
Depreciation / amortization on property, equipment and intangibles		(8,183)	(8,274)
Total operating expenses		(156,454)	(160,375)
Net income for the year		140,395	83,903

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 2019

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

	Notes	Paid-up capital	Reserves: General reserve	Reserves: Fair value reserve	Reserves: Pension and medical obligations	Reserves: Other reserves	Total reserves	Net income	Total members' equity
Balance at 1 January 2018		5,378,558	2,700,167	334,691	(58,309)	(37,239)	2,939,310	196,977	8,514,845
Increase in paid-up capital	23	216,858	-	-	-	-	-	-	216,858
Net changes in fair value of investments		-	-	(79,310)	-	-	(79,310)	-	(79,310)
Actuarial gains relating to retirement pension and medical plans	22	-	-	-	10,755	-	10,755	-	10,755
Hedge accounting reserve	21	-	-	-	-	2,256	2,256	-	2,256
Share in investments in associates reserve movement	16	-	-	-	-	9,636	9,636	-	9,636
Net income for the year ended 31 December 2018		-	-	-	-	-	-	83,903	83,903
Transfer to general reserve	24	-	196,977	-	-	-	196,977	(196,977)	-
Allocation for grants	24	-	(18,798)	-	-	-	(18,798)	-	(18,798)
Balance at 31 December 2018		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 ended 31 December 2019		-	-	-	-	-	-	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

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 2019

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

	Notes	For the year ended 31 Dec 2019	For the year ended 31 Dec 2018
Cash flows from operations			
Net income for the year		140,395	83,903
Adjustments for non-cash items:			
Depreciation / amortization		8,183	8,274
Loss from investment in associates	16	29,418	103,501
Provision for impairment of financial assets	14	28,739	49,354
Unrealized fair value (gains)/losses on sukuk	6	(5,694)	3,604
Gain on disposal of sukuk		-	(380)
Amortization of other income		(567)	(4,959)
Foreign exchange losses		2,452	3,939
Gains on disposal of investment in equity capital		(902)	(47,068)
Changes in accrued income		103,428	42,111
Changes in accrued expenses		346	40,500
Operating income before changes in operating assets and liabilities		305,798	282,779
Changes in operating assets and liabilities:			
Istisna'a assets		(817,346)	(924,904)
Restricted mudaraba		4,881	(10,464)
Instalment sale		(310,890)	(71,623)
Ijarah assets		(113,846)	(80,659)
Loans (Qard)		23,836	1,110
Other assets		11,680	(23,739)
Other liabilities		(142,521)	131,968
Commodity murabaha placements		(221,647)	(1,134,519)
Murabaha financing		(38,793)	3,946
Net cash used in operating activities		(1,298,848)	(1,826,105)
Cash flows from investing activities			
Acquisition of sukuk investments	6	(227,410)	(84,723)
Proceeds from disposal/redemption of sukuk investments	6	171,388	163,983
Acquisition of equity investments	15	(8,349)	-
Proceeds from disposal of equity and other investments		3,821	76,369
Acquisition of other investments		(5,348)	(4,679)
Acquisition/increase in share of associate	16	(66,744)	(79,538)
Dividends from associates	16	1,328	1,146
Proceeds from capital repayment/disposal of investment in associates	16	33,442	2,007
Additions to property, equipment and intangibles		(4,999)	(5,806)
Net cash (used in)/from investing activities		(102,871)	68,759
Cash flows from financing activities			
Increase in paid-up capital		189,706	216,858
Allocation for grants	24	(12,592)	(18,798)
Proceeds from issuance of sukuk		3,382,016	2,741,129
Redemption of sukuk		(2,899,552)	(966,084)
Commodity murabaha liabilities		811,489	1,047
Redemption of Wakala due		(28,838)	-
Net cash from financing activities		1,442,229	1,974,152
Net change in cash and cash equivalents		40,510	216,806
Exchange difference on cash and cash equivalents		(1,861)	769
Cash and cash equivalents at the beginning of the year		815,525	597,950
Cash and cash equivalents at the end of the year	4	854,174	815,525

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 (2018: 57).

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

The Bank is required to carry out its activities in accordance with its Articles of Agreement, Financial Regulations and the principles of Islamic 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 subsidiaries of 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 16 February 2020 (corresponding to 22 Jumada II 1441 H) for submission to the Board of Governors 45th 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 Islamic 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;
- 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.

Functional and presentation currency

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

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	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 comprises the cost, plus an agreed 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. Assets under construction are not depreciated. No rental income is recognized on the assets during the period of construction/manufacturing.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Unlisted investments measured at fair value through equity

Unlisted equity investments 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

Project assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

There are three steps required to calculate collective impairment provision. First, each sovereign counterparty is assigned a credit risk rating from 1 to 21. The 21 scales are then grouped into 7 categories starting from "A" to "G". Second, each risk rating is mapped to an expected default frequency from 0.0001% to 100% according to the internal scoring model calibrated against the international rating agency's ratings. The determination of risk ratings and expected default frequencies is reviewed and updated annually. The severity of loss is a judgmental assessment of the Bank's experience with Member Countries payment track records over the years and ranges from 0% to 20%.

Finally, the provision is calculated by multiplying the outstanding net sovereign exposure (gross sovereign exposure less exposure relating to specific impairment) with the expected default rate/frequency and the severity of the loss rate.

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

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

Impairment of financial assets held at amortized cost

Financial assets carried at amortized cost are tested for impairment at each reporting period. An impairment loss is assessed and recognized when there is objective evidence of impairment and the carrying value exceeds the expected recoverable amount of the financial asset. Subsequent recovery of impairment losses is recognized through the income statement to the extent of previously recognized impairment losses.

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.

Implementation and Impact Analysis of FAS 30

AAOIFI issued FAS-30 "Impairment and credit losses", the standard that will replace FAS 11 "Provisions and Reserves" effective from 1 January 2020, with early adoption permitted. The Bank considers it as a significant project and therefore has set up a multidisciplinary implementation team with members from its Risk, Finance, IT, Operations, and respective businesses to achieve a successful and robust implementation.

Expected impact

According to transitional provisions for initial application of FAS-30, the Bank is allowed to recognise any differences between previous carrying amount under FAS-11 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening total equity. Based on the Bank's assessment to date, following impacts are anticipated as a result of transition to FAS-30:

Impairment

As a result of Bank's transition to the expected loss methodology for computation of credit losses, it anticipates an increase in allowance for such credit losses in respect of financial assets carried as at 1 January 2020.

Disclosure

The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Net financial impact

Based on the foregoing, the Bank expects a net decrease of 0.58% to 0.71% in its total equity as at the transition date, represented by increase in allowance for credit losses at the transition date.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 aredischarged or cancelled or expire.

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 functional currency at the exchange rate ruling on the reporting date. Foreign currency differences resulting from retranslation of monetary assets and liabilities denominated in foreign currencies are 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 functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences resulting from translation of such investments are 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 Islamic 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

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 72.7% (2017: 72.7%) 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 functional and presentation currency.

Designation of investments in sukuk

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

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

Provision for impairment of financial assets

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

Post-employee benefits plans

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

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.

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2019	31 Dec 2018
Cash in hand	2	8
Current and call accounts with Banks	399,349	254,808
Commodity murabaha placements with maturities less than 3 months from origination date (Note 5)	465,279	571,165
Less: Provision for impairment	(10,456)	(10,456)
	854,174	815,525

Commodity murabaha placements included within cash equivalents are those interbank placements, which have an original tenorequal 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 2019	31 Dec 2018
Placements with Islamic banks	652,540	415,500
Placements with Islamic windows of conventional banks	4,196,793	4,298,049
Accrued income	43,652	34,655
Commodity murabaha placements less than 3 months, (Note 4)	(465,279)	(571,165)
Less: Provision for impairment	(3,684)	(3,684)
	4,424,022	4,173,355

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	1,653,815	1,697,908
Movements during the year:		
Additions	227,410	84,723
Redemptions/Sales	(171,388)	(163,603)
Accrued income	158	535
Unrealized fair value gains/(losses)	5,694	(3,604)
Unrealized exchange revaluation gains	8,522	37,856
Closing balance	1,724,211	1,653,815

	Counterparty rating					
31 Dec 2019	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at fair value though 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

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

6. SUKUK INVESTMENTS (continued)

	Counterparty rating					
31 Dec 2018	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at fair value through income statement:						
- Governments	-	44,908	2,992	14,035	-	61,935
- Other entities	-	51,822	-	-	-	51,822
	-	96,730	2992	14,035	-	113,757
Sukuk classified at amortized cost:						
- Financial institutions	8,279	36,103	72,292	61,232	18,176	196,082
- Governments	52,648	133,179	480,963	334,172	-	1,000,962
- Other entities	-	223,997	119,017	-	-	343,014
	60,927	393,279	672,272	395,404	18,176	1,540,058
Total	60,927	490,009	675,264	409,439	18,176	1,653,815

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Coupon income	54,401	53,298
Realized gains on the sale of Sukuk	-	380
Unrealized fair value gains/(losses)	5,694	(3,604)
	60,095	50,074

7. MURABAHA FINANCING

	31 Dec 2019			31 Dec 2018		
	Sovereign	Non-Sovereign	Total	Sovereign	Non-Sovereign	Total
Gross amount receivable	347,514	4,681	352,195	283,474	56,598	340,072
Less: Unearned income	(6,276)	(107)	(6,383)	(3,813)	(383)	(4,196)
Less: Provision for impairment	(2,086)	(28)	(2,114)	(1,745)	(30,039)	(31,784)
	339,152	4,546	343,698	277,916	26,176	304,092

