



STRONGER TOGETHER

Financial Review
2021



الحج والعمرة



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1 CLIENT SERVICES



BUSINESS OVERVIEW

ICD fosters sustainable economic growth in its 55 member countries by investing in private sector projects, mobilizing capital in the international financial markets, and providing advisory services to business and governments.

ICD's activities are centered on four strategic focus areas:

- **Developing Islamic financial channels** to create multiplier impact;
- **Providing advisory solutions** for establishing Islamic finance windows and converting conventional financial institutions into Islamic finance organizations;
- **Providing finance for investments** in high-impact corporate sectors and helping governments by providing advisory services in privatization, asset management solutions, Sukuk issuance, and structuring project finance deals; and
- **Improving partnership** with IsDB Group and other MDBs and greatly leverage internal and external partners to go beyond its own resources.

ICD has a unique position in that it offers three sets of Shari'ah compliant business products and services to the private sector clients in member countries. These global business products are mutually reinforcing and interrelated, and include Financing & Investment Products, Advisory Services, and Asset Management.

Financing and Investment Products

ICD's mandate to serve the private sector of member countries is carried out through a variety of different products. It provides both term financing and equity contribution to private sector greenfield projects, or those which are undergoing expansion or modernization. ICD also extends short-term financing to cover working capital or procure raw materials with a tenor of up to 24 months. Furthermore, it extends lines of financing to commercial banks and local development financing institutions in member countries in order to indirectly finance their small and medium enterprises (SMEs). At the same time, it structures, arranges and manages syndication and securitization.

ICD's financing and investment products include:

Musharakah (joint venture)

In the context of business and trade, Musharakah refers to a partnership or joint business venture with a view to making profit. All investors contribute capital towards a business venture and agree to share profits on a pre-agreed ratio, while losses are borne by each investor in proportion to their respective capital contributions.

Mudarabah (profit-sharing)

This is a form of partnership where one party provides the funds, while the other provides the expertise and management. The former (capital provider) is known as the rab-al-maal, while the latter is referred to as the mudarib. Profits made through the business are shared between parties according to a pre-agreed ratio. If losses occur, the rab-al-maal will lose his capital, and the mudarib will lose the time and effort he invested into running the business. The mudarib bears the losses if caused by his negligence, misconduct or breach of contractual terms.

Murabahah (cost plus mark-up)

This concept refers to the sale of goods at a price which includes a profit margin agreed by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement.

Wakalah (agency)

This is a contract whereby a person (as the principal) asks another party to act on his behalf (as his agent) to undertake a specific task. The agent will be paid a fee for his services. This contract is usually used in conjunction with another Shari'ah compliant product.

Istisna

Istisna is Manufacturing Finance. It is a contract where one party agrees to manufacture/construct an asset based on the order and specifications of the paying party (buyer). In this contract, payments are made in advance, deferred or in stages to facilitate step-by-step progress in the manufacturing/construction works.

Ijarah

This type of contract refers to a lease, rent or wage. Generally, Ijarah is used when selling the benefit of use (usufruct) or service for an agreed rental charge or wage. Under this concept, ICD makes assets available to a client for an agreed period and rental. For example, equipment such as a manufacturing plant, automation equipment, or motor vehicle can be rented to a client, and during the lease period ICD retains ownership of the asset.

ADVISORY SERVICES

ICD provides a variety of advisory services to governments, public sector and private sector entities of its member countries. These services include assessing the business environment of member countries, along with any required reform actions. It also provides advisory services for project financing, company restructuring/rehabilitation, privatization, securitization, Islamic finance and the development of Islamic capital markets, particularly Sukuk. In detail:

Islamic Financial Institutions Development Program

works on advising financial institutions on creating independent Islamic subsidiaries/windows, transforming conventional to Islamic financial institutions (FIs), and creating new Islamic FIs focused on the local markets especially SMEs. The program helps in developing Islamic finance products and capabilities in private sector institutions as well as advising governments on Islamic finance.

Sukuk and Capital Markets Program seeks to help member countries to develop Islamic capital markets and Islamic yield curves, by advising member countries on issuing short-term and long-term Sukuk which aims to provide financial sector with the needed liquid instruments to invest surplus capital. This adds to the flow of Sukuk issuance in member countries, which helps to develop their debt capital markets and diversify the funding options. The program also works with the private sector to structure and distribute tradable Islamic instruments.

Industry and Business Environment Support Program seeks to support IsDB Group member countries in the development of conducive enabling environment for business, improve firms' competitiveness and resilience, enhance value chains, and promote industrialization in productive sectors.



ICD provides a variety of advisory services to governments, public sector and private sector entities of its member countries.

ASSET MANAGEMENT

ICD sponsors, structures, manages and participates in fixed income, capital market and private equity funds and other special-purpose investment vehicles which are designed to invest in/finance projects in accordance with its mandate. ICD Asset Management seeks to create a multiplier effect on ICD's own directly deployed resources, and aims at connecting sovereign wealth funds, financial institutions, pension funds, insurance companies, endowments, foundations, family offices and high-net-worth individuals with investment opportunities across various themes in emerging and frontier markets, all while boosting development impact. The Asset Management Department (AMD) is subdivided into four functions:

- **Business Development and Fund Programming Division** – Manages all new fund productization, sponsoring, seeding from concept to launch factoring all capital raising efforts and investor relations management. In addition, management of the business planning and strategic direction for the department and all business development activities with partners, service providers, fund managers and advisory clientele.
- **Portfolio Management Division** – Management, monitoring, restructuring and liquidation of all AMD Funds (in-house/external) as well as ICD Investment into funds. Specific programs and funds managed by the division include:
 - a. Fund Management Program** – ICD under its Fund Management Program sponsors both in-house managed and externally managed funds across geographic markets of interest and across a breadth of asset management classes.
 - i. Money Market Fund (MMF) The Open-End Fund** is a central liquidity solution that targets investors and institutions seeking highly liquid near-term instruments and short-term capital preservation and income growth. The fund invests in short-term bank placements and low to moderate risk income generating instruments/ portfolios.

- ii. ICD Unit Investment Fund (UIF)** – The legacy Open-End Fund invests in viable and socially responsible investments (primarily corporate, trade and treasury instruments) in conformity with the principles of Shari'ah and the Investment Policy of the Fund.

- b. Portfolio Management Program** - ICD under its Portfolio Management Program invests and monitors Funds across geographic markets of interest with a dire focus on SMEs.

- i. Tunisia Theemar SME Fund** - The Close-End Fund is used for equity funding SMEs in Tunisia and invests in sectors of strategic importance such as agri-food, industrial, financial services, and manufacturing.

- ii. Saudi "Afaq" SME Fund** - The Close-End Fund is externally managed by Malaz Capital and provides Murabahah financing to SMEs in the Kingdom of Saudi Arabia, along with equity investments to strategic sectors such as manufacturing, education, healthcare, tourism, and food & beverage. The Fund investment period is over and currently in the phase of exit from the invested underlying entities and collection/full recovery of the outstanding debts of obligors.

- iii. ICD Global Sustainable Fund** – The Fund adopts the Environmental, Social and Governance (ESG) framework, targeting listed global equities which employ a combination of alpha- and beta-driven strategies across equity capital markets.

- **Client Advisory Services** - The goal is to i) execute, grow and close client advisory mandates in line with ICD's fee growth strategy, ii) to enhance ICD's asset management business model by identifying new commercial opportunities for partnerships and iii) to raise the development impact multiplier for the universe of Islamic asset management products and increase penetration in the space.
- **Asset Management Support Unit** – Management of AMD financial reporting, operations, regulatory and administrative support to all AMD Funds, entities and investments.

OPERATIONS OVERVIEW

2021 HIGHLIGHTS

2021 was a critical year in terms of finalizing and implementing ICD's new operating model and organizational structure, which laid the foundation for transforming ICD and the way it fulfils its private sector mandate. Total approvals for the year stood at USD 243.60 million (USD 306.60 million in the previous year). As far as ICD's core business operations are concerned, term finance and line of finance (LOF) made up the bulk of ICD approvals with a 50.08% and 43.51% share respectively and a combined total of USD 228.00 million. This is in line with our commitment to channel resources to better serve end-beneficiaries, primarily SMEs and high-impact industries. Meanwhile, equity projects accounted for the remaining 6.40% of total approvals. This brings cumulative approvals since inception to USD 7.08 billion.

