ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS
30 Dhul Hijjah 1431H (6 December 2010)
with
INDEPENDENT JOINT AUDITORS' REPORT

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

30 Dhul Hijjah 1431H (6 December 2010)

CONTENTS

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INDEPENDENT JOINT AUDITORS' REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank

We have audited the accompanying statement of financial position of Islamic Development Bank - Ordinary Capital Resources (the "Bank") as of 30 Dhul Hijjah 1431H (6 December 2010) and the related statements of income, cash flows and changes in members' equity for the year then ended and the attached notes from 1 to 33 which form an integral part of the financial statements.

The comparative figures shown in these financial statements were audited by other auditors, whose audit report dated 28 Rabi'I, 1431H (corresponding to 14 March, 2010) contained an unqualified opinion on those financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'ah rules and principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 30 Dhul Hijjah 1431H (6 December 2010), and the results of its 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 Organization for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank.

We draw your attention to the fact that the Bank has followed other accounting standards as disclosed in note 2(a) for matters not addressed by the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

PricewaterhouseCoopers

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Certified Public Accountants
KPMG Al Fozan & Al Sadhan

20 Jamad Al-Awwal 1432H
24 April 2011
Jeddah

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

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF FINANCIAL POSITION
As of 30 Dhul Hijjah 1431H (6 December 2010)
(In Thousands of Islamic Dinars)

	Note	1431H	1430H
ASSETS			
Cash and cash equivalents	4	**487,008**	1,195,018
Commodity placements through banks, net	5	**889,440**	444,367
Murabaha financing, net	6	**345,270**	580,399
Accrued income and other assets	7	**309,670**	313,769
Istisna'a assets, net	8	**1,633,091**	1,325,604
Installment sales financing, net	9	**869,033**	739,638
Loans, net	10	**1,467,140**	1,320,094
Ijarah Muntahia Bittamleek, net	11	**1,498,065**	1,354,098
Investments in equity capital, net	13	**855,563**	716,650
Investments in subsidiaries and trust funds:			
Islamic Corporation for the Development of the Private Sector	14	**207,842**	191,940
Awqaf Properties Investment Fund	15	**14,629**	14,629
International Islamic Trade Finance Corporation	16	**168,735**	168,735
Other investments, net	17	**300,603**	303,250
Fixed assets, net	18	**61,657**	57,172
TOTAL ASSETS		**9,107,746**	8,725,363
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Accruals and other liabilities	19	**1,292,516**	1,813,448
Sukuk liability	20	**1,374,591**	1,021,710
Total liabilities		**2,667,107**	2,835,158
MEMBERS' EQUITY			
Paid-up capital	22	**4,031,071**	3,639,867
Capital reserve	23	**22,672**	22,672
General reserve	24	**1,699,685**	1,677,938
Fair value reserve		**525,886**	424,965
Net income for the year		**161,325**	124,763
Total members' equity		**6,440,639**	5,890,205
TOTAL LIABILITIES AND MEMBERS' EQUITY		**9,107,746**	8,725,363

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on 6th Jamad-ul-Awwal, 1432H (10 April 2011G).

The accompanying notes from 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

INCOME STATEMENT
For the year ended 30 Dhul Hijjah 1431H (6 December 2010)
(In Thousands of Islamic Dinars)

	Note	**1431H**	1430H
Income from:			
Commodity placements through banks		**10,720**	17,507
Investment in Sukuk		**7,103**	6,865
Murabaha financing		**10,889**	18,066
Istisna'a assets		**51,688**	49,842
Installment sales financing		**38,822**	32,063
Loan service fees		**13,070**	18,976
Ijarah Muntahia Bittamleek		**164,549**	165,247
Investments in equity capital		**33,561**	31,488
Mudarib fees and others		**36,703**	23,695
		367,105	363,749
Depreciation of assets under Ijarah Muntahia Bittamleek	11	**(91,639)**	(110,064)
		275,466	253,685
Foreign exchange loss, net		**(8,445)**	(10,621)
Financing costs		**(17,793)**	(31,572)
		249,228	211,492
Administrative expenses:			
Staff costs		**(55,995)**	(49,638)
Depreciation on fixed assets	18	**(1,951)**	(1,860)
Other		**(16,300)**	(16,842)
		174,982	143,152
Provision for impairment of assets	12	**(13,657)**	(18,389)
Net income for the year		**161,325**	124,763

The accompanying notes from 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES
STATEMENT OF CASH FLOWS
For the year ended 30 Dhul Hijjah 1431H (6 December 2010)
(In Thousands of Islamic Dinars)

	Note	1431H	1430H
CASH FLOWS FROM OPERATIONS			
Net income for the year		**161,325**	124,763
Adjustments to reconcile net income for the year to net cash from operating activities:			
Depreciation		**93,590**	111,924
Provision for impairment of assets		**13,657**	18,389
Foreign exchange (gains) / losses	17	**(9,167)**	6,623
Changes in operating assets and liabilities:			
Commodity placements through banks		**(444,188)**	(133,397)
Murabaha financing		**230,156**	(53,443)
Accrued income and other assets		**4,099**	(46,581)
Istisna'a assets		**(306,483)**	(421,441)
Installment sales financing		**(126,816)**	(71,296)
Ijarah Muntahia Bittamleek		**(232,750)**	(344,180)
Loans		**(143,213)**	(150,065)
Accruals and other liabilities		**(532,907)**	353,527
Net cash utilized in operating activities		**(1,292,697)**	(605,177)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in equity capital		**(62,503)**	(16,918)
Proceeds from disposal of investment in equity capital		**3,089**	--
Additions in other investments		**(80,573)**	(130,609)
Proceeds from disposal of other investments		**93,968**	32,790
Investment in subsidiaries and trust funds		**(15,902)**	--
Purchase of fixed assets		**(6,436)**	(1,790)
Net cash utilized in investing activities		**(68,357)**	(116,527)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in paid-up capital		**391,204**	340,858
Technical assistance and scholarship program grants		**(7,960)**	(13,593)
Contribution to the principal of Islamic Solidarity Fund for Development		**(65,120)**	(67,903)
Payment of Islamic Corporation for the Development of the Private Sector capital on behalf of member countries	13	**(17,961)**	(17,751)
Proceeds from issuance of Sukuk		**685,708**	642,035
Redemption of Sukuk		**(332,827)**	--
Net cash generated from financing activities		**653,044**	883,646
(Decrease) / increase in cash and cash equivalents		**(708,010)**	161,942
Cash and cash equivalents at the beginning of year		**1,195,018**	1,033,076
Cash and cash equivalents at the end of year	4	**487,008**	1,195,018

The accompanying notes from 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the Year Ended 30 Dhul Hijjah 1431H (6 December 2010)
(In Thousands of Islamic Dinars)

	Notes	Paid-up capital	Capital reserve	General reserve	Fair value reserve	Net income for the year	Total
Balance at 1 Muharram 1430H		3,299,009	22,672	1,590,120	351,932	194,190	5,457,923
Increase in paid-up capital	22	340,858	--	--	--	--	340,858
Net unrealized gains from investments in equity capital	13	--	--	--	73,033	--	73,033
Increase in the actuarial losses relating to retirement and medical plans	21	--	--	(7,125)	--	--	(7,125)
Payment of ICD share capital on behalf of member countries	14	--	--	(17,751)	--	--	(17,751)
Contribution to the principal amount of ISFD	26	--	--	(67,903)	--	--	(67,903)
Net income for the year ended 30 Dhul Hijjah 1430H		--	--	-	--	124,763	124,763
Transfer to general reserve	24	--	--	194,190	--	(194,190)	--
Allocation for grants	23	--	--	(13,593)	--	--	(13,593)
Balance at 30 Dhul Hijjah 1430H		3,639,867	22,672	1,677,938	424,965	124,763	5,890,205
Increase in paid-up capital	22	391,204	--	--	--	--	391,204
Net unrealized gains from equity capital and other investments	13, 17	--	--	--	100,921	--	100,921
Increase in the actuarial losses relating to retirement and medical plans	21	--	--	(11,975)	--	--	(11,975)
Payment of ICD share capital on behalf of member countries	14	--	--	(17,961)	--	--	(17,961)
Contribution to the principal amount of ISFD	26	--	--	(65,120)	--	--	(65,120)
Net income for the year ended 30 Dhul Hijjah 1431H		--	--	--	--	161,325	161,325
Transfer to general reserve	24	--	--	124,763	--	(124,763)	--
Allocation for grants	23	--	--	(7,960)	--	--	(7,960)
Balance at 30 Dhul Hijjah 1431H		**4,031,071**	**22,672**	**1,699,685**	**525,886**	**161,325**	**6,440,639**

The accompanying notes from 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 Dhul Hijjah 1431H (6 December 2010)

1. INCORPORATION AND ACTIVITIES

Islamic Development Bank (the "Bank") is a multilateral development bank established pursuant to Articles of Agreement signed and ratified by its member countries. The Bank commenced its operations on 15 Shawwal 1395H (20 October 1975). The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities, individually as well as jointly, in accordance with the principles of Shari'ah. The Bank has 56 member countries.

Primarily the Bank's operational assets are considered as sovereign debts made to or guaranteed by the respective member country or investments in member countries, which are guaranteed in a manner acceptable to the Bank.

As a multilateral development bank, the Bank is not subject to any local or foreign external regulatory authority.

The Bank consults the Islamic Fiqh Academy, an institution established by the Organization of the Islamic Conference, to provide it with Shari'ah advice. In 1422H, the Bank also established its own Shari'ah Committee.

The Bank carries out its business activities through its headquarters in Jeddah, Kingdom of Saudi Arabia and regional offices in Morocco, Malaysia, Kazakhstan and Senegal. The Bank has following subsidiaries and affiliated special trust funds /entities:

Entity	Relationship	Equity ownership 1431H	Equity ownership 1430H	Nature of business
Islamic Corporation for the Development of the Private Sector ("ICD")	Equity participation (subsidiary). See Note 2 (a).	**59.8%**	62.2%	Private sector financing
International Trade Finance Corporation ("ITFC")	Equity participation (subsidiary) See Note 2 (a).	**39.7%**	40.4%	Trade financing
Awqaf Properties Investment Fund ("APIF")	Mudarib and equity Participation (subsidiary) See Note 2 (a).	**27.9%**	32.8%	Social sector financing
Islamic Solidarity Fund for Development ("ISFD")	Management services Special trust fund	**--**	--	Social sector financing
Special Account Resources Waqf Fund ("SWF")	Management services Special trust fund	**--**	--	Social sector financing
Islamic Corporation for the Insurance of Investment and Export Credit ("ICIIEC")	Management services Insurance Company Affiliate	**--**	--	Insurance services
Islamic Development Bank - Unit Investment Fund ("UIF")	Mudarib Affiliate	**--**	--	Investment finance

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

These financial statements contain information on an individual basis of the Ordinary Capital Resources of the Bank, as defined in the Articles of Agreement and do not contain consolidated financial statements related to the Bank's subsidiaries, ICD, ITFC and APIF. Such subsidiaries have been reflected at cost in accordance with the requirements of AAOIFI standards. The Bank also prepares consolidated financial statements which include the results of all entities of Islamic Development Bank Group (IDB Group).

The financial statements are prepared under the historical cost convention except for the following items in the statement of financial position:

- measurement at fair value of investments in equity capital, see Note 2(i),
- Murabaha-based profit rate and cross-currency swaps which are measured at fair value through income statement, see Note 2(l).

The Bank's financial year is the lunar Hijra year.

b) Critical accounting judgments and estimates

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. 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. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i) Provision for impairment of assets:

The Bank exercises judgement in the estimation of provision for impairment of financial assets. The methodology for the estimation of the provision is set outline in notes 2(m).

ii) 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 the actual experiences. However, these experiences are revised every three years when an actuarial estimate of the benefits plans is carried out. Any experience adjustment is taken directly to the general reserve under Members' equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Useful lives of Ijarah Muntahia Bittamleek and fixed assets

The Bank uses estimates of useful lives of assets under Ijarah Muntahia Bittamleek and fixed assets for depreciating these assets and assesses the remaining useful lives of items of such assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. These estimates may have a significant impact on the amount of the carrying values of the assets and on depreciation expense for the year.

c) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken to income statement.

d) Post-employment benefit plans

The Bank has two defined post-employment benefit plans, the Staff Retirement Plan and the Post-Employment Medical Scheme, both of which require contributions to be made to separately administered funds. The Bank uses the Projected Unit Credit Method to determine the present value of its defined benefit plan and the related service costs.

Actuarial gains or losses, if material, are recognized immediately in the general reserve under Members' Equity in the year they occur.

e) Foreign currency translations

i) Functional and presentation currency

These financial statements are presented in thousands of Islamic Dinars (ID) which is the functional and presentation currency of the Bank. Islamic Dinar is the unit of account of the Bank and is equal to one Special Drawing Right (SDR) of the International Monetary Fund ("IMF").

ii) Transactions and balances

Foreign currency transactions are translated into Islamic Dinars using the SDR rates declared by the IMF at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates declared by the IMF are recognized in the income statement except for unrealized gains and losses on investment in equity capital which are charged to fair value reserve account under members' equity.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) 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 at the date of placement.

g) Commodity placements through banks

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

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

h) Operational assets

Operational assets consist of receivables from Murabaha financing, Istisna'a assets, Installment sales financing, loan contracts and Ijarah Muntahia Bittamleek assets detailed as follows:

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

Amounts receivable from Murabaha financing and Installment sales financing are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Bank to the date of the statement of financial position, less repayments received and provision for impairment.

ii) Istisna'a assets
Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer an asset which is either manufactured or acquired by the purchaser on behalf of the Bank according to agreed upon specifications, for an agreed upon price.