8. PROJECT ASSETS

	31 Dec 2019			31 Dec 2018		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Istisna'a assets	7,139,121	285,501	7,424,622	6,552,794	172,941	6,725,735
Restricted Mudaraba	849,606	-	849,606	873,252	-	873,252
Instalment sale	1,938,880	4,518	1,943,398	1,629,749	5,503	1,635,252
Ijarah assets	2,018,826	875,119	2,893,945	1,884,740	883,031	2,767,771
Loans (Qard)	1,890,000	-	1,890,000	1,916,447	-	1,916,447
	13,836,433	1,165,138	15,001,571	12,856,982	1,061,475	13,918,457
Less: Provision for impairment	(304,055)	(249)	(304,304)	(276,247)	(520)	(276,767)
	13,532,378	1,164,889	14,697,267	12,580,735	1,060,955	13,641,690

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 2019	31 Dec 2018
Istisna'a assets in progress	3,813,025	3,483,961
Istisna'a receivable	4,176,542	3,642,210
Accrued income	221,598	310,556
Less: unearned income	(786,543)	(710,992)
Less: Provision for impairment	(46,435)	(58,265)
	7,378,187	6,667,470

10. RESTRICTED MUDARABA

	31 Dec 2019	31 Dec 2018
Restricted Mudaraba assets in progress	252,364	581,620
Restricted Mudaraba receivable	668,979	248,835
Accrued income	19,299	43,249
Less: unearned income	(91,036)	(452)
	849,606	873,252

11. INSTALMENT SALE

	31 Dec 2019	31 Dec 2018
Gross amount receivable	2,131,610	1,831,766
Accrued Income	18,094	12,822
Less: Unearned income	(206,306)	(209,336)
Less: Provision for impairment	(36,829)	(32,477)
	1,906,569	1,602,775

12. IJARAH ASSETS

	Note	31 Dec 2019	31 Dec 2018
Assets under construction	12.1	1,200,749	1,132,494
Assets in use	12.2	3,864,590	3,561,875
Less: Accumulated depreciation of assets in use	12.3	(2,088,206)	(1,863,117)
Balance, net of accumulated depreciation		2,977,133	2,831,252
Less: Share of syndication participants		(83,188)	(63,481)
Balance, net of share of syndication participants		2,893,945	2,767,771
Less: Provision for impairment	14	(112,870)	(83,298)
		2,781,075	2,684,473

12.1 Assets under construction

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	1,132,494	1,070,672
Additions	370,970	323,213
Transferred to assets in use	(302,715)	(261,391)
Closing balance	1,200,749	1,132,494

12.2 Assets in use

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	3,561,875	3,300,484
Transferred from assets under construction	302,715	261,391
Closing balance	3,864,590	3,561,875

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	(1,863,117)	(1,648,746)
Charge for the year	(219,779)	(207,913)
Share of syndication participants	(5,310)	(6,458)
Closing balance	(2,088,206)	(1,863,117)

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

13. LOANS (QARD)

	31 Dec 2019	31 Dec 2018
Loans (Qard)	1,890,000	1,916,447
Less: Provision for impairment	(108,170)	(102,727)
	1,781,830	1,813,720

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

Provision for impairment comprised of the following:

		31 Dec 2019			31 Dec 2018		
	Note	Specific	Collective	Total	Specific	Collective	Total
Cash and bank	4	10,456	-	10,456	10,456	-	10,456
Commodity murabaha placements	5	3,684	-	3,684	3,684	-	3,684
Murabaha financing	7	-	2,114	2,114	30,039	1,745	31,784
Istisna'a assets	9	2,081	44,354	46,435	10,439	47,826	58,265
Instalment sale	11	30,871	5,958	36,829	27,687	4,790	32,477
Ijarah assets	12	40,140	72,730	112,870	34,126	49,172	83,298
Loans (Qard)	13	58,731	49,439	108,170	54,139	48,588	102,727
Equity investments	15	50,700	-	50,700	65,151	-	65,151
Other investments		475	-	475	476	-	476
		197,138	174,595	371,733	236,197	152,121	388,318

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2019			Year ended 31 Dec 2018		
	Specific	Collective	Total	Specific	Collective	Total
Opening balance	236,197	152,121	388,318	202,983	143,528	346,511
Charge for the year	6,265	22,474	28,739	40,761	8,593	49,354
Write-offs/Reversals	(45,324)	-	(45,324)	(7,547)	-	(7,547)
Closing Balance	197,138	174,595	371,733	236,197	152,121	388,318

As at 31 December 2019 and 31 December 2018, the following is the ageing of the overdue instalments:

	31 Dec 2019						
In months	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)

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

	31 Dec 2018						
In months	0-6	7 - 12	13 - 24	Over 24	Total	Sovereign	Non-Sovereign
Murabaha financing	1,517	-	-	30,039	31,556	1,517	30,039
Istisna'a assets	5,337	5,151	5,151	138	15,777	15,777	-
Instalment sale	3,592	3,713	6,054	15,732	29,091	28,601	490
Ijarah assets	3,156	3,115	4,115	24,947	35,333	35,269	64
Loans (Qard)	8,813	8,184	10,536	15,687	43,220	43,220	-
Total	22,415	20,163	25,856	86,543	154,977	124,384	30,593

15. EQUITY INVESTMENTS

	31 Dec 2019	31 Dec 2018
Equity investments:		
Listed	446,278	394,266
Unlisted	145,552	136,923
	591,830	531,189
Less: Provision for impairment	(50,700)	(65,151)
	541,130	466,038

The movement in provision for impairment is as follows:

	31 Dec 2019	31 Dec 2018
Opening	65,151	68,108
Charge for the year	625	4,591
Transfer of accumulated impairment to fair value reserve (see below)	(11,915)	(2,426)
Reversal of impairment on disposal	(3,161)	(5,122)
Closing balance	50,700	65,151

Accumulated impairment balance of ID 11,915 thousand was transferred to fair value reserve in FY 2019 as a result of equity valuation gains that exceed their previously recoded impaired costs.

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	466,038	578,392
Movements during the year:		
Additions	8,349	-
Transfer to Investment in Associates (Note 16)	-	(830)
Disposals	(6,080)	(29,301)
Reversal of impairment on disposal	3,161	-
Impairment charge	(625)	(4,591)
Net unrealized fair value gains/(losses)	70,287	(77,632)
Closing balance	541,130	466,038

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Opening balance	755,816	772,466
Additions	66,744	79,538
Disposals / Capital repayments	(33,442)	(2,007)
Transfer from Equity Investments (Note 15)	-	830
Foreign currency translation and other movements	(1,497)	9,636
Share of net results	(24,933)	(105,865)
Net gain on acquisition and disposal of associates	(4,485)	2,364
Cash dividends received	(1,328)	(1,146)
Closing balance	756,875	755,816

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

16. INVESTMENT IN ASSOCIATES (continued)

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2019	31 Dec 2018
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%	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	42.83%	40.79%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	35.90%	36.19%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	36.91%	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%

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	2019	5,464	111,288	83,966	68,817	(53)
	2018	5,362	115,028	88,216	61,589	75
Bosna Bank International	2019	28,632	496,716	433,727	10,949	2,178
	2018	26,891	389,921	330,763	15,154	1,636
Islamic Bank of Guinea	2019	2,674	59,958	51,480	3,867	(11)
	2018	2,772	28,735	44,729	5,412	66
Bank Muamalat Indonesia	2019	20,176	2,708	432	111	(510)
	2018	19,970	2,712	2,516	127	(15,666)
Syrikat Takaful Indonesia	2019	1,447	83,250	77,850	5,500	49
	2018	1,349	82,730	73,958	4,461	164
Islamic Bank of Senegal	2019	16,286	423,520	374,557	9,641	2,670
	2018	14,675	385,959	341,744	15,696	2,064
ICD	2019	299,470	783,324	483,854	(76,543)	(37,282)
	2018	294,431	2,207,974	1,486,089	(199,186)	(92,898)
ITFC	2019	251,824	751,378	49,819	41,355	8,738
	2018	243,683	713,891	40,565	40,441	7,243
APIF	2019	24,698	68,587	1,677	2,693	829
	2018	24,264	67,665	1,931	2,034	599
IsDB Infrastructure Fund II	2019	99,039	363,761	436	9,111	(707)
	2018	75,983	261,696	1,169	3,933	(419)
The Islamic Infrastructure Fund L.P.	2019	3,998	8,234	141	1,748	(3,847)
	2018	36,609	78,973	100	(7,640)	(4,180)
Saudi SME Fund Al- Malaz Capital	2019	2,898	25,648	1,720	857	(1,227)
	2018	9,334	49,896	792	1,722	(2,042)
Zeitouna Tamkeen	2019	269	10,800	9,454	1,503	(245)
	2018	493	5,776	3,311	446	(143)

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

16. INVESTMENT IN ASSOCIATES (continued)

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 2019 is ID 15,931 million (2018: ID 14,265 million).

