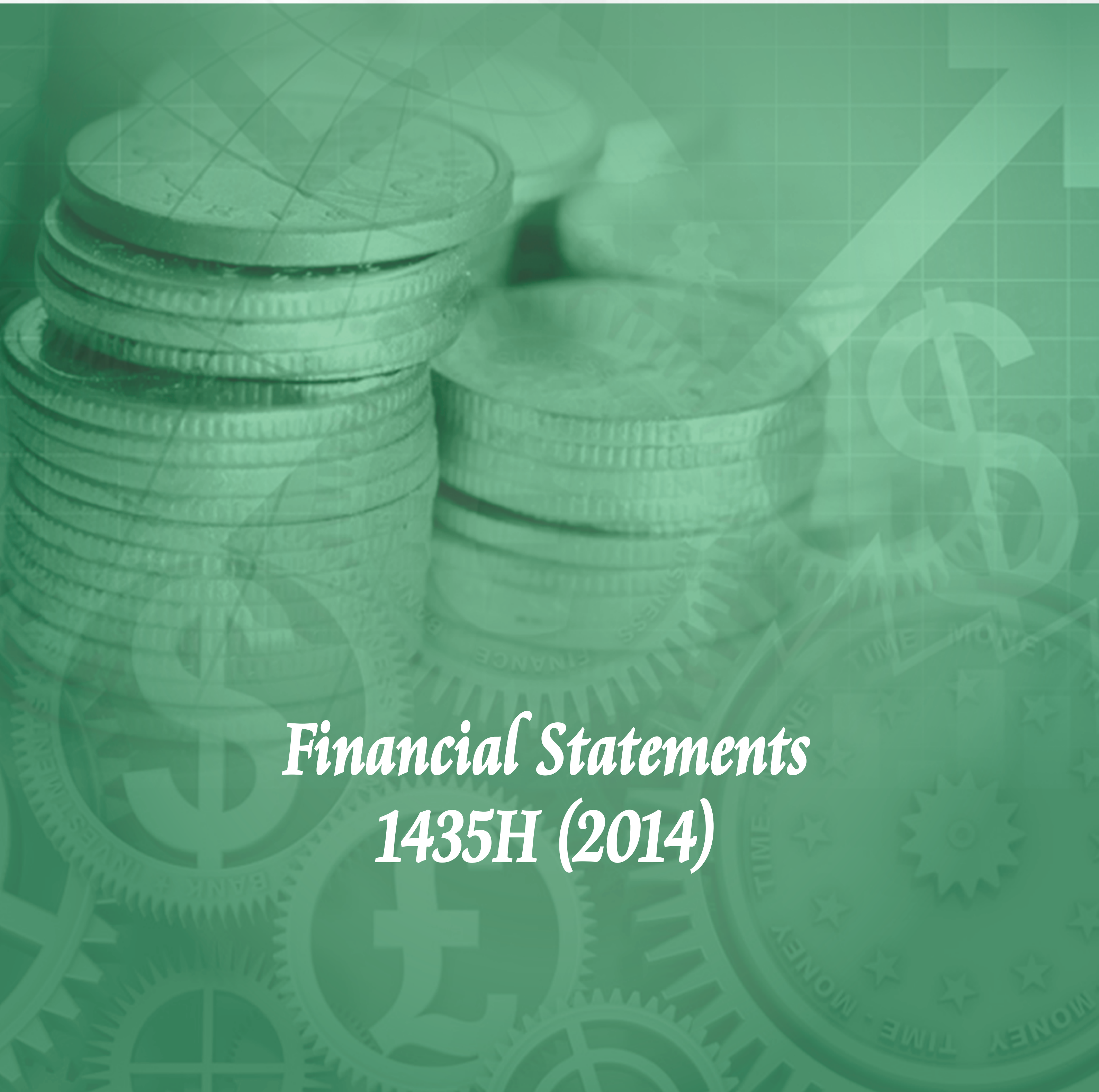
ISLAMIC DEVELOPMENT BANK



Financial Statements
1435H (2014)

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Joint Auditors' Report
Year ended 30 Dhul Hijjah 1435H (24 October 2014)

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Financial Statements 30 Dhul Hijjah 1435H (24 October 2014)

pwc
PricewaterhouseCoopers
P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia

KPMG **Al Fozan & Al Sadhan**
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

INDEPENDENT JOINT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Islamic Development Bank - Ordinary Capital Resources (the "Bank") as of Dhul Hijjah 30, 1435H (October 24, 2014) and the related statements of income, changes in members' equity and cash flows for the year then ended and the attached notes from 1 to 32 which form an integral part of the 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 (AAOIFI) 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 issued by AAOIFI 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 Dhul Hijjah 30, 1435H (October 24, 2014), and the results of its operations, changes in members' equity and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank.

PricewaterhouseCoopers

Ali. A. Alotaibi
Certified Public Accountant
Registration No. 379

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

Rajab 2, 1436H
April 21, 2015
Jeddah

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

كي بي إم جي الفوزان والسدحان
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Statement of financial position
As of 30 Dhul Hijjah 1435H

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

	Notes	1435H	1434H (Restated)
Cash and cash equivalents	4	1,043,659	210,458
Commodity placements	5	1,726,935	2,468,335
Sukuk investments	6	1,046,215	595,450
Murabaha financing	7	253,911	233,450
Treasury assets		**4,070,720**	**3,507,693**
Istisna'a assets	9	3,639,500	3,181,353
Instalment sale	10	1,166,958	1,174,984
Ijarah assets	11	2,223,038	2,069,506
Loans	12	1,768,480	1,709,374
Project assets		**8,797,976**	**8,135,217**
Equity capital	14	777,641	713,064
Associates	15	633,150	602,178
Other investments		87,172	112,874
Investment assets		**1,497,963**	**1,428,116**
Property and equipment		52,939	57,262
Other assets	16	379,327	301,129
Other assets		**432,266**	**358,391**
Total assets		**14,798,925**	**13,429,417**
Liabilities			
Commodity purchase liabilities	18	1,030,279	1,560,211
Sukuk issued	17	6,086,068	4,205,004
Other liabilities	19	242,550	419,552
Total liabilities		**7,358,897**	**6,184,767**
Members' equity			
Paid-up capital	21	4,853,867	4,799,791
Reserves	22	2,444,451	2,274,446
Net income for the year		141,710	170,413
Total members' equity		**7,440,028**	**7,244,650**
Total liabilities and members' equity		**14,798,925**	**13,429,417**
Restricted investment accounts	27	**64,067**	**56,267**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Income statement
For the year 30 Dhul Hijjah 1435H
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1435H	1434H (Restated)
Income from:			
Commodity placements		26,517	19,725
Sukuk investments	6	38,978	517
Murabaha financing		7,319	9,384
Treasury assets		**72,814**	**29,626**
Istisna'a		130,400	122,813
Instalment Sale		51,461	44,657
Ijarah		203,109	201,714
Depreciation of assets under Ijarah	11	(150,744)	(133,949)
Loans		14,004	10,843
Project assets		**248,230**	**246,078**
Equity capital		36,293	33,234
Associates	15	13,409	27,746
Other investments		1,343	4,700
Investment assets		**51,045**	**65,680**
Other income		4,639	7,735
Foreign exchange (losses) / gains		(14,444)	6,780
(Losses) / gains from swap	16	(5,429)	8,263
Others		**(15,234)**	**22,778**
Total income		**356,855**	364,162
Financing costs		(84,367)	(64,197)
Impairment charge	13	(12,946)	(20,728)
Net income before operating expenses		**259,542**	279,237
Administrative expenses	23	(110,146)	(101,221)
Depreciation		(7,686)	(7,603)
Total operating expenses		**(117,832)**	**(108,824)**
Net income for the year		**141,710**	**170,413**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Year ended 30 Dhul Hijjah 1435H
Statement of Changes in Members' Equity
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	Paid-up capital	Reserves: General reserve	Reserves: Fair value reserve	Reserves: Pension and medical obligation	Reserves: Other reserves	Total Reserves	Net income	Total
Balance at 29 Dhul Hijjah 1433H		4,590,239	1,925,974	433,822	(67,466)	-	**2,292,330**	130,247	**7,012,816**
Increase in paid-up capital	21	209,552	-	-	-	-	**-**	-	**209,552**
Fair value losses from investment in equity capital	14	-	-	(43,188)	-	-	**(43,188)**	-	**(43,188)**
Reversal of impairment on investment in equity capital	14	-	9,218	-	-	-	**9,218**	-	**9,218**
Increase in actuarial losses relating to retirement pension and medical plans	20	-	-	-	(23,714)	-	**(23,714)**	-	**(23,714)**
Contribution to the principal amount of ISFD	24	-	(66,124)	-	-	-	**(66,124)**	-	**(66,124)**
Share in associated reserve movement		-	(311)	-	-	(12,983)	**(13,294)**	-	**(13,294)**
Net income for 1434H (restated)	29	-	-	-	-	-	**-**	170,413	**170,413**
Transfer to general reserve		-	130,247	-	-	-	**130,247**	(130,247)	**-**
Allocation for grants	22	-	(11,029)	-	-	-	**(11,029)**	-	**(11,029)**
Balance at 29 Dhul Hijjah 1434H (Restated)		**4,799,791**	**1,987,975**	**390,634**	**(91,180)**	**(12,983)**	**2,274,446**	**170,413**	**7,244,650**
Balance at 29 Dhul Hijjah 1434H (previously reported)		4,799,791	1,987,975	390,634	(91,180)	(12,983)	2,274,446	179,441	7,253,678
Restatement	29	-	-	-	-	-	-	(9,028)	(9,028)
Balance at 29 Dhul Hijjah 1434H (Restated)		**4,799,791**	**1,987,975**	**390,634**	**(91,180)**	**(12,983)**	**2,274,446**	**170,413**	**7,244,650**
Increase in paid-up capital	21	54,076	-	-	-	-	**-**	-	**54,076**
Fair value gains from investment in equity capital and other investments		-	-	60,820	-	-	**60,820**	-	**60,820**
Increase in actuarial losses relating to retirement pension and medical plans	20	-	-	-	(1,736)	-	**(1,736)**	-	**(1,736)**
Contribution to the principal amount of ISFD	24	-	(64,879)	-	-	-	**(64,879)**	-	**(64,879)**
Share in associated reserve movement		-	-	-	-	19,409	**19,409**	-	**19,409**
Net income for 1435H		-	-	-	-	-	**-**	141,710	**141,710**
Transfer to general reserve		-	170,413	-	-	-	**170,413**	(170,413)	-
Allocation for grants	22	-	(14,022)	-	-	-	**(14,022)**	-	**(14,022)**
Balance at 30 Dhul Hijjah 1435H		**4,853,867**	**2,079,487**	**451,454**	**(92,916)**	**6,426**	**2,444,451**	**141,710**	**7,440,028**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Year ended 30 Dhul Hijjah 1435H
Statement of Cash Flows
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	1435H	1434H (Restated)
Cash flows from operations			
Net income		**141,710**	**170,413**
Adjustments for non-cash items			
Depreciation of property and equipment		7,686	7,603
Share of income in associates	15	(13,409)	(27,746)
Provision for impairment of financial assets	13	12,946	20,728
Unrealised fair value (gains) / losses on Sukuk	6	(13,312)	18,670
Amortization of other income (Deferred Grant)		(566)	(567)
Unrealised foreign exchange losses		14,444	7,545
Gain on disposal of Investment in equity capital		(332)	(372)
Loss on disposal of other investment		1,914	-
Changes in accrued Income		(86,285)	(11,910)
Changes in accrued expenses		23,555	578
Operating income before changes in operating assets and liabilities		**88,351**	**184,942**
Changes in operating assets and liabilities:			
Istisna'a		(453,216)	(645,820)
Instalment sales		(5,759)	(149,225)
Ijarah		(127,252)	(214,277)
Loans		(50,348)	(58,682)
Other assets		15,304	191,556
Other liabilities		(207,348)	(43,478)
Net cash used in operating activities		**(740,268)**	**(734,984)**
Cash flows from investing activities			
Commodity placements		839,626	(1,110,805)
Acquisition of Sukuk investments	6	(469,921)	(549,230)
Proceeds from disposal/redemption of Sukuk investments	6	59,749	319,479
Murabaha		(16,370)	(18,317)
Acquisition of investments in equity capital	14	(9,965)	(35,733)
Proceeds from disposal of investments in equity capital		5,494	1,432
Acquisition of other investments		(10,891)	(18,681)
Proceeds from disposal of other investments		11,310	9,723
Investment in associates		-	(22,342)
Dividend from associates	15	618	-
Additions to property and equipment		(3,363)	(6,763)
Net cash from (used in) investing activities		**406,287**	**(1,431,237)**
Cash flows from financing activities			
Increase in paid-up capital		54,076	209,552
Technical assistance and scholarship grants		(14,349)	(11,029)
Contribution to the principal amount of ISFD		(64,552)	(66,124)
Proceeds from issuance of Sukuk		2,947,747	1,171,626
Redemption of Sukuk		(1,235,160)	(64,310)
Commodity purchase liabilities		(520,728)	666,992
Net cash from financing activities		**1,167,034**	**1,906,707**
Net change in cash and cash equivalents		833,053	(259,514)
Exchange difference on cash and cash equivalents		148	-
Cash and cash equivalents at 1 Muharram		210,458	469,972
Cash and cash equivalents at end of Dhul Hijjah	4	**1,043,659**	**210,458**

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

1. ORGANISATION AND OPERATIONS

Islamic Development Bank (the "Bank" or "IsDB") is a multilateral development bank established pursuant to Articles of Agreement signed and ratified by its member countries in 1394H (1974). The Bank's headquarters is located in Jeddah, Kingdom of Saudi Arabia. The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities, individually as well as jointly, in accordance with the principles of Shari'ah. The Bank has 56 member countries.