Istisna'a assets represent the disbursements made as of the date of the statement of financial position against the assets acquired for Istisna'a projects plus income recognized, less repayments received.

After completion of the project, the Istisna'a asset is transferred to the Istisna'a receivable account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Loans
Loans are recognized when cash is disbursed to the borrowers.

Amounts receivable from loans represent amounts disbursed in respect of projects plus the loan service fees due, less repayments received relating to the outstanding capital portion of the loan as determined according to the loan agreements.

iv) Ijarah Muntahia Bittamleek
Ijarah is an agreement whereby the Bank, acting as a lessor, purchases 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 title of the asset to the lessee without consideration upon completion of all payments due.

Investment in Ijarah Muntahia Bittamleek consists of assets purchased by the Bank, either individually or through a syndicate agreement and leased to beneficiaries for their use under Ijarah Muntahia Bittamleek agreements. These assets are stated at cost less the accumulated depreciation up to the date of the statement of financial position. The assets are depreciated using the straight-line method over the related lease period. No depreciation is recorded in respect of assets under construction.

i) Investments in equity capital, real estate and other funds

Investments in equity capital, real estate and other funds are intended to be held for a long-term period, and may be sold in response to needs for liquidity or changes in prices. Such investments are measured at fair value, and any unrealized gains arising from the change in their fair value are recognized directly in the fair value reserve under Members' Equity, whereas, unrealized losses resulting from re-measurement at fair value are recognized in the fair value reserve under Members' Equity to the extent of the available fair value reserve balance. Excess of unrealized loss over the available fair value reserve balance is recognized in the income statement. In case there are unrealized losses that have been recognized in the income statement in previous years, the unrealized gains related to the current year are recognized in the income statement to the extent of such previous losses.

Investments in equity capital, real estate and other funds whose fair value cannot be reliably measured are carried at cost, less provision for any impairment in the value of such investments.

j) Investments in subsidiaries and trust funds

Investments in subsidiaries and trust funds over which the Bank exerts control are recognized at cost and reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount may not be recoverable and impairment loss, if any, is recognized for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Previously recognized impairment losses, if any, are reviewed for possible reversal of the impairment at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

An assessment is made at each balance sheet date to determine whether there is objective evidence that an investment in the subsidiaries and trust funds may be impaired. The amount of the impairment loss is calculated as the difference between the investment's carrying amount and its estimated fair value and is charged to the Income Statement. Subsequent recoveries of amounts written-off are credited to the Income Statement.

The Bank's share of dividends distributed by the subsidiaries and trust funds are recognized in the statement of income.

The Bank also manages the Special Account Resources Waqf Fund which, along with Organisation of the Islamic Conference is currently managing Kafala (Sponsor) programs such as Tsunami Orphans and others from donations received from philanthropists.

k) Investment in Sukuk

Investments in Sukuk are classified as held-to-maturity and are stated at cost, less any provision for impairment. Provisions are created when the Bank identifies investments in specific Sukuk as potentially impaired.

l) Murabaha-based profit rate and cross currency swaps

The Banks uses Murabaha-based profit rate and cross-currency swaps for asset/liability management and hedging purposes to modify markup rate or currency characteristics of the Sukuk issues and financing extended. Murabaha-based profit rate and cross-currency swaps are treated as held-for-trading.

These instruments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement. Murabaha-based profit rate swap or cross-currency swap with positive fair values are recognized within other assets and those with negative fair values are recognized within other liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of financial assets

Operational assets:
Operational assets are the assets controlled by the Bank to conduct its operations. An assessment is made at each balance sheet date to determine whether there is evidence that a financial asset or group of financial assets may be impaired. Accordingly, the Bank determines the provision on for impairment losses based on an assessment of incurred losses. This involves a review of the financial assets on the balance sheet date in order to determine if there are any indications of impairment in their value individually; and also the losses that the Bank suffers as a result of rescheduling the dues from certain countries and from settlement plans mutually agreed with the beneficiaries due to its participation in the debt relief initiative for the Heavily Indebted Poor Countries (HIPC). The loss results from the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the implicit rate of return of the financial asset mentioned in the agreement. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. In addition, a portfolio provision is created for losses where there is objective evidence that unidentified losses are present in the portfolio at the balance sheet date. These are estimated based on country risk ratings, the current economic conditions and the default pattern that are embedded in the components of the portfolio.

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

Other financial assets:
An assessment is made at each financial position 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 fair value.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, the asset is written off against allowance account and any excess loss is recognised in the income statement. Subsequent recoveries of amounts previously written-off are credited to the Bank's income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Fixed assets

Fixed assets are recorded at cost, except for donated land, which is recorded at its fair value at the time of donation receipt.

Maintenance and repair costs are expensed as incurred. Cost includes expenditures that are directly attributable to the acquisition/ construction of the asset. Subsequent expenditures are only capitalized when it increases the useful life if the asset.

Land is not depreciated. Other fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

Permanent headquarters building	40 years
Pre-fabricated buildings	6 to 7 years
Furniture and equipment	4 to 10 years
Motor vehicles	5 years

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

o) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

p) Revenue recognition

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

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

Murabaha financing and installment sales financing
Income from Murabaha financing and installment sales financing are accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to the scheduled repayment date of installments.

Mudarib fees
Mudarib fee income is recognized on an accrual basis when the service has been provided.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Istisna'a income
The Bank uses the deferred profits method for recognizing Istisna'a income whereby there is a proportionate allocation of deferred profits over the future financial period of the credit.

Loan service fees
Income from loan service fees is accrued according to the service fee repayment schedule appended to the loan agreement.

Ijarah Muntahia Bittamleek
Income from ijarah muntahia bittamleek is allocated proportionately in the financial periods over the term of Ijarah.

Dividends
Dividend income from investments in subsidiaries and trust funds is recognized when the right to receive the dividend is established.

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

q) Commodity purchase and sale agreements

The Bank enters into commodity purchase and sale agreements with certain banks. 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 purchase price under these agreements is included in other liabilities. The difference between sale and purchase price is treated as finance cost and accrued on a time apportionment basis over the period of the agreements.

r) Offsetting

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

s) Zakat and tax

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

(In Thousands of Islamic Dinars)

3. SHARI'AH COMMITTEE

The Bank's business activities are subject to the supervision of a Shari'ah Committee consisting of members appointed by the Bank's General Assembly. IDB Group's Shari'ah Committee was established pursuant to Board Resolution No.BED/24/11/421/(198)/138. Members of the Shari'ah Committee of IDB Group are appointed for the period of 3 years renewable.

The Committee has the following functions:

i. to consider all that are referred to it of transactions and products introduced by the Bank for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;

ii. to give its opinion on the Shari'ah alternatives to conventional products which the Bank 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's experience in this regard;

iii. to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank;

iv. to contribute to the Bank's 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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Cash in hand and at banks (Note 4.1)	**62,468**	64,041
Commodity placements through banks (Note 5)	**424,540**	1,130,977
Total	**487,008**	1,195,018

Commodity placements through banks comprise those placements having a maturity of three months or less at the date of placement.

(In Thousands of Islamic Dinars)

4. CASH AND CASH EQUIVALENTS (continued)

4.1 Cash in hand and at banks

Cash in hand and at banks at 30 Dhul Hijjah comprise the following:

	1431H	1430H
Cash in hand	**259**	230
Cash at banks:		
- Current accounts	**45,637**	27,206
- Call accounts	**16,572**	36,605
Total	**62,468**	64,041

Current accounts at 30 Dhul Hijjah 1431H include ID 10.96 million (1430H: ID 11.58 million) that represent balances in member countries' currencies. These current account balances are to be used to finance operations and projects in the countries in which these accounts are maintained. For each such account, the country is required to maintain the counter-value in local currency.

5. COMMODITY PLACEMENTS THROUGH BANKS, NET

Commodity placements through banks at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Placements through Islamic banks	**25,663**	21,158
Placements through conventional banks	**1,292,460**	1,559,214
	1,318,123	1,580,372
Less: maturity of three months or less at the date of placement (Note 4)	**(424,540)**	(1,130,977)
provision for impairment (Note 12)	**(4,143)**	(5,028)
Commodity placements through banks, net	**889,440**	444,367

6. MURABAHA FINANCING, NET

Murabaha financing at the 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Gross amounts receivable	**375,436**	608,009
Less: share of syndicate members	**(56)**	(450)
Less: unearned income	**(2,873)**	(4,520)
	372,507	603,039
Less: provision for impairment (Note 12)	**(27,237)**	(22,640)
Murabaha financing, net	**345,270**	580,399

(In Thousands of Islamic Dinars)

7. ACCRUED INCOME AND OTHER ASSETS

Accrued income and other assets at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Accrued income on operating assets	**104,880**	159,629
Accrued income from commodity placements through banks	**5,447**	1,901
Accrued income on Sukuk investment	**1,789**	2,740
Related party balances (Note 28)	**123,973**	121,312
Positive fair value of Murabaha based profit rate and cross currency profit rate swaps (Note 7.1)	**43,475**	11,627
Staff loans and advances	**11,909**	5,375
Prepayments and other assets	**18,197**	11,185
Total	**309,670**	313,769

7.1 SWAPS

The Bank has entered into the following Murabaha based profit rate and cross currency profit rate swaps with financial institutions:

a) Murabaha-based Profit Rate Swaps:

Under the arrangement, the Bank shall swap fixed profit rate with floating profit rate or vice versa with the counterparty. The contract amounts of the swaps are USD 100 million (ID 65 million) (for certain related party receivables) and USD 1,350 million (ID 877 million) (for Sukuk issued during the year for the same amount).

b) Cross Currency Profit Rate Swap:

The Bank has issued Sukuk amounting to Singaporean Dollar ("SGD") 200 million (ID 90 million) and Saudi Riyal ("SR") 1,875 million (ID 325 million). In order to provide protection against exchange rate fluctuations between the SGD and United States Dollar ("USD") and SR and USD and the profit payments under the Sukuk, the Bank entered into cross currency profit rate swaps for the contract amount of SGD 200 million and SR 1,875 million respectively. Under the arrangement, the Bank shall swap profit rate in USD with profit rates in SGD and SR respectively with the counterparties.

For Murabaha-based Profit Rate Swaps and Cross Currency Swaps, the counter parties will act as an agent of the Bank to buy and sell Shari'ah compliant assets for immediate delivery. Under these arrangements Murabaha generates fixed payments (comprising both a cost price and a fixed rate profit mark up) or vice versa. Corresponding Reverse Murabaha contracts generates the floating leg payments (the cost price is fixed but the profit rate mark up is floating) or vice versa.

(In Thousands of Islamic Dinars)

7.1 SWAPS (continued)

The table below shows the positive and negative fair values of Murabaha-based profit rate swaps and cross currency swaps and together with the cost price of Murabaha and Reverse Murabaha transaction on net basis.

	1431H					
	Positive fair value	Negative fair value	Contract amount Total	1-3 Years	3-5 Years	Over 5 years
Murabaha based profit and cross currency profit rate swaps	**43,475**	**11,805**	**1,356,876**	**154,953**	**877,079**	**324,844**

	1430H					
	Positive fair value	Negative fair value	Contract amount Total	1-3 Years	3-5 Years	Over 5 years
Murabaha based profit and cross currency profit rate swaps	11,627	581	692,938	151,831	541,107	--

8. ISTISNA'A ASSETS, NET

Istisna'a assets at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Istisna'a assets in progress	**926,551**	985,196
Istisna'a receivables	**1,010,657**	461,279
	1,937,208	1,446,475
Less : unearned income	**(303,433)**	(119,183)
	1,633,775	1,327,292
Less : provision for impairment (Note 12)	**(684)**	(1,688)
Istisna'a assets, net	**1,633,091**	1,325,604

9. INSTALLMENT SALES FINANCING, NET

Receivable from installment sales financing at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Gross amounts receivable	**1,254,187**	1,074,147
Less: unearned income	**(377,332)**	(324,108)
	876,855	750,039
Less: provision for impairment (Note 12)	**(7,822)**	(10,401)
Installment sales financing, net	**869,033**	739,638

(In Thousands of Islamic Dinars)

10. LOANS, NET

Loan balances at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Loans	**1,543,054**	1,399,841
Less: Provision for impairment (Note 12)	**(75,914)**	(79,747)
Loans, net	**1,467,140**	1,320,094

11. IJARAH MUNTAHIA BITTAMLEEK, NET

Ijarah Muntahia Bittamleek at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Cost:		
Assets under construction:		
At the beginning of year	**870,684**	646,014
Additions	**328,739**	348,891
Transferred to assets in use	**(134,943)**	(124,221)
At the end of year	**1,064,480**	870,684
Assets in use:		
At the beginning of year	**1,038,217**	935,834
Transferred to beneficiaries and disposal due to early lease payments	**(237,506)**	(21,838)
Transferred from assets not yet in use	**134,943**	124,221
At the end of year	**935,654**	1,038,217
Total cost	**2,000,134**	1,908,901
Accumulated depreciation:		
At the beginning of year	**(530,036)**	(435,239)
Transferred to beneficiaries and disposal due to early lease payments	**141,517**	15,267
Charge for year	**(91,639)**	(110,064)
At the end of year	**(480,158)**	(530,036)
Balance at the end of year	**1,519,976**	1,378,865
Less: provision for impairment (Note 12)	**(21,911)**	(24,767)
Ijarah Muntahia Bittamleek, net	**1,498,065**	1,354,098

As at 30 Dhul Hijjah 1431H included in assets in use is an amount of ID 164.6 million (1430H: Nil) that represents the cost of fully depreciated assets, which will ultimately be transferred to the beneficiaries under the terms of the lease agreements.

