ISLAMIC DEVELOPMENT BANK

Financial Statements (2016)

ISLAMIC DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Auditors' Report
For the period from 14 October 2015 to 31 December 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Islamic Development Bank – Ordinary Capital Resources (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of changes in members' equity and statement of cash flows for the period from 14 October 2015 to 31 December 2016, and the notes from 1 to 33 to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the period from 14 October 2015 to 31 December 2016 in accordance with 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.

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our

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INDEPENDENT AUDITOR'S REPORT (continued)

audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment of treasury and investment assets (excluding murabaha financing and investments carried at fair value through income statement (FVIS))	*As at 31 December 2016, the gross values of treasury and investment assets (excluding murabaha financing and investments carried at fair value through income statement (FVIS)) (collectly referred to as "investments"), amounted to ID 5,830 million (13 October 2015: ID 4,730 million), against which an impairment of ID 76 million (13 October 2015: ID 70 million) has been recognised to date.* *Please refer to notes 4, 5, 6, 14, 15 and 16 for details of these investments and corresponding impairment charge, and note 3 for details of the accounting policy adopted by the Bank for the identification and recognition of related impairment.* As at the statement of financial position date, the Bank's exposure to impairment in non-FVIS investments is represented by debt and equity instruments, classified at amortised cost, cost and fair-value through equity categories. These instruments are respectively susceptible to credit and market risks. The estimation of impairment losses on Bank's debt instruments requires the Bank to exercise judgment in defining and monitoring objective evidence of impairment, represented by: • the establishment of impairment triggers (including credit rating downgrades, financial or repayment difficulties) • identification of the occurrence of trigger events, • estimation of incurred losses at the reporting date using internal methodologies and relevant assumptions (including expected timing of cashflows and other default factors) With respect to equity instruments, the financial accounting standards require the recognition of an impairment loss if there is objective evidence that an impairment loss has been incurred. This	Our audit procedures in response to the significant risk associated with the impairment on Bank's investments included: • an assessment of consistency in application of Bank's methodology for impairment assessment and computation • testing relevant internal controls over determination of appropriate impairment triggers, occurrence of impairment events and estimating the amount of impairment losses • an assessment of relevance and comprehensiveness of assumptions corresponding to specific instruments • an analysis of the investment portfolio for instances of any previously unidentified impairment triggers. Furthermore, for a selected sample of investments, we recalculated the impairment loss estimated by the Bank using its loss computation methodologies, including sensitivity of the impairment loss to any significant assumptions used. We also assessed the adequacy and appropriateness of financial statements disclosures with respect to impairment in investments.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
	includes determination of a significant or prolonged decline in the fair value. The amount of impairment is measured as the difference between the carrying amount of the instrument and its expected recoverable amount. Accordingly, the Bank management exercises judgment in determining the impairment triggering event. Due to the significance of amount involved and the exercise of significant judgment by management in the process for determination of impairment losses on both debt and equity instruments; we have determined it to be a key audit matter.	
Impairment of Project assets and Murabaha financing	*As at 31 December 2016, the Bank's gross project assets and murabaha financing amounted to ID 11,746 million (13 October 2015: ID 10,547 million) and ID 260 million (13 October 2015: ID 312 million), respectively, against which an impairment of ID 187 million (13 October 2015: ID 133 million) and ID 39 million (13 October 2015: ID 40 million), respectively, has been recognised to date.* *Please refer to notes 7, 8 and 14 for details of project assets and murabaha financing and corresponding impairment charge, and note 3 for details of the accounting policy adopted by the Bank for the identification and recognition of related credit losses.* Impairment allowance is a highly subjective area due to significant level of judgment applied by the management in the determination of impairment allowances. Due to materiality of Project assets and murabaha financing balance and level of judgment involved in the calculation of impairment allowances for Project assets and murabaha financing, this is considered as a key audit matter. Judgment is applied to determine appropriate parameters and assumptions used to calculate impairment allowances. The Bank uses historical	Our audit procedures in response to the significant risk associated with the impairment on Bank's project assets and murabaha financing covered assessing the appropriateness of the corresponding impairment allowances. Based on our understanding of the process and key controls, we focused on the identification of loss events and the governance controls over the impairment process, including the continuous re-assessment by management. We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the period. Where impairment allowances were individually calculated, we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment allowance. We tested a sample of project assets and murabaha financing to determine whether management had identified and appropriately accounted for all impairment events and to assess

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
	experience, evaluating the characteristics including forward looking prospects of the sovereign and non-sovereign exposures, valuation of collaterals and the expected future cash flows.	whether impairment had been identified on a timely manner. We tested a sample of project assets and murabaha financing which has not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate. For impaired project assets and murabaha financing, we obtained an understanding of the basis of measuring impairment allowances and considered whether the management's key judgments and expectation were appropriate given the borrowers' circumstances, including the assessment of future prospects and the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses. We also re-performed the impairment allowance calculation. In addition, we tested key inputs to the impairment allowance calculation including the expected future cash flows, and performed tests to determine whether valuations were up to date and appropriate for the purpose. Where impairment allowance was calculated on a collective basis, we tested, on a sample basis, the completeness and accuracy of the inputs to the impairment calculation model used by management, including underlying information, the financial assessment of the borrower and other various inputs, by agreeing details to the Bank's source systems as well as recomputing the impairment allowance calculation. Moreover, for a sample of exposures we checked the appropriateness of assumptions used in the impairment calculation model to determine the probability of default, against the respective countries' long-term market outlook, as assessed by independent rating agencies. Furthermore, we assessed the adequacy of financial statement disclosure with respect to

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
		impairment on project assets and murabaha financing
Risk of error in measurement of revenue	*During the period ended 31 December 2016, the Bank's income from project assets and treasury assets amounted to ID 529 million (period ended 13 October 2015: ID 386 million).* *Please refer to note 3 for details of the accounting policy adopted by the Bank for the revenue recognition* The Bank's revenue is primarily generated from project assets and treasury assets. Due to the high volume of transactions in the project assets and treasury assets, the Bank is dependent on the use of technology for accurate and timely processing. The measurement of income in accordance with the requirements of AAOIFI standards requires the consideration of all relevant elements of effective yield. Hence, due to high number of recurring transactions and the inherent consistency of IT systems, any errors in effective commission rate computations may materially affect the Bank's reported results. Accordingly, because of the significance of the aforementioned factors with regards to the Bank's measurement and recognition of revenue, we have considered it to be a key audit matter.	Our audit procedures in response to the risk of error in measurement of revenue included the following: • assessment of management's controls over initial recognition of project assets and treasury assets, including identification of elements of effective yield basis and linkage of this process with the corresponding IT system • For a selected sample of transactions, we recalculated the revenue for the period to ensure system integrity and application of Bank's established policies. • assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting, including the revenue reporting. We examined the framework of governance over the Bank's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank's IT systems including access management and segregation of duties.

Other Matter

The financial statements of the Bank for the period ended 13 October 2015, were audited by another joint auditors who expressed an unmodified opinion on those statements on 9 March 2016.