In terms of sectoral allocation, almost half of the new project approvals for the year were earmarked for the financial sector (49.92%), while non-financial sector investments focused on high-impact sectors, primarily transportation (20.53%), industry and mining (18.47%) and health infrastructure (11.08%). In terms of regional distribution, 31.61% of project approvals were allocated to the Middle East and North Africa (MENA) region, followed by 30.79% to Asia, 29.39% to sub-Saharan Africa, 6.16% to Europe and Central Asia and the remaining 2.05% to global (multi-country) projects.

On disbursements, total distribution for the year totalling USD 208.71 million (2020: USD 135.48 million) was mainly in high-impact sectors such as finance (62.25%), transportation (19.17%) energy (13.80%) and industry and mining (4.79%). Overall, the disbursement-to-approval ratio stood at 85.68%, improving significantly compared to the previous year (44.18%).

In order to further improve the operating model and to ensure financial sustainability, ICD continued its efforts to enhance its fee-based revenue generation activities

FIGURE 1.1: APPROVALS BY PRODUCT: 2021

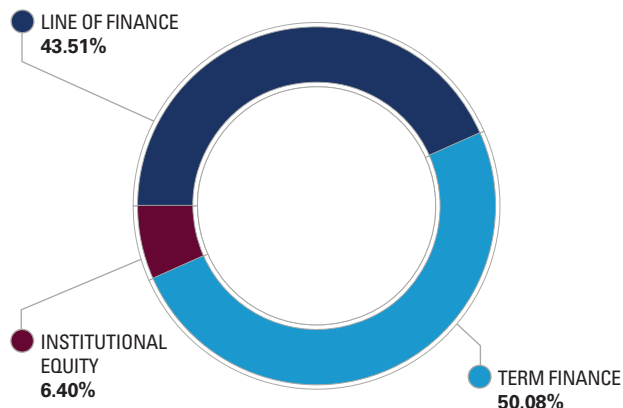


FIGURE 1.2: SECTORAL ALLOCATION BY APPROVAL: 2021

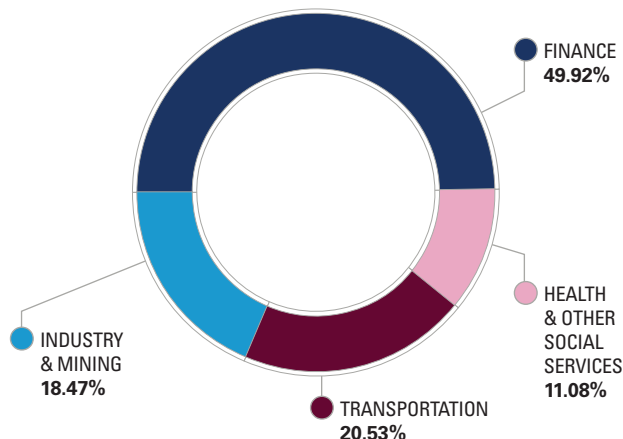


FIGURE 1.3: APPROVALS BY REGION: 2021

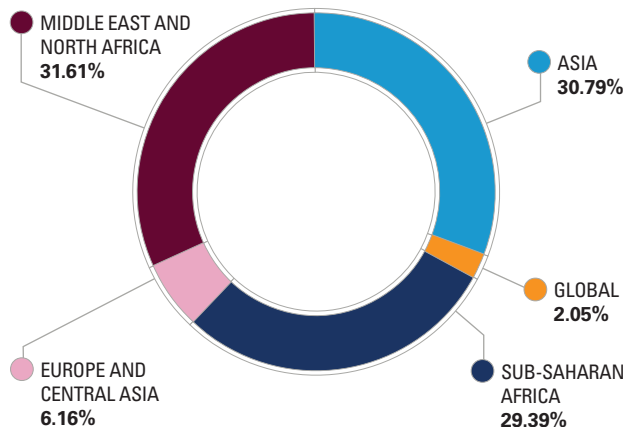
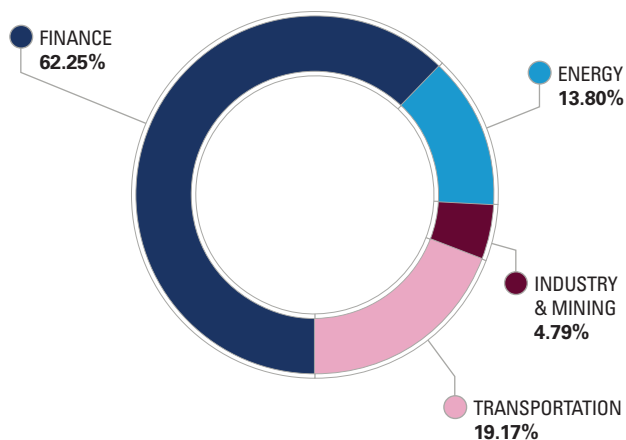


FIGURE 1.4: SECTORAL ALLOCATION OF DISBURSEMENTS: 2021



and signed three new sukuk mandates as well as two new advisory transactions involving the establishment of Islamic banking windows in Senegal and Mali. The Bridge platform was also established to help in reducing the digital divide in member countries and to create a more innovative, efficient and financially sustainable organization with a large network of partner financial institutions for the purpose of mobilizing additional resources and cross-border investment.

HIGHLIGHTS SINCE INCEPTION

Since ICD's establishment in 1999, it has approved 505 projects, valued at USD 7.08 billion. ICD approvals support a wide array of industries including finance, infrastructure, agriculture, manufacturing and energy, with investment operations present in 50 member countries.

Our approvals include:

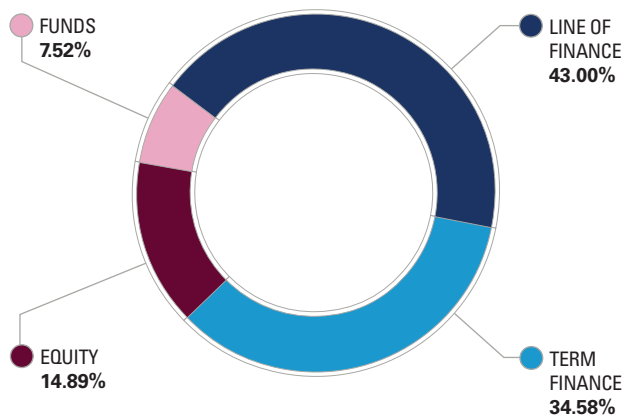
116 Line of Finance projects valued at USD 3.05 billion

228 Term Finance projects valued at USD 2.45 billion

146 Equity projects valued at USD 1.05 billion

15 Funds projects valued at USD 532.85 million

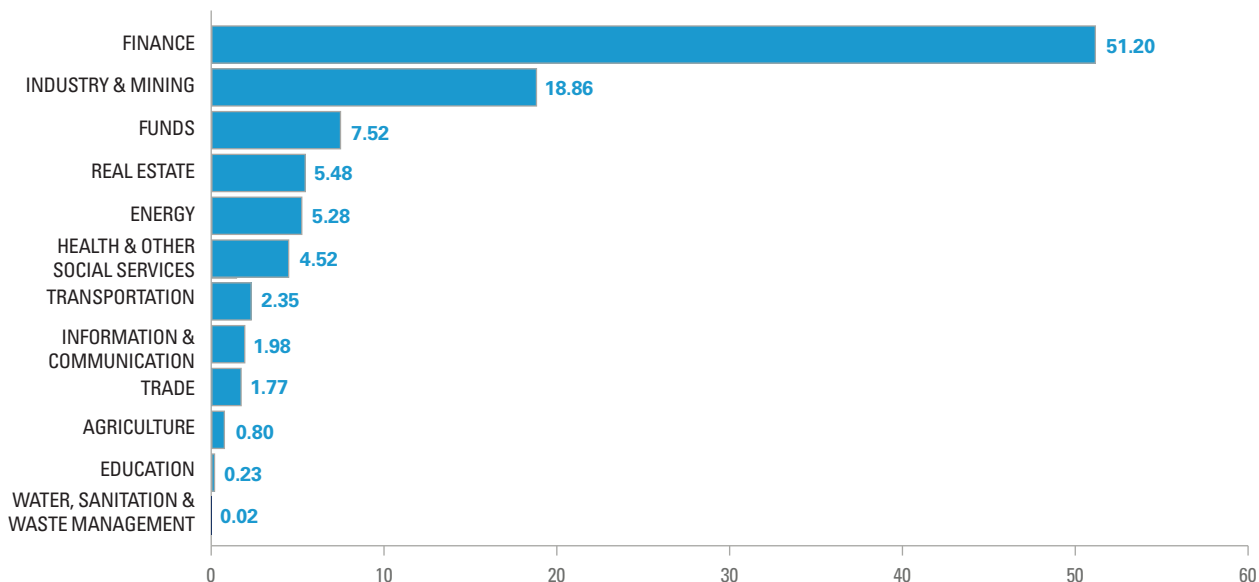
FIGURE 1.5: TOTAL APPROVALS BY PRODUCT SINCE INCEPTION



The Bridge platform was established to help in reducing the digital divide in member countries and to create a more innovative, efficient and financially sustainable organization.