(In Thousands of Islamic Dinars)

12. PROVISION FOR IMPAIRMENT OF ASSETS

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

	1431H	1430H
Specific provision	**195,899**	177,181
Portfolio provision	**14,463**	29,106
	210,362	206,287

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

	1431H	1430H
Balance at the beginning of year	**206,287**	187,898
Provision written off	**(9,582)**	--
Charge for year	**13,657**	18,389
Balance at the end of year	**210,362**	206,287

i) Specific provision

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

	1431H	1430H
Balance at the beginning of year	**177,181**	161,651
Provision written off	**(9,582)**	
Charge for year	**28,300**	15,530
Balance at the end of year	**195,899**	177,181

ii) Portfolio provision

The movement in portfolio provision for impairment is as follows:

	1431H	1430H
Balance at the beginning of year	**29,106**	26,247
(Recovery) / charge for year	**(14,643)**	2,859
Balance at the end of year	**14,463**	29,106

(In Thousands of Islamic Dinars)

12. PROVISION FOR IMPAIRMENT OF ASSETS (continued)

The above impairment provision consists of the following:

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

b) A portfolio provision based on management's assessment of unidentified losses present in the portfolio using the country risk ratings and a probability analysis of the rates and severity of defaults.

c) The impairment provision for equity capital investment is based on difference between the investment carrying value and its net book value at 30 Dhul Hijjah.

d) Provision for Sukuk is created when the Bank identifies investments in specific Sukuk as potentially impaired. In such situation, investments at statement of financial position date are re-measured at their fair value and the difference is recognized in the statement of income.

As at 30 Dhul Hijjah, the following is the ageing of operating assets which were overdue and considered impaired by the management of the Bank. A portion of the impairment provision calculated based on the above methodology relate specifically to these impaired receivables:

	1431H				
	0-6 months	**7 – 12 months**	**1-2 years**	**Over two years**	**Total**
Murabaha financing	**--**	**--**	**27,383**	**3**	**27,386**
Installment sales financing	**-**	**--**	**--**	**5,189**	**5,189**
Loans	**334**	**168**	**288**	**7,542**	**8,332**
Istisna'a assets	**--**	**--**	**73**	**--**	**73**
Ijara Muntahia Bittamleek	**--**	**--**		**19,334**	**19,334**
Total	**334**	**168**	**27,744**	**32,068**	**60,314**

	1430H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Murabaha financing	69,000	--	--	--	69,000
Installment sales financing	--	--	96	5,093	5,189
Loans	--	34	113	7,464	7,611
Ijara Muntahia Bittamleek	--	47	94	18,362	18,503
Total	69,000	81	303	30,919	100,303

(In Thousands of Islamic Dinars)

12. PROVISION FOR IMPAIRMENT OF ASSETS (continued)

The remaining provision for impairment relates to HIPC countries' rescheduled installments under the HIPC initiative and portfolio provision based on the management's best estimate of the losses present in the portfolio.

Income on impaired financial assets included in the statement of income for the year ended 30 Dhul Hijjah 1431H is ID Nil million (1430H: ID 2.2 million).

Following are the ageing of the balances which were overdue and not considered impaired by the management of the Bank.

	1431H				
	0-6 months	**7 – 12 months**	**1-2 years**	**Over two years**	**Total**
Amount overdue but not considered impaired	**16,134**	**772**	**296**	**48**	**17,250**

	1430H				
	0-6 months	7 – 12 months	1-2 years	Over two years	Total
Amount overdue but not considered impaired	14,545	6,780	7,601	2,241	31,167

13. INVESTMENTS IN EQUITY CAPITAL, NET

The Bank undertakes equity investments in industrial, agro-industrial projects, Islamic banks and Islamic financial institutions of member countries. The Bank's policy is not to have control or exercise any significant influence over the financial and operating policies of the investees, notwithstanding the ownership interest held or the Bank's representation on the Board of Directors of the investee companies.

Investments in equity capital at 30 Dhul Hijjah comprise of the following:

	1431H	1430H
Equity investments:		
Listed	**727,639**	631,884
Unlisted	**200,147**	145,259
	927,786	777,143
Less: provision for impairment (Note 12)	**(72,223)**	(60,493)
Investments in equity capital, net	**855,563**	716,650

(In Thousands of Islamic Dinars)

13. INVESTMENTS IN EQUITY CAPITAL, NET (continued)

The movement in equity capital investments is summarized as follows:

	1431H	1430H
Balance at the beginning of the year	**716,650**	628,172
Additions during the year	**62,503**	16,918
Sales during the year	**(3,089)**	--
Provision for impairment	**(19,672)**	(1,473)
Transfer to other investments, net (Note 17)	**(7,462)**	--
Net unrealized fair value gains	**106,633**	73,033
Balance at the end of the year	**855,563**	716,650

During the year, the Bank has written-off ID 9.2 million of equity capital investments, against which a full provision existed in the books of accounts.

14. ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

The Islamic Corporation for the Development of the Private Sector ("ICD") is an international specialized institution established pursuant to the Articles of Agreement signed and ratified by its members. ICD commenced operations following the inaugural meeting of the General Assembly held on 6 Rabi Thani 1421H (8 July 2000). According to the Articles of Agreement establishing ICD, the objective of ICD is to promote, in accordance with the principles of Shari'ah, the economic development of its member countries by encouraging the establishment, expansion and modernization of private enterprises producing goods and services in such a way as to supplement the activities of the Bank. As of end of Dhul Hijjah 1431H, the Bank owns 59.75% (1430H: 62.25%) of the paid-up capital of ICD. The Bank paid ID 17.96 million during 1431H (1430H: ID 17.75 million) on behalf of the member countries towards the share capital of ICD, which has been appropriated against the general reserve.

15. AWQAF PROPERTIES INVESTMENT FUND

Awqaf Properties Investment Fund (the "Fund") is a specialized Trust fund established pursuant to the Articles 2 and 23 of the Articles of Agreement establishing the Bank and the Memorandum of Understanding signed between the Bank, Awqaf Ministries and Institutions of Islamic countries in the year 1422H. The Fund commenced its operations on 1 Rajab 1422H (19 September 2001). The objective of the Fund is to develop and invest, in accordance with the principles of Shari'ah, Awqaf real estate properties that are socially, economically, and financially viable in the member countries of IDB and Islamic communities in non-member countries. As of 30 Dhul Hijjah 1431H, the Bank owns 27.9% (1430H: 32.8%) of the paid-up capital of the Fund.

(In Thousands of Islamic Dinars)

16. INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION

The Board of Governors of IDB during their 30th meeting held on 17 Jumad Awwal 1426H (24 June 2005) approved the establishment of the International Islamic Trade Finance Corporation ("ITFC") to focus primarily on trade finance operations for the IDB Group. The Articles of ITFC came into effect on 29 Dhul Qadah 1427H (20 December 2006) and it commenced its commercial operations on 1 Muharram 1429H (10 January 2008).

During 1429H the Bank paid ID 168,735 million towards the subscription of 26,637 shares of US$ 10,000 each in ITFC which represents 39.7% of the paid up share capital as of 30 Dhul Hijjah 1431H (1430H: 40.4%).

17. OTHER INVESTMENTS, NET

Other investments at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Investment in Sukuk	**249,838**	254,972
Lease, real estate and other funds	**51,194**	49,801
	301,032	304,773
Less: Provision for impairment (Note 12)	**(429)**	(1,523)
Other investments, net	**300,603**	303,250

Investment in Sukuk certificates at 30 Dhul Hijjah 1431H and 1430H represents a share in the Sukuk issued by various governments and certain other entities, which have been measured at cost. The fair value of these Sukuk cannot be reliably measured.

Lease, real estate and other funds are investments managed by third party institutions in which the Bank has made specific investments as part of its management of liquidity.

The movement in other investments is summarized as follows:

	1431H	1430H
Balance at the beginning of the year	**303,250**	210,593
Additions during the year	**80,573**	130,609
Sale/capital redemptions during the year	**(93,968)**	(32,790)
Provision for impairment (Note 12)	**(169)**	(1,523)
Transfer from investment in equity capital, net (Note 14)	**7,462**	--
Foreign exchange gains/(losses)	**9,167**	(6,623)
Other adjustments	**--**	2,984
Net unrealized fair value gains	**(5,712)**	--
Balance at the end of the year	**300,603**	303,250

(In Thousands of Islamic Dinars)

18. FIXED ASSETS, NET

Fixed assets at 30 Dhul Hijjah 1431 are comprised of the following:

	Land	Buildings	Furniture, equipment and vehicles	Total
Cost:				
At the beginning of the year	13,043	104,405	35,614	153,062
Additions during the year	--	691	5,797	6,488
At the end of the year	13,043	105,096	41,411	159,550
Less: share of assets allocated to Special Account Resources Waqf Fund:				
At the beginning of the year	--	(31,851)	(5,294)	(37,145)
Allocations during the year	--	--	(52)	(52)
At the end of the year	--	(31,851)	(5,346)	(37,197)
At the end of the year	13,043	73,245	36,065	122,353
Accumulated depreciation:				
At the beginning of the year	--	50,140	26,791	76,931
Charge for the year	--	2,282	520	2,802
At the end of the year	--	52,422	27,311	79,733
Less: share of accumulated depreciation allocated to Special Account Resources Waqf Fund:				
At the beginning of the year	--	(12,860)	(5,326)	(18,186)
Allocation during the year	--	(799)	(52)	(851)
At the end of the year	--	(13,659)	(5,378)	(19,037)
At the end of the year	--	38,763	21,933	60,696
Net book value:				
30 Dhul Hijjah 1431H	**13,043**	**34,482**	**14,132**	**61,657**
30 Dhul Hijjah 1430H	13,043	35,274	8,855	57,172

(In Thousands of Islamic Dinars)

18. FIXED ASSETS, NET (continued)

Included in fixed assets is an amount of ID 13 million which represents the estimated market value of land at the time of donation, by the Government of the Kingdom of Saudi Arabia (Note 23).

The cost of the Bank's permanent headquarters building was funded out of the Bank's ordinary resources and out of special assistance accounts resources. The cost and depreciation of the permanent headquarters building and related furniture and equipment were split according to the following proportions:

The Bank - Ordinary Capital Resources	65%
Special Account Resources Waqf Fund	35%

19. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities at the 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Investment deposits	**2,447**	2,266
Related party balances (Note 28)	**128,982**	120,525
Accruals	**23,065**	25,249
Accrued staff retirement and medical benefit scheme liability (Note 21)	**38,673**	26,698
Murabaha based profit rate and cross currency profit rate swaps (Note 7.1)	**11,805**	581
Other liabilities	**1,087,544**	1,638,129
Total	**1,292,516**	1,813,448

The Bank has entered into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank has purchased certain commodities from these banks on deferred payment basis and has simultaneously sold these through those banks to third parties. Included in other liabilities above, is an outstanding balance of ID 1,016 million as of 30 Dhul Hijjah 1431H (1430H: ID 1,545 million) which represents the purchase price under these agreements. The related finance cost for the year ended 30 Dhul Hijjah 1431H is ID 8.8 million (1430H: ID 21.57 million).

(In Thousands of Islamic Dinars)

20. SUKUK LIABILITY

The Bank issued the following global Sukuk by selling global Sukuk Certificates during the year ended 30 Dhul Hijjah.

Date of Issue	Issuing Currency	Amount	ID Equivalent 1431H	ID Equivalent 1430H	Maturity Date
22 Jun 2005	USD	500,000	--	318,299	22 Jun 2010
20 Aug 2008	MYR	300,000	62,013	55,598	20 Aug 2013
30 Mar 2009	MYR	100,000	20,671	18,533	28 Mar 2014
16 Sep 2009	USD	850,000	552,235	541,108	16 Sep 2014
14 Sep 2009	SGD	200,000	89,984	88,172	14 Sep 2012
20 Sep 2010	SAR	937,500	162,422	--	20 Sep 2020
20 Sep 2010	SAR	937,500	162,422	--	20 Sep 2020
27 Oct 2010	USD	500,000	324,844	--	27 Oct 2015
			1,374,591	1,021,710	

The Sukuk Certificates confer on certificate holders the right to receive periodic distribution amounts arising from certain Ijarah transactions, which were originated by the Bank. The Bank continues to service these assets, and guarantees as a third party, any shortfall in the scheduled installments. The proceeds from the issuance of SGD 200 million Sukuk were swapped into USD 138.5 million by the Bank at a fixed exchange rate of 1.444 SGD per USD. The fixed exchange rate is valid through maturity of the Sukuk in September 2012. (Also see Notes 7 and 19).