Other Information included in the Bank's 2016 Annual Report

Other information consists of the information included in the Bank's 2016 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by AAOIFI and to operate in accordance with Islamic Shari'ah Rules and principles as determined by the Shari'ah Committee of the Bank and for such internal control as management determines is necessary to enable the preparation of financial statements that are free form material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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INDEPENDENT AUDITOR'S REPORT (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

23 Rajab 1438H
20 April 2017

Jeddah

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ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2016

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

	Notes	31 December 2016	13 October 2015
Cash and cash equivalents	4	997,942	235,724
Commodity placements	5	1,690,206	1,699,794
Sukuk investments	6	1,818,946	1,764,101
Murabaha financing	7	220,745	272,138
Treasury assets		**4,727,839**	**3,971,757**
Istisna'a assets	9	4,990,233	4,125,553
Restricted mudaraba	10	733,079	527,763
Instalment sale	11	1,474,980	1,399,026
Ijarah assets	12	2,500,220	2,515,584
Loans	13	1,859,915	1,845,397
Project assets		**11,558,427**	**10,413,323**
Equity investments	15	774,936	739,769
Investment in associates	16	790,346	714,840
Other investments		44,413	32,703
Investment assets		**1,609,695**	**1,487,312**
Property and equipment		62,675	64,255
Other assets	17	188,175	160,796
Total Assets		**18,146,811**	**16,097,443**
Liabilities			
Sukuk issued	18	9,008,706	7,317,434
Commodity purchase liabilities	19	500,788	676,159
Other liabilities	20	307,687	254,353
Total Liabilities		**9,817,181**	**8,247,946**
Members' Equity			
Paid-up capital	22	5,143,432	4,939,998
Reserves	23	2,879,068	2,751,839
Net income for the period		307,130	157,660
Total Members' Equity		**8,329,630**	**7,849,497**
Total Liabilities and Members' Equity		**18,146,811**	**16,097,443**
Restricted Investment Accounts	28	**81,319**	**73,888**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Income Statement

For the period from 14 October 2015 to 31 December 2016

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

	Notes	For the period from 14 Oct 2015 to 31 Dec 2016	For the period from 25 Oct 2014 to 13 Oct 2015
Income from:			
Commodity placements		27,813	17,959
Sukuk investments	6	73,913	48,228
Murabaha financing		9,166	9,887
Treasury assets		**110,892**	**76,074**
Istisna'a		253,423	149,209
Restricted mudaraba		18,457	12,807
Instalment sale		71,851	64,767
Ijarah		309,464	236,301
Depreciation of assets under Ijarah	12	(247,377)	(173,972)
Loans		12,872	20,847
Project assets		**418,690**	**309,959**
Equity investments		141,674	42,203
Investment in associates	16	8,790	16,095
Other investments		2,415	3,815
Investment assets		**152,879**	**62,113**
Other income		7,239	13,505
Foreign exchange gains/ (losses)		2,249	(32,292)
Losses from swaps valuation	20	(3,809)	(27,600)
Others		**5,679**	**(46,387)**
Total income		**688,140**	**401,759**
Financing costs	18, 19	(160,402)	(110,705)
Impairment charge	14	(61,943)	(18,867)
Net income before operating expenses		**465,795**	**272,187**
Administrative expenses	24	(150,167)	(109,293)
Depreciation		(8,498)	(5,234)
Total operating expenses		**(158,665)**	**(114,527)**
Net income for the period		**307,130**	**157,660**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Statement of Changes in Members' Equity
For the period from 14 October 2015 to 31 December 2016
(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	Net Income	Total
Balance at 25 October 2014		**4,853,867**	**2,337,191**	**477,946**	**(92,916)**	**(20,066)**	**2,702,155**	**165,049**	**7,721,071**
Increase in paid-up capital	22	86,131	-	-	-	-	**-**	-	**86,131**
Fair value losses from investments	15	-	-	(48,463)	-	-	**(48,463)**	-	**(48,463)**
Decrease in actuarial losses relating to retirement pension and medical plans	21	-	-	-	5,534	-	**5,534**	-	**5,534**
Contribution to the principal amount of Islamic Solidarity Fund for Development (ISFD)	25	-	(69,835)	-	-	-	**(69,835)**	-	**(69,835)**
Share in Investments in associate reserve movement	16	-	-	-	-	8,674	**8,674**	-	**8,674**
Net income for period 25 October 2014 to 13 October 2015		-	-	-	-	-	**-**	157,660	**157,660**
Transfer to general reserve		-	165,049	-	-	-	**165,049**	(165,049)	**-**
Allocation for grants	23	-	(11,275)	-	-	-	**(11,275)**	-	**(11,275)**
Balance at 13 October 2015		**4,939,998**	**2,421,130**	**429,483**	**(87,382)**	**(11,392)**	**2,751,839**	**157,660**	**7,849,497**
Increase in paid-up capital	22	203,434	-	-	-	-	**-**	-	**203,434**
Fair value gains from investments	15	-	-	58,264	-	-	**58,264**	-	**58,264**
Transfer of defined benefit obligation to IsDB affiliates	21				29,148		**29,148**		**29,148**
Increase in actuarial losses relating to retirement pension and medical plans	21	-	-		(23,564)	-	**(23,564)**	-	**(23,564)**
Contribution to the principal amount of Islamic Solidarity Fund for Development (ISFD)	25	-	(106,632)	-	-	-	**(106,632)**	-	**(106,632)**
Hedge accounting reserve	20	-	-	-	-	1,131	**1,131**	-	**1,131**
Share in Investments in associate reserve movement	16	-	-	-	-	26,575	**26,575**	-	**26,575**
Net income for period 14 October 2015 to 31 December 2016		-	-	-	-	-	**-**	307,130	**307,130**
Transfer to general reserve	23	-	157,660	-	-	-	**157,660**	(157,660)	**-**
Allocation for grants	23	-	(15,353)	-	-	-	**(15,353)**	-	**(15,353)**
Balance at 31 December 2016		**5,143,432**	**2,456,805**	**487,747**	**(81,798)**	**16,314**	**2,879,068**	**307,130**	**8,329,630**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Statement of Cash Flows
For the period from 14 October 2015 to 31 December 2016
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	For the period from 14 Oct 2015 to 31 Dec 2016	For the period from 25 Oct 2014 to 13 Oct 2015
Cash flows from operations			
Net income for the period		**307,130**	**157,660**
Adjustments for non-cash items			
Depreciation of property and equipment		8,498	5,234
Income from investment in associates	16	(8,790)	(16,095)
Provision for impairment of financial assets	14	61,943	18,867
Unrealised fair value losses on sukuk	6	3,676	1,421
Amortization of other income		(709)	(567)
Foreign exchange (gains) / losses		(2,249)	32,292
Gains on disposal of equity investment		(90,025)	(20)
Changes in accrued income		(129,067)	8,000
Changes in accrued expenses		8,296	(16,768)
Operating income before changes in operating assets and liabilities		**158,703**	**190,024**
Changes in operating assets and liabilities			
Istisna'a assets		(697,625)	(406,194)
Restricted mudaraba		(172,662)	(292,536)
Instalment sale		(67,728)	(144,030)
Ijarah assets		66,576	(207,157)
Loans		(32,590)	(44,541)
Other assets		755	(25,811)
Other liabilities		42,396	54,629
Net cash used in operating activities		**(702,175)**	**(875,616)**
Cash flows from investing activities			
Commodity placements		21,614	90,798
Acquisition of sukuk investments	6	(394,630)	(765,732)
Proceeds from disposal/redemption of sukuk investments	6	435,268	125,453
Murabaha financing		62,364	6,984
Acquisition of equity investments	15	(2,666)	(12,450)
Proceeds from disposal of equity investments		106,569	870
Acquisition of other investments		(5,464)	347
Investment in associates	16	(41,272)	-
Dividend from associates	16	1,131	1047
Additions to property and equipment		(6,918)	(16,550)
Net cash from / (used in) investing activities		**175,996**	**(569,233)**
Cash flows from financing activities			
Increase in paid-up capital		203,434	86,131
Technical assistance and scholarship grants	23	(15,353)	(11,275)
Contribution to the principal amount of ISFD	25	(106,632)	(69,835)
Proceeds from issuance of sukuk		2,259,303	1,127,280
Redemption of sukuk		(872,625)	(170,338)
Commodity purchases		(178,625)	(327,447)
Net cash from financing activities		**1,289,502**	**634,516**
Net change in cash and cash equivalents		763,323	(810,333)
Exchange difference on cash and cash equivalents		(1,105)	2,398
Cash and cash equivalents at the beginning of the period		235,724	1,043,659
Cash and cash equivalents at the end of the period	4	**997,942**	**235,724**

The notes from 1 to 33 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, in accordance with the principles of Shari'ah. The Bank has 57 Member Countries (13 October 2015: 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 is not subject to any taxes or tariffs.

The Bank is required to carry out its activities in accordance with its Articles of Agreement, Financial Regulations and the principles of Shari'ah. The Bank established its own Shari'ah committee whose functions are set out in Note 27.

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

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

The Board of Governors of IsDB passed a resolution BG/4-436 (Dated: 11 June 2015) approving the use of the Solar Hijri calendar in determining the start and end dates of the financial year whilst maintaining the Lunar Hijri as the official calendar of the Bank. Thus, all future financial years of the Bank will cover the period equivalent from 1st January to 31st December.