As a supranational institution, the Bank is not subject to any national banking regulation, is neither supervised by any external regulatory authority and nor it is subject to any taxes or tariffs.

The Bank is required to carry out its activities in accordance with the principles of Shari'ah. The Bank established its own Shari'ah committee whose functions are set out in Note 26.

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

The Bank's financial year is the lunar Hijri year. The Bank's official address is Jeddah 21432, Kingdom of Saudi Arabia.

The financial statements were authorized by the Resolution of the Board of Executive Directors on 17 Jumada Al-Awwal 1436H (8 March 2015) for submission to the Board of Governors 40th Annual Meeting.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank. In accordance with the requirements of AAOIFI, for principal accounting matters for which no AAOIFI standard exists, the Bank follows the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB). These matters include:

- IAS 19 "Employee benefits" to account for various pension and medical benefits provided by the Bank;
- IAS 39 "Financial Instruments: Recognition and Measurement" to account for profit rate and cross currency profit rate swaps; and
- IAS 7 "Statement of Cash Flows".

Basis of measurement

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

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

Functional and presentation currency

In accordance with the Bank's Articles of Agreement, Islamic Dinar ("ID") is the unit of account of the Bank and is equal to one Special Drawing Right ("SDR") of the International Monetary Fund ("IMF"). SDR is defined by a weighted currency basket of USD, Euro, the British pound and the Japanese yen, whereby the share of the USD and Euro makes up to 79% of the basket. Since the Bank conducts its operations mainly in USD and EUR (that take up the largest share in SDR), Islamic Dinar is concluded to be the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in ID has been rounded to the nearest thousands.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial assets and liabilities

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

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

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

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

Item	Recognition principles
Cash equivalents	Cost less impairment
Commodity placements	Amortised cost less impairment
Investments in sukuk classified as either:	
	Fair value through income statement – debt investment; or Amortised cost – debt investments
Murabaha	Amortised cost less impairment
Istisna'a assets	Amortised cost less impairment
Installement sale	Amortised cost less impairment
Ijarah assets	Cost less depreciation and impairment
Loans	Cost less impairment
Investments in equity capital	Fair value through equity or cost less impairment for unquoted investments
Other investments	Fair value through income statement – debt investment
Commodity purchase liabilities	Amortised cost
Sukuk issued	Amortised cost

Offsetting of financial assets and liabilities

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

Cash and cash equivalents

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

Commodity placements

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

Investments in sukuk

Sukuk are debt instruments that have determinable payments and fixed maturity dates and bear a coupon yield.

Pursuant to the introduction of the new liquidity policy of the Bank in 1435H, IsDB's investments (including sukuk investments) are grouped under either (i) Transactional Operational Portfolio (TOP), (ii) Core Operational Portfolio (COP) or (iii) Stable Portfolio (SP) (details on and definitions of these portfolios are provided in Note 30 "Liquidity risk" section).

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

Sukuk that are acquired with the positive intent and ability to hold them to contractual maturity are grouped under SP and are classified as held to maturity. Such sukuk investments are measured at amortised cost less any impairment provision.

In accordance with AAOIFI, after the initial designation, investments in debt-type securities are not to be reclassified into or out of the fair value or held to maturity categories.

Murabaha financing

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

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

Project assets

Project assets include Istisna'a assets, Instalment sale, Ijarah Muntahia Bittamleek ("Ijarah") assets and Loans.

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 constructed or manufactured by the purchaser on behalf of the Bank according to agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as of the date of the statement of financial position against the assets being either constructed or manufactured and accumulated income.

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

Instalment sale

Instalment sale receivables are deferred sale agreements whereby the Bank sells to a customer 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 instalment sales are stated at selling price less unearned income at the reporting date less repayments and provision for impairment.

Ijarah assets

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

Ijarah assets under construction are stated at the cost of asset's manufacturing or acquisition. Assets under construction are not depreciated. No rental income is recognised on the assets during the period of construction/manufacturing.

Once manufactured and acquired, Ijarah assets are transferred to the customer at which time they are classified as Ijarah assets in use. Ijarah assets in use are stated at the aggregate of the minimum lease payments, less the accumulated depreciation as at the reporting date and provision for impairment. Ijarah assets with fixed rentals are depreciated using the straight-line method over the related lease period and Ijarah assets with variable rentals are depreciated using the estimated usage of assets.

Estimated usage of assets is a method whereby depreciation is charged according to the actual usage of the asset. i.e. higher depreciation is charged when there is higher activity and less is charged when there is low level of operation.

Loans

Loan is a long term concessional facility provided to Member Countries bearing the service fee rate sufficient to cover the Bank's administrative expenses.

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

Investments in equity capital designated at fair value through equity

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

Quoted investments recognised at fair value

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

Unquoted investments measured at cost less impairment

Unquoted investments in equity capital, real estate and other funds whose fair value cannot be reliably measured are carried at cost and are tested for impairment at the end of each reporting period. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. All investment losses are recognised in income statement. Impairment losses recognised in income statement are not reversed through income statement.

After the initial designation, investments in equity type securities shall not be reclassified into or out of the fair value through equity category.

Investments in associates

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

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

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

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

Profit rate and cross currency profit rate swaps

The Bank uses profit rate and cross currency profit rate swaps for asset/liability management purposes to modify mark-up rate or currency characteristics of the sukuk issued. This economic relationship is established on the date the sukuk is issued and maintained throughout the terms of the contracts. 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 profit rate swap with positive fair values are recognized within other assets and those with negative fair values are recognized within other liabilities.

The Bank uses widely recognized valuation models for measuring the fair value of profit rate and profit rate and cross currency profit rate swaps that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with the measurement of fair value.

Impairment of financial assets

Project assets

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

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

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

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

(ii) For other projects assets except those provided for under HIPC :
- full provision is made against repayments overdue by 6 months or more; or
- provision could also result from the consideration of defaults or delinquencies by a counterparty, restructuring of a financing facility by the Bank on the terms the Bank would not otherwise consider, indications that a counterparty will enter a bankruptcy, or other observable data such as adverse changes in the payment status of a counterparty or cash flow difficulties experienced by the counterparty and breach of financing covenants or conditions.

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

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

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

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

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

Other financial assets

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

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

Commodity purchase and sale agreements

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

Sukuk liability

The Bank issues medium and long-term sukuk certificates mainly denominated in USD with fixed and variable rates of return. Sukuk certificates represent undivided shares of sukuk investors in the ownership of the Bank's assets, which shall be separate and independent from all other assets.

These assets shall comprise of:

- at least 33 % tangible assets comprising of Ijarah assets, disbursing Istisna'a assets, Shari'ah compliant equity instruments (and the assets underlying those equity instruments) and/or sukuk certificates (and the assets underlying those sukuk certificates); and
- no more than 67 % intangible assets comprising of Istisna'a Receivables and/or Murabaha Receivables.

Aggregate amount of sukuk issued at any date cannot exceed the gross carrying amount of the above-mentioned assets at the same date. Sukuk expenses are recognised in the income statement as finance cost and include the amortisation of the issuance costs. Sukuk liability is recognised at amortised cost.

De-recognition of financial assets and financial liabilities

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

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

Post-employment benefit plans

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

The present value of the defined benefit obligation due till the retirement date is determined by discounting the estimated future cash outflows (relating to service accrued to the reporting date) using the yields available on high-quality corporate bonds. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions.

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

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

Revenue recognition

Commodity placements

Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on a proportionate allocation of profits basis over the period from the actual disbursement of funds to the date of maturity.

Proportional allocation of profits basis is a method of allocation of profits whereby each financial period shall carry its portion of profits irrespective of whether or not cash is received.

Investments in sukuk

Income from investments in sukuk is accrued on an effective profit rate method and is recognised in the income statement. The fair value gains and losses (realized and unrealized) resulting from the re-measurement of the fair values at the reporting date are also recognised in the income statement.

Murabaha financing income

Murabaha financing income is recognised using the proportional allocation of profits basis over the period of the financing.

Istisna'a income

Istisna'a income is recognised according to the percentage of completion method that is:

(a) a part of the contract price commensurate with the construction/manufacturing work performed during each period in which the contract is being executed i.e. gestation period is recognised as income for that period.
(b) The portion of Istisna'a income during the repayment period is recognised using the proportional allocation of profits basis.

Instalment sale

Income from instalment sale are accrued on a proportional allocation of profits basis over the period of the transaction.

Ijarah

Fixed Ijarah income is accrued using the proportional allocation of profits basis over the lease term. Variable Ijarah income is accrued using the effective yield basis.

No Ijarah income is accrued before the right to use the Ijarah assets is transferred to the lessee.

Loan service fees

IsDB charges loan service fee only to cover its administrative costs related to the signature of an agreement and disbursements made to the member countries. Thus, the loan service fee is calculated during the financial periods starting from the signature date through to the date of the last disbursement.

The loan service fee is allocated and recognised in the income statement over the financial periods as follows:

- 4% of the cumulative service fee is allocated/recognised during the financial periods between the signature date and the 1st disbursement date;
- 40% of the cumulative service fee is allocated/recognised during the financial periods between the 1st disbursement date and the last disbursement date; and
- 56% of the service fee is allocated/recognised during 5 years from the last disbursement date.

Dividend income

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

Foreign currency

Foreign currency transactions and balances

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

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

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

Foreign operations – investments in associates

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

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

Zakat and tax

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

Earnings prohibited by Shari'ah

Any income earned by the Bank from sources, which are forbidden by Shari'ah, is not included in the Bank's income statement but is transferred to the Special Account Resources Waqf Fund, a special charitable fund of the Bank.

Critical accounting judgments and estimates

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

Significant judgements

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 79% weight in SDR, to which ID is equalised. Therefore, Management concluded that Islamic Dinar represents the aggregation of economic effects of the underlying transactions, events and conditions of the Bank and is accordingly the Bank's functional and presentation currency.

Designation of investments in sukuk

Investments in sukuk are designated as either held to maturity or at fair value through income statement.

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

Designation of Investments in equity capital

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

Significant influence

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

Subsequent events

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

Significant estimates

Provision for impairment of financial assets

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

Post-employee benefits plans

The Bank uses the projected unit credit method to determine the present value of its defined benefit plans and the related service costs. In this regard, the Bank uses certain assumptions of discount rates, expected return on plan assets and rate of salary increases which may differ from the actual experiences. These estimates are updated every year and revised every three years when an actuarial estimate of the benefits plans is carried out.

Fair value of financial Instruments

The fair values of certain financial instruments that are not quoted in active markets are measured by using valuation techniques. These techniques are validated and periodically reviewed by qualified personnel independent of the area that created them. All valuation models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Bank.

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

Comparative figures

The comparative figures presented for 1434H have been reclassified where necessary to preserve consistency with the 1435H figures. However, such reclassifications did not have any effect on the net income or the total equity for the comparative year.

New Financial Accounting Standard in issue but not yet effective

AAOIFI has issued a new accounting standard on investment accounts (FAS 27) Investment Accounts. The new FAS 27 updates and replaces two of AAOIFI's previous accounting standards relating to investment accounts – (FAS 5) Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders and FAS 6 Equity of Investment Account Holders and their Equivalents. The Standard applies to investment accounts based on Mudaraba contracts which represent equity of investment accountholders and on Mudaraba contracts that are placed on short term basis for the purpose of liquidity management.

The Standard shall be effective for the financial periods beginning 1 January 2015. The management does not anticipate this Standard will have significant impact on financial statements as IDB does not hold significant investment accounts.

4. CASH AND CASH EQUIVALENTS

	1435H	1434H
Cash in hand	196	222
Current and call accounts with Banks	103,963	65,819
Commodity placements (less than 3 months), Note 5	949,956	154,873
Less: Provision for impairment	(10,456)	(10,456)
	1,043,659	210,458

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

In 1435H there was no change in the provision for impairment of cash and cash equivalents.