The Sukuk Certificates which were issued on 22 June 2005 amounting to USD 500 million have matured on 22 June 2010 and accordingly the principal amount together with the finance cost accruing to the date of maturity has been paid to the certificate holders.

The Bank continues to recognize the Sukuk assets and records the amounts due to the holders of Sukuk Certificates as a liability in its financial statements.

The finance cost for the year ended 1431H is ID 9 million (1430H: ID 13 million).

21. RETIREMENT BENEFITS

The Bank has a defined staff retirement pension plan that covers substantially all of its staff. In addition, the Bank provides medical retirement benefits for eligible active retired staff through its post-employment medical scheme.

a. Staff Retirement Pension Plan

The Staff Retirement Pension plan is a defined benefit pension plan established and maintained by IDB and covers most employees on regular appointment who receive a regular stated remuneration from the Bank. It became effective on 1 Rajab 1399H. The Pension Committee is responsible for the oversight of investment and actuarial activities of the Plan, which includes the IDB's contribution to the Plan. The Bank underwrites the investment and actuarial risk of the plan.

(In Thousands of Islamic Dinars)

21. RETIREMENT BENEFITS (continued)

The main features of the plan are:

(i) normal retirement age is the 60th 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 Plan, the employee contributes at a rate of 7% of the salary (basic plus cost of living allowance) while the Bank typically contributes 14.88%, but may vary such contribution based on the results of the actuarial valuations.

The Plan assets are held and managed by IDB but recorded separately from the Bank's other assets and is used solely to provide the benefits and pay expenses of the Plan. The Bank pays all the administrative expenses of the Plan. The Plan's assets are invested in accordance with the policies set out by the Bank.

b. Post-Employment Medical Benefit Scheme

Effective 1 Muharram 1421H, the Bank established the medical benefit scheme for retired employee vide resolution BED/18/10/418(176) dated 18 Shawwal 1418H. In accordance with the said resolution, the Post-Employment Medical Benefit Scheme is to be funded jointly by the Bank and staff at 1% and 0.5%, respectively.

The purpose of the Post-Employment Medical Benefit Scheme is to pay a monthly amount to eligible retired employee towards their medical expenses. The administration of the Post-Employment Medical Benefit Scheme is independent of the Staff Retirement Benefit Plan and contributions are invested in a similar manner to that of the Staff Retirement Benefit Plan under the management of the Pension Investment Management Committee. The monthly entitlements payable for each retired employee is computed according to the following formula:

Monthly highest average remuneration X 5 (being minimum contribution period) X 0.18%

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

	Staff Retirement Plan		Medical Benefit Scheme	
	1431H	1430H	1431H	1430H
Benefit obligation at beginning of the year	125,605	117,261	6,106	5,332
Service costs (excluding member contributions)	6,315	5,456	648	431
Finance costs	8,030	7,335	449	335
Plan member contributions	2,401	2,131	165	154
Benefits paid from plan assets	(6,110)	(4,593)	(95)	(56)
Foreign exchange losses / (gains) and other adjustments	6,477	(1,985)	125	(90)
Benefit obligation at end of the year	142,718	125,605	7,398	6,106

(In Thousands of Islamic Dinars)

21. RETIREMENT BENEFITS (continued)

The movements on the plan assets are as follows:

	Staff Retirement Plan		Medical Benefit Scheme	
	1431H	1430H	1431H	1430H
Fair value of plan assets at beginning of the year	101,234	99,353	3,779	3,392
Actual return on plan assets	1,791	551	431	41
Employer contributions	4,964	4,532	333	305
Plan member contributions	2,401	2,131	165	154
Benefits paid from plan assets	(6,110)	(4,593)	(95)	(56)
Foreign exchange gains / (losses) and other adjustments	2,473	(740)	77	(57)
Fair value of plan assets at end of the year	106,753	101,234	4,690	3,779
Funded status – net liability recognized on balance sheet representing excess of benefit obligation over fair value of plan assets (note 19)	35,965	24,371	2,708	2,327

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year 1431H and 1430H for the Bank comprised the following:

	Staff Retirement Plan		Medical Benefit Scheme	
	1431H	1430H	1431H	1430H
Current service costs – gross	8,716	7,587	813	585
Less – Employee contributions	(2,401)	(2,131)	(165)	(154)
Net - current service costs	6,315	5,456	648	431
Finance costs	8,030	7,335	449	335
Expected return on plan asset	(4,504)	(5,998)	183	(210)
Expense for the year	9,841	6,793	1,280	556

(In Thousands of Islamic Dinars)

21. RETIREMENT BENEFITS (continued)

Principal assumptions used in the actuarial valuations dated 13 Rajab 1431H (26 June 2010) and extended as at 30 Dhul Hijjah are as follows:

	Staff Retirement Plan		Medical Benefit Scheme	
	1431H	1430H	1431H	1430H
Discount Rate	5.9%	5.9%	5.9%	5.9%
Expected return on plan assets	6.0%	6.0%	5.9%	5.9%
Rate of expected salary increase	4.0%	4.0%	4.0%	4.0%

The expected return on plan assets is an average of the expected long-term return of the Plan assets, weighted by the portfolio allocation of the assets. Asset class returns are developed based on historical returns as well as forward-looking expectations. The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AAA Corporate Bonds.

The following table presents the plan assets by major category:

	Staff Retirement Plan		Medical Benefit Scheme	
	1431H	1430H	1431H	1430H
Commodity placements	5,008	1,860	3,211	3,113
Investment in UIF	18,980	18,597	--	--
Syndicated Murabaha	1,423	4,700	--	--
Managed funds and Instalment Sales, net	32,571	21,344	--	--
Investment in Sukuk	40,720	49,573	--	--
Land	4,596	4,504	--	--
Others (net)	3,455	656	1,479	666
Plan Assets – net	106,753	101,234	4,690	3,779

17.8 % of staff retirement plan assets (1430H: 18.4%) are invested respectively within the IDB group as of 30th Dhul Hijjah 1431H.

The following table summarizes the funding status of the staff retirement plan at the end of the last five fiscal years:

	1431H	1430H	1429H	1428H	1427H
Present value of defined benefit obligation	(142,718)	(125,605)	(117,261)	(105,128)	(103,604)
Fair value of plan assets	106,753	101,234	99,353	94,716	89,221
Plan deficit	(35,965)	(24,371)	(17,908)	(10,412)	(14,383)

(In Thousands of Islamic Dinars)

21. RETIREMENT BENEFITS (continued)

The following table summarizes the funding status of the medical benefit scheme at the end of the last five fiscal years:

	1431H	1430H	1429H	1428H	1427H
Present value of defined benefit obligation	(7,398)	(6,106)	(5,332)	(4,221)	(3,767)
Fair value of plan assets	4,690	3,779	3,392	2,894	2,633
Plan deficit	(2,708)	(2,327)	(1,940)	(1,327)	(1,134)

The amounts recognized in the general reserve are as follows:

	Staff Retirement Benefit	Medical Benefit Scheme	1431H Total	1430H Total
Balance at the beginning of the year	24,371	2,327	26,698	19,573
Movement during the year	11,594	381	11,975	7,125
Balance at the end of the year	35,965	2,708	38,673	26,698

22. PAID-UP CAPITAL

The capital of the Bank at 30 Dhul Hijjah is comprised of the following:

	1431H	1430H
Authorized 3,000,000 shares of ID 10,000 each (1430H: 3,000,000 shares of ID 10,000 each)	**30,000,000**	30,000,000
Issued: 1,800,000 shares of ID 10,000 each (1430H: 1,600,000 shares of ID 10,000 each)	**18,000,000**	16,000,000
Issued shares not subscribed	**(524,370)**	(136,510)
Subscribed capital	**17,475,630**	15,863,490
Share capital not yet called	**(12,275,000)**	(11,157,094)
Installments not yet due	**(1,002,973)**	(898,079)
Called-up capital	**4,197,657**	3,808,317
Installments due, not yet paid	**(166,586)**	(168,450)
Paid-up capital	**4,031,071**	3,639,867

(In Thousands of Islamic Dinars)

23. CAPITAL RESERVE

The capital reserve comprises the estimated value of land (ID 13 million) and buildings (ID 3.5 million) that were donated by the Government of the Kingdom of Saudi Arabia. The Government also donated SR 50 million (ID 9.6 million) for the construction of the permanent headquarters building.

Grants relating to depreciable assets need to be amortized in the same pattern as the related assets are depreciated. Since the amounts involved were not considered significant, the Bank's management had decided to create a capital reserve and transfer the amounts from the capital reserve as and when the related asset is fully depreciated.

24. 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. 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/2-430 dated 10 Rajab 1431H (23 June 2010), and the Board of Executive Directors' resolution No. BED/BG/3-430, higher of 5% of the Bank's 1430H net income and USD 5 million was allocated to finance technical assistance operations in the form of grants during the year 1431H amounted to ID 5.69 million (1430H: ID 9.71 million).

According to the Board of Governors' resolution No. BG/3-430 dated 10 Rajab 1431H 23 June 2010, and the Board of Executive Directors' resolution No.BED/BG/4-430, higher of 2% of the Bank's 1430H net income and USD Dollars 2 million was allocated to the merit scholarship programme in the form of grants during the year 1431H amounted to ID 2.27 million (1430H: ID 3.88 million).

25. UNDISBURSED COMMITMENTS

Undisbursed commitments at 30 Dhul Hijjah are comprise the following:

	1431H	1430H
Murabaha financing	**13,792**	50,868
Installment sales financing and Istisna'a assets	**3,038,082**	2,465,399
Loans	**1,033,983**	1,125,487
Ijarah Muntahia Bittamleek assets	**906,131**	869,453
Investments in equity capital and profit sharing	**36,566**	57,667
Investment in ICD	**74,967**	19,118
ISFD (Note 26)	**454,781**	509,278
Total	**5,558,302**	5,097,270

26. ISLAMIC SOLIDARITY FUND FOR DEVELOPMENT - COMMITMENTS

The Islamic Solidarity Fund for Development ("ISFD") was established pursuant to the decision taken at the Third Extraordinary session of the OIC Islamic Summit conference in Makkah in December 2006 (Dhul Qadah 1426H). The purpose of the Fund is to finance different productive and service projects and programmes that help in reducing poverty in member countries of the Organization of Islamic Conference in accordance with its Regulations. The fund was officially launched during the 32nd meeting of the IDB Board of Governors, held on 12-13 Jumad Awwal 1428H (29-30 May 2007) , in Dakar, Senegal through adoption of the BoG resolution no. BG/5-428. The target principal amount of the Fund is USD 10 billion and the Bank has committed to contribute USD 1 billion, payable in 10 annual installments of USD 100 million each (ID 65.12 million) (1430H :ID 67.90 million). The first three installments amounting to USD 300 million have already been paid by the Bank as of 30 Dhul Hijjah 1431H.

27. COMMITMENTS AND CONTINGENCIES THROUGH IDB - UNIT INVESTMENT FUND

The Bank's Unit Investment Fund ("UIF") is a trust fund established under Article 23 of the Articles of Agreement of the Bank. The purpose of the Fund is to participate in the economic development of the member countries through the pooling of the savings of institutions and individual investors, and to invest these savings in producing projects in the said member countries. The Bank has agreed to extend the guarantee to cover all the projects financed by the Fund.

Until 1428H, the Fund was being managed by the Bank. During 1429H, its management was transferred to ICD, which is a subsidiary of the Bank.

The Bank has outstanding guarantees at 30 Dhul Hijjah 1431H of ID 63.9 million (1430H: ID 65.9 million) in respect of other operations, which are covered by counter guarantees acceptable to the Bank.

(In Thousands of Islamic Dinars)

28. RELATED PARTY BALANCES

In the ordinary course of its activities, the Bank transacts with related parties. The terms of these transactions are approved by the Bank's management. The net balances due from / (to) IDB Group entities at 30 Dhul Hijjah are as follows:

	1431H		1430H	
	Assets	**Liabilities**	Assets	Liabilities
World Waqf Foundation	**416**	**--**	2,444	--
APIF	**949**	**--**	1,993	--
UIF	**6,602**	**--**	8,931	--
ICIIEC	**--**	**(95)**	4,741	--
Special Account Resources Waqf Fund	**--**	**(5,784)**	--	(43,996)
IDB Special Assistance Fund	**5,537**	**--**	--	(11,215)
IDB Pension Fund	**--**	**(4,557)**	7,953	--
IDB Medical Fund	**--**	**(868)**	-	(509)
Al-Aqsa Fund	**2,472**	**--**	-	(13,040)
Al Quds Fund	**980**	**--**	903	--
ICD (Note 28a)	**22,403**	**--**	17,758	--
BADEA	**75**	**--**	--	(17)
ITFC	**--**	**(89,830)**	--	(51,748)
Fael Khair Program	**--**	**(4,727)**	10,830	--
ISFD	**3,328**		2,099	--
Sacrificial Meat Project	**--**	**(5,218)**	--	--
GCC Program for Reconstruction of Gaza	**--**	**(17,903)**	--	--
ICD – Receivable under Wakala agreement (Note 28a)	**64,969**	**--**	63,660	--
ITFC – Receivable under Wakala agreement (Note 28a)	**16,242**	**--**	--	--
Total	**123,973**	**(128,982)**	121,312	(120,525)

28 (a) The Bank entered into two wakala agreements with ICD amounting to USD 100 million, on which the Bank will receive quarterly Muwakkil profit of 2.75% and 2.97% per annum. These transactions will mature on 9 December 2012 and 16 July 2012 respectively. Similarly, the Bank has also entered into a Wakala agreement with ITFC amounting to USD 25 million, on which the Bank will receive a Muwakkil profit of Libor plus 110 bps. This transaction matured on 12 December 2010.