The current financial statements cover a period of 444 days from 14th October 2015 to 31st December 2016 ("period ended 31 December 2016"). As a result, the comparative figures, covering the Lunar Hijri period equivalent to 25th October 2014 – 13th October 2015 ("period ended 13 October 2015")(equal to 353 days), are not comparable.

The financial statements were authorized by the Resolution of the Board of Executive Directors on 26 March 2017 (27 Jumad Thani 1438H) for submission to the Board of Governors 42nd 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 seeks guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

Basis of measurement

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

- Listed 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.

Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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
Murabaha	Amortised cost less impairment
Investments in sukuk classified as	Fair value through income statement – debt investment
	Amortised cost – debt investments
Istisna'a and Installment sale,	Amortised cost less impairment
Restricted mudaraba	Cost less repayment and impairment.
Ijarah assets	Cost less depreciation and impairment
Loans	Disbursement plus accrued service fee less impairment
Equity investments	Fair value through equity or cost less impairment for unlisted investments
Other investments	Cost less impairment
Commodity purchase liabilities	Amortised cost
Sukuk issued	Amortised cost

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Income and expenses are presented on a net basis only when permitted under FAS issued by AAOIFI, or for gains and losses arising from a group of similar transactions.

Treasury assets

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

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 less impairment in the statement of financial position.

Commodity placements

Commodity placements are made through banks and financial institutions 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 carried at amortised cost less any provision for impairment.

Investments in sukuk

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

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

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

After the initial designation, investments in debt-type securities are not to be reclassified into or out of the fair value or amortized cost categories.

Murabaha financing

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Project assets

Project assets include Istisna'a assets, Restricted mudaraba, Instalment sale, 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 with agreed-upon specifications, for an agreed-upon price.

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

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.

Restricted mudaraba

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

Instalment sale

Instalment sale agreement are deferred sale agreements whereby the Bank sells to a customer an asset, which the Bank has purchased and acquired based on a promise from the customer to buy. The selling price comprises the cost, plus an agreed profit margin. Amounts receivable from the instalment sale transaction are stated at selling price less unearned income at the reporting date less repayments and provision for impairment (if any)

Ijarah assets (Ijarah Muntahia Bittamleek)

Ijarah is an agreement (either direct or through a syndicate) whereby the Bank, acting as a lessor, purchases assets according to the customer request (lessee), based on his promise to lease the asset for an agreed rent for a specific period. The Bank transfers the right to 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 the Bank 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 cost, less the accumulated depreciation as at the reporting date and provision for impairment. Ijarah assets are depreciated on the estimated usage basis.

Ijarah rental is recongnized on straight line basis over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Assets

Investment assets include equity investments, investments in associates and other investments.

Equity investments designated at fair value through members' 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 members' equity.

Listed 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.

Unlisted investments measured at cost less impairment

Unlisted equity investments, real estate funds 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. Impairment losses recognised in income statement are reversed through statement of changes in members' equity.

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

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 reserves in members' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends. 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.

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

The Bank determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Bank calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the income statement. Intergroup unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interests in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses in associates are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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, estimation and uncertainty associated with the measurement of fair value.

Hedge accounting

The Bank designates certain hedging instruments, which include derivatives, in respect of foreign currency risk and profit rate risk, as either fair value hedges or cash flow hedges.

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the income statement in the line item relating to the hedged item, except for the cross-currency basis spread. Cross-currency basis spread is excluded from the hedging relationship and accounted in the statement of changes in members' equity.

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

Cash flow hedges

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

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

The fair value of derivative includes valuation of the financing cost accrued but not paid as of the reporting date and is taken to income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

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

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

Impairment of financial assets

Project assets

An assessment is made at each reporting date 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 instalments overdue by 6 months or more; or
- provision could also result from the consideration of defaults or delinquencies by a counterparty, restructuring of a financing facility by the Bank on the terms the Bank would not otherwise consider, 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 and conditions.

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

There are three steps required to calculate collective impairment provision. First, each sovereign counterparty is assigned a credit risk rating from 1 to 21. The 21 scales are then grouped into 7 category starting from "A" to "G". Second, each risk rating is mapped to an expected default frequency from 0.0014% to 100% 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 net sovereign exposure (gross sovereign exposure less exposure relating to specific impairment) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Impairment of financial assets held at amortised cost

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

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

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

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

Other financial assets

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

Commodity 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 financing cost and accrued on an amortised cost basis, over the period of agreement.

Sukuk liability

The Bank issues medium and long-term sukuk certificates mainly denominated in USD with fixed and variable coupon 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 financing costs are recognised in the income statement and include the amortisation of the issuance costs and swap related accruals. Sukuk issued is recognised at amortised cost, except for those sukuk designated as hedged items. Amortised cost of such sukuk is adjusted for the hedging gains/losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Property and equipment

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

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

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

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

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

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 the Shari'ah, is not included in the Bank's income statement but is transferred to the Special Account Resources Waqf Fund.

Post-employment benefit plans

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-employment benefit plans (continued)

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

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

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

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

Further detail and analysis of the post-employment benefit plans are included in Note 21.

Revenue recognition

Commodity placements

Income from placements with other Islamic and Islamic windows of conventional banks is recognized using the effective yield basis.

Investments in sukuk

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

Murabaha financing income, Istisna'a income, income from instalment sale

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

Restricted mudaraba

Income on restricted mudaraba is recognized when the right to receive payment is established (usually semiannually).

Ijarah assets

Net income from Ijarah assets is recognized using the effective yield basis (which represents the Ijarah rental net of depreciation against the Ijarah assets).

Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Loan service fees

The Bank 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.

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 (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.

Translation differences relating to the changes in the amortised cost are recognised in the income statement.

Foreign operations – investments in associates

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

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

Critical accounting judgments and estimates

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant judgements

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 72.7% (13 October 2015: 79.0%) 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 amortized cost 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 funds 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 the basis of aforementioned facts, and the fact that the Bank does not have the power to govern the financial and operating policies of its investee entities, with the objective of obtaining benefits from their operations, 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 date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date.

Going concern

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

Significant estimates

Provision for impairment of financial assets

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

Post-employee benefits plans

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

Useful lives of property and equipment and Ijarah assets

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

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2016	13 Oct 2015
Cash in hand	90	1,485
Current and call accounts with Banks	109,867	53,204
Commodity placements less than 3 months (Note 5)	898,441	191,491
Less: Provision for impairment	(10,456)	(10,456)
	997,942	**235,724**

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.

5. COMMODITY PLACEMENTS

	31 Dec 2016	13 Oct 2015
Placements with Islamic banks	611,752	281,860
Placements with Islamic windows of conventional banks	1,966,609	1,606,180
Accrued income	13,970	6,929
Commodity placements less than 3 months, (Note 4)	(898,441)	(191,491)
Less: Provision for impairment	(3,684)	(3,684)
	1,690,206	**1,699,794**

6. SUKUK INVESTMENTS

	Period ended 31 Dec 2016	Period ended 13 Oct 2015
Opening balance	1,764,101	1,047,793
Movements during the period:		
Additions	394,630	765,732
Sales/redemptions	(435,268)	(125,453)
Accrued income	2,862	4,930
Unrealized fair value losses	(3,676)	(1,421)
Unrealized exchange revaluation gains	96,297	72,520
Closing balance	**1,818,946**	**1,764,101**

	Counterparty rating					
	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
31 Dec 2016						
Sukuk classified at fair value though income statement:						
- Financial institutions	-	-	33,607	27,325	-	60,932
- Governments	-	98,231	2,764	107,041	1,527	209,563
- Other entities	-	-	78,527	11,147	3,122	92,796
	-	**98,231**	**114,898**	**145,513**	**4,649**	**363,291**
Sukuk classified at amortised cost:						
- Financial institutions	15,617	65,609	412,366	48,258	-	541,850
- Governments	-	111,744	295,711	320,363	9,235	737,053
- Other entities	-	-	158,072	18,680	-	176,752
	15,617	**177,353**	**866,149**	**387,301**	**9,235**	**1,455,655**
Total	**15,617**	**275,584**	**981,047**	**532,814**	**13,884**	**1,818,946**