17. OTHER ASSETS

	31 Dec 2019	31 Dec 2018
Accrued income – Ijarah	64,577	60,070
Related party balances (Note 30)	23,211	13,880
Staff loans and advances (Qard & Financings)	32,950	29,787
Others	3,149	27,134
	123,887	130,871

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2019 and 31 December 2018, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent 31 Dec 2019	ID equivalent 31 Dec 2018	Maturity date	Rate per annum
Listed	03/06/2014	USD	-	1,084,723	03/06/19	1.8125 % Fixed
	07/17/2014	USD	-	724,938	07/17/19	1.8118 % Fixed
	09/25/2014	USD	-	1,084,383	09/25/19	2.111 % Fixed
	03/12/2015	USD	726,626	722,724	03/12/20	1.831 % Fixed
	03/10/2016	USD	1,068,357	1,042,005	03/10/21	1.775 % Fixed
	02/29/2016	EUR	243,077	247,588	03/01/23	0.255% Fixed
	12/07/2016	USD	904,634	899,566	12/07/21	2.263% Fixed
	04/12/2017	USD	908,018	902,643	04/12/22	2.393 % Fixed
	09/26/2017	USD	908,664	903,165	09/26/22	2.261 % Fixed
	03/15/2018	USD	911,522	906,261	03/15/23	3.100% Fixed
	09/26/2018	USD	947,809	942,004	09/26/23	3.389% Fixed
	11/07/2018	EUR	525,979	534,954	11/07/23	0.554% Fixed
	11/26/2018	USD	341,441	339,394	11/26/21	3.2867% Fixed
	04/25/2019	USD	1,089,579	-	04/25/24	2.843 % Fixed
	10/02/2019	USD	1,089,173	-	10/02/24	1.957% Fixed
	12/04/2019	EUR	808,560	-	12/04/24	0.037% Fixed
			10,473,439	10,334,348		
Not listed	09/20/2010	SAR	182,772	181,008	09/20/20	2.550 % Fixed
	09/20/2010	SAR	183,133	179,543	09/20/20	6 Month LIBOR + 0.15%
	07/13/2015	EUR	80,972	82,466	07/13/20	0.310 % Fixed
	09/15/2015	EUR	80,908	82,397	09/15/20	0.230 % Fixed
	10/09/2015	EUR	242,736	247,118	10/09/20	0.318 % Fixed
	06/29/2016	MYR	61,499	60,470	06/28/24	4.360 % Fixed
	09/19/2016	USD	72,318	71,547	09/19/21	3 Month LIBOR + 0.43%
	02/24/2017	EUR	243,332	247,775	02/24/24	0.374 % Fixed
	02/27/2017	EUR	121,638	123,699	02/27/24	0.350 % Fixed
	07/19/2018	USD	73,042	72,765	07/19/23	6 Month LIBOR + 0.20%
	01/16/2019	EUR	40,576	-	01/16/24	0.385 % Fixed
	12/10/2019	USD	72,342	-	12/10/24	3 Month LIBOR + 0.43%
	12/10/2019	USD	72,342	-	12/10/24	3 Month LIBOR + 0.43%
	12/11/2019	USD	180,855	-	12/11/24	2% Fixed
			1,708,465	1,348,788		
Total			12,181,904	11,683,136		

(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 2019 amounted to ID 263.4 million (2018: ID 218.2 million). Sukuk issued, amounting to ID 1,265.4 million (2018: ID 1,258.2 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 2019, amounts to ID 9.3 million (2018: ID 40.9 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 2019 of ID 1,613.7 million (2018: ID 789.1 million) represents the purchase price under these agreements. Financing cost incurred on commodity murabaha purchases during 2019 was ID 21.4 million (2018: ID 16.2 million).

20. WAKALA DUE

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

Affiliates	Currency	ID Equivalent in '000 2019	2018	Placement Date	Maturity Date
Islamic Solidarity Fund for Development	USD	144,705	143,934	12/21/2017	6/21/2023
Islamic Solidarity Fund for Development	USD	217,058	215,901	12/21/2017	6/21/2023
Islamic Corporation for the Insurance of Investment and Export Credit	EUR	-	28,826	12/27/2017	6/13/2019
		361,763	388,661		

These Wakala placements have expected rate of return on invested capital up to 3.27%, per annum (2018: 3.27% per annum). Actual amount of returns paid to the related parties (a cost to IsDB) on the wakala placements during the year was ID 11.4 million (2018: ID 9.7 million).

21. OTHER LIABILITIES

	31 Dec 2019	31 Dec 2018
Payables against commodity murabaha liabilities	27,594	136,616
Related party balances (Note 30)	30,347	5,428
Investment deposits	2,338	3,794
Accrued expenses	10,847	22,332
Deferred income – Ijarah	105,600	120,780
Accrued staff retirement and medical benefit scheme liability (Note 22)	133,663	68,753
Swaps designated in hedge accounting relationships – (Note 21 (a))	11,992	47,498
Deferred grant income	3,401	3,968
Others	25,533	37,202
	351,315	446,371

(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 2019		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing cost	Gain 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)	-

31 Dec 2018		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing cost / (credit)	Gain / (loss) on changes in fair values
Fair value hedges	1,258,241	(127)	8,555	9,222
Cash flow hedges	179,709	685	5,205	3,047
		558	13,760	12,269

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Fair value hedges	(40,936)	-
Cash flow hedges	(6,562)	-
	(47,498)	-

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% (2018-9%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2018-21%).

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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Benefit obligation opening balance	236,673	233,418	17,034	17,383
Current Service costs	9,445	11,918	853	1,053
Past Service costs	1,621	-	2,637	-
Expense on Defined Benefit Obligation (“DBO”)	10,583	9,647	767	737
Plan participations contributions	5,190	3,820	236	209
Disbursements from Plan Assets	(9,831)	(10,258)	(630)	(341)
Net actuarial loss / (gains)	52,347	(17,426)	5,507	(2,410)
Currency translation loss	1,301	5,554	90	403
Benefit obligation closing balance	307,329	236,673	26,494	17,034

The movements in the plan assets are as follows:

	SPP		SRMP	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Fair value of plan assets opening balance	176,720	170,824	8,234	7,447
Other adjustments	1,112	(3,433)	20	(3)
Profit on Plan Assets	8,065	6,889	379	304
Return on plan assets (less) / greater than discount rate	(3,534)	(4,073)	(48)	9
Plan participation contributions	5,190	3,820	236	209
Employer contribution	12,152	8,764	1,042	420
Disbursements from Plan Assets	(9,831)	(10,258)	(630)	(341)
Currency translation gain	1,006	4,187	47	189
Fair value of plan assets closing balance	190,880	176,720	9,280	8,234
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation overfair value of plan assets (Note 21)	116,449	59,953	17,214	8,800

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 2019 and 31 December 2018 for the Bank comprised the following:

	SPP		SRMP	
	Year ended 31 Dec 2019	Year ended 31 Dec 2018	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Current service costs	9,445	11,918	853	1,053
Past Service costs	1,621	-	2,637	-
Expense on DBO	10,583	9,647	767	737
Income on assets	(8,065)	(6,889)	(379)	(304)
Amounts recognized in income statement	13,584	14,676	3,878	1,486
Actuarial losses / (gains) due to assumptions	52,347	(17,426)	5,507	(2,410)
Return on plan assets greater / (less) than discount rate	3,534	4,073	48	(9)
Other adjustments	(1,112)	3,433	(20)	3
Currency translation loss	295	1,367	43	214
Amounts recognized in statement of changes of equity	55,064	(8,553)	5,578	(2,202)

(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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Discount rate	3.30%	4.50%	3.30%	4.50%
Rate of expected salary increase	4.50%	4.50%	4.50%	4.50%

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 52.3 million for SPP and ID 5.5 million for SRMP gave rise due to the decrease of the discount rate from 4.5% at 2018 year end to 3.3% at 2019 year end.

The following table presents the plan assets by major category:

	SPP		SRMP	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Cash and cash equivalent and commodity murabaha placements	71,572	59,147	4,174	3,635
Managed funds and instalment sales	30,223	30,319	-	-
Investments in sukuk	64,787	67,433	4,647	4,558
Land	18,095	20,740	-	-
Others (net)	6,203	(919)	459	41
Plan assets	190,880	176,720	9,280	8,234

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-20	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16
Present value of defined benefit obligation	(326,347)	(307,329)	(236,673)	(233,418)	(247,047)
Fair value of plan assets	202,113	190,880	176,720	170,824	169,517
Plan deficit	(124,234)	(116,449)	(59,953)	(62,594)	(77,530)

Increase in plan deficit from ID 59,953 at 2018 year end to ID 116,449 at 2019 year end is primarily attributable to the decrease in the discount rate from 4.5% to 3.3% 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-20	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16
Present value of defined benefit obligation	(28,149)	(26,494)	(17,034)	(17,384)	(16,960)
Fair value of plan assets	9,579	9,280	8,234	7,447	7,201
Plan deficit	(18,570)	(17,214)	(8,800)	(9,937)	(9,759)

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

	SPP	SRMP	31 Dec 2019 Total	31 Dec 2018 Total
Opening balance	42,142	5,412	47,554	58,309
Movements during the year	55,064	5,578	60,642	(10,755)
Closing balance	97,206	10,990	108,196	47,554

(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 2019 was as follows:

		31 Dec 2019	31 Dec 2018
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,406 (31 December 2018: 5,061,406) shares of ID10,000 each	50,614,060	50,614,060
Less: available for subscription		(388,750)	(388,750)
Subscribed capital		50,225,310	50,225,310
Callable capital		(40,853,415)	(40,853,415)
Called up capital		9,371,895	9,371,895
Amount not yet due		(3,404,388)	(3,625,985)
Instalments overdue		(182,385)	(150,494)
Paid up capital		5,785,122	5,595,416

The Bank received ID 189.71 million (2018: ID 216.86 million) against paid-up capital during the year.

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2019 ID 0.58 (31 December 2018: ID 0.57) of total accumulated reserves.

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 2019, general reserve made up 5.87% of the subscribed capital (31 December 2018: 5.74%). 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/3-439dated 5 April 2018 (corresponding to 19 Rajab 1439H) and resolution no BG/5-440 dated 6 April 2019 (corresponding to 1 Shaban 1440), the following allocations were made from the general reserve during the year ended 31 December 2019:

- 5% of the Bank's normalized net income (not less than US$ 5 million) for the year ended 31 December 2018 was allocated to finance technical assistance operations in the form of grants amounting to ID 9.0 million (31 December 2018: ID 10.4 million).

- 2% of the Bank's normalized net income (not less than US$ 2 million) for the year ended 31 December 2018 was allocated for financing the Bank's PhD/ Post-doctoral Research Program (for merely known as merit scholarship program) in the form of grants amounting to ID 3.6 million (31 December 2018: ID 4.2 million).