5. COMMODITY PLACEMENTS

	1435H	1434H
Placements with Islamic banks	422,727	345,245
Placements with Islamic windows of conventional banks	2,257,666	2,282,106
Commodity placements (less than 3 months), Note 4	(949,956)	(154,873)
Less: provision for impairment	(3,502)	(4,143)
	1,726,935	**2,468,335**

In 1435H there was no change in the provision for impairment of commodity placements except for the foreign currency translation differences.

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

6. SUKUK INVESTMENTS

1435H	Counterparty rating AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at fair value though income statement					
- Financial institutions	-	110,078	56,059	43,453	**209,590**
- Governments	89,627	27,512	152,595	-	**269,734**
- Other entities	-	82,683	-	3,824	**86,507**
	89,627	**220,273**	**208,654**	**47,277**	**565,831**
Sukuk classified at amortised cost					
- Financial institutions	-	138,710	18,232	17,048	**173,990**
- Governments	10,801	10,112	285,481	-	**306,394**
- Other entities	-	-	-	-	**-**
Impairment provision	-	-	-	-	**-**
	10,801	**148,822**	**303,713**	**17,048**	**480,384**
Total	**100,428**	**369,095**	**512,367**	**64,325**	**1,046,215**

1434H	Counterparty rating AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified as fair value though income statement					
- Financial institutions	13,620	104,587	52,567	51,682	222,456
- Governments	84,531	30,264	149,651	-	264,446
- Other entities	83,392	21,617	757	2,782	108,548
Total	**181,543**	**156,468**	**202,975**	**54,464**	**595,450**

All sukuk investments carry fixed rates. In 1434H all sukuk investments were designated at fair value through income statement.

The movement schedule of the investments in sukuk is as follows:

	1435H	1434H
Balance at 1 Muharram	595,450	388,549
Movements during the year		
Additions	469,921	549,230
Sales/redemptions	(59,749)	(319,479)
Unrealized fair value gains/ (losses)	13,312	(18,670)
Unrealized exchange revaluation gains / (losses)	27,281	(4,180)
Balance at end of Dhul Hijjah	**1,046,215**	**595,450**

Income from sukuk investments is comprised of the following:

	1435H	1434H
Coupon income	25,642	18,519
Realised fair value gains	24	668
Unrealised fair value gains / (losses)	13,312	(18,670)
	38,978	**517**

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

7. MURABAHA FINANCING

	1435H	1434H
Gross amount receivable	308,273	282,963
Less: unearned income	(4,608)	(3,162)
Less: provision for impairment	(49,754)	(46,351)
	253,911	233,450

Most of the provisions are made against receivables past due for over two years.

8. PROJECT ASSETS

	1435H			1434H		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Istisna'a	3,550,156	103,682	**3,653,838**	3,035,265	151,256	3,186,521
Instalment sale	1,131,166	44,623	**1,175,789**	1,120,659	58,438	1,179,097
Ijarah	1,339,855	924,591	**2,264,446**	1,177,300	928,761	2,106,061
Loans	1,825,402	-	**1,825,402**	1,775,035	-	1,775,035
	7,846,579	**1,072,896**	**8,919,475**	**7,108,259**	**1,138,455**	**8,246,714**
Less: Impairment provision	(100,482)	(21,017)	**(121,499)**	(89,065)	(22,432)	(111,497)
	7,746,097	**1,051,879**	**8,797,976**	**7,019,194**	**1,116,023**	**8,135,217**

IsDB's project assets are generally made to sovereign and non-sovereign counterparties in Member Countries to finance development programs.

Notes 9-12 provide detailed information on each type of project assets. Note 13 provides detailed information on impairment provision and Note 30 provides detailed information on credit risk and quality of financial assets.

9. ISTISNA'A ASSETS

	1435H	1434H
Istisna'a assets in progress	2,566,611	1,905,477
Istisna'a receivable	1,752,258	1,765,489
Less: unearned income	(665,031)	(484,445)
Less: provision for impairment	(14,338)	(5,168)
	3,639,500	**3,181,353**

10. INSTALMENT SALE

	1435H	1434H
Gross amount receivable	1,517,013	1,500,145
Less: unearned income	(341,224)	(321,048)
Less: provision for impairment	(8,831)	(4,113)
	1,166,958	**1,174,984**

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

11. IJARAH ASSETS

	Note	1435H	1434H
Assets under construction	*11.1*	1,030,864	868,124
Assets in use	*11.2*	2,260,811	2,110,142
Less: accumulated depreciation of assets in use	*11.3*	(1,027,229)	(872,205)
Balance, net of accumulated depreciation	***11.4***	**2,264,446**	2,106,061
Less: provision for impairment	*11.4*	(41,408)	(36,555)
		2,223,038	**2,069,506**

11.1 Assets under construction	*1435H*	1434H
At 1 Muharram	868,124	1,097,429
Additions	313,409	351,358
Transferred to assets in use	(150,669)	(580,663)
At end of Dhul Hijjah	**1,030,864**	**868,124**

11.2 Assets in use	*1435H*	*1434H*
At 1 Muharram	2,110,142	1,529,479
Transferred from assets under construction	150,669	580,663
At end of Dhul Hijjah	**2,260,811**	**2,110,142**

11.3 Accumulated depreciation of assets in use	*1435H*	*1434H*
At 1 Muharram	(872,205)	(735,124)
Charge for the year	(150,744)	(133,949)
Share of syndication participants	(4,280)	(3,132)
At end of Dhul Hijjah	**(1,027,229)**	**(872,205)**

11.4 Net balance of Ijarah assets	*1435H*	*1434H*
Balance net of accumulated depreciation	2,264,446	2,106,061
Less: provision for impairment	(41,408)	(36,555)
	2,223,038	**2,069,506**

12. LOANS

	1435H	*1434H*
Loans	1,825,402	1,775,035
Less: provision for impairment	(56,922)	(65,661)
	1,768,480	**1,709,374**

13. PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

Provision for impairment of the assets by types at end of Dhul Hijjah are comprised of the following:

		1435H			1434H		
	Note	**Specific**	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Cash and bank	4	10,456	-	**10,456**	10,456	-	10,456
Commodity placement	5	3,502	-	**3,502**	4,143	-	4,143
Murabaha	7	47,757	1,997	**49,754**	46,260	91	46,351
Istisna'a	9	273	14,065	**14,338**	226	4,942	5,168
Instalment sale	10	7,469	1,362	**8,831**	3,377	736	4,113
Ijarah	11	35,142	6,266	**41,408**	34,398	2,157	36,555
Loans	12	32,202	24,720	**56,922**	54,137	11,524	65,661
Investment in equity capital	14	68,575	-	**68,575**	67,690	-	67,690
Other investments		4,208	-	**4,208**	4,911	-	4,911
		209,584	**48,410**	**257,994**	**225,598**	**19,450**	**245,048**

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

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

	1435H			1434H		
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Balance at 1 Muharram	225,598	19,450	**245,048**	216,325	18,509	**234,834**
(Reversals) charge for the year	(16,014)	28,960	**12,946**	19,787	941	**20,728**
Reversals through equity	-	-	-	(10,514)	-	**(10,514)**
Balance at end of Dhul Hijjah	**209,584**	**48,410**	**257,994**	**225,598**	**19,450**	**245,048**

14. INVESTMENTS IN EQUITY CAPITAL

The Bank makes strategic long-term equity investments with the objective to maximise developmental objectives. These investments are usually in the equities of Shari'ah compliant industrial, agro-industrial projects, Islamic banks and Islamic financial institutions of the Member Countries. Investments include both listed securities and unlisted investments where it is not possible to determine their fair value reliably given the developmental nature of such investments or very limited market value information.

	1435H	**1434H**
Equity investments at end of Dhul Hijjah:		
Listed	666,771	607,340
Unlisted	179,445	173,414
	846,216	**780,754**
Less: provision for impairment	(68,575)	(67,690)
	777,641	**713,064**

Listed investments are carried at fair market value and unlisted investments at cost less impairment, if any.

	1435H	**1434H**
Balance at 1 Muharram	713,064	717,065
Movements during the year:		
Additions	9,965	35,733
Disposals	(5,162)	(1,060)
(Provision) / reversal of impairment	(885)	9,218
Transfer from / (to) investments in associates	1,228	(4,704)
Net unrealised fair value gains / (losses)	59,431	(43,188)
Balance at end of Dhul Hijjah	**777,641**	**713,064**

15. INVESTMENTS IN ASSOCIATES

	1435H	**1434H**
Balance at 1 Muharram	602,178	560,680
Foreign currency translation and other movements	19,409	(13,294)
Transfer (to) / from investments in equity capital	(1,228)	4,704
Investments acquired during the year	-	22,342
Share of net results	17,716	26,134
Net (loss)/gain on acquisition and disposal of associates	(4,307)	1,612
Cash dividend received	(618)	-
Balance at end of Dhul Hijjah	**633,150**	**602,178**

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

Name of the entity	Country of incorporation	Entity's activities	1435H	1434H
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	20.00%	20.00%
Bosna Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	49.99%	49.99%
Bank Muamalat Indonesia	Indonesia	Banking	23.71%	32.80%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
Islamic Bank of Nigrer	Niger	Banking	-	49.88%
International Leasing and Investment Company (ILIC)	Kuwait	Investment Co.	31.24%	31.24%
Sonali Paper & Board Mills	Bangladesh	Manufacturing	24.61%	24.61%
Northern Jute Company	Bangladesh	Manufacturing	30.00%	30.00%
National Fibres Limited	Pakistan	Manufacturing	21.15%	21.15%
Tatarstan International Investment Company (TIIC)	Russia	Investment Co.	20.32%	20.32%
Islamic Bank of Senegal	Senegal	Banking	33.26%	33.26%
Islamic Corporation for the Development of the Private Sector (ICD)	Saudi Arabia	Private Sector Investment	46.74%	50.00%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	37.90%	37.90%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	38.60%	38.60%

The financial position, revenue and results of associates based on their financial statements for the interim and final periods in 1435H and 1434H are as follows:

	Year	Total assets	Total liabilities	Revenue	Net income/ (loss)
Allied Cooperative Insurance Group	1435	58,738	39,264	28,583	943
	1434	63,995	47,182	24,477	1,226
Bosna Bank International	1435	244,787	205,995	11,205	870
	1434	257,670	217,860	13,368	1,307
Islamic Bank of Guinea	1435	30,614	23,448	1,873	(227)
	1434	32,873	26,117	1,767	89
Bank Muamalat Indonesia	1435	3,324,474	3,075,925	226,554	1,723
	1434	2,906,344	2,753,272	256,515	30,271
Syrikat Takaful Indonesia	1435	69,178	62,193	9,011	(26)
	1434	62,434	56,161	11,462	127
Sonali Paper & Board Mills	1435	69,016	68,080	9,040	157
	1434	65,675	64,878	8,243	111
Islamic Bank of Senegal	1435	210,832	180,008	11,781	3,049
	1434	181,784	150,519	16,145	3,364
TIIC	1435	868	17	-	(178)
	1434	1,306	9	18	(197)
ICD	1435	1,024,902	372,474	72,403	17,269
	1434	794,809	211,514	28,864	15,859
ITFC	1435	576,624	19,514	30,437	18,542
	1434	528,162	10,205	28,453	13,715
APIF	1435	58,046	490	3,759	1,877
	1434	55,989	803	3,223	1,080
ILIC	Fully impaired				
National Fibres Limited	Fully impaired				
Northern Jute Company	Fully impaired				

Allied Cooperative Insurance Group is a listed entity and the value of investment based on the quoted market price at 30 Dhul Hijjah 1435H is ID18.45 million (1434H: ID19.29 million).

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

16. OTHER ASSETS

	1435H	1434H
Accrued Income – Project Assets	290,039	206,683
Accrued Income – Commodity Placements	4,509	7,883
Accrued Income – Investments in Sukuk	7,176	4,503
Related party balances (Note 28)	12,084	25,777
Swaps	27,826	29,874
Staff loans and advances	22,644	21,058
Other	15,049	5,351
	379,327	**301,129**

Swaps represent the following Murabaha based profit rate and cross currency profit rate swaps with financial institutions at end of Dhul Hijjah:

		Notional amount in		Net fair value ID	
1435H	**Currency**	**Original currency**	**ID equivalent**	**Asset**	**Liability** (Note19)
Profit rate swaps	USD	1,000,000	673,360	8,735	-
Cross currency profit rate swap	GBP	260,000	280,820	19,091	-
Cross currency profit rate swap	SAR	1,875,000	336,679	-	(23,910)
	ID		**1,290,859**	**27,826**	(23,910)

		Notional amount in		Net fair value ID	
1434H	**Currency**	**Original currency**	**ID equivalent**	**Asset**	**Liability** (Note19)
Profit rate swaps	USD	1,850,000	1,207,769	24,476	-
Cross currency profit rate swap	GBP	260,000	270,821	5,398	-
Cross currency profit rate swap	SAR	1,875,000	326,424	-	(18,950)
	ID		**1,805,014**	**29,874**	(18,950)

The following realised and unrealised fair value gains and losses have been reported in 1435H:

	1435H fair value gains/(losses)			1434H fair value gains/(losses)		
	Unrealised	**Realised**	**Total**	**Unrealised**	**Realised**	**Total**
Profit rate swaps	(16,165)	14,200	**(1,965)**	(9,166)	14,947	**5,781**
Cross currency profit rate swap	3,240	(6,704)	**(3,464)**	9,111	(6,629)	**2,482**
	(12,925)	**7,496**	**(5,429)**	**(55)**	**8,318**	**8,263**

Profit rate swaps

Under the arrangement, the Bank swaps fixed profit rate with floating profit rate or vice versa with the counterparty.