28 (b) According to the IDB's Board of Executive Directors' resolution number BED/27/12/428(249)/157, dated 27 Dhul Hijja 1428H (6 January 2008), the Board resolved to allocate USD 1 billion of IDB OCR resources for the Corporation, wherein the Corporation will act as Mudarib under a mudaraba agreement dated 10 Rabi al Awal 1429H (18 March 2008)

(In Thousands of Islamic Dinars)

29. NET ASSETS IN FOREIGN CURRENCIES

The net assets in foreign currencies at 30 Dhul Hijjah are as follows:

	1431H	1430H
United States Dollar	**628,182**	496,977
Euro	**616,474**	464,162
Pound Sterling	**152,442**	126,501
Japanese Yen	**166,362**	118,343
Other currencies	**26,304**	8,308

30. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION

	At 30 Dhul Hijjah 1431H					
	Maturity period determined					
	Less than 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Maturity period not determined	Total
Total assets	**2,261,600**	**988,394**	**1,384,068**	**3,140,535**	**1,333,149**	**9,107,746**
Total liabilities	**776,829**	**515,687**	**1,374,591**	**--**	**--**	**2,667,107**
	At 30 Dhul Hijjah 1430H					
Total assets	1,730,167	1,082,243	1,429,613	3,375,871	1,107,469	8,725,363
Total liabilities	965,124	1,166,624	703,410	--	--	2,835,158

31. CONCENTRATION OF ASSETS

Analysis of assets by economic sector is as follows:

	At 30 Dhul Hijjah 1431H						
	Public utilities	Transport and telecom	Agriculture	Industry and mining	Social Services	Others	Total
Total assets	**2,650,806**	**1,622,226**	**459,735**	**696,172**	**643,782**	**3,035,025**	**9,107,746**
	At 30 Dhul Hijjah 1430H						
Total assets	2,200,292	1,251,074	535,330	482,877	883,194	3,372,596	8,725,363

(In Thousands of Islamic Dinars)

31. CONCENTRATION OF ASSETS (continued)

The geographical locations of assets are as follows:

	30 Dhul Hijjah 1431H				
	Member countries				
	Asia	Africa	Europe	Non-member countries	Total
Total assets	**5,848,388**	**2,669,832**	**327,672**	**261,854**	**9,107,746**
	30 Dhul Hijjah 1430H				
Total assets	5,733,161	2,440,340	245,645	306,217	8,725,363

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

32. RISK MANAGEMENT

The Bank has a Group Risk Management Department ("GRMD") fully independent from all business departments as well as other entities of the Bank. The GRMD is responsible for identification, assessment, mitigating, and reporting of all types of risks inherent in the Bank's activities with the view to achieve and maintain its sound, safe and sustainable low risk profile. The Bank has also established a Group Risk Management Committee which is responsible to ensure that, based on the risk appetite of the Bank, there are appropriate controls on all major risks arising from financing and investment operations through reviewing the risk management framework, policies, procedures, guidelines and risk reports.

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 Bank's credit risk arises mainly from its operating and financial assets.

For all classes of financial assets held by the Bank, the maximum credit risk exposure to the Bank is their carrying value as disclosed in the statement of financial position. The assets which subject the Bank to credit risk, principally consist of commodity placements, Murabaha financing, Istisna'a assets, installment sales financing, loans, Ijarah Muntahia Bittamleek, certain other investment and other assets which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the IDB, in accordance with specific eligibility criteria and credit risk assessments. The Bank's liquid fund investments portfolio is managed by the Treasury Department and comprise deals with reputable banks. Murabaha financing, Istisna'a assets, Installment sales financing, Loans, Ijarah Muntahia Bittamleek, certain other investment and other assets are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks whose ratings are acceptable to the Bank per its policies.

32. RISK MANAGEMENT (continued)

The Bank benefits from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, the Bank has had a very low level of overdues. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit losses are unlikely to occur.

Credit risk includes potential losses arising from a counterparty's (i.e., country, bank/financial institution, corporate, etc.) inability or unwillingness to service its obligation to the Bank. In this respect, the Bank has developed and put in place comprehensive credit policies and guidelines as part of the overall credit risk management framework to provide clear guidance on various types of financing. These policies are clearly communicated within the Bank with a view to maintain the Bank's overall credit risk profile within the parameters set by the management. The credit policy formulation, credit limit setting, monitoring of credit exceptions / exposures and review / monitoring functions are performed independently by the GRMD, which endeavors to ensure that business lines comply with risk parameters and prudential limits established by the Board of Executive Directors ("BED") and the management.

An important element tool of credit risk management is the established exposure limits for each obligor and group of connected obligors. Moreover, portfolio concentration limits relating to single country and single obligor are also in place with the view to maintain appropriate diversification. In this respect, IDB has a well developed limit structure, which is based on the credit strength of the beneficiary, the obligor.

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 IDB. While extending financing to its member countries the Bank should safeguard its interests by obtaining the relevant guarantees for its financing operations and has to ensure that the concerned beneficiaries as well as the guarantors are able to meet their obligations to IDB. In addition to the above risk mitigation tools, the Bank has in place a comprehensive approach for risk assessment and assignment of exposure limits in line with the best banking practices.

Country risk refers to the risks associated with the economic, social and political environments of the beneficiary's home country. Guidelines were developed for monitoring country risk profiles and exposure to safeguard the Bank against undue risk. The country risk profiles and exposure limits are determined and periodically reviewed and updated taking into consideration the macro-economic, financial, and other developments in the member countries, the status of their business relationship with IDB as well as the perception of the rating agencies, specialized international publications of repute, risk perception of the participants in the market, and experience of other MDB's. Countries are classified under 7 risk categories; i.e., "A" to "G", whereby "A" represents to the highest creditworthy category (lowest risk) and "G" represents the lowest creditworthy category (highest risk).

(In Thousands of Islamic Dinars)

32. RISK MANAGEMENT (continued)

(i) Concentration of credit risk

The table below shows ten largest country exposures for financed operations (excluding equity and profit sharing) as of the end of years 1431H and 1430H:

1431H			1430H		
Country	**Amount**	**% (of total exposure)**	Country	Amount	% (of total exposure)
Morocco	**590,276**	**9.9%**	Morocco	569,421	10.4%
Iran	**542,425**	**9.1%**	Iran	482,695	8.8%
Saudi Arabia	**346,853**	**5.8%**	Saudi Arabia	347,764	6.4%
Tunisia	**298,224**	**5.0%**	Bangladesh	329,255	6.0%
Indonesia	**293,303**	**4.9%**	Indonesia	262,374	4.8%
Bangladesh	**262,581**	**4.4%**	Pakistan	246,533	4.5%
Pakistan	**261,153**	**4.4%**	Tunisia	241,894	4.4%
Bahrain	**234,550**	**3.9%**	Lebanon	210,273	3.9%
Jordan	**199,229**	**3.4%**	Bahrain	187,568	3.4%
Lebanon	**194,234**	**3.3%**	Senegal	171,242	3.1%
Total Top 10	3,222,828	54.1%	Total Top 10	3,049,019	55.7%

(ii) Credit quality of financed operations

The table below provides analysis of the credit quality of country exposures related to financed operations (excluding equity and profit sharing) as of the end of years 1431H and 1430H:

	1431H		1430H	
Credit Risk Category	**Amount**	**%**	Amount	%
Category "A"	**516,331**	**8.7%**	382,060	7.0%
Category "B"	**2,155,238**	**36.2%**	2,071,425	37.9%
Category "C"	**1,154,876**	**19.4%**	1,074,562	19.7%
Category "D"	**673,768**	**11.3%**	477,720	8.7%
Category "E"	**1,039,724**	**17.5%**	1,081,084	19.8%
Category "F"	**342,123**	**5.8%**	311,411	5.7%
Category "G"	**64,107**	**1.1%**	57,612	1.1%
Other Non Rated	**--**	**0.0%**	3,202	0.1%
Total	**5,946,167**	**100%**	5,459,076	100%

(In Thousands of Islamic Dinars)

32. RISK MANAGEMENT (continued)

Total gross operating assets financing are secured by the following amount of guarantees:

	Sovereign	Commercial & Others	Total
1431H			
Other operating assets	5,276,718	296,942	5,573,660
Murabaha financing	279,058	93,449	372,507
Total	**5,555,776**	**390,391**	**5,946,167**
1430H			
Other operating assets	4,687,620	168,417	4,856,037
Murabaha financing	414,812	188,227	603,039
Total	5,102,432	356,644	5,459,076

Geographical concentration of operating assets

The Bank carries on business mainly with countries in Middle East, Asia and Africa. Due to the relatively high country risk of some of the countries in these continents, the Bank is exposed to potential loss arising from its exposure to these countries. The Bank's exposure to any Member Country is diversified with a view to avoid excessive concentration of risk in any particular Member Country by setting maximum exposure country limits.

The following table depicts the geographical distribution of exposure on financed operations with member countries:

	1431H	1430H
Geographical Area		
Middle East	**51.6%**	52.5%
Asia & others	**26.3%**	25.6%
Africa	**22.1%**	21.9%
	100%	100%

32. RISK MANAGEMENT (continued)

a) Market risks

IDB is exposed to the following market risks:

i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Bank does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited as the Bank has the Islamic Dinar (equivalent to Special Drawing Right – SDR of the International Monetary Fund) as the unit of account (which mitigates against translation risk) and the Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. The treasury and operational investment portfolio are held in major currencies and are aligned with the composition of the Islamic Dinars basket, namely US Dollar, Sterling Pound, Euro and Japanese Yen. The Bank has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly (Also see note 29 for distribution of net assets by currencies).

ii) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. To guard against this risk, the Bank adopts a conservative approach by maintaining high liquidity levels invested in cash, cash equivalents, commodity placements and Murabaha financing with short-term maturity of three to twelve months. The liquidity profile of the Bank's assets and liabilities has been presented in note 30.

iii) Equity price risk

The Bank is exposed to equity price risks arising from equity investments that are held for strategic rather than trading purposes. The Bank does not actively trade these investments. If equity prices had been 5% higher or lower, net income for the year ended 30 Dhul Hijjah 1431H would have been unaffected as equity investments are classified as available-for-sale and adequate provision has been made for the equity investments against which an impairment loss has occurred.

iv) Mark-up risk

Mark-up risk arises from the possibility that changes in Mark-up will affect the value of the financial instruments. The Bank is exposed to Mark-up risk on its investments in cash and cash equivalents, commodity placements, Murabaha financing, Istisna'a assets, Ijarah Muntahia Bittamleek assets, investments in Sukuk and Sukuk liabilities. In respect of the financial assets, the Banks returns are based on a benchmark and hence vary according to the market conditions. In terms of the Sukuk liability, the outflows are based on the returns on the underlying assets which are measured in terms of a fixed percentage over and above a benchmark.

(In Thousands of Islamic Dinars)

32. RISK MANAGEMENT (continued)

The effective markup rate for the various operational financial assets and financial liabilities are as follow:

	1431H	1430H
Commodity placements	**0.7%**	1.3%
Murabaha financing	**2.4%**	3.3%
Istisna'a assets	**4.5%**	4.5%
Installment sales	**4.8**%	4.6%
Ijara Muntahia-Bittamleek	**5.1%**	4.5%
Sukuk liability	**2.29%**	3.74%

The Bank also uses Murabaha-based swaps instruments approved by the Sharia'h Board in its portfolios for asset/liability management, cost reduction and risk management. These instruments include cross-currency swaps and profit-rate swap that are used to modify the profit-rate or currency characteristics of the sukuk liability and other assets of the Bank. Further details are contained in Note 7.1.

b) Other risks

The Bank assumes financial institution risk while dealing with banks and other financial institutions for placement of liquid funds; acceptance of guarantees for IDB financing operations and extending lines of financing. The GRMD follows in its credit risk evaluation the approved framework for the financial institutions.

Credit quality of the liquid fund portfolio, based on the internal rating system of the Bank, as of the year end is shown below:

	1431H		1430H	
Credit Risk Category	**Amount (ID thousands)**	**%**	Amount (ID thousands)	%
Category "A"	**--**		--	--
Category "B"	**75,620**	**5.48%**	135,134	8.22%
Category "C"	**1,007,203**	**72.95%**	1,094,666	66.57%
Category "D"	**267,083**	**19.35%**	377,335	22.94%
Category "E"	**16,591**	**1.20%**	15,284	0.93%
Category "F"	**--**	**--**	1,624	0.10%
Category "G"	**14,094**	**1.02%**	20,370	1.24%
Total	**1,380,591**	**100%**	1,644,413	100%

32. RISK MANAGEMENT (continued)

The Bank assumes corporate risk due to its dealings with corporations, that are not financial institutions and do not carry any explicit government guarantee, in the form of financing, investments and corporate guarantees. This financing can be in the form of structured facilities, trade finance, equity investments, profit sharing, etc. According to the approved guidelines, a maximum of 30% of IDB's financing operations can be provided against such alternatives to Sovereign/Bank guarantees.