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

25. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Staff costs	110,834	113,151
Business travel	5,521	4,222
Consultancy fees	9,375	16,628
Other	22,541	18,100
	148,271	152,101

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 2019	31 Dec 2018
Istisna'a assets	4,614,779	4,845,658
Restricted mudaraba	21,406	5,998
Instalment sale	1,491,947	828,005
Loans (Qard)	659,719	677,748
Ijarah assets	999,215	1,465,141
Capital contributions to ICD	45,197	89,877
Investment in equity and funds	44,969	63,195
	7,877,232	7,975,622

Capital contributions to ICD

IsDB Board of Executive Director by its resolution No. BED/18/06/437/(311)/55 approved IsDB's participation in the second capital increase of ICD and shall subscribe to 50% of the shares allotted to IsDB and Financial Institutions, not exceeding USD 250 million, subject to maximum of the 34% total subscribed capital of ICD. IsDB shall pay this amount over 4 equal annual instalments starting from financial year ending 2017. The Bank as at 31 December 2019 has paid three instalments amounting to USD 187.5 million (31 December 2018 - USD 125 million).

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 Islamic 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:

	2019		2018	
	No of Events	Amount	No of Events	Amount
Commitment fee	3	211	2	234
Interest from legacy accounts with conventional banks	4	103	6	133
Total		314		367

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 staff members of Islamic banking and deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and

- to submit to the Board of Executive Directors of the Bank, its affiliates and trust funds a comprehensive report showing the measure of the Bank's, its affiliates' and trust funds' commitment to principles of Islamic 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 2019 amounted to ID 80.9 million (31 December 2018: ID 79.1 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 2019		31 Dec 2018	
	Due from	Due to	Due from	Due to
World Waqf Foundation	17	-	-	(7)
Awqaf Properties Investment Fund	-	(259)	-	(517)
Unit Investment Fund	-	(393)	-	(365)
Islamic Corporation for the Insurance of Investments and Export Credit	6,083	-	5,471	-
Special Account Resources Waqf Fund	-	(6,386)	7492	-
IsDB Special Assistance Fund	723	-	-	-
IsDB Pension Fund	-	(3,267)	-	(307)
IsDB Medical Fund	-	(3,650)	-	(27)
Al-Aqsa Fund	781	-	68	-
Islamic Corporation for Development of Private Sector	309	-	-	(1,253)
Arab Bank for Economic Development in Africa	40	-	39	-
International Islamic Trade Finance Corporation	1,692	-	433	-
Fael Khair Bangladesh	35	-	13	-
Islamic Solidarity Fund for Development	-	(16,388)	-	(2,946)
Sacrificial Meat Project	9,637	-	-	(6)
GCC Program for Reconstruction of Gaza	-	(1)	65	-
Science, Technology and Innovation fund	9		-	-
Fael Khair Programs	-	(3)	185	-
Kuwait development fund	3,616	-	-	-
National Education Sector Fund	10	-	-	-
Lives and Livelihoods Fund	259	-	114	-
Total	23,211	(30,347)	13,880	(5,428)

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 2.4 million (2018: ID 2.1 million).

(b) The Bank has Wakala due outstanding as at 31 December 2019 with an affiliate, namely; Islamic Solidarity Fund for Development amounting to ID 361.7 million (2018 – ID 359.5 million) equivalent to USD 500 million. During the year ended 2018 the Bank had Wakala due with Islamic Corporation for the Insurance of Investment and Export Credit amounting to ID 28.8 million equivalent to EUR 35 million, which matured in 2019. (Note 20).

(c) 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 2019	Year ended 31 Dec 2018
Board of Executive Directors expenses	1,208	1,115
Salaries and other short-term benefits	2.858	2,561
Accumulated post-employment benefits	553	372

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 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%
Indonesia	1,028,932	-	1,028,932	6.7%
Pakistan	888,869	137,906	1,026,775	6.7%
Iran	883,332	137	883,469	5.8%
Egypt	835,490	47,238	882,728	5.8%
Morocco	665,215	112,944	778,159	5.1%
Senegal	674,560	37,938	712,498	4.6%
Uzbekistan	567,763	3,380	571,143	3.7%
Tunisia	513,814	32,452	546,266	3.5%
Bangladesh	405,125	56,510	461,635	3.0%
Total top 10 countries	8,067,006	513,927	8,580,933	55.9%
Total other countries	6,110,854	655,595	6,766,449	44.1%
Total	14,177,860	1,169,522	15,347,382	100.0%
Total sovereign exposure			14,177,860	92.4%
Total non-sovereign exposure			1,169,522	7.6%
Total			15,347,382	100.0%

31 Dec 2018

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,417,973	81,344	1,499,317	10.5%
Pakistan	847,665	183,453	1,031,118	7.3%
Iran	946,881	130	947,011	6.6%
Indonesia	841,701	-	841,701	5.9%
Morocco	776,635	38,149	814,784	5.7%
Egypt	650,263	6,538	656,801	4.6%
Tunisia	522,358	40,719	563,077	4.0%
Senegal	543,990	6,240	550,230	3.9%
Uzbekistan	486,124	530	486,654	3.4%
Bahrain	476,957	-	476,957	3.3%
Total top 10 countries	7,510,547	357,103	7,867,650	55.2%
Total other countries	5,626,096	760,587	6,386,683	44.8%
Total	13,136,643	1,117,690	14,254,333	100.00%
Total sovereign exposure			13,136,643	92.2%
Total non-sovereign exposure			1,117,690	7.8%
Total			14,254,333	100.00%

(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 2019		31 Dec 2018	
Risk rating category	Amount	%	Amount	%
Category "A"	6	0.0%	38	0.0%
Category "B"	2,236,858	15.8%	2,049,756	15.6%
Category "C"	4,367,002	30.8%	4,253,917	32.4%
Category "D"	4,986,317	35.2%	4,406,990	33.6%
Category "E"	1,691,222	11.9%	1,383,298	10.5%
Category "F"	100,603	0.7%	267,537	2.0%
Category "G"	795,852	5.6%	775,107	5.9%
Total	14,177,860	100.0%	13,136,643	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 2019		31 Dec 2018	
Risk rating category	Amount	%	Amount	%
Category "A"	-	0.0%	-	0.0%
Category "B"	491,258	42.0%	381,617	34.1%
Category "C"	251,366	21.5%	323,574	28.9%
Category "D"	339,109	29.0%	315,861	28.3%
Category "E"	87,623	7.5%	64,576	5.8%
Category "F"	166	0.0%	2,024	0.2%
Category "G"	-	0.0%	30,038	2.7%
Total	1,169,522	100.0%	1,117,690	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 2019		31 Dec 2018	
Risk rating category	Amount	%	Amount	%
Category “A”	156,333	3.0%	383,471	7.7%
Category “B”	5,028,038	95.0%	4,569,900	91.3%
Category “C”	77,055	1.5%	250	0.0%
Category “D”	1,251	0.0%	898	0.0%
Category “E”	-	0.0%	46	0.0%
Category “F”	-	0.0%	-	0.0%
Category “G”	29,659	0.5%	48,455	1.0%
Total	5,292,336	100.0	5,003,020	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 2019	Africa	Asia	Europe	Non Member Countries	Total
Treasury assets	215,265	5,757,461	817,881	555,498	7,346,105
Project assets	5,706,611	8,658,505	324,933	7,218	14,697,267
Investment assets	102,080	1,209,825	38,844	2,417	1,353,166
Other assets	15,723	161,628	-	-	177,351
Total assets:	6,039,679	15,787,419	1,181,658	565,133	23,573,889
%	26%	67%	5%	2%	100%

31 Dec 2018	Africa	Asia	Europe	Non Member Countries	Total
Treasury assets	535	5,577,602	206,061	1,162,589	6,946,787
Project assets	5,046,361	8,264,322	328,232	2,775	13,641,690
Investment assets	47,659	1,217,181	5,058	1,552	1,271,450
Other assets	20,127	167,392	-	-	187,519
Total assets:	5,114,682	15,226,497	539,351	1,166,916	22,047,446
%	23%	70%	2%	5%	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 2019	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	6,154,534	-	-	6,154,534	26%
Transport and telecom	-	3,891,194	-	-	3,891,194	17%
Agriculture	-	1,403,367	-	-	1,403,367	6%
Industry and mining	-	256,712	313,740	-	570,452	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	177,351	1,157,979	5%
Total assets:	7,346,105	14,697,267	1,353,166	177,351	23,573,889	100%

31 Dec 2018	Treasury Assets	Project Assets	Investment Assets	Other Assets	Total	%
Public utilities	-	5,605,670	-	-	5,605,670	25%
Transport and telecom	-	3,697,269	625	-	3,697,894	17%
Agriculture	-	1,353,488	-	-	1,353,488	6%
Industry and mining	-	315,824	269,176	-	585,000	3%
Social Services	-	1,919,712	-	-	1,919,712	9%
Financial Institutions	5,184,962	-	192,663	-	5,377,625	24%
Governments	1,062,897	-	-	-	1,062,897	5%
Trade	304,092	-	-	-	304,092	1%
Other	394,836	749,727	808,986	187,519	2,141,068	10%
Total assets:	6,946,787	13,641,690	1,271,450	187,519	22,047,446	100%

Liquidity Risk

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

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

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

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

(i) Transactional Operational Portfolio (TOP):
(ii) Core Operational Portfolio (COP); and
(iii) Stable Portfolio (SP)

(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 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	138,167	1,091,129	1,401,823	-	2,781,075
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	14,134	25,079	32,059	-	123,887
Total Assets	3,884,143	1,251,185	2,000,310	6,644,927	8,386,694	1,406,630	23,573,889