Cross currency swap

The Bank has issued sukuk amounting to Saudi Riyal (SAR) 1,875 million (ID 326.4 million), and Pound Sterling (GBP) 260 million (ID 271.6 million). In order to provide protection against exchange rate fluctuations between the SAR and USD, GBP and Euro and GBP and USD and the profit payments under the sukuk, the Bank entered into cross currency swaps for the contract amount of SAR 1,875 million and GBP 260 million, respectively. Under the arrangement, the Bank shall swap profit rate in USD and Euro with profit rates in SAR and GBP respectively with the counterparties.

For profit rate swaps and cross currency profit rate swaps, the counterparties act as agents of the Bank to buy and sell Shari'ah compliant assets for immediate delivery. Under these arrangements Murabaha contracts generate fixed payments (comprising both a cost price and a fixed rate profit mark-up) or vice versa. Corresponding Reverse Murabaha contracts generate the floating leg payments (the cost price is fixed but the profit rate mark-up is floating) or vice versa.

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

17. SUKUK LIABILITY

IDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at end of Dhul Hijjah 1435H and 1434H sukuk issued were as follows:

Date of issue		Issue	ID equivalent		Maturity	
Gregorian	**Hijri equiv.**	**currency**	**1435H**	**1434H**	**date**	**Rate**
Listed						
30-Mar-09	03/4/1430	MYR	-	20,596	28-Mar-14	4.05% Fixed
16-Sep-09	26/9/1430	USD	-	554,921	16-Sep-14	3.172 % Fixed
27-Oct-10	19/11/1431	USD	336,680	326,424	27-Oct-15	1.775 % Fixed
25-May-11	22/06/1432	USD	505,020	489,636	25-May-16	2.35 % Fixed
26-Jun-12	06/08/1433	USD	538,688	522,278	26-Jun-17	1.357 % Fixed
04-Jun-13	25/07/1434	USD	673,360	652,848	04-Jun-18	1.535 % Fixed
31-Jul-13	23/09/1434	MYR	61,644	61,784	31-Jul-18	3.60 % Fixed
06-Mar-14	05/05/1435	USD	1,010,040	-	06-Mar-19	1.8125 % Fixed
17-Jul-14	20/09/1435	USD	673,360	-	17-Jul-19	1.8818 % Fixed
25-Sep-14	01/12/1435	USD	1,010,040	-	25-Sep-19	2.111 % Fixed
			4,808,832	**2,628,487**		
Not listed						
20-Sep-10	11/10/1431	SAR	168,339	163,212	20-Sep-20	2.55 % Fixed
20-Sep-10	11/01/1431	SAR	168,339	163,212	20-Sep-20	6 M. LIBOR+15 BP
17-Feb-11	14/03/1432	GBP	64,805	62,497	17-Feb-16	3 M. LIBOR+0.15%
30-Jan-12	07/03/1433	GBP	108,008	104,162	30-Jan-17	3 M. LIBOR +50%
07-Aug-12	19/09/1433	GBP	108,008	104,162	07-Aug-15	3 M. LIBOR +0.19%
01-Oct-12	15/11/1433	USD	-	195,854	01-Oct-15	3 M. LIBOR +0.15%
11-Oct-12	25/11/1433	USD	336,680	326,424	11-Oct-17	3 M. LIBOR +0.30%
27-Mar-13	15/05/1434	USD	-	456,994	27-Mar-18	3 M. LIBOR +0.30%
22-Apr-14	22/06/1435	USD	67,335	-	22-Apr-17	0.90 % Fixed
20-Oct-14	26/12/1435	EUR	255,722	-	20-Oct-18	0.33% Fixed
			1,277,236	**1,576,517**		
			6,086,068	**4,205,004**		

The sukuk certificates confer on certificate holders the right to receive periodic distribution amounts arising from the Bank's Murabaha, Istisna'a, instalment sale and Ijarah assets. The Bank guarantees as a third party any shortfall in the scheduled instalments. Financing cost incurred on sukuk issued during 1435H was ID 81.16 million (1434H: ID 61.82 million)

Subsequent to the year ended 30 Dhul Hijjah 1435H, the Bank issued the following Sukuk:

Date of issue		Issue currency	ID equivalent	Maturity date	Rate
Gregorian	**Hijri Equiv.**				
12-Mar-15	21/05/1436	USD	726,549	12- Mar-20	1.83% Fixed

18. COMMODITY PURCHASE LIABILITIES

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. The outstanding balance of ID 1,030.28 million as of 30 Dhul Hijjah 1435H (1434H: ID 1,560.21 million) represents the purchase price under these agreements.

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

19. OTHER LIABILITIES

	1435H	1434H
Payables against commodity purchase liability	6,761	223,240
Related party balances (Note 28)	14,884	3,199
Investment Deposits	2,891	2,931
Accrued Expenses	46,698	20,892
Accrued staff retirement and medical benefit scheme liability (Note 20)	92,916	91,180
Murabaha based profit rate swaps (Note 16)	23,910	18,950
Deferred grant income	10,770	11,336
Other	43,720	47,824
	242,550	**419,552**

20. RETIREMENT BENEFITS

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

Staff Retirement Pension Plan

The Staff Retirement Pension ("Plan") is a defined benefit pension plan established and maintained by the Bank and its entities and covers most employees on regular appointment who receive a regular stated remuneration from the Bank and its entities. 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 Bank and its entities contribution to the Plan. The Bank and its entities underwrites the investment and actuarial risk of the plan.

The main features of the plan are:

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

Under the Plan, the employee contributes at a rate of 9% of the basic salary while the Bank and its entities typically contributes 21%, but may vary such contribution based on the results of the actuarial valuations.

The Plan assets are held and managed by the Bank but recorded separately from the Bank's assets and are 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.

Post-Employment Medical Benefit Scheme

Effective 1 Muharram 1421H, the Bank established the medical benefit scheme for retired employee via the BED resolution 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.

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

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 Pension Plan and contributions are invested in a similar manner to that of the Staff Retirement Pension 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 18%

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

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1435H	**1434H Restated**	**1435H**	**1434H Restated**
Benefit obligation at 1 Muharram	225,811	253,686	13,466	15,399
Current service costs	11,137	15,399	1,042	1,398
Interest cost on Defined Benefit Obligation(DBO)	12,006	9,995	739	627
Plan participations contributions	4,369	3,900	239	218
Disbursements from plan assets	(7,622)	(6,562)	(213)	(166)
Net Actuarial Loss/(Gain)	24,432	(50,607)	2,045	(4,010)
Benefit obligation at end of Dhul Hijjah	**270,133**	**225,811**	**17,318**	**13,466**

The movements in the plan assets are as follows:

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1435H	**1434H Restated**	**1435H**	**1434H Restated**
Fair value of plan assets at 1 Muharram	141,345	130,153	6,752	5,769
Interest Income on Plan Assets	7,305	4,975	355	225
Return on plan assets greater / (less) than discount rate	29,545	(179)	11	202
Plan Participations contributions	4,369	3,900	474	218
Employer contribution	11,975	9,058	239	504
Disbursements from plan assets	(7,622)	(6,562)	(213)	(166)
Fair value of plan assets at end of Dhul Hijjah	**186,917**	**141,345**	**7,618**	**6,752**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 19)	**83,216**	**84,466**	**9,700**	**6,714**

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.

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year 1435H and 1434H for the Bank and its entities comprised the following:

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1435H	1434H Restated	1435H	1434H Restated
Gross current service costs	11,137	15,734	1,042	1,398
Interest cost on DBO	12,006	9,995	739	627
Interest income on assets	(7,305)	(4,975)	(355)	(225)
Cost recognised in income statement	**15,838**	**20,754**	**1,426**	**1,800**
Actuarial (gain)/loss due to assumptions	24,453	(57,734)	1,828	(4,235)
Return on plan assets (greater) / less than discount rate	(29,578)	(179)	(11)	(202)
Cost recognised in reserves in statement of changes in members' equity	**(5,125)**	**(57,913)**	**1,817**	**(4,437)**

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

	Staff Retirement Pension Plan		Medical Benefit Scheme	
	1435H	1434H	1435H	1434H
Discount rate	4.30%	4.90%	4.30%	4.90%
Expected return on plan assets	4.50%	6.00%	4.50%	6.00%
Rate of expected salary increase	4.50%	4.50%	4.50%	4.50%

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 Pension Plan		Medical Benefit Scheme	
	1435H	1434H	1435H	1434H
Commodity placements	14,087	22,759	858	1,107
Syndicated Murabaha	4,031	15,762	1,184	3,293
Managed funds and Instalment sales	29,182	18,632	-	-
Investments in sukuk	107,361	81,629	5,740	2,132
Land	29,344	4,618	-	-
Other (net)	2,912	(2,055)	(164)	220
Plan assets	**186,917**	**141,345**	**7,618**	**6,752**

1.2% of staff retirement plan assets (1434H: 3.9%) are invested respectively within the IsDB and its entities as of 30 Dhul Hijjah 1435H.

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

	1435H	1434H	1433H	1432H	1431H
Present value of defined benefit obligation	(270,133)	(225,811)	(193,033)	(161,496)	(142,718)
Fair value of plan assets	186,917	141,345	131,899	108,077	106,753
Plan deficit	**(83,216)**	**(84,466)**	**(61,134)**	**(53,419)**	**(35,965)**

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

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

	1435H	1434H	1433H	1432H	1431H
Present value of defined benefit obligation	(17,318)	(13,466)	(12,199)	(9,686)	(7,398)
Fair value of plan assets	7,618	6,752	5,867	4,953	4,690
Plan deficit	**(9,700)**	**(6,714)**	**(6,332)**	**(4,733)**	**(2,708)**

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

	Staff Retirement Pension Plan	Medical Benefit Scheme	1435H Total	1434H Total
Balance at 1 Muharram	84,466	6,714	91,180	67,466
Movements during the year	(1,250)	2,986	1,736	23,714
Balance at end of Dhul Hijjah	**83,216**	**9,700**	**92,916**	**91,180**

21. PAID UP CAPITAL

Capital includes subscriptions paid-up by Member Countries. The Bank is not exposed to any externally imposed capital requirements. As at the reporting date, IsDB's shareholders consist of 56 member countries from Asia, Africa, Europe and South America.

The capital of the Bank as at end of Dhul Hijjah was as follows:

		1435H	1434H
Authorized capital	10,000,000 shares of ID 10,000 each	**100,000,000**	**100,000,000**
Issued capital	5,058,202 shares of ID 10,000 each	**50,582,020**	**18,000,000**
Less: available for subscription		(716,300)	(196,239)
Subscribed capital		**49,865,720**	**17,803,761**
Callable capital		(40,511,080)	(8,852,530)
Called up capital		**9,354,640**	**8,951,231**
Amount not yet due		(4,392,588)	(4,075,840)
Instalments overdue		(108,185)	(75,600)
Paid up capital		**4,853,867**	**4,799,791**

In its 287th meeting held in Safar 1434H (December 2012G), the Board of Executive Directors of the Bank resolved to recommend the following for consideration and approval of the Board of Governors of the Bank in the next Annual General Meeting:

(a) that the 50% cash callable portion of the 4th general increase in capital be called in so that the value of shares subscribed by each Member Country be paid in equal instalments over 20 years starting 01 January 2016G; and
(b) that the authorized capital of the Bank be increased from ID 30 billion to ID 100 billion; and
(c) that the capital available for subscription of the Bank be increased from ID 18 billion to ID 50 billion.

Subsequent of the approval of the Board of Governors in the 38th annual meeting held on 12 Rajab 1434H (22 May 2013) the Bank has offered to all Member Countries to subscribe to the 5th general increase in capital in accordance with the terms approved by the Board of Governors.

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

22. RESERVES

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

General reserve

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors until this reserve equals 25% of the Bank's subscribed capital. As at 30 Dhul Hijjah 1435H, general reserve made up 4.2% of the subscribed capital (1434H: 11.2%). Any excess of the net income over the above limit is available for distribution to Member Countries.

According to the Board of Governors' resolution dated 12 Rajab 1434H (22 May 2013), the following allocations were made from the general reserve during 1435H:

- the higher of 5% of the Bank's 1434H net income and USD 5 million was allocated to finance technical assistance operations in the form of grants amounting to ID 8.1 million (1434H: ID 5.9 million).