To date, 77.58% of approvals have been allocated to credit financing (term finance plus line of finance), followed by 14.89% in equity participation (institutional equity and corporate equity), and the remaining 7.52% in funds.

FIGURE 1.6: TOTAL APPROVALS BY SECTOR SINCE INCEPTION



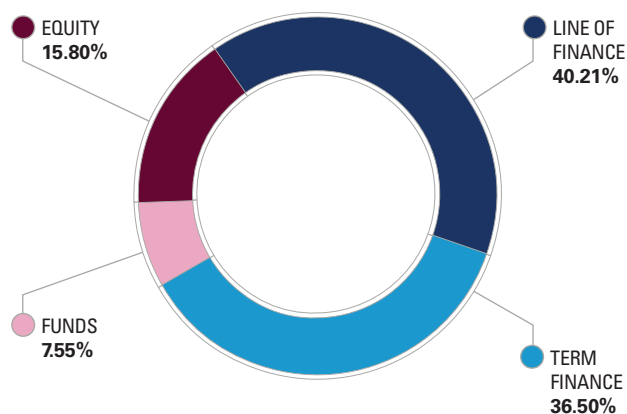
By far, the largest share of approvals was allocated to the finance sector (excluding funds) which is the intermediation of SME finance, representing 51.20% of gross approvals (USD 3.63 billion) to date. The industrial and mining sector takes up the second largest share (18.86%) with a gross approved amount of USD 1.34 billion. This is followed by funds with 7.52%, and real estate, energy, health and other social services, transportation, information and communication, and trade, accounting for 21.37% of gross approvals. The remaining USD 74.38 million, representing 1.05% of cumulative approvals, is allocated to three economic sectors: agriculture, education, and water, sanitation and waste management.

Our approvals also reflect our wide geographic reach. By the end of 2021, ICD investment operations covered 50 member countries, in addition to a number of regional and global-level projects spanning several economies. The Middle East and North Africa (MENA) region accounts for 29.35% of gross approvals, followed by Europe and Central Asia (ECA) with 21.35%, Sub-Saharan Africa (SSA) with 18.14%, and the Asia region with 14.91%. The share of regional/global

projects covering several countries across different regions represents 16.25% of gross approvals.

ICD has disbursed a total of more than USD 3.75 billion since inception. Disbursements vary according to product, with line of finance and term finance projects accounting for the largest proportion (40.21% and 36.48%, respectively). Equity operations accounted for 15.76%, followed by funds at 7.55%.

FIGURE 1.7: TOTAL DISBURSEMENTS BY PRODUCT SINCE INCEPTION



 **The largest share of approvals allocated to the finance sector (excluding funds) is the intermediation of SME finance, representing 51.20% of gross approvals (USD 3.63 billion) to date.**





2 LIQUID ASSETS AND FUNDING RESOURCES



LIQUID ASSETS

ICD invests its liquid asset resources across a diversified portfolio of high-quality investments in fixed and floating rate Shari’ah compliant products. These products include short-term money market placements with highly rated financial institutions, participation in syndicated financing, and investment in Sukuk issued by rated financial institutions, governments/government agencies and high-quality corporate issuers.

ICD manages the market risk associated with these investments through active balance sheet and asset-liability management and through the use of appropriate Shari’ah compliant hedging products such as FX forwards and Islamic derivative contracts.

ICD invests a significant portion of its liquidity in high credit-quality instruments with 93% of its liquid portfolio deployed in investment grade assets (see figure 2.1).

ICD has a geographically diversified liquid asset portfolio with liquidity deployed across 15 countries (see figure 2.2).

The maturity profile of ICD’s liquid investment portfolio is optimized to achieve prudent balance sheet management while generating reasonable risk-adjusted returns.

ICD invests its liquid asset resources across a diversified portfolio of high-quality investments in fixed and floating rate Shari’ah compliant products.

FIGURE 2.1: RATING PROFILE

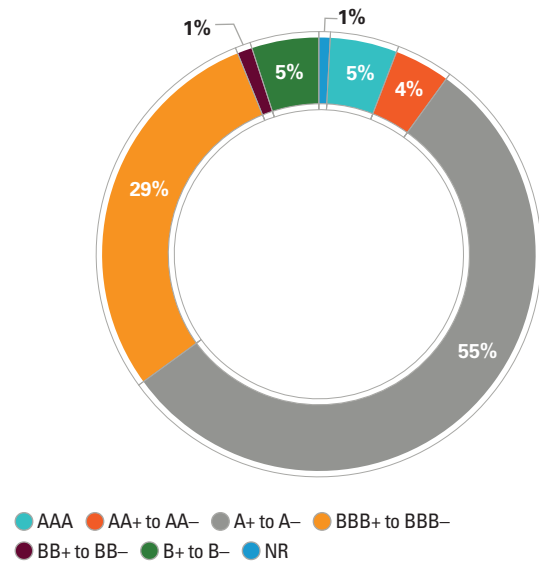


FIGURE 2.2: GEOGRAPHICAL BREAKDOWN

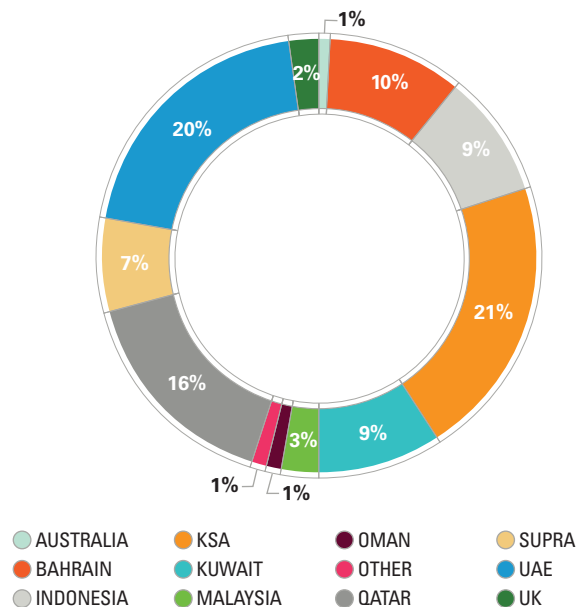
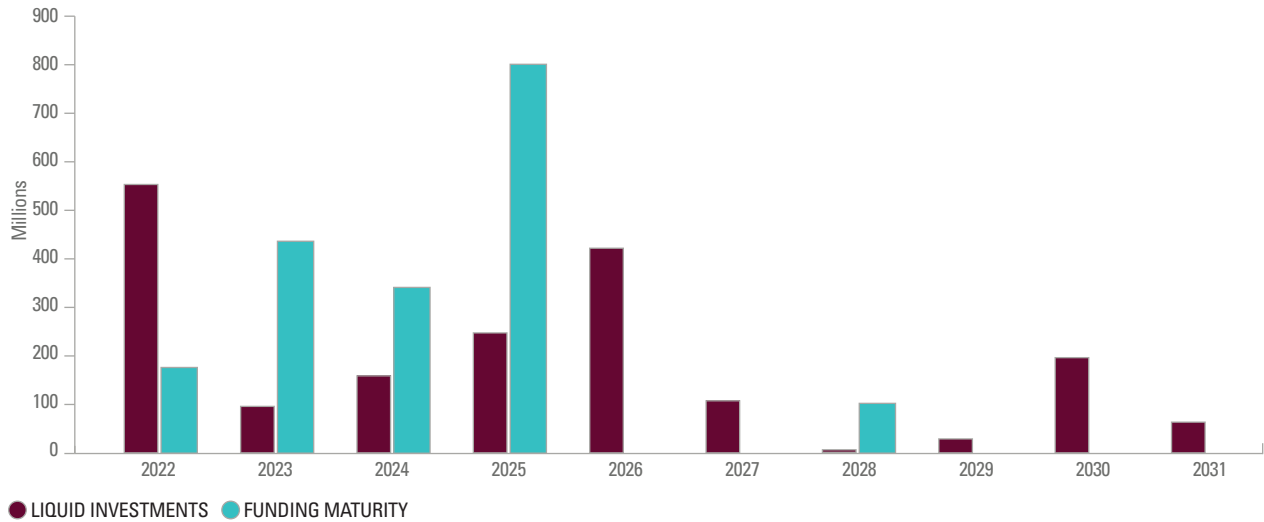