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

6. SUKUK INVESTMENTS (continued)

	Counterparty rating					
13 Oct 2015	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value though income statement:						
- Financial institutions	-	-	92,519	61,340	-	153,859
- Governments	-	95,321	28,228	157,273	1,452	282,274
- Other entities	-	76,677	10,714	-	3,582	90,973
		171,998	**131,461**	**218,613**	**5,034**	**527,106**
Sukuk classified at amortised cost:						
- Financial institutions	32,411	152,392	2,161	72,932	106,461	366,357
- Governments	106,997	10,849	188,920	418,676	-	725,442
- Other entities	-	133,144	-	-	12,052	145,196
	139,408	**296,385**	**191,081**	**491,608**	**118,513**	**1,236,995**
Total	**139,408**	**468,383**	**322,542**	**710,221**	**123,547**	**1,764,101**

Income from sukuk investments is comprised of the following:

	Period ended 31 Dec 2016	**Period ended 13 Oct 2015**
Coupon income	77,702	49,792
Realised losses on the sale of Sukuk	(113)	(143)
Unrealised fair value losses	(3,676)	(1,421)
	73,913	**48,228**

7. MURABAHA FINANCING

	31 Dec 2016			**13 Oct 2015**		
	Sovereign	**Non-sovereign**	**Total**	**Sovereign**	**Non-sovereign**	**Total**
Gross amount receivable	174,166	88,426	262,592	217,746	98,098	315,844
Less: Unearned income	(2,532)	(282)	(2,814)	(3,764)	(325)	(4,089)
Less: Provision for impairment	(2,125)	(36,908)	(39,033)	(2,022)	(37,595)	(39,617)
	169,509	**51,236**	**220,745**	**211,960**	**60,178**	**272,138**

8. PROJECT ASSETS

	31 Dec 2016			**13 Oct 2015**		
	Sovereign	**Non-sovereign**	**Total**	**Sovereign**	**Non-sovereign**	**Total**
Istisna'a	4,912,751	107,345	**5,020,096**	4,082,431	66,600	4,149,031
Restricted mudaraba	733,079	-	**733,079**	527,763	-	527,763
Instalment sale	1,471,833	21,603	**1,493,436**	1,368,560	44,605	1,413,165
Ijarah	1,685,355	867,237	**2,552,592**	1,559,865	984,665	2,544,530
Loans	1,946,488	143	**1,946,631**	1,911,123	1089	1,912,212
	10,749,506	**996,328**	**11,745,834**	**9,449,742**	**1,096,959**	**10,546,701**
Less: Provision for impairment	(186,924)	(483)	**(187,407)**	(132,956)	(422)	(133,378)
	10,562,582	**995,845**	**11,558,427**	**9,316,786**	**1,096,537**	**10,413,323**

Notes 9-13 provide detailed information on each type of project assets. Note 14 provides detailed information on impairment provisions on treasury, project and investment assets. Note 30 provides information on the credit quality of the treasury, project and investment assets.

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

9. ISTISNA'A ASSETS

	31 Dec 2016	13 Oct 2015
Istisna'a assets in progress	2,864,636	2,111,075
Istisna'a receivable	2,417,008	2,342,654
Accrued income	228,961	155,218
Less: unearned income	(490,509)	(459,916)
Less: provision for impairment	(29,863)	(23,478)
	4,990,233	**4,125,553**

10. RESTRICTED MUDARABA

	31 Dec 2016	13 Oct 2015
Restricted mudaraba assets in progress	670,545	527,763
Restricted mudaraba receivable	68,919	-
Less: Unearned income	(6,385)	-
Restricted mudaraba assets, net	**733,079**	**527,763**

11. INSTALMENT SALE

	31 Dec 2016	13 Oct 2015
Gross amount receivable	1,719,105	1,620,741
Accrued Income	16,195	14,306
Less: Unearned income	(241,864)	(221,882)
Less: Provision for impairment	(18,456)	(14,139)
	1,474,980	**1,399,026**

12. IJARAH ASSETS

	Note	31 Dec 2016	13 Oct 2015
Assets under construction	*12.1*	1,284,766	1,192,347
Assets in use	*12.2*	2,812,182	2,648,998
Less: Accumulated depreciation of assets in use	*12.3*	(1,461,603)	(1,205,916)
Balance, net of accumulated depreciation		**2,635,345**	**2,635,429**
Less: Share of syndication participants		(82,753)	(90,899)
Balance, net of share of syndication participants		**2,552,592**	**2,544,530**
Less: Provision for impairment	*14*	(52,372)	(28,946)
		2,500,220	**2,515,584**

12.1 Assets under construction

	Period ended 31 Dec 2016	Period ended 13 Oct 2015
Opening balance	1,192,347	1,121,763
Additions	255,603	414,817
Transferred to assets in use	(163,184)	(344,233)
Closing balance	**1,284,766**	**1,192,347**

12.2 Assets in use

	Period ended 31 Dec 2016	Period ended 13 Oct 2015
Opening balance	2,648,998	2,304,765
Transferred from assets under construction	163,184	344,233
Closing balance	**2,812,182**	**2,648,998**

12.3 Accumulated depreciation of assets in use

	Period ended 31 Dec 2016	Period ended 13 Oct 2015
Opening balance	(1,205,916)	(1,025,948)
Charge for the period	(247,377)	(173,972)
Share of syndication participants	(8,310)	(5,996)
Closing balance	**(1,461,603)**	**(1,205,916)**

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

13. LOANS

	31 Dec 2016	13 Oct 2015
Loans	1,946,631	1,912,212
Less: provision for impairment	(86,716)	(66,815)
	1,859,915	**1,845,397**

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

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

		31 Dec 2016			13 Oct 2015		
	Note	**Specific**	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Cash and bank	4	10,456	-	**10,456**	10,456	-	**10,456**
Commodity placement	5	3,684	-	**3,684**	3,684	-	**3,684**
Murabaha financing	7	37,434	1,599	**39,033**	37,595	2,022	**39,617**
Istisna'a assets	9	4,754	25,109	**29,863**	137	23,341	**23,478**
Instalment sale	11	15,887	2,569	**18,456**	11,100	3,039	**14,139**
Ijarah assets	12	24,912	27,460	**52,372**	19,059	9,887	**28,946**
Loans	13	46,221	40,495	**86,716**	37,517	29,298	**66,815**
Equity investments	15	58,066	-	**58,066**	52,097	-	**52,097**
Other investments		3,487	-	**3,487**	4,208	-	**4,208**
		204,901	**97,232**	**302,133**	**175,853**	**67,587**	**243,440**

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

	Period ended 31 Dec 2016			Period ended 13 Oct 2015		
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Opening balance	175,854	67,586	**243,440**	209,584	48,410	**257,994**
Charge for the period	32,297	29,646	**61,943**	(310)	19,177	**18,867**
Disposals / Write offs	(3,250)	-	**(3,250)**	(33,421)	-	**(33,421)**
Closing balance	**204,901**	**97,232**	**302,133**	**175,853**	**67,587**	**243,440**

As at 31 December 2016 and 13 October 2015, the following is the ageing of the overdue instalments:

	31 Dec 2016						
In months	**0-6**	**7 - 12**	**13 - 24**	**Over 24**	**Total**	**Sovereign**	**Non Sovereign**
Murabaha financing	-	-	-	48,985	**48,985**	**1,097**	**47,888**
Istisna'a assets	5,174	2,327	2,296	138	**9,935**	**9,935**	**-**
Instalment sale	3,181	2,490	4,561	6,753	**16,985**	**16,528**	**457**
Ijarah assets	4,594	1,954	3,899	17,110	**27,557**	**26,977**	**580**
Loans	103	8,387	3,187	10,493	**22,170**	**22,140**	**30**
Total	**13,052**	**15,158**	**13,943**	**83,479**	**125,632**	**76,677**	**48,955**

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

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

	13 Oct 2015						
In months	**0-6**	**7 - 12**	**12 - 24**	**Over 24**	**Total**	**Sovereign**	**Non Sovereign**
Murabaha financing	4,743	-	-	37,595	**42,338**	**3,181**	**39,157**
Istisna'a assets	3,314	-	-	138	**3,452**	**3,452**	**-**
Instalment sale	4,723	2,147	3,940	2,875	**13,685**	**12,972**	**713**
Ijarah assets	3,074	2,022	3,899	11,260	**20,255**	**19,919**	**336**
Loans	8,794	1,113	1,081	8,916	**19,904**	**19,904**	**-**
Total	**24,648**	**5,282**	**8,920**	**60,784**	**99,634**	**59,428**	**40,206**