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

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 Dec 2018	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	815,525	-	-	-	-	-	815,525
Commodity murabaha placements	1,862,739	620,589	1,018,623	671,404	-	-	4,173,355
Sukuk Investments	110,184	9,213	52,648	906,437	575,333	-	1,653,815
Murabaha Financing	152,095	100,825	51,172	-	-	-	304,092
Istisna'a assets	114,697	70,925	548,782	2,433,890	3,499,176	-	6,667,470
Restricted Mudaraba	5,781	117,393	163,608	236,964	349,506	-	873,252
Instalment sale	46,456	29,718	144,202	586,534	795,865	-	1,602,775
Ijarah assets	103,525	81,931	296,659	1,005,998	1,196,360	-	2,684,473
Loans (Qard)	61,251	68,298	156,248	602,569	925,354	-	1,813,720
Equity investments	-	-	-	-	-	466,038	466,038
Investments in associates	-	-	-	-	-	755,816	755,816
Other investments	-	-	-	-	-	49,596	49,596
Property, equipment and intangibles	-	-	-	-	-	56,648	56,648
Other assets	47,560	3,412	9,811	30,064	40,024	-	130,871
Total Assets	3,319,813	1,102,304	2,441,753	6,473,860	7,381,618	1,328,098	22,047,446
Liabilities							
Sukuk issued	1,084,722	-	1,809,322	8,357,148	431,944	-	11,683,136
Commodity murabaha liabilities	-	-	-	789,133	-	-	789,133
Wakala due	-	-	-	388,661	-	-	388,661
Other liabilities	196,732	100,998	13,196	12,333	123,112	-	446,371
Total Liabilities	1,281,454	100,998	1,822,518	9,547,275	555,056	-	13,307,301

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 2019	31 Dec 2018
USD (1ID = 1.38283 USD)	2,021,422	1,760,151
EUR (1ID = 1.23588 EUR)	1,475,639	1,270,565
Pound Sterling (1ID = 1.05386 GBP)	365,279	290,460
Japanese Yen (1ID = 150.894 JPY)	342,039	283,745
Chinese Yuan (1ID = 9.66184 CNY)	484,362	453,524
Others	2,316	3,583
	4,691,057	4,062,028

(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 2019	31 Dec 2018
Commodity murabaha placements	2.7%	2.6%
Sukuk investments	3.3%	3.2%
Murabaha financing	3.9%	3.5%
Istisna'a assets	3.5%	3.9%
Instalment sale	3.7%	3.8%
Ijarah assets	3.0%	2.6%
Sukuk issued	2.3%	2.1%
Commodity murabaha liabilities	2.0%	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 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	-	1,277,466	-	1,277,466

31 Dec 2018	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Sukuk investments	113,757	-	-	113,757
Equity type Investments at fair value through equity:				
Equity investments	386,195	-	79,843	466,038
Total financial assets at fair value	499,952	-	79,843	579,795
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	47,498	-	47,498
Sukuk liability (Fair value hedged)	-	1,258,240	-	1,258,240
Total financial liabilities at fair value	-	1,305,738	-	1,305,738

During the year ended 31 December 2019 and period ended 31 December 2018, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

As at 31 December 2019, sukuk investment carried at amortised cost with carrying value amounting to ID 1.57 billion has fair value of 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 furnished to the Board of Executive Directors do not present discrete financial information with respect to the Bank's performance to the extent envisaged in FAS 22 - the sectorial and geographical distribution of the Bank's assets is set out in Note 31.

34. COMPARATIVE FIGURES

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

35. SUBSEQUENT EVENT

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The Bank considers this outbreak to be a non-adjusting post balance sheet event. The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

36. 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 shall be effective from the financial periods beginning on or after 1 January 2020. IsDB will adopt the FAS 30 starting from 1 January 2020. The Bank disclosed its estimate of an impact of adoption of the FAS 30 at 31 December 2019 (Note 3).

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(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.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2020.

(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.

(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 2020.

(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 2020.

(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".

IsDB

البنك الإسلامي للتنمية

Islamic Development Bank

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – Special Account Resources Waqf Fund
Jeddah
Kingdom of Saudi Arabia

Report on the audit of financial statements

We have audited the accompanying statement of financial position of Islamic Development Bank – Special Account Resources Waqf Fund (the "Fund") as of 31 December 2019 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements and the Fund's undertaking to operate in accordance with Shari'ah are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 December 2019, and of the results of its operations and its cash flows for the year then ended in accordance with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the Islamic Development Bank Group and the accounting standards of AAOIFI.

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

30 March 2020
6 Sha'ban 1441H

Jeddah

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
Statement of Financial Position
As at 31 December 2019
(All amounts rounded to the nearest thousand United States Dollars unless otherwise stated)

	Notes	31 December 2019	31 December 2018 (Restated) (note 25)
ASSETS			
Treasury assets			
Cash and cash equivalents	5	62,631	175,311
Commodity murabaha placements	6	237,526	175,806
Syndicated murabaha	7	4,471	4,489
Investments in sukuk	8	100,945	110,931
Investment assets			
Equity capital	9	31,259	28,312
Associates	10	157,609	157,731
Funds	11	93,519	93,327
Installment sale projects	12	5,261	4,355
Syndicated Ijarah	13	2,890	18,616
Loans (Qard)	14	180,585	191,999
Other assets		19,961	11,727
Fixed assets		25,889	27,621
TOTAL ASSETS		922,546	1,000,225
LIABILITIES			
Accruals and other liabilities	15	57,463	61,368
TOTAL LIABILITIES		57,463	61,368
NET ASSETS		865,083	938,857
REPRESENTED BY:			
Waqf Fund principal amount		1,071,460	1,073,861
Special assistance		(386,962)	(351,828)
Special account for Least Developed Member Countries (LDMC)		180,585	216,824
TOTAL FUNDS		865,083	938,857

The accompanying notes from 1 to 32 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
Statement of Activities and Changes in Net Assets
For the year ended 31 December 2019
(All amounts rounded to the nearest thousand United States Dollars unless otherwise stated)

	Notes	2019				2018
		Waqf Fund principal amount	Special assistance	Special account for LDMC	Total	Total (Restated) (note 25)
STATEMENT OF ACTIVITIES						
Income/(loss) from:						
Treasury assets						
Commodity murabaha placements					3,158	12,547
Syndicated murabaha					-	110
Investments in sukuk	8				5,584	5,212
Investment assets						
Associates	10				9,546	1,072
Funds					1,048	1,106
Syndicated ijarah					906	587
Other					4,295	3,599
					24,537	24,233
Financing costs					-	(6,612)
Foreign exchange gains					437	1,324
Income before impairment charge					24,974	18,945
Impairment charge	17				(6,456)	(10,964)
Attributable net income		-	-	-	18,518	7,981
Allocation of attributable net income		3,704	14,814	-	-	-
Donations to Special Assistance		-	7,066	-	7,066	912
Islamic Technical Financial Assistance Grant from IsDB-OCR		-	362	-	362	665
Non-Shari'ah income transferred from IsDB-OCR		87	348	-	435	477
Contributions from IsDB-OCR for technical assistance grants and scholarship program	18	-	17,466	-	17,466	21,198
Income before grants and program expenses		3,791	40,056	-	43,847	31,233
Grants for causes	19	-	(28,465)	-	(28,465)	(27,173)
Program expenses	19	-	(25,653)	-	(25,653)	(27,028)
Net deficit for the year		3,791	(14,062)	-	(10,271)	(22,968)
STATEMENT OF CHANGES IN NET ASSETS						
Net assets at 1 January		1,073,861	(351,828)	216,824	938,857	1,045,964
Net surplus/(deficit) for the year		3,791	(14,062)	-	(10,271)	(22,968)
Retirement pension plan liability	16	-	(7,947)	-	(7,947)	5,863
Fair value and other reserves		94	377	-	471	(10,257)
Reallocation from Special Account for LMDC to Special Assistance Programs Fund		-	35,003	(35,003)	-	-
STI Endowment Fund Contribution	20	-	(50,000)	-	(50,000)	(50,000)
Foreign exchange translation		(6,286)	1,495	(1,236)	(6,027)	(29,745)
Net assets at 31 December 2019		1,071,460	(386,962)	180,585	865,083	938,857

The accompanying notes from 1 to 32 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
Statement of Cash Flows
For the year ended 31 December 2019
(All amounts rounded to the nearest thousand United States Dollars unless otherwise stated)

	Notes	2019	2018 (Restated) (note 25)
Cash flows from operations			
Net deficit for the year		(10,271)	(27,416)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		-	1,657
Provision for impairment	17	6,456	11,144
Share of loss in associates, net		(5,983)	(1,432)
Gain on deemed disposal of associates		(134)	334
Sukuk accrual HTM Portfolio		(382)	-
Investment fair value loss		-	76
Pension deficit movement		(7,947)	-
Foreign exchange effect		(6,419)	860
Change in operating assets and liabilities			
Syndicated Murabaha		18	14,652
Installment Sale Projects		(906)	(4,355)
Syndicated Ijarah		15,726	1,722
Loans (Qard)		11,414	11,139
Other assets		(8,234)	6,270
Changes in accrued income		-	214
Accruals and other liabilities		(3,905)	7,759
Net cash (utilized in) / from operations		(10,567)	22,624
Cash flows from investing activities			
Net movement in commodity placements		(61,720)	125,900
Addition of investment in sukuk	8	(12,000)	-
Redemption of investments in sukuk	8	21,235	17,831
Additions to investments in funds	11	(11,405)	(15,098)
Disposal of investments in funds	11	8,567	5,204
Dividends from associates		1,478	1,713
Disposal of fixed assets		1,732	(28)
Net cash (utilized in) / from investing activities		(52,113)	135,522
Cash flows from financing activities			
Contribution to the STI Endowment Fund	20	(50,000)	(50,000)
Cash utilized in financing activities		(50,000)	(50,000)
Net change in cash and cash equivalents		(112,680)	108,146
Cash and cash equivalents at 1 January		175,311	67,165
Cash and cash equivalents at 31 December	5	62,631	175,311

The accompanying notes from 1 to 32 form an integral part of these financial statements.

1. INCORPORATION AND OPERATIONS

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

The Fund is managed in accordance with IsDB's regulations by the Bank, which is also applicable to the Fund. The legal title of the Fund's assets is held with the Bank for the beneficial interest of the Fund.