- higher of 2% of the Bank's 1434H net income and USD Dollars 2 million was allocated to the merit scholarship programme in the form of grants amounting to ID 3.2 million (1434H: ID 2.4 million).

- higher of 2% of the Bank's 1434H net income and USD Dollars 4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 2.7 million (1434H: ID 2.7 million).

23. ADMINISTRATIVE EXPENSES

	1435H	1434H Restated
Staff cost	80,187	81,327
Business travel	5,220	5,875
Consultancy fees	8,219	3,673
Other	16,520	10,346
	110,146	**101,221**

24. COMMITMENTS

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

The Bank uses same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet operations.

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

Undisbursed commitments	**1435H**	**1434H**
Istisna'a	5,493,016	4,058,820
Instalment sales	924,208	846,760
Loans	1,008,756	970,990
Ijarah	1,824,658	1,422,680
Investments in equity capital – capital contributions	207,495	213,565
Principal contributions to ISFD	202,703	261,481
	9,660,836	**7,774,296**

Investments in equity capital represents IsDB's commitments to make capital contributions to IsDB's certain investees.

Capital contributions to ISFD

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 OIC. 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 instalments of USD 100 million each (ID 64.87 million) (1434H: ID 66.12 million). The first seven instalments amounting to USD 700 million have already been paid by the Bank as at 30 Dhul Hijjah 1435H. The remaining amount of ID 202 (USD 300 million) represents undisbursed commitments.

25. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Special Assistance Resource Waqf Fund where the Bank uses these funds for charitable purposes as defined by the Shari'ah Supervisory Committee.

Incomes realised during the year 1435H from transactions which are not permitted by Shari'ah amounted to ID 0.1 million (1434H: ID 0.14 million).

26. 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. Shari'ah Committee for the Bank, its affiliates and trust funds was established pursuant to the Board Resolution. Members of the Shari'ah Committee of the Bank, its affiliates and trust funds are appointed for a period of 3 years renewable.

The Committee has the following functions:

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

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

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

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

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

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

27. RESTRICTED INVESTMENT ACCOUNTS

The Bank in its capacity as a Mudarib has invested funds of holders of restricted investment accounts for a fixed fee and does not participate in the investment results. Restricted investment accounts are not shown in the Bank's statement of financial position. Right of holders of restricted investments accounts realised from their investments and the total obligation as at 30 Dhul Hijjah 1435H amounted to ID 64.1 million (1434H: ID 56.3 million).

28. RELATED PARTY BALANCES

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

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

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

	1435H		1434H	
	Assets	**Liabilities**	Assets	Liabilities
World Waqf Foundation	**369**	**-**	-	(1,869)
APIF	**-**	**(2,703)**		(1,180)
UIF	**70**	**-**	118	-
ICIEC	**1,442**	**-**	1,389	-
Special Account Resources Waqf Fund	**-**	**(2,947)**	5,507	-
IDB Special Assistance Fund	**-**	**-**	3,285	-
IDB Pension Fund	**-**	**-**	2,758	-
IDB Medical Fund	**236**	**-**	-	(150)
Al-Aqsa Fund	**-**	**(6,537)**	23	-
Al Quds Fund	**-**	**-**	-	-
ICD	**2,989**	**-**	230	-
Arab Bank for Economic Development in Africa	**39**	**-**	38	-
ITFC	**126**	**-**	2,922	-
Fael Khair Program	**4**	**-**	30	-
ISFD	**657**	**-**	6,143	-
Sacrificial Meat Project	**3,429**	**-**	3,325	-
GCC Program for Reconstruction of Gaza	**16**	**-**	9	
Kafala Orphan Program - Aceh Indonesia	**7**	**-**	-	-
Trust Fund – Somalia	**2,697**	**-**	-	-
Trust Fund – South East Asia	**3**	**-**	-	-
Trust Fund – Mobile Clinics	**-**	**(2,697)**	-	-
Total	**12,084**	**(14,884)**	25,777	(3,199)

The Bank provides management services to associate entities.

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

Other than the overall development activity transactions, which are entered into with Member Countries, the following significant related party transactions were entered into by the Bank:

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

(b) Compensation of Key management and expenses of the Board of executive Directors

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

	1435H	1434H
Board of Executive Directors expenses	**1,198**	973
Salaries and other short-term benefits	**1,756**	1,584
Accumulated post-employment benefits	**1,446**	1,220

29. PRIOR PERIOD ADJUSTMENTS

Subsequent to the original issuance of the Bank's annual 1434H financial statements, the IsDB determined that the pension expenses previously recognized in the Bank's income statement within employee costs in the amount equivalent to 21% aggregate employer contribution were lower than the pension expenses determined by the professional actuary in accordance with the IAS 19 (Revised). The following table reflects the correction that resulted in additional expense of the previously reported staff costs in accordance with the amount determined by the professional actuary.

The restatements made for the 1434H financial statements are reflected as follows:

	Amounts as previously reported	**Restatement amounts**	**Restated amounts**
Administrative expenses	92,193	9,028	**101,221**
Net income	179,441	(9,028)	**170,413**
Other assets	297,499	3,630	**301,129**
Other liability	406,894	12,658	**419,552**

30. RISK MANAGEMENT

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

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

The highest level of risk management oversight in the Bank is assured by the Board of Executive Directors and is delegated to the Bank's President. The Board is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the

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

Audit Committee of the Board regularly reviews trends in the Bank's risk profiles and performance to ensure compliance with the underlying policies.

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

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

The following sections describe in detail the manner in which the different sources of risks are managed by the Bank.

Credit Risk

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

The Bank manages three principal sources of credit risk: (i) credit risk pertaining to its sovereign financing operations portfolio; (ii) credit risk pertaining to its non-sovereign financing portfolio (projects, corporates, and financial institutions) (iii) counterparty credit risk in its treasury portfolio. The Bank has put in place a comprehensive credit risk management framework including policies, guidelines, and tools on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by GRMD which ensures that business departments comply with relevant guidelines and prudential limits established by the Board of Executive Directors ("BED") and Management. The Bank uses a 21-scale risk rating system, with "1" being the best rated exposure and corresponding to "AAA" on the international rating agencies scale and 21 as selective default. The 21 scales are again grouped into 7 category starting from "A" to "G".

The Bank's total outstanding exposure as at end of Dhul Hijjah on its sovereign and non-sovereign financing operations are summarized below:

1435H **Country**	**Total outstanding exposure**	**% of total outstanding exposure**
Morocco	798,271	9.0%
Pakistan	768,102	8.6%
Iran	518,650	5.8%
Tunisia	475,267	5.3%
Turkey	418,921	4.7%
Indonesia	409,948	4.6%
Bahrain	385,535	4.3%
Azerbaijan	356,278	4.0%
Saudi Arabia	307,333	3.5%
Sudan	305,547	3.4%
Total Top 10 Countries	***4,743,852***	***53.2%***
Total Other Countries	***4,175,623***	***46.8%***

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

1435H Country	**Total outstanding exposure**	**% of total outstanding exposure**
Total All Countries	**8,919,475**	**100.0%**
Total sovereign exposure	7,846,576	88.0%
Total non-sovereign exposure	1,072,899	12.0%
Total	**8,919,475**	**100.0%**

1434H Country	**Total outstanding exposure**	**% of total outstanding exposure**
Morocco	776,021	9.4%
Pakistan	644,195	7.8%
Iran	547,277	6.6%
Tunisia	419,449	5.1%
Azerbaijan	370,812	4.5%
Bahrain	369,338	4.5%
Indonesia	363,958	4.4%
Turkey	317,200	3.8%
Sudan	278,195	3.4%
Saudi Arabia	270,033	3.3%
Total Top 10 Countries	***4,356,478***	***52.8%***
Total Other Countries	***3,890,236***	***47.2%***
Total All Countries	***8,246,714***	***100.0%***
Total sovereign exposure	7,108,258	86.2%
Total non-sovereign exposure	1,138,456	13.8%
Total	***8,246,714***	***100.0%***

Sovereign credit risk

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

	1435H		**1434H**	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	1,368	0.0%	3,863	0.1%
Category "B"	2,575,156	32.8%	2,436,732	34.3%
Category "C"	1,378,370	17.6%	1,177,504	16.6%
Category "D"	2,196,761	28.0%	1,978,848	27.8%
Category "E"	986,019	12.6%	831,580	11.7%
Category "F"	104,312	1.3%	101,541	1.4%
Category "G"	604,593	7.7%	578,191	8.1%
Total	**7,846,579**	**100.0%**	**7,108,259**	**100.0%**

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

Non-sovereign credit risk

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

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

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

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

	1435H		1434H	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category “A”	2,845	0.3%	5,793	0.5%
Category “B”	364,039	33.9%	309,039	27.1%
Category “C”	328,538	30.6%	356,509	31.3%
Category “D”	307,071	28.6%	367,394	32.3%
Category “E”	50,011	4.7%	76,762	6.7%
Category “F”	-	-	957	0.1%
Category “G”	20,392	1.9%	22,002	1.9%
Total	**1,072,896**	**100.0%**	**1,138,456**	**100.0%**

Treasury assets (less Murabaha financing) and swaps

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

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

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

	1435H		1434H[1]	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	267,534	9.6%	560,850	20.8%
Category "B"	2,432,946	87.4%	1,911,788	71.0%
Category "C"	47,016	1.7%	123,928	4.6%
Category "D"	22,598	0.8%	82,246	3.1%
Category "E"	272	0.0%	501	0.0%
Category "F"	-	-	-	-
Category "G"	14,186	0.5%	14,079	0.5%
Total	**2,784,552**	**100.0%**	**2,693,392**	**100.0%**

Concentration of financial assets with credit risk exposure

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

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

1435H	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	140,190	3,079,269	228,820	622,441	**4,070,720**
Project assets	3,461,368	5,336,608	-	-	**8,797,976**
Investment assets	278,530	1,199,791	17,654	1,988	**1,497,963**
Other assets	98,407	331,334	1,569	956	**432,266**
Total assets:	**3,978,495**	**9,947,002**	**248,043**	**625,385**	**14,798,925**
%	**27%**	**67%**	**2%**	**4%**	**100%**

1434H	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	109,340	2,824,166	213,458	360,729	3,507,693
Project assets	3,129,875	5,005,342	-	-	8,135,217
Investment assets	129,840	1,276,274	18,096	3,906	1,428,116
Other assets	67,709	290,682	-	-	358,391
Total assets:	**3,436,764**	**9,396,464**	**231,554**	**364,635**	**13,429,417**
%	**25%**	**70%**	**2%**	**3%**	**100%**

[1] 1434H portfolio has been restated based on the new categorization of the risk rating scale.

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

1435H	**Public utilities**	**Transport and telecom**	**Agriculture**	**Industry and mining**	**Social services**	**Others**	**Total**
Treasury assets	-	-	-	-	-	4,070,720	**4,070,720**
Project assets	4,205,564	2,371,501	585,500	470,671	871,054	293,686	**8,797,976**
Investment assets	-	-	-	-	-	1,497,963	**1,497,963**
Other assets	-	-	-	-	-	432,266	**432,266**
Total assets:	**4,205,564**	**2,371,501**	**585,500**	**470,671**	**871,054**	**6,294,635**	**14,798,925**
%	**28%**	**16%**	**4%**	**3%**	**6%**	**43%**	**100%**
1434H							
Treasury assets	-	-	-	-	-	3,507,693	3,507,693
Project assets	4,304,254	2,151,721	190,535	415,378	607,398	465,931	8,135,217
Investment assets	-	-	-	-	-	1,428,116	1,428,116
Other assets	-	-	-	-	-	358,391	358,391
Total assets:	**4,304,254**	**2,151,721**	**190,535**	**415,378**	**607,398**	**5,760,131**	**13,429,417**
%	**32%**	**16%**	**1%**	**3%**	**5%**	**43%**	**100%**

Liquidity Risk

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

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

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

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

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

(i) Transactional Operational Portfolio (TOP):

(ii) Core Operational Portfolio (COP); and

(iii) Stable Portfolio (SP)

These portfolios are subdivided in currency specific sub-portfolios.