The Bank has a strict framework for corporate financing risk evaluation. Further, the GRMD, while reviewing the financing proposals ensures that the due-diligence has been performed according to the approved guidelines.

The Bank adopts a detailed risk management framework for assessing measuring and mitigating all risks related to project finance. The GRMD undertakes independent risk review covering all aspects of the project finance in accordance with the related guidelines.

c) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

The fair values of operational assets are not significantly different from the carrying values included in the financial statements except for unlisted equity investments and investments in subsidiaries and trust funds over which the Bank exerts control. Unlisted equity investments are stated at cost as their fair values cannot be reliably determined. Subsidiaries and trust funds are consolidated in the consolidated financial statements of the Bank.

33. COMPARATIVE FIGURE

Certain comparative figures have been re-grouped to conform to the presentation in the current year.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND

FINANCIAL STATEMENTS
30 Dhul Hijjah 1431H (6 December 2010)
with
INDEPENDENT JOINT AUDITORS'
SPECIAL PURPOSE REPORT

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND

30 Dhul Hijjah 1431H (6 December 2010)

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INDEPENDENT JOINT AUDITORS' SPECIAL PURPOSE REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank

We have audited the accompanying statement of financial position of The Islamic Development Bank - Special Account Resources Waqf Fund (the "Fund") as of 30 Dhul Hijjah 1431H (6 December 2010) and the related statements of activities and changes in net assets and cash flows for the year then ended and the attached notes from 1 to 31 which form an integral part of the financial statements.

The comparative figures shown in these financial statements were audited by another auditor, whose audit report dated 28 Rabi'I, 1431H (corresponding to 14 March, 2010) contained an unqualified opinion on those financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and to operate in accordance with Islamic Shari'ah rules and principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 Dhul Hijjah 1431H (6 December 2010), and the results of its activities and changes in net assets and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Fund.

We draw your attention to the fact that the Fund has followed other accounting standards as disclosed in note 2(a) for matters not addressed by the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

PricewaterhouseCoopers

Sami E. Farah
Certified Public Accountant
Registration No. 168

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
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C.R 46
KPMG
س.ش.م رقم ٤٦
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

20 Jamad Al-Awwal 1432H
24 April 2011
Jeddah

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

ISLAMC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENT OF FINANCIAL POSITION
As of 30 Dhul Hijjah 1431H (6 December 2010)

(In Thousands of Islamic Dinars)

	Notes	1431H	1430H (Restated)
ASSETS			
Cash and cash equivalents	4	**160,045**	442,977
Commodity placements through banks, net	5	**633,496**	105,573
Murabaha financing, net	6	**2,198**	5,934
Receivable from IDB - Ordinary Capital Resources	7	**4,761**	41,125
Investment in units	8	**78,410**	77,031
Investment in subsidiaries	9	**60,516**	60,516
Investment in Sukuk	10	**81,947**	116,596
Investment in equity capital, net	11	**13,399**	12,053
Instalment sales financing, net	12	**2,907**	3,934
Ijarah Muntahia Bittamleek, net	13	**15,004**	3,585
Istisna'a assets, net	14	**1,159**	1,528
Loans, net	15	**165,356**	152,997
Accrued income and other assets		**25,650**	30,503
Other investments	16	**158,899**	168,376
Fixed assets, net	18	**18,246**	19,035
TOTAL ASSETS		**1,421,993**	1,241,763
LIABILITIES			
Accruals and other liabilities	19	**549,700**	362,165
Specific deposit from IDB – Unit Investment Fund	8	**9,505**	9,313
TOTAL LIABILITIES		**559,205**	371,478
NET ASSETS		**862,788**	870,285
REPRESENTED BY:			
Waqf Fund principal amount		**757,856**	752,926
Special assistance	30	**(31,941)**	(12,939)
Special account for least developed member countries	30	**136,873**	130,298
		862,788	870,285

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive directors on 6th Jamad-ul-Awwal, 1432H (10 April 2011G).

The accompanying notes from 1 through 31 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended 30 Dhul Hijjah 1431H (6 December 2010)

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

	Notes	1431H Waqf Fund Principal Amount	1431H Special Assistance	1431H Special Account for LDMC	1431H Total	1430H (Restated) Total
Income from:						
Commodity placements through banks		--	--	--	6,003	11,853
Murabaha financing		--	--	--	387	974
Investment in units		--	--	--	3,639	5,870
Investment in Sukuk		--	--	--	4,119	4,212
Instalment sales financing		--	--	--	334	311
Ijarah Muntahia Bittamleek		--	--	--	1,684	2,566
Istisna'a assets		--	--	--	124	107
Other investments		--	--	--	18,442	12,339
		--	--	--	34,732	38,232
Depreciation of assets under Ijarah Mutahia Bittamleek	13	--	--	--	(1,597)	(1,271)
					33,135	36,961
Foreign currency exchange gains/(losses)		--	--	--	2,482	(175)
Financing costs		--	--	--	(4,158)	(8,793)
Other expenses		--	--	--	--	(510)
					31,459	27,483
Loss on sale of investment		--	--	--	--	(15,452)
Provision for impairment of assets	17	--	--	--	(2,872)	(5,299)
Attributable net income		--	--	--	28,587	6,732
Allocation of attributable net income	21	4,288	18,582	5,717	--	--
Share of income transferred from IDB-OCR	22	27	116	36	179	1,018
Contributions from IDB-OCR for technical assistance grants and scholarship program	23	--	7,960	--	7,960	13,593
Income before grants and program expenses		4,315	26,658	5,753	36,726	21,343
Grants for causes	20	--	(29,076)	--	(29,076)	(33,244)
Program expenses	20	--	(16,962)	--	(16,962)	(12,206)
		4,315	(19,380)	5,753	(9,312)	(24,107)
Capital losses		--	(320)	--	(320)	--
Change in net assets		**4,315**	**(19,700)**	**5,753**	**(9,632)**	(24,107)
Fair value reserve		615	698	822	2,135	30
Net assets at beginning of the year, as previously reported		757,490	(4,288)	133,601	886,803	910,544
Prior year adjustments	29	(4,564)	(8,651)	(3,303)	(16,518)	(16,182)
Net assets at beginning of the year, as restated		752,926	(12,939)	130,298	870,285	894,362
Net assets at end of the year	30	**757,856**	**(31,941)**	**136,873**	**862,788**	870,285

The attached notes from 1 through 31 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENT OF CASH FLOWS
For the Year Ended 30 Dhul Hijjah 1431H (6 December 2010)

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

	1431H	1430H (Restated)
CASH FLOWS FROM OPERATIONS:		
Attributable net income	**28,587**	6,732
Adjustments to reconcile attributable net income to net cash provided by (used in) operating activities:		
Depreciation	**2,407**	2,297
Provision for impairment	**2,872**	5,299
Change in operating assets and liabilities:		
Murabaha financing	**3,736**	(190)
Instalment sales financing	**1,026**	1,171
Ijarah Muntahia Bittamleek	**(13,016)**	(24)
Istisna'a assets	**369**	(1,528)
Loans	**(12,359)**	(5,694)
Accrued income and other assets	**4,853**	(8,432)
Accruals and other liabilities	**187,535**	(80,849)
Net cash provided by/ (used in) operations	**206,010**	(81,218)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Commodity placements through banks	**(527,924)**	306,273
Investment in units	**(1,379)**	14,761
Investment equity capital	**--**	(3,140)
Investment in Sukuk	**31,433**	(38,501)
Other investments	**(823)**	--
Proceeds from disposal of other investments	**11,115**	19,606
Specific deposit from IDB - Unit Investment Fund	**192**	(161)
Additions to fixed assets	**(21)**	(17)
Special Assistance Program expenses	**(16,962)**	(12,424)
Net cash (used in) / provided by investing activities	**(504,369)**	286,397
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in receivable from / (payable to) from IDB - Ordinary Capital Resources	**36,364**	(6,693)
Income transferred from IDB-OCR	**179**	1,018
Net grants for causes and contribution from IDB for technical assistance grants from Special Assistance Account	**(21,116)**	(19,651)
Net cash provided by / (used in) financing activities	**15,427**	(25,326)
Net (decrease) increase in cash and cash equivalents	**(282,932)**	179,853
Cash and cash equivalents at beginning of the year	**442,977**	263,124
Cash and cash equivalents at end of the year	**160,045**	442,977

The attached notes from 1 through 31 form an integral part of these financial statements.

1. INCORPORATION AND ACTIVITIES

The Special Account Resources Waqf Fund (the "Fund") of the Islamic Development Bank (the "Bank" or "IDB") was established on 1 Muharram 1418H (7 May 1997) based on the Board of Governors' Resolution No. BG/3-417. At that date, the entire uncommitted assets of the Special Account of the Bank were transferred to the Fund.

The Governors' Resolution, as subsequently amended by BG/4-420 and BED/28/12/ (192)/195, also stated that a certain percentage of the income for the Fund resources and the same percentage of the banking returns from the Bank's investments in the international market shall be transferred to the principal amount of the Fund until it reaches one thousand million Islamic Dinars. At such time, the Board of Governors shall, upon recommendation of the Board of Executive Directors, determine the purpose for which the amounts in excess of one thousand million Islamic Dinars shall be used. Such percentage will be reviewed each year on the basis of annual income earned for that year (See Notes 21).

In 1417H, the Special Accounts of the Islamic Development Bank - Ordinary Capital Resources ("IDB-OCR") consisted of the Special Reserve, Special Assistance and Special Account for Least Developed Member Countries. On 1 Muharram 1418H, the balances of these accounts in the books of IDB-OCR as of 29 Dhul Hijjah 1417H together with the related assets and liabilities were transferred to the Special Account Resources Fund. The balance of Special Reserve Account has been taken as the uncommitted resources of the Special Accounts and formed the balance of the Fund principal amount at 1 Muharram 1418H. The balances of the Special Assistance and Special Account for Least Developed Member Countries have been taken as committed resources of the Special Accounts and have been transferred to the Fund, but do not form part of the Fund principal amount. All assets of the Fund are commingled and are not distinguished between the Fund principal amount and the other committed resources of the Fund (see note 28).

The Fund is managed in accordance with its regulations by the Bank through a Board of Trustees. The regulations provide that the Bank's Board of Executive Directors shall be the Board of Trustees. Its business activities are carried out through the Bank's headquarter in Jeddah, Kingdom of Saudi Arabia.

The title of assets recorded in the financial statements as Fund assets is held with the Bank.

As a fund of the Bank which is an international institution, the Fund is not subject to an external regulatory authority.

The Fund's financial year is the lunar Hijra year.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The Fund's separate financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank. For matters, which are not covered by AAOIFI standards, the Fund uses the relevant International Financial Reporting Standards ("IFRS").

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Fund's separate financial statements contain information about the Fund on an individual basis and do not contain consolidated financial information related to the Fund's subsidiaries, Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC") and Investment in BBI Leasing and Real Estate Company ("BBI"). Such subsidiaries have been reflected at cost in accordance with the requirements of AAOIFI Standards. The Fund has prepared these separate financial statements at the request of the Bank; the Fund also prepares consolidated financial statements which include the results of all group entities.

The financial statements are prepared under the historical cost convention except for the revaluation of investment in units, investment in equity capital and other investments to fair value.

b) Critical accounting estimates and judgments

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement 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. Significant area where management has used estimates, assumptions or exercised judgments is estimation of provision for impairment of financial assets. The methodology for the estimation of the provision is set outline in notes 2(p).

c) Foreign currency translations

(i) Functional and presentation currency

These financial statements are presented in thousands of Islamic Dinars (ID) which is the functional and presentation currency of the Fund. Islamic Dinar is the unit of account of the Fund and is equal to one Special Drawing Right (SDR) of the International Monetary Fund ("IMF").

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into Islamic Dinars using the SDR rates declared by the IMF at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates declared by the IMF are recognized in the statement of activities except for unrealized gains and losses on investment in equity capital which are charged to fair value reserve account under net assets.

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

d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity placements through banks having a maturity of three months or less at the date of placement.

e) Commodity placements through banks

Commodity placements are made through banks and are utilized in the purchase and sale of commodities at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Fund and other financial institutions. Commodity placements are initially recorded at cost including acquisition charges associated with the placements.