15. EQUITY INVESTMENTS

	31 Dec 2016	**13 Oct 2015**
Equity investments:		
Listed	663,666	618,307
Unlisted	169,336	173,559
	833,002	**791,866**
Less: Provision for impairment	(58,066)	(52,097)
	774,936	**739,769**

	Period ended 31 Dec 2016	**Period ended 13 Oct 2015**
Opening balance	739,769	777,641
Movements during the period:		
Additions	2,666	12,450
Disposals	(16,544)	(850)
Provision for impairment	(9,219)	-
Transfer to Other Investments	-	(1,009)
Net unrealised fair value gains / (losses)	58,264	(48,463)
Closing balance	**774,936**	**739,769**

16. INVESTMENTS IN ASSOCIATES

	Period ended 31 Dec 2016	**Period ended 13 Oct 2015**
Opening balance	714,840	691,118
Additions	41,272	-
Foreign currency translation and other movements	26,575	8,674
Share of net results	2,546	15,452
Net gain on acquisition and disposal of associates	6,244	643
Cash dividend received	(1,131)	(1,047)
Closing balance	**790,346**	**714,840**

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

16. INVESTMENTS IN ASSOCIATES (continued)

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2016	13 Oct 2015
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	20.00%	20.00%
Bosnia Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	31.55%	49.99%
Bank Muamalat Indonesia	Indonesia	Banking	23.71%	23.71%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
International Leasing and Investment Company (ILIC)	Kuwait	Investment Co.	31.24%	31.24%
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	45.52%	45.50%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	36.66%	37.63%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	38.60%	38.60%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.6%	26.6%
ADB-IsDB CIMB Infrastructure Fund	Saudi Arabia	Investment Co.	49.40%	49.40%

The financial position, revenue and results of associates based on their latest available financial statements for the interim and final periods in the period ended 31 December 2016 and 13 October 2015 were as follows:

	Year	IsDB's Share	Total assets	Total liabilities	Revenue	Net income/ (loss)
Allied Cooperative Insurance Group	31 Dec 2016	5,025	118,385	93,262	63,780	2,222
	13 Oct 2015	4,420	101,998	79,900	52,406	1,916
Bosna Bank International	31 Dec 2016	24,257	328,000	274,638	16,901	3,613
	13 Oct 2015	17,639	260,218	221,414	9,480	1,371
Islamic Bank of Guinea	31 Dec 2016	2,655	39,848	31,431	3,935	623
	13 Oct 2015	2,921	30,648	24,804	2,095	(1,222)
Bank Muamalat Indonesia	31 Dec 2016	38,834	3,090,848	2,888,644	224,265	(22,446)
	13 Oct 2015	41,779	2,952,448	2,776,241	308,832	7,621
Syrikat Takaful Indonesia	31 Dec 2016	1,773	70,967	64,244	10,527	147
	13 Oct 2015	1,495	61,877	56,212	7,393	113
Sonali Paper & Board Mills	31 Dec 2016	128	10,897	10,379	17,357	219
	13 Oct 2015	304	73,795	72,559	9,586	247
Islamic Bank of Senegal	31 Dec 2016	11,757	344,036	308,688	25,694	6,861
	13 Oct 2015	10,367	250,829	219,660	15,207	3,652
TIIC	31 Dec 2016	99	548	59	14	(86)
	13 Oct 2015	110	557	15	236	(29)
ICD	31 Dec 2016	340,945	-	-	-	-
	13 Oct 2015	324,693	1,212,644	491,942	68,849	8,405
ITFC	31 Dec 2016	246,253	676,032	21,539	42,473	7,259
	13 Oct 2015	229,720	624,325	13,772	37,522	20,066
APIF	31 Dec 2016	24,964	66,952	2,278	4,219	1,467
	13 Oct 2015	23,424	62,838	2,154	4,268	1,491
IsDB Infrastructure Fund II	31 Dec 2016	39,538	115,446	84	719	(5,965)
	13 Oct 2015	6,187	1,720	323	-	(6,089)
ADB-IsDB CIMB Infrastructure Fund	31 Dec 2016	54,118	85,562	82	13,127	12,359
	13 Oct 2015	51,781	80,832	83	(29,891)	(29,864)
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 IDB's share of investment based on the quoted market price at 31 December 2016 is ID 11.997 million (13 October 2015: ID 14.206 million).

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

17. OTHER ASSETS

	31 Dec 2016	13 Oct 2015
Accrued income – Ijara and Restricted mudaraba	96,916	71,554
Accrued income – Investments in sukuk carried at fair value through profit and loss account.	5,011	4,920
Related party balances (Note 29)	55,068	22,571
Swaps designated in hedge accounting relationships (Note 20)	2,266	-
Other swaps (Note 20)	-	17,787
Staff loans and advances	26,300	22,708
Other	2,614	21,256
	188,175	**160,796**

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2016 and 13 October 2015 sukuk issued were as follows:

Date of issue	Issue Currency	ID equivalent		Maturity date	Rate
		31 Dec 2016	13 Oct 2015		
Listed					
10/27/2010	USD	-	357,096	27-10-15	1.775 % Fixed
5/25/2011	USD	-	535,988	25-05-16	2.35 % Fixed
6/26/2012	USD	595,125	568,735	26-06-17	1.357 % Fixed
4/6/2013	USD	744,352	711,620	06-04-18	1.535 % Fixed
3/6/2014	USD	1,121,701	1,063,720	06-03-19	1.8125 % Fixed
7/17/2014	USD	749,948	711,503	17-07-19	1.8818 % Fixed
9/25/2014	USD	1,121,290	1,062,590	25-09-19	2.111 % Fixed
3/12/2015	USD	747,405	708,473	12-03-20	1.83 % Fixed
3/10/2016	USD	1,093,949	-	10-03-21	1.775 % Fixed
6/29/2016	MYR	58,167	-	28-06-24	4.360% Fixed
12/7/2016	USD	930,342	-	07-12-21	2.263% Fixed
		7,162,279	**5,719,725**		
Not listed					
9/20/2010	SAR	182,822	177,336	20-09-20	2.55 % Fixed
9/20/2010	SAR	186,669	177,137	20-09-20	6 Month LIBOR + 15 BP
2/17/2011	GBP	-	64,863	17-02-16	3 Month LIBOR + 0.15%
1/30/2012	GBP	91,648	108,219	30-01-17	3 Month LIBOR +.50%
10/11/2012	USD	372,906	354,185	11-10-17	3 Month LIBOR + 0.30%
4/22/2014	USD	74,826	71,029	22-04-17	0.90 % Fixed
10/20/2014	EUR	235,313	242,386	20-10-18	0.3330% Fixed
7/13/2015	EUR	78,506	80,606	13-07-20	0.31% Fixed
9/15/2015	EUR	78,438	80,556	15-09-20	0.23% Fixed
10/9/2015	EUR	235,192	241,392	09-10-20	0.318% Fixed
2/29/2016	EUR	235,725	-	01-03-23	0.255% Fixed
9/19/2016	USD	74,382	-	19-09-21	3 Month LIBOR + 0.43%
		1,846,427	**1,597,709**		
		9,008,706	**7,317,434**		

The trust Certificates (Sukuk) confer on Certificateholders the right to receive, at agreed intervals, payments (Periodic Distributions) out of the profit elements of Installment Sale, Istisna'a and Ijarah assets (the Portfolio) sold at each Series (Issuance) by IsDB to IDB Trust Services Limited and Tadamun Services Berhad (the Trustees). The IsDB, as a third party, guarantees to the Trustees punctual performance of the assets constituting the Portfolio. In the event that IsDB is unable to provide resources for the redemption of the Sukuk under any Series (whether on Maturity or Dissolution), the Board of Governors of IsDB may call such part of the callable capital as may be sufficient for IsDB to meet its obligations under such Series. Financing cost incurred on sukuk issued during the period ended 31 December 2016 amounted to ID 156.5 million (13 October 2015: ID 110.2 million). Certain of the sukuk issued, amounting to ID 1,277 million have been designated as hedged item under a fair value hedge relationship. The accumulated amount of hedge adjustment included in the carrying amount of the fair value hedged sukuk, as at 31 December 2016, amounts to ID 37 million.