FIGURE 2.3: LIQUIDITY PROFILE



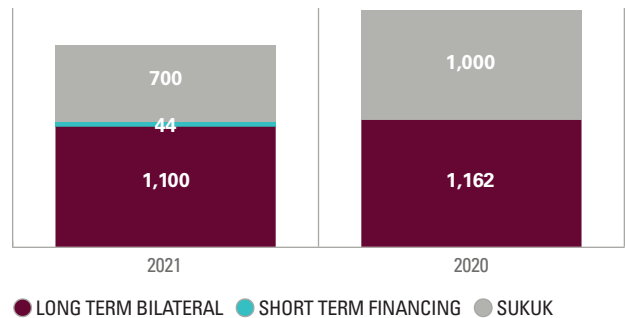
FUNDING

The primary sources of ICD’s funding are Sukuk issuances and bank financing. As at 31 December 2021, ICD’s sukuk issuances amounted to USD 700 million (USD 600 million public and USD 100 million private). Both sukuk totalling USD 700 million will mature in 2025.

Long-term bilateral (USD 1.1 billion) and short-term money market financing from banks (USD 44 million) totalled USD 1.14 billion as of YE 2021 (USD 1.16 billion as of YE 2020). Long-term financing facilities have been secured from banks operating in different geographical regions and have original maturities varying from three to seven years.

In order to maintain a matched asset and liability profile, ICD typically seeks funding in its functional currency – U.S. Dollar and swaps the proceeds to other currencies as required by business units to manage the exchange rate risks. ICD also borrows in other currencies such as EUR where it is deemed appropriate to support ICD’s intervention activities.

FIGURE 2.4: FUNDING SOURCES (USD MILLIONS)



FUNDING ACTIVITIES IN 2021

ICD successfully raised approximately USD 437.6 million from two bilateral financing facilities and an inaugural club financing facility from two international banks during 2021 to meet annual operational and liquidity requirements. ICD was able to secure its first funding with a tenor of more than five years through one of the bilateral financing facilities.

In 2022, the funding team will look to diversify funding solutions to include standby facilities, interbank facilities, club/syndicated financing facilities and repurchase agreements. This is in addition to the existing products that ICD has utilized which include bilateral facilities, public and privately placed Sukuk.

“ The primary sources of ICD’s funding are Sukuk issuances and bank financing.



A photograph of two men in business attire looking at a tablet together. The man on the left is wearing glasses and pointing at the screen. The man on the right is holding the tablet. The image has a teal overlay.

3 RISK MANAGEMENT



In carrying out its development mandate, ICD is exposed to a variety of risks, including financial, integrity, and operational risks. The primary objective of ICD's risk management framework is to identify, measure, monitor, and control these risks. The framework comprises risk governance, policies, methodologies, and processes.

RISK GOVERNANCE

The Board of Directors and Board Committees provide the highest level of oversight on the major risks in ICD's operations. ICD's Management Committee, under the Chairman of the CEO and GM, oversees corporate-wide risk issues and endorses all risk policies and guidelines for approval by the CEO and Board of Directors. The Investment Committee is the highest decision-making body for all investment decisions within ICD, covering new and existing transactions as well as workouts. The Asset and Liability Committee (ALCO) oversees the risks in ICD's balance sheet as well as in liquid asset management and funding operations. The Equity Monitoring Committee focuses on the monitoring, valuation and reporting (including performance measurement/analysis) of the equity investments and funds portfolio.

RISK POLICIES AND GUIDELINES

The Risk Management Department is responsible for developing and maintaining ICD's risk policies and guidelines. The Board of Directors approves all risk policies following endorsement by various board and management committees, including the Audit, Risk and Compliance Committee of the Board, Management

Committee, Policy and Procedures Working Group, and ALCO. The key risk policies and guidelines are summarized as follows:

- **Capital Adequacy Policy:** Prudential minimum level of capital is required to cover all risk assets in ICD's operations. ICD's capital adequacy ratio is defined as total members equity (paid-in capital plus reserves) divided by risk-weighted assets. The policy requires ICD to maintain this ratio at 35% or higher. The table below provides the breakdown of ICD's risk-weighted assets and capital adequacy ratio (38.6%) at year-end 2021.

TABLE 3.1: ICD'S RISK-WEIGHTED ASSETS AND CAPITAL ADEQUACY RATIO AT YEAR-END 2021 (USD MILLIONS)

Asset Class	Exposure (USD million)	Risk Weighted Assets
Equity Investment	370.5	967.7
Term financing	843.4	1,240.8
Liquid Funds	1,909.1	590.8
Total Risk Weighted Assets (TRWA)		2,799.3
ICD's Members Equity (E)		1,079.3
Capital Adequacy Ratio (E/ TRWA)		38.6%

- **Liquidity Policy:** A prudential minimum liquidity equivalent to a one-year net cash requirement under stress is to be maintained at all times to ensure that ICD can meet all its financial obligations without additional funding over the next 12 months. The net cash requirement is defined as cash inflows (repayments, capital payments, and net income) minus cash outflows (disbursements and redemption).

- **Treasury Risk Management Policy:** All treasury investments and borrowings are to be undertaken in accordance with the provisions of this policy, which set prudential limits on market risk, credit risk, concentration risk, and liquidity risk. The key metric for market risk is duration, which is capped at three years. Also, ICD is required to maintain the average credit rating of the liquidity portfolio at A-/A3.
- **Asset and Liability Management Policy:** The policy's matched funding principle requires ICD to match the currency and profit rate of its assets and liabilities. Accordingly, ICD funds its floating rate assets with floating rate liabilities and vice versa for fixed rate assets. ICD funds its equity investments strictly using equity capital. To ensure flexibility in its funding operations, ICD uses derivatives on a fully hedged basis to convert the currency and mark up basis of its liabilities to match those of its assets. According to ALM policy, ICD's equity capital shall be prioritized to fund (i) equity investments; and (ii) liquid assets in the core liquidity portfolio.
- **Credit Risk Exposure Management Policy:** Credit and concentration risks are managed through a variety of strategic and prudential limits, including on asset class, country, sector, single obligor, and group company.
- **Anti-Money Laundering and Countering Terrorist Financing Policy:** ICD manages the risk of being used as a conduit for money laundering and terrorist financing activities by establishing the essential standards and implementing safeguards designed to prevent such activities. The policy is implemented across all business operations of ICD. A number of processes have been implemented in this regard including obtaining and reviewing Know Your Customer (KYC) information from the counterparty ICD consults and coordinates with the IsDB Group Compliance Office regarding any issues related to AML, KYC and integrity.

TABLE 3.2: ICD'S CREDIT AND RISK EXPOSURES AT YEAR-END 2021

Transaction type	Exposure (USD million)	% Total Exposure
Line of Financing to Banks	324.6	10.6%
Term Financing	470.3	15.4%
Liquidity	1,909.1	62.3%
Sub-total: Credit Risk Exposure	2,703.9	88.3%
Equity Investments	283.4	9.3%
Funds	75.9	2.5%
Sub-total: Equity Risk Exposure	359.3	11.7%
Total	3,063.2	100.0%

CREDIT AND EQUITY RISK

Credit risk is the risk of loss if a borrower or counterparty fails to fulfill its financial obligations to ICD. Equity risk is the risk of loss arising from changes in market price or fair valuation of ICD's equity investments. Such valuation is sensitive to a variety of factors, including macroeconomic developments, management performance, demand/supply dynamic, political risk, market risk, and exchange rate movements. ICD is required to assign an internal credit rating to each financing transaction as well as to each treasury counterparty when a public rating from one of the major international rating agencies is not available. ICD uses an internally developed credit rating methodology that is broadly aligned with that of the major international rating agencies. The methodology comprises four templates for rating exposures to sovereign, corporate, financial institution, and project finance. ICD's internal credit rating scale comprises 21 categories that are mapped to those of international rating agencies. ICD manages three principal sources of credit risk: (i) Line of Finance; (ii) Term Finance; and (iii) Financial Institution transactions relating to liquidity and asset and liability management activities. These risks are managed within an integrated framework of Risk Assessment Guidelines encompassing Project Finance, Corporate Finance, Financial Institutions, and the Investment Guidelines. The table above provides the major credit and equity risks in ICD's operations.