The Fund is not subject to any local or foreign external regulatory authority and is not supervised by any external regulatory authority. Moreover, in each Member Country the Fund has been granted an exemption from all taxes and tariffs on assets, property or income, and from any liability involving payment, withholding or collection of any taxes.

The Fund derives its income from returns on treasury assets, investments and other assets. As per the regulations of the Fund, a certain percentage of the attributable net income of the Fund is allocated to the principal amount of the Fund every year until it reaches ID 1 billion. In accordance with the Resolution of the Board of Executive Directors dated 24 February 2019, new attributable income allocations were approved (as tabled below). Further, the Board decided that effective 2019 all principal repayment of loans shall be allocated to the Special Assistance Programs Fund until the Special Account for LDMCs is offset.

Implementation of the Board's decision resulted in the transfer of the difference between the loan balance at 31 December 2019 and the Special Assistance for LDMCs account to the Special Assistance Programs account in order to match the loan balance and the Special Account for LDMCs balance.

Allocation of attributable income to:	From 2019	2018 and prior periods
Principal Amount of the Fund	20%	15%
Special Assistance Programs	80%	65%
Special Account for LDMCs	0%	20%

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

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

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

In accordance with the Board of Governors' Resolutions, income on IsDB balances with other banks (conventional investments) and other investments balances, which are considered by IsDB Group Shari'ah Board to be forbidden by Shari'ah, are not included in the income statement (statement of activities) of IsDB but are transferred by IsDB to the Fund and included in the statement of activities for an amount of US$ 435 thousand.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

b) Basis of measurement

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

- Investment in Funds and investments in equity capital are measured at fair value through statement of changes in net assets;
- Certain investments in Sukuk are measured at fair value through income statement (statement of activities) designated as such at the time of initial recognition; and
- Investments in associates accounted for using equity method of accounting.

c) Functional and presentation currency

Since establishment and up to the end of 2019 the Fund's function and presentation currency was Islamic Dinar "ID". During 2019, the Board of executive Directors approved the change of the functional currency of the Fund from ID to United Stated Dollars ("USD"). (Note 25)

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

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

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

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

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

Item	Recognition principles
Cash equivalents	Amortised cost less impairment
Commodity murabaha placements	Amortised cost less impairment
Syndicated murabaha	Amortised cost less impairment
Investments in Sukuk classified as either:	Fair value through income statement (statement of activities); or amortised cost
Investments in equity capital	Fair value through statement of changes in net assets
Investment in funds	Fair value through statement of changes in net assets
Installment sales project	Amortised cost less impairment
Syndicated Ijarah	Disbursement less impairment
Loans	Cost less impairment

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Offsetting of financial assets and liabilities

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

c) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity placements through banks having a maturity of three months or less from the date of placement that are subject to an insignificant risk of changes in their fair value.

d) Commodity murabaha placements

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

e) Syndicated murabaha

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

The amounts receivable from investments in syndicated murabaha are stated at the selling price less unearned income to the reporting date, less repayments received and any provision for impairment i.e. at the amortised cost less impairment.

f) Investments in sukuk

Investments in sukuk are debt-type instruments classified and measured at either amortised cost or at fair value through income statement (statement of activities) depending on their classification.

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

Sukuk classified and measured at fair value through income statement (statement of activities) are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement (statement of activities). Transaction costs are expensed immediately on the date the contract is entered into.

g) Investments in equity capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investments in associates

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

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

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

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

i) Investments in funds

Investments in funds comprise of equity and other fund investments and are intended to be held for a long-term period and may be sold in response to needs for liquidity or changes in prices. Initially and subsequently such investments are measured at fair value, and any unrealized gains or losses arising from the change in their fair value are recognized directly in the statement of changes in net assets until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in the statement of changes in net assets is recognized in the income statement (statement of activities). Investments in funds whose fair value cannot be reliably measured are carried at cost less provision for any impairment in the value of such investments.

j) Installment sale project

Instalment sale agreements are deferred sale agreements whereby the Bank sells an asset, which the Bank has purchased and acquired based on a promise from the customer to buy. The selling price comprises the cost, plus an agreed 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investment in syndicated Ijarah

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

l) Loans (Qard)

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

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

m) Post-employment benefit plans

The Fund, through IsDB group participates in two defined post-employment benefit plans, the Staff Retirement Pension Plan and the Post-Employment Medical Scheme, both of which require contributions to be made to separately administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and percentage of final gross salary. Independent actuaries calculate the defined benefit obligation on an annual basis by using the projected unit credit method to determine the present value of the defined benefit plan and the related service costs. The underlying actuarial assumptions are used to determine the projected benefit obligations.

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

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

Actuarial gains or losses, if material, are recognized immediately in the reserves 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 Fund's defined benefit obligations, net of the fair value of plan assets.

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

n) 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 from the actual disbursement of funds to the date of maturity.

Investments in syndicated murabaha

Income from investments in syndicated Murabaha is accrued on an effective yield basis over the period from the date of the actual disbursement of funds to their scheduled repayment dates.

Investments in sukuk

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Revenue recognition (continued)

Investments in equity capital
Dividend income from investments in equity capital and other investments is recognized when the right to receive the dividend is established i.e. according to its declaration date.

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

Loan (Qard) service fees
Since the loan (Qard) portfolio is managed and administered by the Bank, the loan service fee is not recorded by the Fund but is transferred in full to the Bank's Ordinary Capital Resources (OCR).

o) Foreign currency

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

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

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

Foreign operations – investments in associates
The results and the net investment in the Fund's associates are translated into USD as follows:
- Fund's share of net income/loss of an associate is translated at the average annual exchange rate. All resulting exchange differences are recognised within statement of changes in net assets.
- Exchange differences arising from the translation of the net investment in associates (opening equity and movements in equity during the reporting year) are taken to reserves/net assets.

p) Impairment of financial assets

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

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

- full provision is made against installments overdue by 6 months or more; or

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Impairment of financial assets (continued)

Loans (Qard) (continued)

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

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

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

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

The most significant judgements and estimates are summarised below:

SIGNIFICANT JUDGEMENTS

a) Functional and presentation currency

The Fund changed its functional and presentation currency on 31 December 2019 from Islamic Dinar ("ID") to USD and decided to present its financial statements for the year ended 31 December 2019 in USD (note 25).

b) Significant influence

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

c) Going concern

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

d) Useful lives of fixed assets

The Fund's management determines the estimated useful lives of its property and equipment 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 previous estimates.

SIGNIFICANT ESTIMATES

Provision for impairment of financial assets

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

5. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash at banks	11,148	153,748
Commodity murabaha placements (maturities less than 3 months) (note 6)	51,483	21,563
	62,631	175,311

Commodity murabaha placements included within cash equivalents have an original maturity equal to or less than three months.

6. COMMODITY MURABAHA PLACEMENTS

	31 December 2019	31 December 2018
Placements with Islamic banks	22,000	8,174
Placements with Islamic windows of conventional banks	266,055	187,027
Accrued income	954	2,168
Commodity murabaha placements (maturities less than 3 months) (note 5)	(51,483)	(21,563)
	237,526	175,806

7. SYNDICATED MURABAHA

	31 December 2019	31 December 2018
Gross amount receivable	9,254	9,300
Less: impairment provision	(4,783)	(4,811)
	4,471	4,489

8. SUKUK INVESTMENTS

The movement in investments in Sukuk is summarized as follows:

	31 December 2019	31 December 2018
Balance at beginning of the year	110,931	130,996
Additions	12,000	-
Redemptions	(21,235)	(17,831)
Accrued coupon income	382	(214)
Unrealized fair value losses	-	(75)
Unrealized exchange revaluation losses	(1,133)	(1,945)
Balance at end of the year	100,945	110,931

	Counterparty rating				
31 December 2019	AAA	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at amortised cost					
- Financial institutions	6,031	11,985	6,178	-	24,194
- Governments	-	-	47,531	5,804	53,335
- Other entities	-	20,024	-	-	20,024
	6,031	32,009	53,709	5,804	97,553
Sukuk classified as fair value through income statement (statement of activities)					
- Other entities	-	-	-	3,392	3,392
	-	-	-	3,392	3,392
Total	6,031	32,009	53,709	9,196	100,945

8. SUKUK INVESTMENTS (continued)

31 December 2018	Counterparty rating AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at amortised cost					
- Financial institutions	-	-	14,180	-	14,180
- Governments	-	-	57,717	9,858	67,575
- Other entities	25,415	-	-	-	25,415
	25,415	-	71,897	9,858	107,170
Sukuk classified as fair value through income statement (statement of activities)					
- Other entities	-	-	-	3,761	3,761
	-	-	-	3,761	3,761
Total	25,415	-	71,897	13,619	110,931

Income from Sukuk investments is comprised of the following:

	2019	2018
Coupon income	5,584	5,288
Unrealised fair value losses	-	(76)
	5,584	5,212

9. INVESTMENTS IN EQUITY CAPITAL

Investments in the equity capital comprised of the following:

	31 December 2019	31 December 2018
Equity investments	42,400	39,697
Less: Impairment provision	(11,141)	(11,385)
	31,259	28,312

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

	31 December 2019	31 December 2018
Balance at beginning of the year	28,312	31,286
Transfered from investment in associates	3,859	-
Unrealized fair value loss	(995)	-
Reversal/(charge) of impairment	244	(2,241)
Foreign exchange translation reserves	(161)	(733)
Balance at end of the year	31,259	28,312

10. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	31 December 2019	31 December 2018
Balance at beginning of the year	157,731	163,410
Foreign currency translation and other movements through statement of changes in net assets	(4,337)	(5,074)
Gain/(loss) on deemed disposal	134	(328)
Share of net results	9,418	1,407
Transfer to investments in equity capital	(3,859)	-
Cash dividend received	(1,478)	(1,684)
Balance at end of the year	157,609	157,731

Name of the entity	Country of incorporation	Entity's activities	2019	2018
Caspian International Investment Company (CIIC)	Azerbaijan	Asset Management	27.78%	27.78%
Islamic Bank of Niger (IBN)	Niger	Banking	-	20.46%
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	51.61%	52.39%
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	87.46%	87.46%

a) The Fund does not have representation on the Board of Governors of ICIEC and Board of Directors of BBIL and does not have the power to control the financial and operating policies of these entities. Accordingly, these entities are not consolidated in the financial statements of the Fund.