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

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

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

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

The maturity profile of assets and liabilities as at end of Dhul Hijjah 1435 and 1434 was as follows:

1435H	**Up to 3 months**	**3-6 months**	**6 months to 1 year**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Cash & Cash equivalents	1,043,659	-	-	-	-	-	**1,043,659**
Commodity placements	525,272	805,021	396,642	-	-	-	**1,726,935**
Sukuk Investments	42,103	22,844	22,828	521,841	436,599	-	**1,046,215**
Murabaha Financing	145,989	74,361	9,355	24,206	-	-	**253,911**
Istisna'a	333,880	41,830	142,346	1,155,147	1,966,297	-	**3,639,500**
Instalment sale	36,783	20,462	54,383	400,999	654,331	-	**1,166,958**
Ijarah	31,197	54,151	64,077	463,494	1,610,119	-	**2,223,038**
Loans	75,560	20	71,462	534,590	1,086,848	-	**1,768,480**
Investments in equity	-	-	-	-	-	777,641	**777,641**
Investments in associates	-	-	-	-	-	633,150	**633,150**
Other investments	-	-	-	-	-	87,172	**87,172**
Property and equipment	-	-	-	10,768	42,171	-	**52,939**
Other assets	82,028	7,149	12,603	94,308	183,239	-	**379,327**
Total Assets	**2,316,471**	**1,025,838**	**773,696**	**3,205,353**	**5,979,604**	**1,497,963**	**14,798,925**
Liabilities							
Commodity purchase Liabilities	854,939	175,340	-	-	-	-	**1,030,279**
Sukuk issued	-	-	108,008	5,641,381	336,679	-	**6,086,068**
Other liabilities	100,557	38,307	600	2,400	100,686	-	**242,550**
Total Liabilities	**955,496**	**213,647**	**108,608**	**5,643,781**	**437,365**	**-**	**7,358,897**

1434H	**Up to 3 months**	**3-6 months**	**6 months to 1 year**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Cash and cash equivalents	210,458	-	-	-	-	-	210,458
Commodity placements	817,326	296,724	1,354,285	-	-	-	2,468,335
Sukuk Investments	16,644	8,794	35,832	326,500	207,680	-	595,450
Murabaha Financing	51,523	178,055	3,872	-	-	-	233,450
Istisna'a	87,368	25,144	76,618	586,922	2,405,301	-	3,181,353
Instalment sale	31,034	19,587	47,475	315,748	761,140	-	1,174,984
Ijarah	25,259	24,847	46,035	356,680	1,616,685	-	2,069,506
Loans	71,861	198	66,573	494,756	1,075,986	-	1,709,374
Investments in equity	-	-	-	-	-	713,064	713,064
Investments in associates	-	-	-	-	-	602,178	602,178
Other investments	-	-	-	-	-	112,874	112,874
Property and equipment	-	-	-	14,141	43121	-	57,262
Other assets	219,838	64,342	710	6,327	9,912	-	301,129
Total Assets	1,531,311	617,691	1,631,400	2,101,074	6,119,825	1,428,116	13,429,417

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

1434H	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities							
Commodity purchase liabilities	345,357	-	-	1,214,854	-	-	1,560,211
Sukuk issued	-	20,611	554,921	3,303,113	326,359	-	4,205,004
Other liabilities	74,772	25,175	30,704	185,220	103,681	-	419,552
Total Liabilities	420,129	45,786	585,625	4,703,187	430,040	-	6,184,767

Market Risks

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

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

(i) Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the Bank's financial assets and liabilities denominated in foreign currencies. The Bank does not speculatively trade in currencies and is therefore not exposed to currency trading risk. The Bank monitors/adjusts the currency composition of the net assets by currency and regularly aligns it with the composition of the Islamic Dinar basket; namely US Dollar, Sterling Pound, Euro and Japanese Yen. Because a large part of its assets is funded by equity resources, which are reported in Islamic dinars, the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Islamic Dinars by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR. In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition.

Net assets in foreign currencies as at end of Dhul Hijjah were as follows:

	1435H	1434H
USD (1USD = 1.48509 ID)	**845,377**	783,994
EUR (1EUR = 1.17315 ID)	**799,506**	657,438
Pound Sterling (1GBP = 0.92586 ID)	**226,417**	203,772
Japanese Yen (1JPY = 0.0062ID)	**125,536**	127,739

(ii) Mark-up risk

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

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

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

	1435H	1434H
Commodity placements	**0.9%**	0.9%
Sukuk investments (coupon)	**3.6%**	3.8%
Murabaha	**2.9%**	3.1%
Istisna'a	**3.9%**	4.3%
Instalment sales	**4.4%**	4.2%
Ijarah	**2.5%**	3.4%
Sukuk liability	**1.6%**	1.7%
Commodity purchase liabilities	**0.2%**	0.2%

The Bank uses Shari'ah-approved Murabaha based profit rate and cross-currency swaps instruments for asset/liability management, cost reduction and risk management. These instruments are used to modify the profit-rate or currency characteristics of the sukuk liability and other assets of the Bank (Note 16).

(iii) Equity price risk

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

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

Operational Risk

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

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

The operational risk framework defines the minimum requirements for operational risk management, risk assessment methodologies and tools to identify and assess operational risks and determine appropriate mitigating measures. IsDB operational risk assessment methodology includes:

- Analyzing the operational risk events and losses and categorizing them according to best practice including the Basel II operational risk event types, which assist in setting up losses database.
- Risk and control self-assessment process (RCSA) to analyze business activities and identify operational risks that could impede achievement of business objectives. An effective RCSA is a key component of developing a risk profile and understanding the residual risk.
- Developing and monitoring key risk indicators (KRIs) and key control Indicators (KCIs) which are used to manage operational risk on an ongoing basis. The main purpose is to assist management by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

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

- Ensuring the existence of operational risk mitigation techniques in place such as Business Continuity Management, Takaful (insurance), etc.

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 30 Dhul Hijjah:

1435H	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk and Other Investments)	-	1,081,819	-	1,081,819
Murabaha based profit rate and cross currency profit rate swap (reported within other assets)	-	27,826	-	27,826
Equity type Investments at fair value through equity:				
Investments in equity capital and other investments	666,771	51,568	-	718,339
Total financial assets at fair value	**666,771**	**1,161,213**	**-**	**1,827,984**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	23,910	-	23,910
Total financial liabilities	**-**	**23,910**	**-**	**23,910**

1434H	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk and Other Investments)	-	660,894	-	660,894
Murabaha based profit rate & cross currency profit rate swap (reported within other assets)	-	29,874	-	29,874
Equity type Investments at fair value through equity:				
Investments in Equity capital and Other Investments	607,340	47,430	-	654,770
Total Financial assets at fair value	**607,340**	**738,198**	**-**	**1,345,538**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	18,950	-	18,950
Total Financial Liabilities at fair value	**-**	**18,950**	**-**	**18,950**

During 1435H there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

32. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its Member Countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Bank actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position which are financed by the Bank's equity and external funding. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Bank as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development programmes. Further, the internal reports furnished to the Board of Executive Directors do not present discrete financial information with respect to the Bank's performance to the extent envisaged in FAS 22 - the sectorial and geographical distribution of the Bank's assets is set out in Note 30.

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

Financial statements and Independent Joint Auditors' Report

Year ended 30 Dhul Hijjah 1435H (24 October 2014)

pwc

PricewaterhouseCoopers
P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia

KPMG **Al Fozan & Al Sadhan**
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

INDEPENDENT JOINT AUDITORS' REPORT

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

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 1435H (24 October 2014) and the related statements of activities, changes in net assets and cash flows for the year then ended and the attached notes from 1 to 25 which form an integral part of the 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 (AAOIFI) 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. 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 accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 Dhul Hijjah 1435H (24 October 2014), and the results of its activities, changes in net assets and cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Fund.

PricewaterhouseCoopers

Ali A. Alotaibi
Certified Public Accountant
Registration No. 379

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

4 Rajab 1436H
23 April 2015
Jeddah

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

كي. بي. إم. جي الفوزان والسدحان
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Financial Position **30 Dhul Hijjah 1435H (24 October 2014)**

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

	Notes	1435H	1434H
Assets			
Treasury assets			
Cash and cash equivalents	4	**39,611**	93,236
Commodity placements	5	**233,194**	104,077
Syndicated murabaha	6	**1,035**	15,148
Investments in sukuk	7	**132,746**	50,254
Investments assets			
Equity capital	8	**35,056**	16,868
Associates	9	**114,139**	96,248
Funds	10	**76,003**	154,087
Syndicated Ijarah	11	**19,435**	19,143
Loans	12	**184,387**	181,322
Other assets			
Accrued income and other assets		**37,954**	83,721
Fixed assets		**24,780**	25,713
Total assets		**898,340**	839,817
Liabilities			
Commodity purchase liabilities	13	**85,241**	-
Accruals and other liabilities	14	**13,035**	14,246
Total liabilities		**98,276**	14,246
Net assets		**800,064**	825,571
Represented by:			
Waqf Fund principal amount		**769,357**	769,410
Special assistance		**(121,499)**	(96,115)
Special account for Least Developed Member Countries (LDMC)		**152,206**	152,276
Total Funds		**800,064**	825,571

The accompanying notes from 1 through 25 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Activities and
Statement of Changes in Net Assets **30 Dhul Hijjah 1435H (24 October 2014)**
(All amounts in thousands of Islamic Dinars unless otherwise stated)

		1435H				
Statement of activities:	**Notes**	**Waqf Fund principal amount**	**Special assistance**	**Special account for LDMC**	**Total**	1434H
Income from:						
Treasury assets						
Commodity placements					**2,966**	1,605
Syndicated murabaha					**1,971**	243
Investments in sukuk	7				**5,416**	1,306
Investment assets						
Associates					**305**	1,239
Funds					**5,980**	13,375
Other					**2,696**	1,979
					19,334	19,747
Financing costs					**(14)**	(563)
Foreign exchange gains					**671**	1,269
Income before impairment charge					**19,991**	20,453
Impairment charge					**(32,389)**	(1,542)
Attributable net income					**(12,398)**	18,911
Allocation of attributable net loss		(3,015)	(5,363)	(4,020)	**-**	-
Islamic Technical Financial Assistance Grant from IsDB-OCR		-	19	-	**19**	-
Share of income transferred from IsDB-OCR		5	22	7	**34**	138
Contributions from IsDB-OCR for technical assistance grants and scholarship program	16	-	8,654	-	**8,654**	11,029
(Loss)/income before grants and program expenses		**(3,010)**	**3,332**	**(4,013)**	**(3,691)**	30,078
Grants for causes	15	-	(27,222)	-	**(27,222)**	(32,361)
Program expenses	15	-	(14,307)	-	**(14,307)**	(11,569)
Net deficit for the year		**(3,010)**	**(38,197)**	**(4,013)**	**(45,220)**	(13,852)
Statement of change in net assets						
Net assets/(liabilities) at 1 Muharram		769,410	(96,115)	152,276	**825,571**	827,929
Net deficit for the year		(3,010)	(38,197)	(4,013)	**(45,220)**	(13,852)
Fair value and other reserves		2,957	12,813	3,943	**19,713**	11,494
Net assets/(liabilities) at end of Dhul Hijjah		**769,357**	**(121,499)**	**152,206**	**800,064**	825,571

The accompanying notes from 1 through 25 form an integral part of these financial statements.

Statement of Cash Flows **30 Dhul Hijjah 1435H (24 October 2014)**

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

	Note	1435H	1434H
Cash flows from operations			
Net deficit for the year		**(45,220)**	(13,852)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		**1,160**	1,150
Provision for impairment		**32,389**	1,542
Share of income in associates, net	9	**(305)**	(1,239)
Investment fair value losses	7	**(2,626)**	1,928
Gain on sale of units		**-**	(5,421)
Gain on sale of investment in equity capital		**-**	(1,690)
Foreign exchange loss		**(7,527)**	6,106
Change in operating assets and liabilities			
Syndicated murabaha		**14,113**	(15,148)
Instalment sales		**-**	1,417
Loans		**(3,065)**	(14,300)
Accrued income and other assets		**45,764**	(8,841)
Accruals and other liabilities		**(1,210)**	(20,885)
Net cash provided by / (utilized in) operations		**33,473**	(69,233)
Cash flows from investing activities			
Commodity placements		**(129,117)**	280,027
Acquisition of Investments in sukuk	7	**(85,472)**	(3,594)
Redemption of investments in sukuk	7	**4,732**	24,091
Additions to investments in equity capital	8	**(16,686)**	(8,423)
Disposal of investments in equity capital	8	**-**	14,183
Acquisition of investments in associates	9	**(12,486)**	-
Disposal of investments in associates	9	**3,231**	-
Additions to investments in funds	10	**(4,073)**	(17,439)
Disposal of investments in funds	10	**67,760**	114,139
Additions to fixed assets		**(228)**	(282)
Net cash (utilized in) / provided by investing activities		**(172,339)**	402,702
Cash flows from financing activities			
Commodity purchase liabilities		**85,241**	(269,949)
Cash provided by/ (utilized in) financing activities		**85,241**	(269,949)
Net change in cash and cash equivalents		**(53,625)**	63,520
Cash and cash equivalents at 1 Muharram		**93,236**	29,716
Cash and cash equivalents at end of Dhul Hijjah	4	**39,611**	93,236

The accompanying notes from 1 through 25 form an integral part of these financial statements

1. INCORPORATION AND OPERATIONS

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

The Fund is managed in accordance with its regulations by the Bank. The legal title of the Fund's total assets is held with the Bank for the beneficial interest of the Fund.