CREDIT AND EQUITY RISKS IN THE OPERATIONS PORTFOLIO

All new financing and equity investment transactions are subject to ICD's Credit Approval Process, which entails two rounds of review involving the Risk Management Department and investment committee (IC): Concept Review and Final Review. At the Concept Review stage, the primary objective of the assessment is to ensure that the transaction generally complies with ICD's developmental, operational, financial, integrity, and risk management strategies and principles. Following IC's concept review clearance, detailed due diligence is undertaken and the results are presented to the investment committee for final review. All transactions exceeding USD 30 million (Up to USD 50 million) are submitted to the Chairman of the Board for approval.

Following approval, monitoring of exposures is undertaken in accordance with ICD's Credit Administration and Monitoring Process. The responsibility for monitoring transactions rests with the operations department with oversight by the Risk Management Department and IC. In this review, ICD assesses the implementation progress, development impact, and key risk factors as well as updates the credit rating, equity valuation, and provisions as appropriate.

The following tables provide detailed information on credit risk in the operations portfolio by country, sector, and risk rating category.

TABLE 3.3: CREDIT RISK IN OPERATIONS BY COUNTRY
AT YEAR-END 2021

Country	Exposure (USD million)	% of Total Exposure
Senegal	139.5	12.1%
Malaysia	134.6	11.7%
Egypt	79.7	6.9%
Pakistan	72.2	6.3%
Saudi Arabia	71.9	6.2%
Bangladesh	63.1	5.5%
Cote D'ivoire	56.1	4.9%
Uzbekistan	49.5	4.3%
Mauritania	48.0	4.2%
Tunisia	44.7	3.9%
Sudan	41.7	3.6%
Turkey	40.0	3.5%
Kuwait	40.0	3.5%
Nigeria	35.9	3.1%
Maldives	28.5	2.5%
Mali	25.9	2.2%
Jordan	23.8	2.1%
Tajikistan	14.6	1.3%
Regional	39.1	3.4%
Other	105.4	9.1%
Total	1,154.1	100.0%


 **Credit risk is the risk of loss if a borrower or counterparty fails to fulfill its financial obligations to ICD.**

TABLE 3.4: EQUITY INVESTMENTS BY SECTOR AT YEAR-END 2021

Sector	Exposure (USD million)	% Total Exposure
Financial Institution	218.5	60.8%
Fund	75.9	21.1%
Real Estate	40.3	11.2%
Industry & Mining	7.4	2.1%
Building Materials	6.4	1.8%
Agriculture	2.7	0.8%
Health & Other Social Services	0.0	0.0%
Other	8.1	2.2%
Total	359.3	100.0%

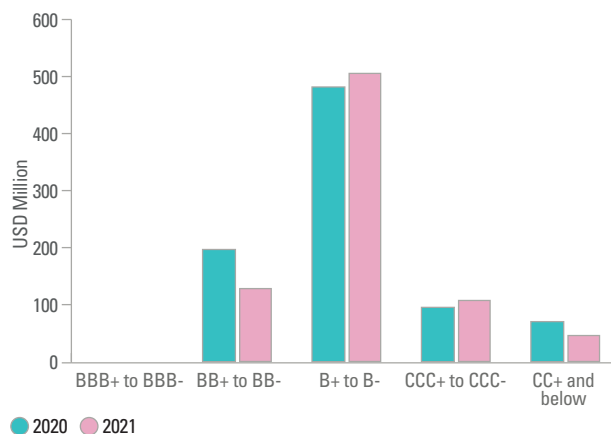
Financing portfolio: ICD's financing portfolio totaled USD 794.9 million at YE 2021 comprising line of finance (40.8%) and term finance (59.2%). The Weighted Average Risk Rating (WARR) of the financing portfolio stood at B/B2 at year-end 2021.

Direct equity investment portfolio: The direct equity investment portfolio totaled USD 359.3 million at YE 2021 comprising 36 transactions in various sectors including financial institutions (81.9%), real estate (11.2%), industrial (2.1%), building materials (1.8%), agriculture (0.8%), and others (2.2%).

Fund investment portfolio: The fund investment portfolio totaled USD 75.9 million at YE 2021 comprising of mainly ICD Asset Management Labuan (USD 31.1 million), ICD Money Market Fund Labuan (USD 24.9 million), Islamic Banking Growth Fund (USD 14.6 million), Theemar Investment Fund (USD 4.1 million), Saudi SME Fund (USD 0.9 million), and Kurulus (USD 0.3 million).

Credit risk in treasury operations: ICD invests funds held in its liquidity portfolio in accordance with the primary objective of safety and liquidity. The size of the liquidity portfolio was USD 1,909 million at YE 2021 comprising, cash (2.7%), placements (17.9%) and Sukuk (79.4%). The weighted average risk rating of the liquidity

FIGURE 3.1: CREDIT RISK IN FINANCING PORTFOLIO BY RATING CATEGORY AT YEAR-END 2021



portfolio was 'A-' at YE 2021, in line with the approved treasury risk management policy. Table 3.5 provide detailed information on ICD's liquidity portfolio at YE 2021 by country.

Single counterparty exposure limit covering Sukuk investments, money market placements, FX and derivative transactions, is set at the lower of 10% of ICD's expected liquidity portfolio, 20% of the counterpart's capital, or 12.5% of ICD total equity for A- or better rated counterparts. For BBB+ to BBB- rated counterparts the lower of 7.5% of ICD's expected liquidity portfolio, 20% of the counterpart's capital, or 8.5% of ICD total equity.

CREDIT RISK IN DERIVATIVES

As of YE 2021, outstanding Shari'ah compliant derivative transactions, including foreign exchange forward, profit rate swaps, and profit rate cross currency swaps totaled USD 475.4 million. In line with the ALM policy, which indicates that these transactions shall be undertaken to hedge exchange rate and profit rate risks in ICD's assets and liabilities. The market counterparties for these transactions include: CIMB Islamic, Credit Agricole, Emirates NBD, HSBC, Standard Chartered Bank.

TABLE 3.5: ICD'S LIQUIDITY PORTFOLIO BY COUNTRY
AT YEAR-END 2021 (USD MILLIONS)

Country	Amount	%
KSA	399.2	20.9%
UAE	375.1	19.7%
Qatar	315.4	16.5%
Bahrain	252.4	13.2%
Indonesia	171.0	9.0%
Supra	126.1	6.6%
Kuwait	112.5	5.9%
Malaysia	50.0	2.6%
UK	44.0	2.3%
Oman	16.7	0.9%
Australia	15.0	0.8%
Others	31.4	1.6%
Total	1,909	100.0%

MARKET RISK

Market risk relates to the potential loss on ICD's risk exposures arising from movements in market prices or changes in fair valuation. The major sources of market risk in ICD's operations include mark-up rate risk, exchange rate risk, and equity risk. The Board approved Asset and Liability Management policy requires that ICD follow the matched-funding principle in managing its assets and liabilities. Thus, ICD ensures that the market rate basis and currencies of all debt-funded assets match those of the underlying liabilities. In addition, the policy does not allow any open currency position in ICD's balance sheet. The matched funding principle ensures that ICD's income spread remains largely constant regardless of market rate and exchange rate movements. The entire term finance portfolio and debt-funded liquidity portfolios are currently in compliance with the matched-funding principle.

The major source of market risk in ICD's treasury portfolio relates mainly to those liquid assets funded by equity funds. ICD manages such market rate risk by establishing conservative duration limit of three years.

 **Market risk relates to the potential loss on ICD's risk exposures arising from movements in market prices or changes in fair valuation.**



4

FINANCIAL PERFORMANCE SUMMARY



ICD has operations in several countries and consequently its performance is affected by several factors. The impact of exchange rate movements, geopolitical developments, sector and specific investee company performances have a direct bearing on ICD's financial results.

The focus on the performance of investee companies and improvement in the performance of specific projects, resulted in unrealized fair valuation gain for equity investments and impairment reversal related to

term financing projects for the 2021 financial year. ICD reported a net profit of USD 8.61 million in 2021, as compared to a net loss of USD 15.23 million in the year ended 31 December 2020. The profit was mainly driven by the performance of the equity portfolio. Revenue from the core financing operations of Installment sales, Murabaha Financing and Ijarah Financing are presented in detail in the table below.