The total assets, total liabilities, revenue and results of associates based on their financial statements for the interim and final periods in 2019 and 2018 are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share of net assets
CIIC	2019	18,288	1	12,191	(225)	5,080
	2018	18,365	1	327	(381)	5,100
IBN	2019	-	-	-	-	-
	2018	110,089	72,265	4,434	(6,400)	3,882
ICIEC (note 10 a)	2019	381,349	156,284	22,928	7,718	115,918
	2018	443,058	154,564	27,532	5,399	116,952
BBIL	2019	45,825	3,964	5,923	307	36,611
	2018	46,488	8,125	5,734	6,258	31,797

11. INVESTMENTS IN FUNDS

	31 December 2019			31 December 2018		
	Equity Funds	Other Funds	Total	Equity Funds	Other Funds	Total
Balance at beginning of the year	10,164	83,163	93,327	10,164	87,046	97,210
Additions	-	11,405	11,405	-	15,098	15,098
Disposals	(3,160)	(5,407)	(8,567)	-	(5,204)	(5,204)
Unrealized fair value gains/(losses)	-	6,315	6,315	-	(8,837)	(8,837)
Provision for impairment	(4,515)	(3,913)	(8,428)	-	(4,940)	(4,940)
Foreign exchange translation	-	(533)	(533)	-	-	-
Net balance at end of the year	2,489	91,030	93,519	10,164	83,163	93,327

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

12. INSTALLMENT SALE PROJECT

	31 December 2019	31 December 2018
Amounts disbursed	5,261	4,355

The above represents the mudaraba agreement whereby Fund has contributed USD 5.3 million (remaining equal share is contributed by IsDB-OCR). The project is not yet operational.

13. INVESTMENT IN SYNDICATED IJARAH

	31 December 2019	31 December 2018
Balance at 31 December	2,890	18,616

It represents participation in four Syndicated Ijarah investments with IsDB-OCR and other participants.

14. LOANS (QARD)

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

	31 December 2019	31 December 2018
Loans (Qard)	194,669	206,164
Less: provision for impairment	(14,084)	(14,165)
	180,585	191,999

Loans (Qard) are given to member countries with repayment period ranging between 20 to 30 years for which the Fund charges a loan servicing fee.

15. ACCRUALS AND OTHER LIABILITIES

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

	31 December 2019	31 December 2018
Unutilized Islamic Technical Financial Assistance Fund (Note 18)	27,644	27,308
Pension liability (Note 16)	19,986	10,535
Due to related parties (Note 23)	1,811	12,994
Others	8,022	10,531
	57,463	61,368

16. POST EMPLOYMENT BENEFIT PLANS

IsDB Group (IsDBG) staff retirement plan comprises of a defined staff pension plan (SPP) and a staff retirement medical plan (SRMP). Every person employed by the Bank (including the Fund) and its Affiliates on a full-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.

Staff Pension Plan (SPP)

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

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

The main features of the SPP are:
- Normal retirement age is the 62nd anniversary of the participant's birth;
- 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% (2018: 9%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2018: 21%).

Staff Retirement Medical Plan (SRMP)

Effective 1st Muharram 1421H, the Bank established the medical benefit scheme for retired employee via the BED resolution dated 18 Shawwal 1418H. This was extended to eligible staff members of the Bank's Affiliates i.e. on SPP.

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

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

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

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

16. POST EMPLOYMENT BENEFIT PLANS (continued)

Staff Retirement Medical Plan (SRMP) (continued)

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

	2019			2018
	SPP	SRMP	Total	Total
Benefit obligation - opening balance	36,174	2,583	38,757	44,327
Current Service Costs	1,362	122	1,484	2,278
Past Service Cost	246	397	643	-
Expense on Defined Benefit Obligation (DBO) Plan	1,607	116	1,723	1,824
Participations contributions	365	36	401	315
Disbursements from Plan Assets	(1,493)	(95)	(1,588)	(1,865)
Actuarial loss / (gain)	7,698	771	8,469	(8,122)
Currency translation loss	-	-	-	-
Benefit obligation – closing balance	45,959	3,930	49,889	38,757

The movement in the plan assets are as follows:

	2019			2018
	SPP	SRMP	Total	Total
Fair value of plan assets - opening balance	27,010	1,212	28,222	30,045
Other adjustments to the opening balance	166	3	169	(526)
Income on Plan Assets	1,224	56	1,280	1,265
Return on Plan Assets less than the discount rate	419	(7)	412	(1,733)
Plan participation contributions	365	36	401	315
Employer contributions	853	154	1,007	721
Disbursements from Plan Assets	(1,493)	(95)	(1,588)	(1,865)
Fair value of plan assets - closing balance	28,544	1,359	29,903	28,222
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 15)	17,415	2,571	19,986	10,535

The above net liability includes 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 Fund in the Reserves immediately in the year, it arises, if material.

16. POST EMPLOYMENT BENEFIT PLANS (continued)

Based on the actuarial valuations, the pension and medical benefit expenses for the year ended 31 December 2018 are as follows:

	2019			2018
	SPP	SRMP	Total	Total
Gross current service costs	1,362	122	1,484	2,278
Gross past service costs	246	397	643	-
Expense on DBO	1,607	116	1,723	1,824
Income on assets	(1,224)	(56)	(1,280)	(1,265)
Cost recognized in the Statement of Activities	1,991	579	2,570	2,837
Actuarial loss due to assumptions	7,698	771	8,469	(8,122)
Return on plan assets greater than the discount rate	(419)	7	(412)	1,733
Other adjustments	(166)	(3)	(169)	526
Currency translation impact	-	-	-	-
Cost recognized in reserve in statement of changes in net assets	7,113	775	7,888	(5,863)

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

	2019		2018	
	SPP	SRMP	SPP	SRMP
Discount rate	3.3%	3.3%	4.5%	4.5%
Rate of expected salary increase	4.5%	4.5%	4.5%	4.5%

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

The following table presents the plan assets by major category:

	2019			2018
	SPP	SRMP	Total	Total
Cash and cash equivalent and commodity murabaha placements	10,703	612	11,315	9,575
Managed funds and Instalment sales	4,519	-	4,519	4,634
Investments in sukuk	9,688	681	10,369	10,977
Land	2,706	-	2,706	3,170
Other (net)	928	66	994	(134)
Total plan assets	28,544	1,359	29,903	28,222

The amounts recognized in respect of the pension and medical obligations in the Reserves are as follows:

	2019			2018
	SPP	SRMP	Total	Total
Net deficit at beginning of year	4,401	641	5,042	10,905
Movements during the year	7,113	775	7,888	(5,863)
Balance at 31 December	11,514	1,416	12,930	5,042

17. IMPAIRMENT CHARGE

	2019	2018
Investment in funds (note 11)	6,456	4,947
Loans (Qard) (note 14)	-	3,776
Investment in equity capital (note 9)	-	2,241
	6,456	10,964

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

According to the Board of Governors' resolution no BG/3-439dated 5 April 2018 (corresponding to 19 Rajab 1439H) and resolution no BG/5-440 dated 6 April 2019 (corresponding to 1 Shaban 1440),an amount equivalent to 5% but not less than USD 5 million of the IsDB-OCR 2018 net income shall be allocated to finance Technical Assistance Operations in the form of grants during the year 2019 amounting to USD 12.48 million (2018: USD 14.5 million).

According to the Board of Governors' resolution no BG/3-439dated 5 April 2018 (corresponding to 19 Rajab 1439H) and resolution no BG/5-440 dated 6 April 2019 (corresponding to 1 Shaban 1440),an amount equivalent to 2% but not less than USD 2 million of IsDB-OCR 2018 net income shall be allocated for financing the bank's PHD/Post-doctoral Research Program(known as merit scholarship program) in the form of grant during the year 2019 amounting to USD 4.99 million (2018: USD 5.7 million).

19. ASSITANCE

The following amounts were distributed as grants from the Fund during the years ended 31 December 2019 and 31 December 2018 as part of the activities of the Special Assistance accounts pursuant to its objectives:

	2019	2018
Technical assistance grants	23,227	18,940
Scholarship program	4,767	4,986
Assistance for Islamic causes	471	3,177
Relief against disasters and calamities	-	70
	28,465	27,173

The following amounts were incurred as program expenses from the Fund during the year ended 31 December 2019 and 31 December 2018 as part of the activities of the Special Assistance accounts pursuant to its objectives.

	2019	2018
Operational Administrative	12,184	12,119
Science, Technology and Innovation Fund (STI)	5,322	4,705
Sacrificial meat project	5,139	2,241
Scholarship Program	2,746	2,090
Special Assistance office	162	4,620
Technical cooperation office	100	151
IRTI (note "a")	-	1,102
	25,653	27,028

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

20. SCIENCE, TECHNOLOGY AND INNOVATION (STI) ENDOWMENT FUND

At its 320th meeting, the BED passed a resolution to establish an STI Fund with an initial target capital size of USD 500 million of which the Fund is to contribute 20% or USD 100 million in two installments of USD 50 million each of which were made in years 2018 and 2019.

These contributions were made from the Special Assistance Program in the statement of changes in net assets.