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

f) Murabaha and Installment sales financing

Murabaha financing and installment sales financing are agreements whereby the Fund sells to a customer a commodity or an asset, which the Fund has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Murabaha financing and installment sales financing are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Fund to the date of the statement of financial position, less repayments received and any provision for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investment in units, equity capital and other assets

Investment in units, equity capital and other assets are held as available-for-sale and are initially recorded at cost and subsequently measured to fair value. Any unrealized gains arising from the change in their fair value are recognized in statement of changes in net assets. Whereas, unrealized losses resulting from re-measurement at fair value are recognized in statement of net assets to the extent of the available balance. Excess of unrealized loss over the available balance is recognized in the statements of activities and changes in net assets. In case there are unrealized losses that have been recognized in the statements of activities in previous years, the unrealized gains related to the current year are recognized in the statement of activities to the extent of such previous losses.

h) Investment in subsidiaries

Investment in subsidiaries are recognized at cost and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the investment in subsidiaries carrying amount exceeds its recoverable amount, the recoverable amount is the higher of the fair value less costs to sell and value in use. Previously recognized impairment losses, if any, are reviewed for possible reversal of the impairment at each reporting date.

i) Investment in Sukuk

Investments in Sukuk are stated at cost, except if there is an impairment of value other than temporary for such investments. In such situations, the investments in Sukuk at statement of financial position date are re-measured to their fair value and the loss is recognized in the statement of activities.

j) Istisna’a assets

Istisna’a is an agreement between the Fund and a customer whereby the Fund sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Istisna’a assets represent the disbursements made as of the date of the statement of financial position against the assets acquired for istisna’a projects plus income recognized, less repayment received.

k) Ijarah Muntahia Bittamleek

Ijarah is an agreement whereby the Fund, acting as a lessor, purchases according to the customer request (lessee), based on his promise to lease the asset for an agreed rent for a specific period. The Fund transfers the title of the asset to the lessee without consideration upon completion of all payments due.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Ijarah Muntahia Bittamleek consists of assets purchased by the Fund, either individually or through a syndicate agreement and leased to beneficiaries for their use under Ijarah Muntahia Bittamleek agreements. The assets are stated at cost less the accumulated depreciation up to the date of the statement of financial position. The assets are depreciated using the straight-line method over the related lease period. No depreciation is recorded in respect of assets under construction.

l) Loans

Loans represent amounts disbursed in respect of projects less repayment received relating to the outstanding capital portion of the loan as determined by the loan agreement.

m) Fixed assets

Fixed assets are recorded at the historic cost. Maintenance and repair costs are expensed as incurred. Cost includes expenditures that are directly attributable to the acquisition and construction of the asset. Subsequent expenditure is only capitalized when it increases the useful life if the asset.

Fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Number of Years
Permanent headquarters buildings	40
Pre-fabricated buildings	6 to 7
Furniture and equipment	4 to 10

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

n) Revenue recognition

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

Murabaha financing and installment sales financing
Income from Murabaha financing installment sales financing is accrued on a time apportionment basis over the period from the date of actual disbursement of funds to the scheduled repayment dates of installments.

Investment in Sukuk
Income from investment in Sukuk is recognized as declared by the investee banks and includes accretions of any discounts, net of amortization of any premiums on acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is allocated proportionately to the financial periods over the lease term.

Istisna'a assets
The Fund uses the deferred profits method for recognizing Istisna'a income whereby there is a proportionate allocation of deferred profits over the future financial period of the credit.

Loan service fees
Income from loan service fees is accrued according to the service fee repayment schedule appended to the loan agreement. The loans are administered by the Bank and the service fees charged are included as part of its income.

Investment in units, equity capital and other assets
Income from investment in units, equity capital and other investments are recognized when right to receive the payments is established.

o) Commodity purchase and sale agreements

The Bank on behalf of the Fund enters into commodity purchase and sale agreements with certain banks. 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 purchase price under these agreements is included in other liabilities. The difference between sale and purchase price is treated as finance cost and accrued on a time apportionment basis over the period of the agreements.

p) Impairment of financial assets

Operational assets
Operational assets are the assets controlled by the Fund to conduct its operations. The Fund determines the provision for impairment losses based on an assessment of incurred losses. It takes into account the losses that it suffers as a result of rescheduling the dues from certain countries and from settlement plans mutually agreed with the beneficiaries due to its participation in the debt relief initiative for the Heavily Indebted Poor Countries (HIPC). The loss results from the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the implicit rate of return in the agreement. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. In addition, a portfolio provision is created for losses where there is objective evidence that unidentified losses are present in the portfolio at the balance sheet date. These are estimated based on country risk ratings, the current economic conditions and the default pattern that are embedded in the components of the portfolio.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial assets:

An assessment is made at each financial position 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 fair value.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a financial asset is not considered recoverable, the asset is written off against allowance account and any excess loss is recognised in the statement of activities. Subsequent recoveries of amounts previously written-off are credited to the Fund's statement of activities.

q) Offsetting

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

r) Zakat and Tax

Since the Fund's resources are part of Baitul Mal (public money), the Fund is not subject to Zakat or tax.

s) Provisions

Provisions are recognized when a reliable estimate can be made by the Fund for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

3. SHARI'AH COMMITTEE

The Fund's business activities are subject to the supervision of a Shari'ah Committee consisting of members appointed by the Fund's General Assembly. IDB Group's Shari'ah Committee was established pursuant to Board Resolution No.BED/24/11/421/(198)/138. Members of the Shari'ah Committee of IDB Group are appointed for the period of 3 years renewable.

The Committee has the following functions:

i. to consider all that are referred to it of transactions and products introduced by the Fund for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;

(In Thousands of Islamic Dinars)

3. SHARI'AH COMMITTEE (continued)

ii. to give its opinion on the Shari'ah alternatives to conventional products which the Fund 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 Fund's experience in this regard;

iii. to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Fund;

iv. to contribute to the Fund's 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

v. to submit to the Board of Executive Directors a comprehensive report showing the measure of the Fund's commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed;

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Cash in hand	**74**	--
Cash at banks	**28,017**	27,401
Short-term commodity placements through banks (Note 5)	**131,954**	415,576
Total	**160,045**	442,977

5. COMMODITY PLACEMENTS THROUGH BANKS

Commodity placements through banks at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Placements through Islamic banks	**8,628**	9,131
Placements through conventional banks	**756,822**	512,018
Total	**765,450**	521,149
Less: maturity of three months or less at the date of placement (Note 4)	**(131,954)**	(415,576)
	633,496	105,573

(In Thousands of Islamic Dinars)

6. MURABAHA FINANCING, NET

Murabaha financing at 30 Dhul Hijjah comprised of the following:

	1431H	1430H
Gross amounts receivable	**2,247**	6,122
Less: unearned income	**(49)**	(188)
Murabaha financing, net	**2,198**	5,934

7. RELATED PARTY TRANSACTIONS

During the ordinary course of its business, the Fund has certain transactions with IDB-OCR relating to investments and realization of investments made through the inter-fund account between the Fund and the Bank. The balance from IDB-OCR as at 30 Dhul Hijjah 1431H is ID 4.8 million (1430H: ID 41.1 million).

The cost of the permanent headquarters buildings and other related furniture and equipment was funded out of the Bank's Ordinary Capital Resources and the Fund. The cost of such fixed assets and its related depreciation were split according to the following proportions:

IDB - Ordinary Capital Resources	65%
The Fund	35%

8. INVESTMENT IN UNITS

IDB - Unit Investment Fund ("UIF") is a trust fund established under Article 23 of the Articles of Agreement of the Bank. The purpose of the UIF is to participate in the economic development of member countries through the pooling of the savings of institutions and individual investors, and to invest these savings in producing projects in the said member countries. The units of UIF are quoted on the Bahrain Stock Exchange and the Bank supports the market in these units by purchasing units available for sale in the market.

9. INVESTMENT IN SUBSIDIARIES

	1431H	1430H (Restated)
ICIEC (Note 9.1)	**50,000**	50,000
BBI (Note 9.2)	**10,516**	10,516
	60,516	60,516

(In Thousands of Islamic Dinars)

9. INVESTMENT IN SUBSIDIARIES (continued)

9.1 Investment in ICIEC

ICIEC was established on 1 August 1994 by the Bank. The objective of ICIEC is to enlarge the scope of trade transactions and the flow of investments among member countries of the Organization of the Islamic Conference by providing: a) export credit insurance to cover the non-payment of export receivables; and b) investment insurance against country risks.

The authorized capital of ICIEC is ID 150 million, divided into 150,000 shares of ID 1,000 each. The subscribed capital of ICIEC at 30 Dhul Hijjah 1431H is ID 148.99 million (1430H: ID 148.49 million), with callable installments of ID 74.49 million (1430H: ID 74.24 million) of which ID 73.43 million were paid (1430H: ID 73.28 million).

The Fund has subscribed in 100,000 shares and paid for 50,000 shares in ICIEC, which represents 67.12% of ICIEC's share capital at 30 Dhul Hijjah 1431H (1430H: 67.34%).

9.2. Investement in BBI

BBI Leasing and Real Estate D.O.O. is a limited liability company ("BBI") established in Bosnia and Herzegovina by Court Decision no. UF/1-1411/05 dated 2 September 2005 and commenced its operations in 2006. BBI is principally engaged in development and leasing of real estate. The subscribed and paid-up capital of BBI is Convertible Mark ("KM") 39,915 thousand (ID 17,608 thousand) at 30 Dhul Hijjah 1431H. As of 30 Dhul Hijjah 1431H, the Fund has subscribed in and paid for KM 21,531 thousand (ID 10,516 thousand) (1430H: ID 10,516 thousand), representing a share of 53.94% (1430H: 53.94%) in the total paid up capital of BBI.

9.3. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the financial information for the subsidiaries:

Name	Assets	Liabilities	Revenues	Net income	% holding
1431H					
ICIEC	120,192	20,889	5,240	81	68.15%
BBI	36,418	17,044	4,414	1,874	53.94%
	156,610	37,933	9,654	1,955	
1430H					
ICIEC	114,883	16,064	6,210	1,091	68.26%
BBI	37,620	19,102	2,871	1,001	53.94%
	152,503	35,166	9,081	2,092	

(In Thousands of Islamic Dinars)

10. INVESTMENT IN SUKUK, NET

Investment in Sukuk certificates as at 30 Dhul Hijjah 1431H and 1430H represents a share in the investment in Sukuk issued by the various governments and certain other entities. These investments are reported at cost, with impairment loss, if any, directly recognized in the income statement of changes in net assets. Investment in Sukuk at 30 Dhul Hijjah comprised the following:

	1431H	1430H
Investment in Sukuk	**97,495**	128,928
Less: Provision for impairment (Note 17)	**(15,548)**	(12,332)
Investment in Sukuk, net	**81,947**	116,596

11. INVESTMENT IN EQUITY CAPITAL, NET

The Fund through the Bank invests in the equity capital of industrial, agro-industrial and Investment Management institutions. The Fund's policy is not to have control or exercise any significant influence over the financial and operating policies of the investees, notwithstanding the ownership interest held or the Fund's representation on the Board of Directors of the investee companies.

Investments in the equity capital at 30 Dhul Hijjah 1431H are comprised of the following:

	1431H	1430H
Equity investments:		
Listed	**3,019**	--
Unlisted	**10,380**	12,053
	13,399	12,053

The movement in equity capital investments is summarized as follows:

	1431H	1430H
Balance at the beginning of the year	**12,053**	8,913
Transferred during the year	**3,019**	3,140
Less: Provision for impairment (Note 17)	**(1,673)**	--
	13,399	12,053

(In Thousands of Islamic Dinars)

12. INSTALLMENT SALES FINANCING, NET

Receivables from installment sales financing at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Gross amounts receivable	**3,554**	4,875
Less: unearned income	**(647)**	(941)
Installment sales financing, net	**2,907**	3,934

(In Thousands of Islamic Dinars)

13. IJARAH MUNTAHIA BITTAMLEEK, NET

Ijarah Muntahia Bittamleek at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Cost:		
At the beginning of the year	**10,818**	10,794
Additions	**12,992**	24
At the end of the year	**23,810**	10,818
Accumulated depreciation:		
At the beginning of the year	**(7,209)**	(5,938)
Charge for the year	**(1,597)**	(1,271)
At the end of the year	**(8,806)**	(7,209)
Balance at the end of the year	**15,004**	3,609
Less: provision for impairment (Note 17)	**--**	(24)
Ijarah Muntahia Bittamleek, net	**15,004**	3,585

14. ISTISNA'A ASSETS, NET

Istisna'a assets at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Istisna'a receivable	**1,290**	1,732
Less: unearned income	**(131)**	(204)
Istisna'a assets, net	**1,159**	1,528

(In Thousands of Islamic Dinars)

15. LOANS, NET

Loans at 30 Dhul Hijjah are comprised of the following:

	1431H	1430H
Loans	**172,792**	160,433
Less: Provision for impairment (Note 17)	**(7,436)**	(7,436)
Loans, net	**165,356**	152,997

16. OTHER INVESTMENTS

Other investments at the end of Dhul Hijjah are summarized as follows:

	1431H	1430H
Real estate and equity funds (Note 16.3)	**91,209**	101,177
Infrastructure Fund (Note 16.1)	**40,452**	42,115
Infrastructure and Growth Capital Fund ("IGCF") (Note 16.4)	**20,208**	19,385
Investment in Ijarah funds (Note 16.3)	**7,030**	7,717
Organization of Islamic Conference - Network SDN BHD (Note 16.2)	**1,379**	1,379
	160,278	171,773
Provision for impairment (Note 17)	**(1,379)**	(3,397)
Total	**158,899**	168,376

16.1 Investment in the Infrastructure Fund is classified as available for sale and represents investment in IDB Infrastructure Fund LLP (the "Infrastructure Fund"), a limited liability partnership incorporated in the Kingdom of Bahrain, promoted by the Bank. The primary objective of the Infrastructure Fund is to promote the use of Islamic Finance in infrastructure projects and seek long-term capital appreciation through participation in such projects. The Infrastructure Fund has invested in several such long-term projects during 1425H. The total capital committed by the partners to the Infrastructure Fund is USD 730.50 million (ID: 474.60 million) (1430: US$ 730.50, ID 465.03 million). The Infrastructure Fund has committed USD 100 million (ID 64.96 million) (1430H: USD100 million, ID 63.65 million) of which USD 62.26 million (ID 40.45 million) was net paid up to 30 Dhul Hijjah 1431H (1430H USD 66.16 million, ID 42.11 million). The investment is currently stated at cost, as fair value cannot be reliably measured.