TABLE 4.1: REVENUE CHANGE FROM CORE FINANCING OPERATIONS: 2020 vs. 2021

Income:	USD million			%
	2020	2021	Change	Change
Investment income:				
Commodity placements (Treasury)	7.40	4.55	(2.85)	(38.51)
Income from Sukuk	66.41	21.76	(44.65)	(67.23)
Murabaha financing	3.43	1.69	(1.74)	(50.73)
Installment sales financing	19.85	16.01	(3.84)	(19.35)
Istisna	1.10	0.95	(0.15)	(13.65)
Invest. in equity Investments	(18.31)	11.28	29.59	(161.61)
Ijarah Muntahia Bittamleek	32.11	40.33	8.22	25.60
Depreciation on Ijarah Assets	(20.63)	(26.90)	(6.27)	30.39
			-	
Total Shari'ah compliant income	91.36	69.67	(21.69)	(23.74)
			-	
Provision	(27.86)	4.11	31.97	(114.75)
Funding Costs	(38.05)	(29.87)	8.18	(21.50)
Other income				
Advisory fee	0.71	6.37	5.66	797.18
Administrative fee	3.70	3.32	(0.38)	(10.27)
UIF Mudarib fee/Others	1.40	1.28	(0.12)	(8.57)
Fair value gain on derivative	0.86	(0.27)	(1.13)	(131.40)
Total other income	6.67	10.70	4.03	60.42
Total income	32.12	54.61	22.49	70.02

TABLE 4.2: FIVE-YEAR STATEMENT OF INCOME

Statement of Income	USD million				
	2017	2018	2019	2020	2021
Income:					
Investment income:					
Commodity placements (Treasury)	8.23	13.69	15.73	7.40	4.55
Income from Sukuk	14.71	12.24	49.09	66.41	21.76
Murabaha financing	12.05	13.53	11.61	3.43	1.69
Installment sales financing	17.58	30.90	26.23	19.85	16.01
Istisna's	0.60	0.90	1.17	1.10	0.95
Invest. in equity Investments	(87.24)	(241.96)	(107.19)	(18.31)	11.28
Ijarah Muntahia Bittamleek	41.91	32.73	32.73	32.11	40.33
Depreciation on Ijarah Assets	(31.74)	(24.62)	(19.00)	(20.63)	(26.90)
Total Shari'ah compliant income	(23.90)	(162.59)	10.37	91.36	69.67
	-	-	-	-	-
Inc. non-Shari'ah compliant placements	0.39	0.06	0.32	0.09	0.01
Transferred to ICD Solidarity Fund	(0.39)	(0.06)	(0.32)	(0.09)	(0.01)
Total investment income	(23.90)	(162.59)	10.37	91.36	69.67
Provision	(17.74)	(79.33)	(14.89)	(27.86)	4.11
Funding Costs	(36.54)	(58.19)	(57.68)	(38.05)	(29.87)
Advisory fee	2.32	0.68	1.76	0.71	6.37
Administrative fee	7.81	7.61	2.79	3.70	3.32
Exchange difference	-	-	-	-	-
UIF Mudarib fee/Others	3.46	1.58	0.37	1.40	1.28
Fair value gain on derivative	2.65	8.06	4.99	0.86	(0.27)
Total other income	16.24	17.93	9.91	6.67	10.70
Total income	(61.94)	(282.18)	(52.29)	32.12	54.61
Expenses					
Staff cost	(36.24)	(34.91)	(40.91)	(38.71)	(39.50)
Other administrative expenses	(8.70)	(8.87)	(12.53)	(8.53)	(6.45)
Depreciation	(0.14)	(0.14)	(0.12)	(0.11)	(0.05)
Total expenses	(45.08)	(43.92)	(53.56)	(47.35)	(46.00)
Net income	(107.02)	(326.10)	(105.85)	(15.23)	8.61


 **The reserve against losses is calculated for each mode of financing and deducted from the relevant asset category in the Statement of Financial Position.**

TABLE 4.3: STATEMENT OF FINANCIAL POSITION FROM 2017 TO 2021

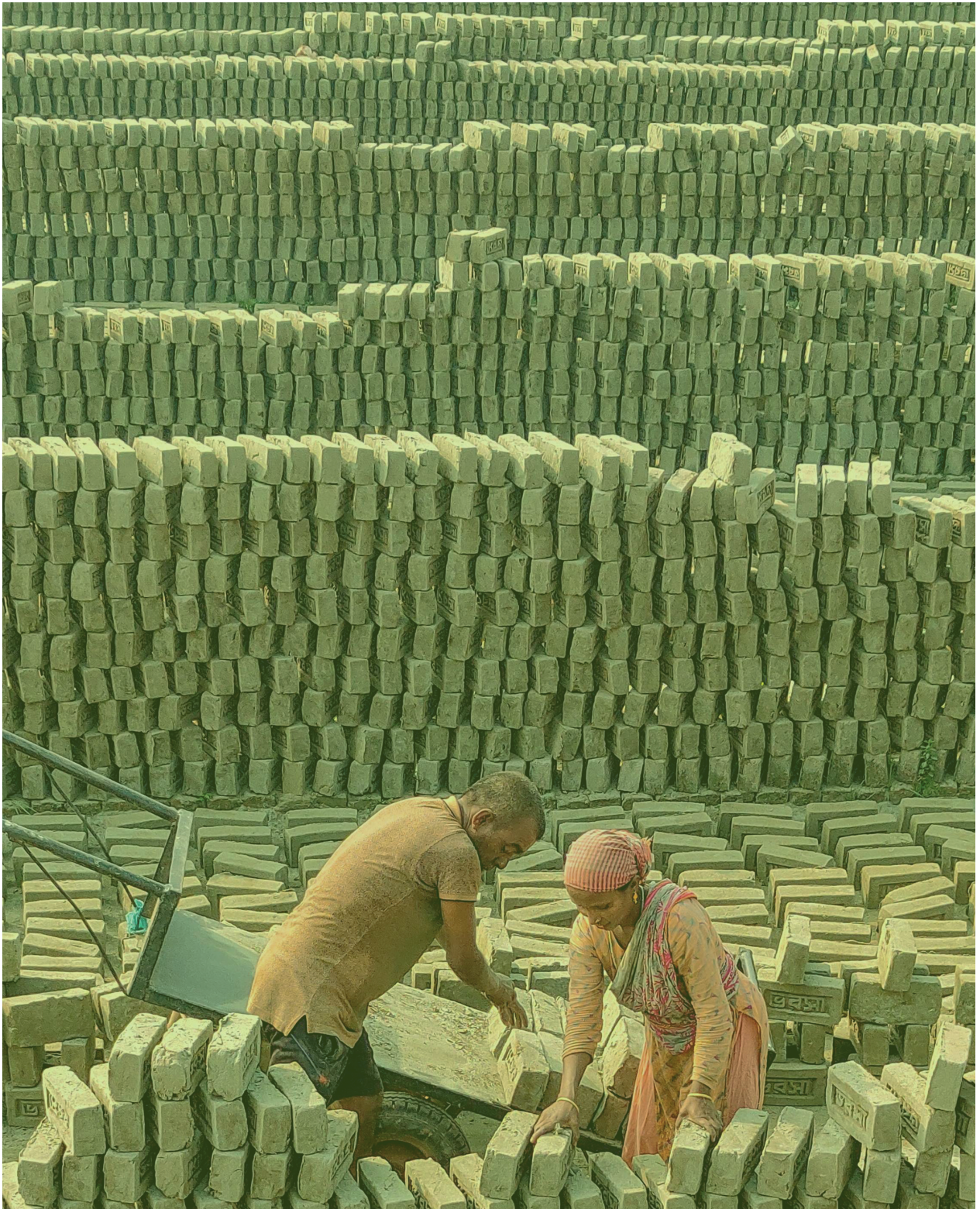
Statement of Financial Position	USD million				
	2017	2018	2019	2020	2021
Assets:					
Cash and Cash Equivalents	517.53	662.85	98.85	305.06	158.65
Commodity placements with financial institutions	145.66	115.29	283.20	526.85	198.07
Istisna	18.57	22.88	21.49	21.07	15.85
Murabaha financing	307.15	293.59	220.88	108.77	120.43
Installment sales & Line financing	410.14	509.56	455.47	359.29	307.57
Investment in Sukuk/Marketable Sect.	633.44	753.25	798.79	1,357.10	1,536.40
Investment in equity capital	695.03	462.28	349.12	322.13	359.27
Ijarah Muntahia Bittamleek	141.64	162.16	211.54	218.14	220.68
Accrued income and other assets	131.15	88.76	89.54	49.25	47.66
Furniture, vehicles and equipment	0.35	0.21	0.21	0.17	0.30
Total Assets	3,000.66	3,070.83	2,529.09	3,267.83	2,964.88
Liabilities and Member's Equity					
Liabilities:					
Accruals and other liabilities	59.64	46.30	78.98	107.53	83.98
ICD Solidarity Fund	1.04	0.99	1.25	1.20	1.22
Total liabilities	60.68	47.29	80.23	108.73	85.20
Long Term Loan					
Long/Wakala Borrowing	1,877.48	2,019.55	1,481.97	2,163.65	1,800.33
Member's Equity					
Paid-up Capital	1,047.41	1,310.93	1,394.38	1,525.45	1,582.92
Reserves (Net)	15.10	(306.94)	(427.49)	(530.00)	(503.57)
Total member's equity	1,062.51	1,003.99	966.89	995.45	1,079.35
Total liabilities and member's equity	3,000.67	3,070.83	2,529.09	3,267.83	2,964.88