21. UNDISBURSED COMMITMENTS

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

	31 December 2019	31 December 2018
Scholarship program	60,707	42,808
Technical assistance grants	51,160	49,224
Investments in Funds	14,332	-
(Qard) to LDMC	6,150	9,957
Special assistance grants Loan	1,890	17,310
Special loans	1,390	-
	135,629	119,299

22. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets and liabilities of the Fund in respective currencies (in thousands of USD equivalents) at the end of 31 December are as follows:

	31 December 2019	31 December 2018
Islamic Dinar	178,338	185,597
Japanese Yen	42,305	53,533
Euro	36,028	142,965
Chinese Yuan	24,666	75,520
Pound Sterling	15,032	58,006
Other currencies	(34)	(35)

23. RELATED PARTY BALANCES AND TRANSACTIONS

The Fund is managed by the IsDB and its transactions are executed by IsDB. Moreover, in the ordinary course of its activities, the Fund has certain transactions with IsDB - Ordinary Capital Resources (IsDB-OCR) and other affiliates.

Principal arrangements related to investment in Sukuk, commodity placements and their related income are between IsDB and counter parties. The bank accounts and investments of the Fund are held in the name of IsDB, for the beneficial interest of the Fund.

Due from related parties (included in other assets)

	31 December 2019	31 December 2018
IsDB - Ordinary Capital Resources	8,831	-
World Waqf Foundation	2,181	2,794
The International Islamic Trade Finance Corporation	1,594	318
Islamic Corporation for Development of Private Sectors	283	1,334
Awqaf Properties Investment Fund	211	-
Others	157	94
	13,257	4,540

$8,831 thousand is mainly related to the repayments of loans made by the Fund received directly by IsDB-OCR.

23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Due to related parties:

	31 December 2019	31 December 2018
Islamic Corporation for the Insurance of Investment and Export Credit	1,137	1,139
The Saudi Project for Utilization of Hajj Meat – Adahi	281	184
IsDB - Ordinary Capital Resources	-	10,420
Awqaf Properties Investment Fund	-	987
Al-Aqsa Fund	-	253
Others	393	11
	1,811	12,994

24. SHARI'AH BOARD

The Fund's 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 the 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 transactions and products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on its conformity with the Rules and Principles of the Islamic Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;

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

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

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

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

25. CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY

During 2019, the Board of Executive Directors approved the change of functional and presentation currency of the Fund from ID to USD to reflect the fact that USD has become the predominant currency of the Fund, counting for a significant part of its cash flows, hence, financial reporting in USD provides more relevant presentation of the Fund's financial position and performance as well as its cash flows. Based on the requirements of "IAS 21 – the Effects of changes in Foreign Exchange Rates", the change in functional currency has been applied retrospectively with the following methodology used to restate the comparative financial information from ID into US dollar:

- Non-US dollar financial assets and liabilities were translated at the relevant closing exchange rate at the end of the reporting period.
- Non-US dollar items of income and expenditure and cash flows were translated at average exchange rates prevailing in respective financial years.
- The effects of translating the Fund's financial results and assets/liabilities into US dollar were recognized as currency translation reserve in the statement of changes in net assets.

The impact of change in functional currency on 1 January 2018 is as follows:

	Amount in '000s
Net assets as at 1 January 2018, as previously stated in ID	734,453
Net assets as at 1 January 2018, as previously stated in USD	1,018,591
Effect of change in function currency (currency translation reserve)	27,373
Net assets as at 1 January 2018, as restated	1,045,964

26. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	62,631	-	-	-	-	62,631
Commodity murabaha placements	-	60,802	176,724	-	-	237,526
Syndicated Murabaha	-	-	4,471	-	-	4,471
Investments in Sukuk	-	7,025	25,828	68,092	-	100,945
Investments assets						
Equity capital	-	-	-	-	31,259	31,259
Associates	-	-	-	-	157,609	157,609
Funds	-	-	-	-	93,519	93,519
Installment sales	-	-	5,261	-	-	5,261
Syndicated Ijarah	-	-	2,890	-	-	2,890
Loans (Qard)	-	12,520	63,644	104,421	-	180,585
Other assets						
Other assets and fixed assets	11,077	3,350	2,181	3,352	25,889	45,850
Total assets	73,708	83,697	280,999	175,866	308,276	922,546
Liabilities						
Commodity murabaha purchase liabilities	-	-	-	-	-	-
Accruals and other liabilities	(1,811)	(6,763)	(28,905)	(19,984)	-	(57,463)
Total liabilities	(1,811)	(6,763)	(28,905)	(19,984)	-	(57,463)

26. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS (continued)

31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	175,311	-	-	-	-	175,311
Commodity murabaha placements	-	95,215	78,423	-	2,168	175,806
Syndicated Murabaha	-	-	4,489	-	-	4,489
Investments in Sukuk	-	18,054	29,565	63,312	-	110,931
Investments assets						
Equity capital	-	-	-	-	28,312	28,312
Associates	-	-	-	-	157,731	157,731
Funds	-	-	-	-	93,327	93,327
Installment sales	-	-	-	-	-	-
Syndicated Ijarah	-	-	4,355	-	-	4,355
Loans (Qard)	69	1,631	11,932	4,984	-	18,616
Other assets	3,899	14,425	56,574	117,101	-	191,999
Other assets and fixed assets	1,757	4,392	2,837	2,741	27,621	39,348
Total assets	181,036	133,717	188,175	188,138	309,159	1,000,225
Liabilities						
Accruals and other liabilities	(12,994)	(8,471)	(29,369)	(10,534)	-	(61,368)
Total liabilities	(12,994)	(8,471)	(29,369)	(10,534)	-	(61,368)

27. CONCENTRATION OF ASSETS

Economic sectors:
All operations of the Fund are receivable in respect of social sector financing. All investments are invested in accordance with criteria set out by management to ensure that the investee institutions have a credit rating acceptable to the management of the Fund or are in accordance with furthering the aims and objectives of the Fund. The geographical locations of assets of the Fund are as follows:

	IsDB's Member countries			Non-member	
	Asia	Africa	Europe	countries	Total
31 December 2019	696,315	163,920	53,961	8,350	922,546
31 December 2018	705,024	175,235	37,109	82,857	1,000,225

The geographical locations of assets for 2019 and 2018 reflect the countries in which the beneficiaries of the assets are located.

28. RISK MANAGEMENT

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

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's credit risk arises mainly from its operating assets and treasury investments.

For all classes of financial assets held by the Fund, the maximum credit risk exposure to the Fund is their carrying value as disclosed in the statement of financial position. The assets which subject the Fund to credit risk, principally consist of commodity placements, investment in Sukuk, Investment in syndicated Murabaha, Loan and Investments in syndicated Ijarah.

The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Liquid fund investment in commodity placements, syndicated Murabaha, Sukuk whose ratings are acceptable to the Bank per its policies. The Fund's loan and Investments in syndicated Ijarah are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks acceptable to the Bank per its policies. The Bank, its affiliates and its funds benefit from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, the Fund has had a very low level of overdue balances. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit loss is unlikely to occur.

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

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

An important element tool of credit risk management is the established exposure limits for single beneficiary or an obligor and group of connected obligors. In this respect, the Fund has a well-developed limit structure, which is based on the credit strength of the beneficiary, the obligor.

Moreover, credit commercial limits in member countries regarding financing operations as well as placement of liquid funds are also in place.

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

28. RISK MANAGEMENT (continued)

b) Market risk

The Fund is exposed to following market risks:

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's operations are affected in USD. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The investment portfolio is held primarily in USD and EUR. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

Mark-up risk
Mark-up risk arises from the possibility that changes in Mark-up risk will affect the value of the financial instruments. The Fund is exposed to Mark-up on its investments in cash and cash equivalents, Investment in syndicated murabaha, investments in syndicated Ijarah and investments in Sukuk. In respect of the financial assets, the Funds invests in fixed income instruments to ensure that the effect of exposure on financial assets is minimized.

c) Liquidity risk

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

d) Operational risk

The fund 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 risks, failure in fiduciary responsibilities and legal risk.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. The fund manages operational risk based on a consistent framework that enables the fund 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 fund 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 fund's purpose of establishment. Consequently, the fund effectively manages SNCRs through leveraging on the IsDB Group 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.

28. RISK MANAGEMENT (continued)

e) Fair values of financial assets and liabilities (continued)

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

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

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2019 and 2018.

31 December 2019	Level 1	Level 2	Level 3	Total
Investments carried at fair value through income statement (statement of activities):				
- Investments in sukuk (note 8)	3,392	-	-	3,392
Investments carried at fair value through statement of changes in net assets:				
- Investments in funds (note11)	8,234	-	85,285	93,519
- Investment in equity capital (note 9)	-	22,941	8,318	31,259
	11,626	22,941	93,603	128,170

31 December 2018	Level 1	Level 2	Level 3	Total
Investments carried at fair value through income statement (statement of activities):				
- Investments in sukuk (note 8)	3,761	-	-	3,761
Investments carried at fair value through statement of changes in net assets:				
- Investments in funds (note 11)	8,217	-	85,110	93,327
- Investment in equity capital (note 9)	-	-	28,312	28,312
	11,978	-	113,422	125,400

There were no transfers between levels during the years ended 31 December 2019 and 31 December 2018.

29. SEGMENT INFORMATION

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

30. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards have been issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") except for FAS 29 "sukuk issuances" which is in the stage of exposure draft and is expected to be issued in near future. The Fund 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 – 28 "Murabaha and other deferred payment sales" (continued)

FAS 28 intends to define the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. Additionally, the earlier standards did not discuss the issue of accounting for the purchaser in Murabaha and deferred payment sales transactions for which there was a dire need to prescribe accounting principles. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sales".

This standard shall be effective on the financial statements of the Fund beginning on or after 1 January 2019. Early adoption of the standard is permitted.

(ii) 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.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2019.

(iii) 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 shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

(iv) 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.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2020.

30. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(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 Islamic 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 2020.

(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 Islamic 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 2020.

(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 IFIF 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 Fund 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”.

31. SUBSEQUENT EVENT

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The Fund considers this outbreak to be a non-adjusting post balance sheet event. The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized by the Resolution of the Board of Executive Directors on 16 February 2020 (22 Jumada II 1441H) for submission to the Board of Governors 44th Annual Meeting.

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