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

The Fund derives its income from returns on treasury assets, investments and projects. As per the regulations of the Fund, a certain percentage of the total income of the Fund and the same percentage of the return from the IsDB's investments in the international market are allocated to the principal amount of the Fund every year until it reaches ID1 billion. The income of the Fund must be allocated as follows:

Principal Amount of the Fund: 15%;

Special Account for LDMCs: 20%; and

Special Assistance Programs: 65%.

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

a) training and research for member countries to re-orient their economies, financial and banking activities in conformity with the Islamic Shari'ah;

b) provision of relief for natural disasters and calamities;

c) provision to member countries for the promotion and furtherance of Islamic causes; and

d) provision towards the special account for technical assistance.

The principal amount of the Fund (and 15 % of the annual income of the Fund) can be invested for a longer term to maximise returns. Only 85% of the income are utilized to finance various programs under the Fund and can be kept in cash and in short-term placements.

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

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

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The principal accounting policies applied in the preparation of the Fund's 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 financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Shari'ah rules and principles as determined by the Shari'ah Committee of the Bank, its entities and funds. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund follows the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

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

- Quoted equity investments are measured at fair value through net assets; and
- Certain investments in sukuk are measured at fair value through statement of activities designated as such at the time of initial recognition.

c) Functional and presentation currency

In accordance with the Bank's Articles of Agreement, Islamic Dinar ("ID") is the unit of account of the Fund and is equal to one Special Drawing Right ("SDR") of the International Monetary Fund ("IMF"). SDR is defined by a weighted currency basket of USD, Euro, the British pound and the Japanese yen, whereby the share of the USD and Euro makes up 79% of the basket. Since the Fund conducts its operations mainly in USD and EUR (that take up the largest share in SDR), Islamic Dinar is concluded to be the Fund's functional and presentation currency. Except as otherwise indicated, financial information presented in ID has been rounded to the nearest thousands.

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

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

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

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

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

Item	Recognition principles
Cash equivalents	Cost less impairment
Commodity placements	Amortised cost less impairment
Syndicated murabaha	Amortised cost less impairment
Investments in sukuk classified as either:	Fair value through statement of activities – debt investment
	Amortised cost – debt investments
Investments in equity capital	Fair value through net assets or cost less impairment
Investment in funds	Fair value through net assets or cost less impairment
Syndicated Ijarah	Disbursement less impairment
Loans	Cost less impairment
Commodity purchase liabilities	Amortised cost

b) Offsetting of financial assets and liabilities

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

c) Cash and cash equivalents

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

d) Commodity placements

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

e) Syndicated murabaha

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

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

f) Investments in sukuk

Sukuk are debt instruments that have determinable payments and fixed maturity dates and bear a coupon yield.

Pursuant to the introduction of the new liquidity policy of the Bank (also applicable for the Fund) in 1435H, IsDB's and its funds investments (including sukuk investments) are grouped under either (i) Transactional Operational Portfolio (TOP), (ii) Core Operational Portfolio (COP) or (iii) Stable Portfolio (SP).

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

Sukuk that are acquired with the positive intent and ability to hold them to contractual maturity are grouped under SP and are classified as held to maturity. Such sukuk investments are measured at amortised cost less any impairment provision.

In accordance with AAOIFI, after the initial designation, investments in debt-type securities shall not be reclassified into or out of the fair value or held to maturity categories.

g) Investments in equity capital

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

Quoted investments recognised at fair value through net assets

Initially and subsequently such investments are measured at fair market value, and any unrealized gains or losses arising from the change in their fair values are recognized directly in the fair value reserve under net assets until the investment is derecognized, at which time the cumulative gain or loss previously recorded under the net assets is recognized in the statement of activities.

Unquoted investments measured at cost less impairment

Unquoted investments in equity capital whose fair value cannot be reliably measured are carried at cost and are tested for impairment at the end of each reporting period. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. All investment losses are recognised in statement of activities. Impairment losses recognised in statement of activities for such equity investments shall be reversed through net assets.

After the initial designation, investments in equity type securities shall not be reclassified into or out of the fair value through net assets category.

h) Investments in associates

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

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

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

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

i) Investments in funds

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

j) Investment in syndicated Ijarah

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

k) Loans

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

Loan is recognized when cash is disbursed to the borrowers. Amounts receivable from Loan represent amounts disbursed in respect of projects plus the Loan service fees due, less repayments received and less provision for impairment.

l) Commodity purchase and sale agreements

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

m) Revenue recognition

Commodity placements

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

Investments in syndicated murabaha

Income from investments in syndicated murabaha is accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to their scheduled repayment dates.

Investments in sukuk

Income from investments in sukuk is accrued on an effective profit rate method and is recognised in the statement of activities and where the sukuk is classified and measured at fair value, the fair value gains and losses (realized and unrealized) resulting from the re-measurement of the fair values at the reporting date are also recognised in the statement of activities.

Investments in equity capital

Dividend income from investments in equity capital and other investment are recognized when the right to receive the payments is established.

Investment in funds

Income from investments in funds is recognised when the right to receive the payments is established.

Investment in syndicated Ijarah

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

Loan service fees

The Fund charges loan service fee only to cover its administrative costs related to the signature of an agreement and disbursements made to the member countries. Thus, the loan service fee is calculated during the financial periods starting from the signature date through to the date of the last disbursement.

The loan service fee is allocated and recognised in the statement of activities over the financial periods as follows:

- 4% of the cumulative service fee is allocated/recognised during the financial periods between the signature date and the 1st disbursement date;
- 40% of the cumulative service fee is allocated/recognised during the financial periods between the 1st disbursement date and the last disbursement date; and
- 56% of the service fee is allocated/recognised during 5 years from the last disbursement date.

Since the loan portfolio is managed and administered by the Bank, the loan service fee is transferred to the Bank's Ordinary Capital Resources (OCR).

n) Foreign currency

Foreign currency transactions and balances

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

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

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

Foreign operations – investments in associates

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

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

o) Impairment of financial assets

Loans

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

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

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

HIPC is a debt relief initiative whereby IsDB reschedules loans to certain heavily indented member countries;

For other projects assets except those provided for under HIPC:

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

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

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

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

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

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

Other financial assets

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

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

p) Zakat and tax

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

q) Comparative figures

The comparative figures presented for 1434H have been reclassified where necessary to preserve consistency with the 1435H figures. However, such reclassifications did not have any effect on the net income or the total equity for the comparative year.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Significant judgments

a) Functional and presentation currency

The Fund conducts its operations mainly in USD and EUR that take up 79% weight in SDR, to which ID is equalised. Therefore, Management concluded that Islamic Dinar most faithfully represents the aggregation of economic effects of the underlying transactions, events and conditions of the Fund and is accordingly the Fund's functional and presentation currency.

b) Significant influence

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

c) Subsequent events

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

3.2 Significant estimates

Provision for impairment of financial assets

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

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

3.3 New Financial Accounting Standard in issue but not yet effective

AAOIFI has issued a new accounting standard on investment accounts (FAS 27) Investment Accounts. The new FAS 27 updates and replaces two of AAOIFI's previous accounting standards relating to investment accounts – (FAS 5) Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders and FAS 6 Equity of Investment Account Holders and Their Equivalents. The Standard applies to investment accounts based on Mudaraba contracts which represent equity of investment account holders and on Mudaraba contracts that are placed on short term basis for the purpose of liquidity management.

The Standard shall be effective for the financial periods beginning 1 January 2015. The management of the Fund does not anticipate this Standard will have significant impact on its financial statements as the Fund does not hold investment accounts.

4. CASH AND CASH EQUIVALENTS

	1435H	1434H
Cash in hand	-	84
Current accounts with Banks	15,986	20,503
Commodity placements (maturities less than 3 months)	23,625	72,649
	39,611	93,236

Commodity placements included within cash equivalents are those interbank placements which have an original tenor equal to or less than three months. Placements with original maturities of above three months are disclosed in Note 5. Bank accounts are in the name of IsDB and are managed by IsDB for the beneficial interest of the Fund.

5. COMMODITY PLACEMENTS

	1435H	1434H
Placements with Islamic banks	16,423	10,416
Placements with Islamic windows of conventional banks	240,396	166,310
Commodity placements (maturities less than 3 months)	(23,625)	(72,649)
	233,194	104,077

6. SYNDICATED MURABAHA

	1435H	1434H
Gross amount receivable	1,037	15,408
Less: unearned income	(2)	(260)
	1,035	15,148

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

7. SUKUK INVESTMENTS

1435H	**Counterparty rating**				
	AA+ to AA-	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified as fair value through statement of activities					
- Financial institutions	-	-	1,415	17,614	**19,029**
- Governments	-	7,737	-	-	**7,737**
- Other entities	-	-	-	20,245	**20,245**
	-	7,737	1,415	37,859	**47,011**
Sukuk classified at amortised cost					
- Financial institutions	43,118	7,990	-	5,131	**56,239**
- Governments	-	-	23,025	-	**23,025**
- Other entities	-	-	-	6,471	**6,471**
	43,118	7,990	23,025	11,602	**85,735**
Total	**43,118**	**15,727**	**24,440**	**49,461**	**132,746**

1434H	Counterparty rating				
	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified as fair value through statement of activities					
- Financial institutions	-	-	1,362	3,344	4,706
- Governments	-	7,608	5,411	12,460	25,479
- Other entities	-	-	-	20,069	20,069
Total	-	7,608	6,773	35,873	50,254

All Sukuk investments are in fixed rate sukuk. In 1434H all sukuk investments were designated as fair value through statement of activities.

The movement in investments in Sukuk is summarised as follows:

	1435H	1434H
Balance at 1 Muharram	**50,254**	73,156
Movements during the year:		
Additions	**85,472**	3,594
Sales/redemptions	**(4,732)**	(24,091)
Unrealized fair value gains / (losses)	**2,626**	(1,928)
Unrealized exchange revaluation losses	**(874)**	(477)
Balance at end of Dhul Hijjah	**132,746**	50,254

Income from sukuk investments is comprised of the following:

	1435H	1434H
Coupon income	**2,801**	2,438
Realised fair value gains	**(11)**	796
Unrealised fair value (losses)/gains	**2,626**	(1,928)
	5,416	1,306

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

8. INVESTMENTS IN EQUITY CAPITAL

The Bank (on behalf of the Fund) makes strategic long-term equity investments with the objective to maximise developmental objectives. These investments are usually in the equities of Shari'ah compliant industrial, agro-industrial projects, Islamic banks and Islamic financial institutions of the Member Countries. Investments include both listed securities and unlisted investments in start-up entities where it is not possible to determine their fair value reliably given the developmental nature of such investments or very limited market value information. Accordingly, the Fund has opted to designate all of its equity investments at fair value through net assets.

Investments in the equity at the end of the years comprised of the following:

	1435H	1434H
Equity investments:		
- Listed	**5,575**	6,961
- Unlisted	**29,481**	11,830
	35,056	18,791
Provision for impairment	**-**	(1,923)
Balance at end of Dhul Hijjah	**35,056**	16,868

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

	1435H	1434H
Balance at 1 Muharram	**16,868**	19,324
Additions during the year	**16,686**	8,423
Sales during the year	**-**	(12,493)
Impairment reversal	**1,923**	-
Unrealized fair value (loss)/ gains	**(421)**	1,614
Balance at end of Dhul Hijjah	**35,056**	16,868

9. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	1435H	1434H
Balance at 1 Muharram	**96,248**	95,270
Foreign currency translation and other movements	**7,130**	1,074
Additions during the year	**12,486**	-
Disposal during the year	**(3,231)**	-
Share of net results	**1,322**	2,421
Net loss on acquisition and disposal of associates	**(1,017)**	(1,182)
Provision for impairment	**-**	(1,335)
Cash dividend received	**(134)**	-
Reversal of provision for impairment	**1,335**	-
Balance at end of Dhul Hijjah	**114,139**	96,248

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

Name of the entity	Country of incorporation	Entity's activities	1435H	1434H
Caspian International Investment Company (CIIC)	Azerbaijan	Investment Company	**27.78%**	27.00%
Islamic Bank of Niger (IBN)	Niger	Banking	**38.46%**	38.46%
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	**59.77%**	45.00%
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	**87.46%**	99.98%

The total assets, total liabilities, revenue and results of associates based on their financial statements for the interim and final periods in 1435H and 1434H are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share of net result
CIIC	**1435H**	**25,037**	**31**	**949**	**581**	**161**
	1434H	25,504	111	82	(274)	(74)
IBN	**1435H**	**55,067**	**33,038**	**5,841**	**1,887**	**417**
	1434H	39,684	34,140	5,328	914	353
ICIEC	**1435H**	**171,712**	**19,942**	**8,830**	**(2,611)**	**(1,560)**
	1434H	158,439	19,986	9,027	(829)	(373)
BBIL	**1435H**	**52,191**	**15,206**	**6,831**	**2,636**	**2,305**
	1434H	36,858	12,520	6,173	2,518	2,517

10. INVESTMENTS IN FUNDS

The Fund makes strategic long-term equity investments with the objective to maximise its returns. These investments are usually in the equities of Shari'ah compliant industrial, agro-industrial projects, Islamic banks and Islamic financial institutions of the Member Countries. Investments include both listed securities and unlisted investments in start-up entities where it is not possible to determine their fair value reliably given the developmental nature of such investments or very limited market value information. The Fund intends to hold these investments as strategic investments and exit from such investments would be made within the overall context of its asset management.