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

19. COMMODITY PURCHASES

The Bank has entered into commodity purchase and sale agreements with certain counter parties. Under the terms of the agreements, the Bank has purchased certain commodities from these counter parties on deferred payment basis and has simultaneously sold these through those banks to third parties. The outstanding balance of ID500.8 million as of 31 December 2016 (13 October 2015: ID676.2 million) represents the purchase price under these agreements. Financing cost incurred on commodity purchases during 2016 was ID 3.9 million (13 October 2015: ID 0.5 million)

20. OTHER LIABILITIES

	31 Dec 2016	13 Oct 2015
Payables against commodity purchase liabilities	10,279	28,804
Related party balances (Note 29)	1,904	8,242
Investment Deposits	12,245	3,318
Accrued expense	3,913	8,411
Deferred income – Ijarah and Istisna'a	44,539	34,652
Accrued staff retirement and medical benefit scheme liability (Note 21)	87,289	87,382
Swaps designated in hedge accounting relationships (Note 17)	58,077	-
Other Swaps (Note 17)	39,962	42,782
Deferred grant income	9,494	10,203
Others	39,985	30,559
	307,687	**254,353**

Profit rate exposure

The Bank economically hedges a portion of its sukuk for profit rate risk through shariah compliant arrangements whereby the Bank engages counterparties to act as its agents 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.

Foreign currency exposure

The Bank has issued sukuk in foreign currencies (SAR, USD, EUR, GBP and MYR). In order to economically hedge exposure to non-basket currencies, the Bank entered into cross currency swaps. Under the arrangement, the Bank shall swap profit rate in USD and Euro with profit rates in SAR and GBP respectively with the counterparties.

Hedge accounting reserve

The hedge accounting reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges as well as currency basis for cash flow and fair value hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of hedge accounting reserve will be reclassified to income statement only when the hedged transaction affects the profit or loss consistent with the Bank's accounting policy.

Detailed information on equity, income statement and position impacts of the cash flow hedges, fair value hedges and swaps not designated in hedge relationships is provided in the table below.

31 Dec 2016		Hedging Relationships			Non-hedging Relationships	
		Equity	Income Statement			
Swaps	Notional amount	Hedge accounting reserve	Financing cost / (credit)	Gain / (loss) on changes in fair values	Gain / (loss) on changes in fair values	Total net gain / (loss) from swap valuation
Fair value hedges	1,301,764	(3,536)	(3,317)	2,127	-	2,127
Cash flow hedges	649,408	4,667	5,883	-	-	-
Swaps not designated in hedge relationships	576,955	-	-	-	(5,936)	(5,936)
		1,131	**2,566**	**2,127**	**(5,936)**	**(3,809)**

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

20. OTHER LIABILITIES (continued)

	Statement of Financial Position			
	Swaps designated in hedge relationships		Swaps not designated in hedge relationships	
	Liability	Asset	Liability	Asset
Fair value hedges	(33,063)	-	-	-
Cash flow hedges	(25,014)	2,266	-	-
Swaps not designated in hedge relationships	-	-	(39,962)	-
	(58,077)	**2,266**	**(39,962)**	**-**

Losses incurred on swaps not designated in hedge relationships for the period ended 13 October 2015:

13 Oct 2015		Fair value gains/(losses)		
	Notional Amount	Unrealised	Realised	Total
Profit rate swaps	708,406	(7,378)	2,789	(4,589)
Cross currency profit rate swap	526,978	(16,628)	(6,383)	(23,011)
	1,235,384	**(24,006)**	**(3,594)**	**(27,600)**

21. POST EMPLOYMENT BENEFIT PLANS

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

IsDBG is a multi employer plan and includes Islamic Development Bank - Ordinary Capital Resources (IsDB-OCR), Special Account Resources Waqf Fund ("WAQF"), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation for Development (ICD), Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) and Islamic Solidarity Fund for Development (ISFD). However, the Assets, Liabilities and the ensuring deficit was booked by IsDB-OCR until 13 October 2015.

However, during the period ended 31 December 2016 a decision was taken by Pension Committee of IsDB Group to share (based on the number of employees of each entity), the Defined Benefit Obligation (DBO) and Pension Assets resulting in the Net Actuarial Deficit to all the entities in the Group. The deficit was agreed to be shared with all the entities within the Group for the period ending 31 December 2016.

Staff Pension Plan (SPP)

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

The main features of the SPP are:

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

Under the SPP, the employee contributes at a rate of 9% of the basic annual salary while the Bank and its Affiliates contribute 21%.

Staff Retirement Medical Plan (SRMP)

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

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

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

The monthly entitlements payable for each retired employee is computed according to the following formula:
{Highest average remuneration X contributory period X 0.18%} / 12

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

21. POST EMPLOYMENT BENEFIT PLANS (continued)

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

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

	SPP		SRMP	
	Period ended	Period ended	Period ended	Period ended
	31 Dec 2016	13 Oct 2015	31 Dec 2016	13 Oct 2015
Benefit obligation opening balance	310,235	270,133	20,412	17,318
Allocation Defined Benefit Obligation (DBO) to entities	(103,128)	-	(6,969)	-
Current Service costs	11,924	15,255	1,223	1,404
Profit expense on Defined Benefit Obligation (DBO)	10,770	13,126	785	863
Plan participations contributions	4,825	5,134	264	275
Disbursements from Plan Assets	(9,521)	(6,637)	(245)	(219)
Net actuarial (gain)/loss	10,802	(8,452)	748	(587)
Currency translation loss	11,140	21,676	742	1,358
Benefit obligation closing balance	**247,047**	**310,235**	**16,960**	**20,412**

The movements in the plan assets are as follows:

	SPP		SRMP	
	Period ended	Period ended	Period ended	Period ended
	31 Dec 2016	13 Oct 2015	31 Dec 2016	13 Oct 2015
Fair value of plan assets opening balance	234,072	186,917	9,193	7,618
Allocation of Pension Assets to entities	(77,810)	-	(3,139)	-
Other adjustments	(944)	-	-	-
Profit income on Plan Assets	8,128	8,748	338	363
Return on Plan Assets greater/(less) than discount rate	(8,361)	15,331	(55)	(24)
Plan participations contributions	4,825	11,926	264	552
Employer contribution	10,255	5,134	513	275
Disbursements from Plan Assets	(9,521)	(6,637)	(245)	(219)
Currency translation gain	8,873	12,653	332	628
Fair value of plan assets closing balance	**169,517**	**234,072**	**7,201**	**9,193**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 20)	**77,530**	**76,163**	**9,759**	**11,219**

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

Based on the actuarial valuations, the pension and medical benefit expenses for the period ended 31 December 2016 and 13 October 2015 for the Bank and its Affiliates comprised the following:

	SPP		SRMP	
	Period ended	Period ended	Period ended	Period ended
	31 Dec 2016	13 Oct 2015	31 Dec 2016	13 Oct 2015
Gross current service costs	11,924	15,255	1,223	1,404
Profit expense on DBO	10,770	13,126	785	863
Profit income on assets	(8,128)	(8,748)	(339)	(363)
Cost recognized in income statement	**14,566**	**19,633**	**1,669**	**1,904**
Actuarial loss / (gain) due to assumptions	10,802	(8,452)	748	(587)
Return on plan assets greater / (less) than discount rate	8,361	(15,331)	55	24
Other adjustments	944	-	-	-
Currency translation loss	2,266	16,730	388	2,082
Cost recognized in statement of changes of equity	**22,373**	**(7,053)**	**1,191**	**1,519**

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

21. POST EMPLOYMENT BENEFIT PLANS (continued)

Principal assumptions used in the actuarial valuations are as follows:

	SPP		SRMP	
	31 Dec 2016	**13 Oct 2015**	**31 Dec 2016**	**13 Oct 2015**
Discount rate	4.15%	4.40%	4.15%	4.40%
Rate of expected salary increase	4.50%	4.50%	4.50%	4.50%