RESERVE AGAINST LOSSES ON FINANCING FACILITIES

ICD considers a financing facility as impaired when, based on current information and events, it is probable that ICD will be unable to collect all amounts due according to the facility's contractual terms. The reserve against losses for impaired financing facilities reflects management's judgment of the present value of expected future cash flows discounted at the effective profit rate of the financing asset.

The assessment of the adequacy of reserves against financing assets is highly dependent on management's

judgment about factors such as its assessment of the financial capacity of counter parties, geographical concentration, industry, regional and macroeconomic conditions, and historical trends. The reserve against losses is calculated for each mode of financing and deducted from the relevant asset category in the Statement of Financial Position. Increases or decreases in the reserve level are reported in the income statement as impairment allowance for financing assets.



 **Capital gains, dividends and valuations are affected by changes in the general economic environment.**

VALUATION OF FINANCIAL INSTRUMENTS WITH NO QUOTED MARKET PRICES

ICD reports at fair value all equity investments, derivative instruments, liquid asset trading securities and certain borrowings. All financial instruments are classified and accounted for at fair value based on the fair value hierarchy established by accounting standards for fair value measurements and disclosures as described in more detail in the Notes to ICD's 2021 Financial Statements.

Many of ICD's financial instruments accounted for at fair value are valued based on adjusted quoted market prices or using models where the significant assumptions and inputs are market-observable and certain un-observable inputs such as discount for lack of marketability. The fair values of financial instruments valued using models where the significant assumptions and inputs are not market-observable are generally estimated using complex pricing models of the net present value of estimated future cash flows. Management makes numerous assumptions in developing pricing models, including an assessment about the counterparty's financial position and prospects, the appropriate discount rates, profit rates, and related volatility and expected movement in foreign currency exchange rates. Changes in assumptions could have a significant impact on the amounts reported as assets and liabilities and the related unrealized gains and losses reported in the income statement. The fair value computations affect both the Financing operations and Treasury segments of ICD.

OVERVIEW

The overall market environment has a significant influence on ICD's financial performance. The main elements of ICD's net income and influences on the level and variability of net income from year to year are:

- Income from Equity Investment Portfolio:** Global climate for emerging markets, fluctuations in currency and company-specific performance for equity investments. Capital gains, dividends and valuations are affected by changes in the general economic environment. The impact of foreign exchange movements, sector and specific company factors in our key markets affected the financial performance of the equity investment portfolio.
- Income from Financing:** Market conditions, competition and profit rate fluctuations usually affect the return from financing assets.
- Gains and losses on financial instruments accounted for at fair value:** Differences between changes in fair value of borrowings, Sukuk investments and associated derivative Instruments that are partly dependent on the global environment.
- Provision on Financing Portfolio:** Geopolitical environment and slow economic growth can affect borrowers' ability to timely service their obligations.
- Cost of Funds:** The need to maintain a certain amount of liquidity and expand the Corporation's presence in member countries calls for more resources that come at a cost.

2021 VERSUS 2020

Net Income

ICD reported a net revenue of USD 54.61 million in 2021, as compared to USD 32.12 million in 2020, representing 70.02% (USD 22.49 million) increase in total revenue. The increase in net revenue in 2021 when compared to 2020 is detailed in Table 4.4.

The decrease in the equity loss by USD 29.59 million and USD 31.97 million improvement in impairment allowance explains the increase in total income between 2021 and 2020. A more detailed analysis of the components of ICD's net income follows.

Commodity placements with banks and other institutions

ICD earned USD 4.55 million in commodity placement revenue in 2021 as compared to USD 7.40 million in 2020 representing a decrease of 38.47%. This was due to decrease in the average placement portfolio in 2021.

Income from sukuk

Investment in Sukuk increased to USD 1,536.40 million in 2021 from USD 1,357.10 million in 2020. However, revenue decreased from USD 66.41 million in 2020 to USD 21.76 million in 2021. Unfavourable sukuk price changes mainly accounted for this variance.

Income from equity investments

Income from equity investment portfolio increased from a loss of USD 18.31 million in 2020 to a profit of USD 11.28 million in 2021. This represents USD 29.59 million movement in this line of revenue. ICD accounts for equity investments as per IFRS 10, which requires that substantially all equity investments are measured at fair value. In general, the equity asset class is volatile and as such any movement in this asset class have a significant impact on the financial performance. The overall valuation was positive in 2021 due to focus on improving the performance of investee companies.

Income from Ijarah Muntahia Bittamleek

Net income from Ijarah increased by 16.94% in 2021 compared to 2020. This increase is mainly on account of improvement in certain non-performing Ijarah assets during the review period.

Income from Murabaha and Installment Sales Financing

Income from Murabaha financing decreased by USD 1.74 million (50.72%), from USD 3.43 million in 2020 to USD 1.69 Million in 2021. Net murabaha assets increased from USD 108.77 million in 2020 to USD 120.43 million in 2021 due to disbursements during the period.

Income from installment sales also decreased increased by 19.36% from USD 19.85 million in 2020 to USD 16.01 million in 2021. Instalment Assets decreased from USD 359.29 million in 2020 to USD 307.57 million in 2021 due to repayments exceeding disbursements.

Income from advisory services

Income from advisory services increased from USD 0.71 million in 2020 to USD 6.37 million 2021, representing a movement of around USD 5.66 million. This is mainly due to more mandates being executed in 2021 when compared to the previous year.

Income from administrative fees

Administrative fees of USD 3.32 million recorded in 2021 was 10.27% below that of 2020. This was due to a relatively lower disbursement level in 2021. Mudarib fees decreased by 8.57% from USD 1.40 million in 2020 to USD 1.28 million in 2021. This was mainly due to under performance of funds under management.

Fair value gain on derivatives

There was a decrease in fair value gain on derivatives from USD 0.86 million in 2020 to USD0.27 million in 2021. This was mainly due to the impact of foreign exchange losses.

TABLE 4.4: REVENUE CHANGE FROM CORE FINANCING OPERATIONS: 2020 vs. 2021

Income:	USD million			%
	2020	2021	Change	Change
Investment income:				
Commodity placements (Treasury)	7.40	4.55	(2.85)	(38.51)
Income from Sukuk	66.41	21.76	(44.65)	(67.23)
Murabaha financing	3.43	1.69	(1.74)	(50.73)
Installment sales financing	19.85	16.01	(3.84)	(19.35)
Istisna	1.10	0.95	(0.15)	(13.64)
Invest. in equity Investments	(18.31)	11.28	29.59	(161.61)
Ijarah Muntahia Bittamleek	32.11	40.33	8.22	25.60
Depreciation on Ijarah Assets	(20.63)	(26.90)	(6.27)	30.39
			-	
Total Shari'ah compliant income	91.36	69.67	(21.69)	(23.74)
			-	
Provision	(27.86)	4.11	31.97	(114.75)
Funding Costs	(38.05)	(29.87)	8.18	(21.50)
Other income				
Advisory fee	0.71	6.37	5.66	797.18
Administrative fee	3.70	3.32	(0.38)	(10.27)
UIF Mudarib fee/Others	1.40	1.28	(0.12)	(8.57)
Fair value gain on derivative	0.86	(0.27)	(1.13)	(131.40)
Total other income	6.67	10.70	4.03	60.42
Total income	32.12	54.61	22.49	70.02
Expenses				
Staff cost	(38.71)	(39.50)	(0.79)	2.04
Other administrative expenses	(8.53)	(6.45)	2.08	(24.38)
Depreciation	(0.11)	(0.05)	0.06	(54.55)
Total expenses	(47.35)	(46.00)	1.35	2.85
Net income	(15.23)	8.61	23.84	156.53

Provision for losses on term finance, other receivables and equity

Provision for the losses on term finance, other receivables and equity have decreased by 114.75% from USD27.86 million in 2020 to USD 4.11 million in 2021 mainly due to improvement in the financing portfolio and relatively lower ECL portfolio base.