	1435H			1434H		
	Equity	**Others**	**Total**	Equity	Others	Total
Gross balance at 1 Muharram	**7,308**	**146,779**	**154,086**	78,410	164,464	242,874
Additions	**-**	**4,073**	**4,073**	-	17,439	17,439
Disposals	**-**	**(67,760)**	**(67,760)**	(71,102)	(37,616)	(108,718)
Unrealized fair value gains	**-**	**5,306**	**5,306**	-	9,880	9,880
Unrealized exchange revaluation(losses)/gains	**-**	**9,201**	**9,201**	-	(7,181)	(7,181)
Reversal of provision for impairment	**-**	**4,821**	**4,821**	-	-	-
Provision for impairment	**-**	**(33,725)**	**(33,725)**	-	(207)	(207)
Net balance at end of Dhul Hijjah	**7,308**	**68,696**	**76,003**	7,308	146,779	154,087

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

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

11. INVESTMENT IN SYNDICATED IJARAH

	1435H	1434H
Balance at 1 Muharram	**19,143**	18,665
Revaluation gain	**292**	478
Balance at end of Dhul Hijjah	**19,435**	19,143

12. LOANS

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

	1435H	1434H
Loans	**191,823**	188,758
Less: provision for impairment	**(7,436)**	(7,436)
	184,387	181,322

13. COMMODITY PURCHASE LIABILITIES

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 (on behalf of the Fund) has purchased certain commodities from other banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The purchase price includes the accrued markup under these agreements. The related finance cost for the year ended 30 Dhul Hijjah 1435H was ID 0.01 million (1434H: ID 0.6 million).

14. ACCRUALS AND OTHER LIABILITIES

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

	1435H	1434H
Accruals and other liabilities	**10,446**	4,714
Due to related parties (Note 22)	**2,589**	9,532
Total	**13,035**	14,246

15. ASSISTANCE

The following amounts were distributed as grants from the Fund during the years ended Dhul Hijjah 1435H and 1434H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives:

	1435H	1434H
Technical assistance grants	**12,052**	15,328
Scholarship program	**8,892**	9,822
Assistance for Islamic causes	**4,754**	5,988
Technical cooperative program	**1,070**	-
Relief against disasters and calamities	**454**	1,223
Total	**27,222**	32,361

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

The following amounts were incurred as program expenses from the Fund during the year's ended end of Dhul Hijjah 1435H and 1434H as part of the activities of the Special Assistance accounts pursuant to its above-mentioned objectives.

	1435H	1434H
IRTI, Program share and others	**7,416**	6,210
Technical cooperation office	**1,111**	956
Special Assistance office	**2,940**	2,287
Sacrificial meat project	**1,194**	1,082
Scholarship Program	**1,646**	1,034
Total	**14,307**	11,569

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

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

- According to the Board of Governors' resolution No. BG/2-432 dated 12 Rajab 1435H (22 May 2014) 5% but not less than USD 5 million of the IsDB-OCR 1434H net income shall be allocated to finance Technical Assistance Operations in the form of grants during the year 1435H. This amounted to ID 8.1 million (1434: ID 5.9 million).
- According to the Board of Governors' resolution No. BG/5-434 dated 12 Rajab 1435H (22 May 2014) an amount of USD 4 million of IsDB-OCR net income for 1434H shall be allocated for the Islamic Finance Technical Assistance operations in the form of grant for the year 1435H provided that the amount to be allocated shall not be less than USD 4 million (1435H and 1434H: ID 2.7 million).
- According to the Board of Governors' resolution No. BG/3-432 dated 12 Rajab 1435H (22 May 2014) an amount equivalent to 2% but not less than USD 2 million of IsDB-OCR net income for 1434H shall be allocated for financing of Scholarship Programs in the form of grants for the year 1435H. This amounted to ID 3.2 million (1434H: ID 2.4 million).

17. UNDISBURSED COMMITMENTS

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

	1435H	1434H
Special assistance grants	**51,414**	52,000
Loan to LDMC	**24,850**	27,030
Special loans	**1,238**	830
Technical assistance grants	**40,985**	34,000
Scholarship program	**48,448**	50,000
Total	**166,935**	163,860

18. 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 30 Dhul Hijjah are as follows:

	1435H	1434H
United States Dollar	**253,051**	295,473
Euro	**142,018**	161,635
Japanese Yen	**34,982**	38,111
Pound Sterling	**51,868**	52,042
Other currencies	**18,592**	50,845

19. SHARI'AH COMMITTEE

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

The Committee has the following functions:

- to consider all transactions and products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on its conformity with the principles of the Shari'ah, and to lay down the basic principles for the drafting of related contracts and other documents;
- to give its opinion on the Shari'ah alternatives to conventional products which the Bank, its affiliates and trust funds intends to use, and to lay down the basic principles for the drafting of related contracts and other documents, and to contribute to its development with a view to enhancing the Bank, its affiliates and trust funds experience in this regard;
- to respond to the questions, enquiries and explications referred to it by the Board of Executive Directors or the management of the Bank, its affiliates and trust funds;
- to contribute to the Bank, its affiliates and trust funds programme for enhancing the awareness of its staff members of Islamic banking and to deepen their understanding of the fundamentals, principles, rules and values relative to Islamic financial transactions; and
- to submit to the Board of Executive Directors/Trustees of the Bank, its affiliates and trust funds a comprehensive report showing the measure of the Bank, its affiliates and trust funds commitment to principles of Shari'ah in the light of the opinions and directions given and the transactions reviewed.

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

20. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

	Less than 3 months	3 months to 12 months	1 year to 5 years	Greater than 5 years	No stated maturity	Total
1435H						
Assets						
Treasury assets						
Cash and cash equivalents	39,611	-	-	-	-	**39,611**
Commodity placements	55,097	178,097	-	-	-	**233,194**
Syndicated murabaha	-	1,035	-	-	-	**1,035**
Investments in sukuk	32,146	-	82,773	17,827	-	**132,746**
Investments assets						
Equity capital	-	-	-	-	35,056	**35,056**
Associates	-	-	-	-	114,139	**114,139**
Funds	-	-	-	-	76,003	**76,003**
Syndicated Ijarah	-	-	-	-	19,435	**19,435**
Loans	3,856	4,033	137,575	38,923	-	**184,387**
Other assets						
Accrued income and other assets and fixed assets	6,322	31,632	470	24,310	-	**62,734**
Total assets	**137,032**	**214,797**	**220,818**	**81,060**	**244,633**	**898,340**
Liabilities						
Commodity purchase liabilities	-	85,241	-	-	-	**85,241**
Accruals and other liabilities	-	13,035	-	-	-	**13,035**
Total liabilities	**-**	**98,276**	**-**	**-**	**-**	**98,276**

	Less than 3 months	3 months to 12 months	1 year to 5 years	Greater than 5 years	No stated maturity	Total
1434H						
Assets						
Treasury assets						
Cash and cash equivalents	93,236	-	-	-	-	93,236
Commodity placements	104,077	-	-	-	-	104,077
Syndicated murabaha	560	14,588	-	-	-	15,148
Investments in sukuk	5,412	-	39,356	5,486	-	50,254
Investments assets						
Equity capital	-	-	-	-	16,868	16,868
Associates	-	-	-	-	96,248	96,248
Funds	21,623	-	-	125,156	7,308	154,087
Syndicated Ijarah	-	-	-	-	19,143	19,143
Loans	3,469	3,575	29,296	144,982	-	181,322
Other assets						
Accrued income and other assets and fixed assets	77,804	5,916	292	25,422	-	109,434
Total assets	**306,181**	**24,079**	**68,944**	**301,046**	**139,567**	**839,817**
Liabilities						
Accruals and other liabilities	14,246	-	-	-	-	14,246
Total liabilities	**14,246**	**-**	**-**	**-**	**-**	**14,246**

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

21. CONCENTRATION OF ASSETS

Economic sectors:

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

	IsDB's Member countries			Non-Member countries	Total
	Asia	Africa	Europe		
1435H	**636,228**	**157,889**	**54,165**	**50,058**	**898,340**
1434H	555,625	147,941	50,276	85,975	839,817

The geographical locations of assets for 1435H and 1434H reflect the countries in which the beneficiaries of the assets are located.

22. RELATED PARTY TRANSACTIONS AND BALANCES

The Fund is managed by the IsDB and its transactions are done through the IsDB and its related entities. Principal arrangements related to commodity placements, investment in syndicated Murabaha, investment in Sukuk, investment in equity capital and funds, Loans and investments in syndicated Ijarah are between IsDB and its related entities. The Fund participates in such arrangements with IsDB and its related entities. During the ordinary course of its business, the Fund has transactions with the Bank and its related entities relating to investments, realization of investments and other transactions made through the inter-fund accounts.

The balances due from/to the Fund and other related entities as at the end of the year are as follows:

	1435H		1434H	
	Assets	**Liabilities**	Assets	Liabilities
Islamic Corporation for the Development of the Private Sector (ICD)	**22,654**	**(13)**	65,420	-
World Waqf Foundation	**1,705**	**-**	5,620	-
Fael Al Khair Fund	**-**	**-**	3,211	-
Awqaf Properties Investment Fund	**-**	**-**	242	-
Orphan Kafala Program	**66**	**-**	46	-
Mobile Clinics Trust Fund	**-**	**(326)**	-	-
Sacrificial Meat Project Adahi	**59**	**-**	-	-
Somalia Trust Fund	**344**	**-**	-	-
Unit Investment Fund	**-**	**(1,594)**	-	-
ITFC	**856**	**-**	-	-
IsDB – OCR	**2,946**	**-**	-	(5,507)
IsDB – Special Assistance Fund	**-**	**(281)**	-	(4,015)
South East Asia Fund	**-**	**(356)**	-	-
ICIEC	**-**	**(14)**	-	(10)
IsDB – Pension Plan	**345**	**-**	3,264	-
IsDB – Medical Plan	**-**	**(5)**	-	-
Al Aqsa Fund	**-**	**-**	1	-
Total	**28,976**	**(2,589)**	77,804	(9,532)

23. 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 through the identification, measurement and monitoring of all types of risks inherent in its activities. The Bank has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank, its affiliates and its funds risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank, its affiliates and its funds financial transactions.

a) Credit Risk

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

For all classes of financial assets held by the Fund, the maximum credit risk exposure to the Fund is their carrying value as disclosed in the statement of financial position. The assets which subject the Fund to credit risk, principally consist of commodity placements, investment in Sukuk, Investment in syndicated murabaha, Loan and investments in syndicated Ijarah, which are mainly covered by sovereign guarantees and commercial bank guarantees acceptable to the Fund, in accordance with specific eligibility criteria and credit risk assessments. The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Investment in syndicated murabaha, Loan and investments in syndicated Ijarah 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, its affiliates and its funds 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 balances. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit loss is unlikely to occur.

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

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

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

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

The assessment of any exposure is based on the use of comprehensive internal rating systems for various potential counterparties eligible to enter into business relationship with the Fund. While extending financing to its member countries the Fund safeguards its interests by obtaining 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 Fund 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 ID 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 Dinar 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. 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. 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.

iii. Mark-up risk

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

c) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its net 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 Investment in syndicated Murabaha with short-term maturity of three to twelve months.

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

d) Fair values of financial assets and liabilities

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

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

The following table presents the Fund's assets and liabilities that are measured at fair value at 30 Dhul Hijjah 1435H and 1434H:

1435H	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through statement of activities:				
Sukuk	-	47,011	-	47,011
Investments carried at fair value through net assets:				
Investments in funds	-	68,696	-	68,696
Investments in equity capital	5,575	-	-	5,575
	5,575	**115,707**	**-**	**121,282**
1434H				
Investments carried at fair value through statement of activities:				
Sukuk	-	50,254	-	50,254
Investments carried at fair value through net assets:				
Investments in funds	35,615	111,164	-	146,779
Investments in equity capital	6,961	-	-	6,961
	42,576	161,418	-	203,994

24. SEGMENT INFORMATION

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

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized by the Resolution of the Board of Executive Directors on 17 Jumad Awwal 1436H (08 March 2015) for submission to the Board of Governors 41st Annual Meeting.

ISLAMIC DEVELOPMENT BANK
P. O. BOX 5925, JEDDAH-21432 - KINGDOM OF SAUDI ARABIA

Tel: (+966-12) 6361400 | Fax: (+966-12) 6366871 | Email: idbarchives@isdb.org | Website: www.isdb.org