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

The following table presents the plan assets by major category:

	SPP		SRMP	
	31 Dec 2016	**13 Oct 2015**	**31 Dec 2016**	**13 Oct 2015**
Cash and cash equivalent and commodity placements	9,994	3,741	460	509
Syndicated Murabaha	5,275	6,866	393	566
Managed funds and Instalment sale	35,549	40,857	-	-
Investments in sukuk	93,834	149,786	6,235	8,131
Land	20,281	35,533	-	-
Other (net)	4,584	(2,711)	113	(13)
Plan assets	**169,517**	**234,072**	**7,201**	**9,193**

The following table summarizes the funding status of the SPP at the end of the last five reporting period/years:

	31 Dec 2016	**13 Oct 2015**	**24 Oct 2014**	**4 Nov 2013**	**15 Nov 2012**
Present value of defined benefit obligation	(247,047)	(310,235)	(270,133)	(225,811)	(193,033)
Fair value of plan assets	169,517	234,072	186,917	141,345	131,899
Plan deficit	**(77,530)**	**(76,163)**	**(83,216)**	**(84,466)**	**(61,134)**

The following table summarizes the funding status of the SRMP at the end of the last five reporting period/years:

	31 Dec 2016	**13 Oct 2015**	**24 Oct 2014**	**4 Nov 2013**	**15 Nov 2012**
Present value of defined benefit obligation	(16,960)	(20,412)	(17,318)	(13,466)	(12,199)
Fair value of plan assets	7,201	9,193	7,618	6,752	5,867
Plan deficit	**(9,759)**	**(11,219)**	**(9,700)**	**(6,714)**	**(6,332)**

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

	SPP	**SRMP**	**31 Dec 2016 Total**	**13 Oct 2015 Total**
Opening balance	76,163	11,219	87,382	92,916
Movements during the period	(2,945)	(2,639)	(5,584)	(5,534)
Closing balance	**73,218**	**8,580**	**81,798**	**87,382**

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

22. PAID UP CAPITAL

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

The capital of IsDB as at period end was as follows:

		31 Dec 2016	13 Oct 2015
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,410 (13 Oct 2015 5,058,202) shares of ID 10,000 each	50,614,060	50,582,020
Less: available for subscription		(517,070)	(663,610)
Subscribed capital		50,096,990	49,918,410
Callable capital		(40,725,090)	(40,563,770)
Called up capital		9,371,900	9,354,640
Amount not yet due		(4,018,987)	(4,279,042)
Instalments overdue		(209,481)	(135,600)
Paid up capital		**5,143,432**	**4,939,998**

For each Islamic Dinar of paid up capital, the Bank has as at 31 December 2016 ID 0.62 (13 October 2015: ID 0.59) of total accumulated reserves.

23. RESERVES

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

General reserve

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors until this reserve equals 25% of the Bank's subscribed capital. As at 31 December 2016, general reserve made up 4.9% of the subscribed capital (13 October 2015: 4.8%). 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 22 May 2013 corresponding to (12 Rajab 1434H), the following allocations were made from the general reserve during the period ended 31 December 2016:

- the higher of 5% of the Bank's normalized net income for the period ended 13 October 2015 and USD 5 million was allocated to finance technical assistance operations in the form of grants amounting to ID 8.5 million (13 October 2015: ID 6.0 million).

- higher of 2% of the Bank's normalized net income for the period ended 13 October 2015 and USD 2 million was allocated to the merit scholarship program in the form of grants amounting to ID 3.4 million (13 October 2015: ID 2.4 million).

- higher of 2% of the Bank's normalized net income for the period ended 13 October 2015 and USD 4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 3.4 million (13 October 2015: ID 2.8 million).

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

24. ADMINISTRATIVE EXPENSES

	Period ended 31 Dec 2016	Period ended 13 Oct 2015
Staff cost	122,864	85,217
Business travel	5,492	6,039
Consultancy fees	5,637	3,141
Other	16,174	14,896
	150,167	**109,293**

25. COMMITMENTS

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

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

Undisbursed commitments	**31 Dec 2016**	**13 Oct 2015**
Istisna'a assets	5,744,116	5,462,694
Restricted mudaraba	130,523	138,907
Instalment sale	590,308	824,946
Loans	721,768	874,036
Ijarah assets	1,541,033	2,027,599
Equity investments - capital contributions	330,909	173,938
Principal contributions to ISFD	37,193	141,681
	9,095,850	**9,643,801**

<u>Capital contributions to ISFD</u>

The Islamic Solidarity Fund for Development ("ISFD") was established pursuant to the decision taken at the Third Extraordinary session of the Organization for Islamic Corporation (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 USD10.0 billion and the Bank has committed to contribute USD1.0 billion, payable in 10 annual instalments of USD100.0 million each year (ID 106.6 million) (13 October 2015: ID 69.8 million). The Bank as at 31 December 2016 has already paid the first nine and a half instalments amounting to USD 950.0 million. The remaining amount of ID 37.2 million (USD 50.0 million) represents undisbursed commitments.

<u>Capital contributions to ICD</u>

IsDB Board of Director by its resolution No.BED/18/06/437/ (311)/55 approved IsDB's participation in the second capital increase of ICD and shall subscribe to 50% of the shares allotted to IsDB and Financial Institutions, not exceeding USD 250 million, subject to maximum of the 34% total subscribed capital of ICD. IsDB shall pay this amount over 4 equal annual instalments starting from financial year ending 2017.

26. 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 Special Account Resources Waqf Fund where the Bank uses these funds for charitable purposes as defined by the Shari'ah Supervisory Board.

Income realised during the period from transactions which are not permitted by Shari'ah amounted to ID 0.12 million (13 October 2015: ID 0.14 million).

27. 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;
- 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.

28. 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 31 December 2016 amounted to ID 81.3 million (13 October 2015: ID 73.9 million).

29. 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 Board.

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

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

29. RELATED PARTY BALANCES (continued)

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

	31 Dec 2016		13 Oct 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
World Waqf Foundation	221	-	120	-
Awqaf Properties Investment Fund	798	-	1,482	-
Unit Investment Fund	-	(913)	195	-
Islamic Corporation for the Insurance of Investments and Export Credit	1,428	-	1,336	-
Special Account Resources Waqf Fund	33,087	-	-	(1,299)
IsDB Special Assistance Fund	201	-	-	(4)
IsDB Pension Fund	-	(392)	9,840	-
IsDB Medical Fund	-	(30)	55	-
Al-Aqsa Fund	372	-	198	-
Islamic Corporation for Development of Private Sector	8,636	-	2,116	-
Arab Bank for Economic Development in Africa	40	-	39	-
International Islamic Trade Finance Corporation	1,551	-	372	-
Fael Khair Bangladesh	-	(11)	55	-
Islamic Solidarity Fund for Development	-	(558)	-	(6,290)
Sacrificial Meat Project	130	-	3,609	-
GCC Program for Reconstruction of Gaza	-	-	268	-
Dueauville Partnership	-	-	-	(105)
Fael Khair Programs	8,200	-	1,779	(544)
Kuwait Fund	-	-	1,107	-
Lives and Livelihoods Fund	404	-	-	-
Total	**55,068**	**(1,904)**	**22,571**	**(8,242)**

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

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

(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 IsDB 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) During the period ended 31 December 2016, the Bank, sold its sukuk amounting to ID 203.8 million (USD 274 million) and ID 127.2 million (USD 171 million) to Islamic Solidarity Fund for Development and Fael Khair Programs, respectively.

(c) 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:

	Period ended 31 Dec 2016	**Period ended 13 Oct 2015**
Board of Executive Directors expenses	1,594	1,292
Salaries and other short-term benefits	1,594	1,373
Accumulated post-employment benefits	2,987	1,349

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 members and sukuk holders. Risks inherent in the Bank's activities are managed through a process of ongoing identification, measurement, mitigation and monitoring. Risk limits are in place as a primary mitigating measure in addition to other controls.

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

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

Three management level committees perform risk monitoring and oversight roles: the Asset and Liability Management Committee (ALCO), the Operations and Investment Committees (OC and IC) and 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 Bank manages the different sources of risks.