Financing charges

ICD's funding costs for 2021 declined by 21.50% as compared to 2020 (USD 29.87 million in 2021 vs USD 38.05 million in 2020). The decrease was mainly due to decline in the average borrowing portfolio and reduced average rates.

Operating expenses

Overall operating expenses decreased by 2.85% as administrative expenses changed from USD 47.35 million in 2020 to USD 46.00 million in 2021. This decrease is mainly as a result of savings in general admin costs.

Balance sheet

Total assets decreased by 9.27% to USD 2,964.88 million in 2021 from USD 3,267.83 million in 2020. The decrease was due to payment of borrowing and application of new FAS 31 standard which changed the treatment of Wakala transactions in the books of the agent.



5 GOVERNANCE AND CONTROL



SENIOR AND MIDDLE MANAGEMENT CHANGES

As part of the implementation of ICD's new organizational structure and new hiring, the following changes took place in the ICD Senior and Middle Management in the course of 2021:

- 1 Mr. Omar Hashem joined ICD as the Director Corporate Support Department on 03/10/2021.
- 2 Mr. Tahir Naseem was appointed as the Director Legal under the Legal Department effective from 02/05/2021.
- 3 Mr. Karim Jan was appointed as the Unit Head, Headquarter Audits under the Internal Audit Department effective from 02/05/2021.
- 4 Mr. Muminu Mayanja was appointed as the Unit Head, Follow-up & Investee Audits under the Internal Audit Department effective from 02/05/2021.
- 5 Mr. Mohammad Kamran was appointed as the Division Head, Credit Risk under the Risk Management Department effective from 02/05/2022.
- 6 Mr. Taufique Hasan was appointed as the Division Head, Credit Administration under the Risk Management Department effective from 02/05/2021.
- 7 Mr. Sahal Almarwai was appointed as the Division Head, Outreach and Events Management under the IsDB Group Forum (THIQAH) effective from 02/05/2021.
- 8 Mr. Sami Alahmadi joined ICD as the Division Head of Administrative Services and IT Support under the Corporate Support Department on 13/06/2021.
- 9 Mr. Siraj Al Islam joined ICD as the Division Head Equity and Asset Management Legal Affairs under the Legal Department on 16/08/2021.

GENERAL ASSEMBLY

The General Assembly is the highest decision-making authority. Each member is represented at the General Assembly by an appointed representative. Its main functions are to lay down the policies governing the work and general supervision of ICD. The General Assembly may delegate authority to the Board of Directors to exercise any of its powers, except those reserved to the General Assembly under the Articles of Agreement.

BOARD OF DIRECTORS (BOD)

The BOD is mainly responsible for the adoption of policies, the operations strategy, budget, and general conduct of ICD operations within the powers delegated to it by the General Assembly. The Board consists of ten members (including the Chairman) and is chaired by the President of the IsDB Group. Other members include: the representatives of IsDB, member country groups from Africa, Asia, and Arab Asia, public financial institutions and a permanent member from Saudi Arabia (representing the largest shareholder after IsDB).

In accordance with the Articles of Agreement, the BOD shall meet when the business of the corporation requires, and a majority of the members of the Board shall constitute a quorum for any meeting, provided that such majority represents at least two-thirds of the total voting powers of the members. A special meeting may also be called at any time by the Chairman or at the request of three members of the Board.

Members of the BOD appointed by IsDB shall have the votes of the IsDB divided equally among them, and each member of the BOD is entitled to cast a number of votes equivalent to the number of votes which were counted towards his or her election, and which the electing members of ICD were entitled to.

The BOD is authorized as per the corporation's by-laws to exercise all the powers of the corporation, with the exception of the powers reserved to the General Assembly, as well as establishing conditions and procedures pursuant to which the Chairman of the Board may submit various types of matters under an expedited procedure.

BOARD OF DIRECTORS AS OF END 2021

- 1** Dr. Bandar M.H. Hajjar (Chairman of the Board)
- 2** Dr. Rami M.S. Ahmad
- 3** Mr. Khalifa Sarr
- 4** Mr. Wisam Jasem Al-Othman
- 5** Mrs. Moufida JABALLAH SRARFI
- 6** Mr. Ismail Ali Manik
- 7** Dr. Hamad Bin Suleiman Al Bazai
- 8** Dr. Fahad M. Alturki
- 9** Mr. Abdulrahman Abdullah Alsakran
- 10** Mr. Laaziz Faid

Note: Dr. Bandar M.H. Hajjar was Chairman of the Board until 5 August 2021.

EXECUTIVE COMMITTEE

The BOD appoints an Executive Committee (EC) from its members that serves as a fast-track decision-making body. It has the power to approve all financing and investment operations, review the performance of existing investments and financing operations and ensuring their alignment with ICD's developmental mandate, review ICD's progress in achieving its development effectiveness mandate, review and recommend ICD's Business Plans, review and recommend the annual budget of ICD in addition to other powers delegated to EC by the Board.

The EC is composed of up to six members, of which two seats are allocated permanently to the Chairman of the Board and the representative from the member country holding the largest number of shares in ICD (Saudi Arabia), respectively. The EC members are rotated on a yearly basis, enabling all Board members the opportunity to serve on the committee.

EXECUTIVE COMMITTEE MEMBERS OF THE BOARD AS OF END 2021

- 1** Dr. Bandar M. H. Hajjar
(Chairman of ICD Board of Directors)
- 2** Dr. Fahad M. Al-Turki
- 3** Dr. Rami M.S. Ahmad
- 4** Mr. Khalifa Sarr
- 5** Mr. Ismail Ali Manik

AUDIT COMMITTEE

The BOD appoints an Audit Committee from among its members for a three-year term. The Committee is responsible for overseeing the financial and internal control aspects of ICD, as well as its compliance with its mandate, and reporting its findings to the BOD.

BOARD AUDIT COMMITTEE AS OF END 2021

- 1** Dr. Fahad M. Al-Turki (Chairman)
- 2** Mr. Khalifa Sarr
- 3** Mr. Wisam Jasem Al-Othman
- 4** Mr. Saleh Mugbel Al Khalaf (Independent Expert Member)

Note: The Audit Committee was renamed as the Audit, Risk and Compliance Committee in December 2021.



THE CHIEF EXECUTIVE OFFICER

The CEO, under the general supervision of the Chairman of the Board of Directors, conducts the day-to-day business of ICD. The CEO is also responsible for the appointment of officers and staff of the Corporation. To the extent that he is authorized by the BOD, the CEO approves ICD's financing and investment. The BOD appointed Mr. Ayman Amin M. Sejiny as the Chief Executive Officer of ICD in 23/12/1439H (September 2018) for a three-year term, which has subsequently been renewed for one year.

ISDB SHARI'AH BOARD

In 2012, the ICD Shari'ah Board was subsumed within that of IsDB, forming the IsDB Group Shari'ah Board. The Board is responsible for advising the IsDB Group on the Shari'ah compliance of its products and transactions. The Board consists of the following eminent scholars:

ISDB GROUP SHARI'AH BOARD AS OF END 2021

- 1** Shaikh Mohamad Taqi Alosmni
- 2** Shaikh Abdulla Bin Manei'a
- 3** Dr. Mohammed Alroki
- 4** Dr. Mohammad Alshafe'e
- 5** Dr. Bashir Aliyu Umar
- 6** Dr. Osaid Kailani
- 7** Dr. Koutoub Moustapha Sano

ICD Financial Review

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Islamic Corporation for the
Development of the Private Sector

PO Box 54069
Jeddah 21514
Kingdom of Saudi Arabia

Tel: +966 12 644 1644
Fax: +966 12 644 4427
Email: icd@isdb.org

www.icd-ps.org

 @icd_ps

 icdps

 icdps

 icdps



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