16.2 The investment in OIC - Network SDN BHD represents an investment in a Malaysia based fund which has been fully provided for.

16.3 Ijarah, real estate and other funds are investments managed by third party institutions in which the Fund has made specific investments as part of its management of liquidity.

(In Thousands of Islamic Dinars)

16. OTHER INVESTMENTS (continued)

16.4 IGCF is classified as available for sale and represents investment made by Fund in a USD 2 billion fund managed by Abraaj Capital. The main objective of IGCF is to access private equity infrastructure investment opportunities across the high growth regions of the Middle East, North Africa and South Asia (MENASA). The Fund has committed an amount of USD 35 million (ID 22.3 million), out of which a net amount of USD 30.27 million (ID 19.6 million) has been disbursed. The investment is currently stated at fair value, with the difference in the cost and the fair value recorded as a separate component directly in the resources of the Fund.

17. PROVISION FOR IMPAIRMENT OF ASSETS

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

	1431H	1430H
Balance at the beginning of year	**23,189**	17,890
Charge for the year	**2,872**	5,299
Write-off during the year	**(25)**	--
Balance at the end of year	**26,036**	23,189

18. FIXED ASSETS, NET

Fixed assets at 30 Dhul Hijjah are comprised of the following:

	Buildings	Furniture and equipment	Total
Cost:			
At the beginning of the year (as restated)	34,443	6,584	41,027
Additions during the year	--	21	21
At the end of the year	34,443	6,605	41,048
Accumulated depreciation:			
At the beginning of the year (as restated)	(15,448)	(6,544)	(21,992)
Charge for the year	(796)	(14)	(810)
At the end of the year	(16,244)	(6,558)	(22,802)
Net book value:			
30 Dhul Hijjah 1431H	**18,199**	**47**	**18,246**
30 Dhul Hijjah 1430H (as restated)	18,995	40	19,035

(In Thousands of Islamic Dinars)

19. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities at 30 Dhul Hijjah are comprised the following:

	1431H	1430H
Accrued expenses	**7,010**	6,960
Other liabilities	**542,690**	355,205
Total	**549,700**	362,165

The Bank on behalf of the Fund has entered into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank has purchased certain commodities from other banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The other liabilities above represent the purchase price including the accrued markup under these agreements. The related finance cost for the year ended 30 Dhul Hijjah 1431H (6 December 2010) was ID 4.16 million (1430H: ID 8.79 million).

20. SPECIAL ASSISTANCE

At 1 Muharram 1418H, the Special Assistance resources were transferred to the Fund from IDB-OCR, and are to be used for the purposes set out in the Board of Governors' Resolutions No. BG/14-99 and BG/3-402, as follows:

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 Board of Executive Directors of the Bank has made certain commitments to make disbursements to support the above-mentioned causes.

The Bank created IRTI, which is an international organization devoted to technical research and training. IRTI was formed pursuant to Article 2 of the Articles of Agreement of the Bank and became operational in 1403H. The President of the Bank is also the President of IRTI and the Board of Executive Directors of the Bank is its supreme policy making body. Since 1 Muharram 1418H, the entire activities of IRTI are financed out of the Fund resources and are included as part of the program expenses of the Special Assistance accounts in these financial statements.

(In Thousands of Islamic Dinars)

20. SPECIAL ASSISTANCE (continued)

The following amounts were distributed as grants from the Fund during the years ended 30 Dhul Hijjah 1431H and 1430H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives:

	1431H	1430H
Relief against disasters and calamities	**1,708**	1,741
Assistance for Islamic causes	**9,272**	8,144
Technical assistance grants	**10,159**	17,267
Technical cooperative program	**1,476**	1,284
Scholarship program	**6,461**	4,808
Total	**29,076**	33,244

The following amounts were incurred as program expenses from the Fund during the years ended 30 Dhul Hijjah 1431H and 1430H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives.

	1431H	1430H
IRTI, Program share & others	**7,091**	6,117
Technical cooperation office	**454**	1,067
Special Assistance office	**1,715**	1,931
Sacrificial meat project	**5,764**	1,074
Scholarship Program	**1,078**	1,189
Fixed assets depreciation	**860**	828
Total	**16,962**	12,206

21. ALLOCATION OF FUND INCOME

As at 30 Dhul Hijjah the Fund's regulations stipulate that the net income of the Fund is allocated to the Fund's Resources as follows:

	1431H	1430H
Fund principal	**15%**	15%
Special Assistance	**65%**	65%
Special Account for Least Developed Member Countries ("LDMC")	**20%**	20%

(In Thousands of Islamic Dinars)

22. SHARE OF INCOME TRANSFERRED FROM IDB-OCR

Income on IDB balances with banks (conventional investments) and other investments balances, which are considered by IDB management to be forbidden by Shari'ah, are not included in the income statement of IDB-OCR but are transferred by IDB to the Fund in accordance with the Board of Governors' Resolutions No. BG/3-417 and BG/4-420.

The Bank's Shari'ah advisers have ruled that the investment in companies that deal with interest-bearing methods of finance is not permissible under Shari'ah. The Bank's management is reviewing its equity participation portfolio and the cumulative income arising from such companies.

The allocation of the income transferred from IDB-OCR to the Fund's resources during the years ended 30 Dhul Hijjah is as follows:

	1431H	1430H
Fund principal amount	**27**	153
Special Assistance	**116**	662
Special Account for LDMC	**36**	203
Total	**179**	1,018

23. CONTRIBUTION FROM IDB-OCR FOR TECHNICAL ASSISTANCE GRANT AND SCHOLARSHIP PROGRAMS

According to the Board of Governors resolution No. BG/2-430, and the Board of Executive Directors resolution No. BED/BG/3-430, 5% but not less than USD 5 million of the IDB-OCR 1430H net income was allocated to finance Technical Assistance Operations in the form of grants during the year 1431H amounting to ID 5.69 million (1430: ID 9.71 million).

According to the Board of Governors' resolution No. BG/3-430, and the Board of Executive Directors' resolution No. BED/BG/4-430, an amount equivalent to 2% but not less than USD 2 millions of IDB-OCR net income for 1430 was allocated for financing of Scholarship Programmers in the form of grants for the year 1431H amounting to ID 2.27 million (1430: ID 3.88 million).

24. UNDISBURSED COMMITMENTS

Undisbursed commitments at 30 Dhul Hijjah are as follows:

	1431H	1430H
Special assistance grants	**56,484**	52,076
Loans to LDMC	**106,086**	124,652
Special loans	**2,821**	2,257
Technical assistance grants	**39,367**	28,327
Scholarship program	**22,953**	20,640
Total	**227,711**	227,952

25. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets and liabilities of the Fund in foreign currencies (in thousands of ID equivalents) at the end of Dhul Hijjah are as follows:

	1431H	1430H
United States Dollar	**281,440**	254,195
Euro	**207,482**	227,182
Japanese Yen	**79,532**	88,341
Pound Sterling	**50,325**	60,919
Other currencies	**7,464**	16,022

26. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS OR EXPECTED PERIODS TO CASH CONVERSION

	30 Dhul Hijjah 1431H					
	Maturity period determined					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Maturity period not determined**	**Total**
Assets	**202,011**	**671,136**	**270,295**	**139,617**	**138,934**	**1,421,993**
Liabilities	**109,778**	**439,922**	**--**	**9,505**	**--**	**559,205**

	30 Dhul Hijjah 1430H					
	Maturity period determined					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity period not determined	Total (Restated)
Assets	535,498	51,901	184,837	313,163	156,364	1,241,763
Liabilities	280,172	91,306	--	--	--	371,478

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 Bank.

The geographical locations of assets and liabilities of the Fund are as follows:

	30 Dhul Hijjah 1431H				
	Member countries			**Non-member**	
	Asia	**Africa**	**Europe**	**countries**	**Total**
Assets	**1,238,086**	**143,016**	**10,820**	**30,071**	**1,421,993**
Liabilities	**549,700**	**--**	**--**	**9,505**	**559,205**

(In Thousands of Islamic Dinars)

	30 Dhul Hijjah 1430H				
	Member countries			Non-member	
	Asia	Africa	Europe	countries	Total (Restated)
Assets	946,266	126,824	10,215	158,458	1,241,763
Liabilities	371,478	--	--	--	371,478

The geographical locations of assets and liabilities for 1431H and 1430H reflect the countries in which the beneficiaries of the assets are located.

28. COMMINGLING OF ASSETS

The management of the Fund has reviewed the commingling of the assets of the Fund, Principal amount, Special Assistance account and Special Account for LDMC as presented in these financial statements. The management has taken the advice of the Bank's legal counsel. As per the Bank’s legal counsel’s opinion and the Fund’s management, the presentation set out in these financial statements is in accordance with the requirements of the regulations of the Fund.

(In Thousands of Islamic Dinars)

29. PRIOR PERIOD ADJUSTMENTS

In the Fund's separate financial statements for the year ended 30 Dhul Hijjah 1430H the investments in ICIEC and BBI (collectively referred to as "Investments") were recorded as associates, using the equity method of accounting, while the Fund had ownership interests of 67 % and 54 % respectively and had control over these entities. In accordance with the requirements of AAOIFI Standards such Investments should be recorded at historic cost. Consequently, the Fund's management restated the comparative financial statements for 30 Dhul Hijjah 1430H and the effect of the change has been identified below. Furthermore, the management has reduced the opening net assets and related depreciation at the beginning of 1430H by the amount of the adjustment relating to years prior to 1430H.

	ID thousands
Effect on years prior to 1430H:	
Decrease in ICIEC and BBI	16,182
Decrease in net assets at the beginning of 1430H	16,182
Effect on 1430H:	
Decrease of investment in ICIEC and BBI	554
Decrease in attributable net income	554
Effect on 1430H:	
Decrease in accumulated depreciation	218
Decrease in depreciation expense	218

30. CHANGES IN NET ASSETS

	Waqf Fund Principal Amount	Special Assistance	Special Account for LDMC	Total
Net assets at beginning of the year at 1 Muharram 1430H, as previously reported	756,240	22,369	131,935	910,544
Adjustment for prior period	(4,514)	(8,432)	(3,236)	(16,182)
Net assets at beginning of the year at 1 Muharram 1430H, as restated	751,726	13,937	128,699	894,362
Changes in net assets during the year 1430	1,196	(26,896)	1,593	(24,107)
Fair value reserve	4	20	6	30
Net assets at beginning of the year at 1 Muharram 1431H as restated	752,926	(12,939)	130,298	870,285
Changes in net assets during the year 1431H	**4,315**	**(19,700)**	**5,753**	**(9,632)**
Fair value reserve	615	698	822	2,135
Net assets at end of the year at 1 Muharram 1430H, as restated	757,856	(31,941)	136,873	862,788

31. RISK MANAGEMENT

The Bank has a Group Risk Management Department ("GRMD") fully independent from all business departments as well as other entities of the Bank including the Fund. The GRMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile for the Bank 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's risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank's financial transactions.

a) Credit Risk

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

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, Murabaha financing, Istisna'a assets, installment sales financing, loans and Ijarah Muntahia Bittamleek, which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Bank, in accordance with specific eligibility criteria and credit risk assessments. The Fund's liquid fund investments portfolio is managed by the Treasury Department and comprise deals with reputable banks. Murabaha financing, Istisna'a assets, Installment sales financing, Loans and Ijarah Muntahia Bittamleek are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks whose ratings are acceptable to the Bank per its policies, or sovereign guarantees from Member Countries. The Bank benefits from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, The Fund has had a very low level of overdue. 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 Bank 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 Bank with a view to maintain the overall credit risk appetite and profile within the parameters set by the management of the Bank. 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 the management of the Bank.

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 Bank 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.

31. RISK MANAGEMENT (continued)

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 Bank. While extending financing to its member countries the Bank safeguards its interests by obtaining the relevant guarantees for its financing operations and has to ensure that the concerned beneficiaries as well as the guarantors are able to meet their obligations. In addition to the above risk mitigation tools, the Bank has in place a comprehensive counterparty's assessment criteria and detailed structured exposure limits in line with the best banking practices.

b) Market risks

The Fund is exposed to following market risks:

i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's financing operations are SDR-denominated, the same currency in which the Fund's resources – i.e. equity are denominated. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The investment portfolio is held in major currencies in line with the composition of the Islamic Dinars basket, namely US Dollar, Sterling Pound, Euro and Japanese Yen. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

ii) Liquidity risk

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

iii) Equity price risk

The Fund is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Fund does not actively trade these investments. If equity prices had been 5% higher or lower, net assets at the year ended 30 Dhul Hijjah 1431H would have not been significantly affected as equity investments are classified as available-for-sale and adequate provision has been made for the equity investments against which an impairment loss has occurred.

31. RISK MANAGEMENT (continued)

iv) 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, Murabaha financing, Istisna'a assets, Ijarah Muntahia Bittamleek assets and investments in Sukuk. In respect of the financial assets, the Funds returns are based on a benchmark and hence vary according to the market conditions.

c) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of operational assets are not significantly different from the carrying values included in the financial statements except for unlisted equity investments. Unlisted equity investments are stated at cost as their fair values cannot be reliably determined.