Credit Risk

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

The Bank manages three principal sources of credit risk:

(i) credit risk pertaining to its sovereign financing operations portfolio;

(ii) credit risk pertaining to its non-sovereign financing portfolio (projects, corporates, and financial institutions)

(iii) counterparty credit risk in its treasury portfolio. The Bank has put in place a comprehensive credit risk management framework including policies, guidelines, and tools on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by 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".

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

30. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

31 Dec 2016

Country	Total outstanding exposure	% of total outstanding exposure
Turkey	1,300,812	10.8%
Pakistan	1,041,771	8.7%
Morocco	800,308	6.7%
Iran	721,871	6.0%
Indonesia	603,967	5.0%
Tunisia	479,008	4.0%
Bahrain	462,583	3.9%
Azerbaijan	404,275	3.4%
Saudi Arabia	384,476	3.2%
Bangladesh	377,571	3.1%
Total Top 10 Countries	***6,576,642***	***54.8%***
Total Other Countries	***5,428,970***	***45.2%***
Total All Countries	**12,005,612**	**100.00%**
Total sovereign exposure	10,921,140	91.0%
Total non-sovereign exposure	1,084,472	9.0%
Total	**12,005,612**	**100.00%**

13 Oct 2015

Country	Total outstanding exposure	% of total outstanding exposure
Turkey	952,516	8.8%
Pakistan	927,604	8.5%
Morocco	793,809	7.3%
Iran	628,777	5.8%
Indonesia	508,409	4.7%
Tunisia	480,446	4.4%
Bahrain	440,481	4.1%
Saudi Arabia	397,942	3.7%
Azerbaijan	382,608	3.5%
Sudan	327,015	3.0%
Total Top 10 Countries	***5,839,607***	***53.8%***
Total Other Countries	***5,018,849***	***46.2%***
Total All Countries	**10,858,456**	**100.0%**
Total sovereign exposure	9,663,725	89.0%
Total non-sovereign exposure	1,194,731	11.0%
Total	**10,858,456**	**100.0%**

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

30. RISK MANAGEMENT (continued)

Credit Risk (continued)

Sovereign credit risk

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

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

	31 Dec 2016		13 Oct 2015	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	1,054	0.0%
Category "B"	3,845,693	35.2%	3,284,831	34.0%
Category "C"	1,864,977	17.1%	1,697,672	17.6%
Category "D"	3,320,346	30.4%	2,738,612	28.3%
Category "E"	1,117,877	10.2%	1,184,750	12.3%
Category "F"	475,971	4.4%	452,103	4.7%
Category "G"	296,276	2.7%	304,703	3.1%
Total	**10,921,140**	**100.00%**	**9,663,725**	**100.00%**

Non-sovereign credit risk

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

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

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

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

	31 Dec 2016		13 Oct 2015	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	390	0.0%	487	0.0%
Category "B"	297,279	27.4%	396,237	33.1%
Category "C"	413,227	38.1%	392,814	32.9%
Category "D"	284,143	26.2%	299,442	25.1%
Category "E"	52,426	4.9%	67,772	5.7%
Category "F"	-	0.0%	-	0.0%
Category "G"	37,007	3.4%	37,980	3.2%
Total	**1,084,472**	**100.0%**	**1,194,732**	**100.0%**

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

30. RISK MANAGEMENT (continued)

Treasury assets

The assets subject to credit risk within treasury assets include cash equivalents, commodity placements, sukuk investments and Murabaha-based profit-rate and cross-currency project 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.

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

	31 Dec 2016		13 Oct 2015	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	351,445	13.0%	16,626	0.9%
Category "B"	2,198,761	81.4%	1,886,337	96.8%
Category "C"	135,500	5.0%	31,861	1.6%
Category "D"	-	0.0%	107	0.0%
Category "E"	-	0.0%	275	0.0%
Category "F"	-	0.0%	-	0.0%
Category "G"	16,582	0.6%	14,452	0.7%
Total	**2,702,288**	**100.0%**	**1,949,658**	**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:

31 Dec 2016	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	107,635	3,989,723	596	629,885	**4,727,839**
Project assets	4,035,312	7,257,655	265,460	-	**11,558,427**
Investment assets	356,852	1,156,038	96,180	625	**1,609,695**
Other assets	18,789	231,460	-	601	**250,850**
Total assets:	**4,518,588**	**12,634,876**	**362,236**	**631,111**	**18,146,811**
%	**25%**	**70%**	**2%**	**3%**	**100%**

13 Oct 2015	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	203,199	3,310,675	551	457,332	**3,971,757**
Project assets	3,800,446	6,612,877	-	-	**10,413,323**
Investment assets	361,666	1,106,082	17,639	1,925	**1,487,312**
Other assets	14,407	210,644	-	-	**225,051**
Total assets:	**4,379,718**	**11,240,278**	**18,190**	**459,257**	**16,097,443**
%	**27%**	**70%**	**0%**	**3%**	**100%**

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

30. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

31 Dec 2016	Public utilities	Transport and telecom	Agriculture	Industry and mining	Social services	Others	Total
Treasury assets	-	-	-	-	-	4,727,839	**4,727,839**
Project assets	4,611,253	3,149,044	1,188,478	412,353	1,546,188	651,111	**11,558,427**
Investment assets	-	-	-	-	-	1,609,695	**1,609,695**
Other assets	-	-	-	-	-	250,850	**250,850**
Total assets:	**4,611,253**	**3,149,044**	**1,188,478**	**412,353**	**1,546,188**	**7,239,495**	**18,146,811**
%	**25%**	**17%**	**7%**	**2%**	**9%**	**40%**	**100%**

13 Oct 2015	Public utilities	Transport and telecom	Agriculture	Industry and mining	Social services	Others	Total
Treasury assets	-	-	-	-	-	3,971,757	**3,971,757**
Project assets	4,180,542	2,786,808	1,024,012	507,776	1,401,458	512,727	**10,413,323**
Investment assets	-	-	-	-	-	1,487,312	**1,487,312**
Other assets	-	-	-	-	-	225,051	**225,051**
Total assets:	**4,180,542**	**2,786,808**	**1,024,012**	**507,776**	**1,401,458**	**6,196,847**	**16,097,443**
%	**26%**	**17%**	**6%**	**3%**	**9%**	**39%**	**100%**

Liquidity Risk

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

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

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

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

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

These portfolios are subdivided in currency specific sub-portfolios.

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

The main objective of the COP is to build flexibility in the Bank's resource mobilization program and serve as a cushion for market-funded liquid assets during times when market conditions are 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.

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

30. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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 31 Dec 2016 was as follows:

31 Dec 2016	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	997,942	-	-	-	-	-	**997,942**
Commodity placements	668,792	807,363	121,628	92,423	-	-	**1,690,206**
Sukuk Investments	38,945	25,110	33,607	681,422	1,039,862	-	**1,818,946**
Murabaha Financing	184,490	30,835	5,420	-	-	-	**220,745**
Istisna'a	69,907	65,225	116,014	1,076,231	3,662,856	-	**4,990,233**
Restricted Mudaraba	6,207	-	6,135	46,494	674,243	-	**733,079**
Instalment sale	43,103	34,164	62,128	434,313	901,272	-	**1,474,980**
Ijarah	58,097	46,981	76,956	575,014	1,743,172	-	**2,500,220**
Loans	57,603	57,213	55,581	506,259	1,183,259	-	**1,859,915**
Equity investments	-	-	-	-	-	774,936	**774,936**
Investments in associates	-	-	-	-	-	790,346	**790,346**
Other investments	-	-	-	-	-	44,413	**44,413**
Property and equipment	2,125	2,125	4,249	33,992	20,184	-	**62,675**
Other assets	71,611	3,427	4,863	23,479	84,795	-	**188,175**
Total Assets	**2,198,822**	**1,072,443**	**486,581**	**3,469,627**	**9,309,643**	**1,609,695**	**18,146,811**
Liabilities							
Sukuk liability	91,648	669,951	372,906	6,649,967	1,224,234	-	**9,008,706**
Commodity purchase liabilities	500,788	-	-	-	-	-	**500,788**
Other liabilities	71,402	16,996	1,156	93,106	125,027	-	**307,687**
Total Liabilities	**663,838**	**686,947**	**374,062**	**6,743,073**	**1,349,261**	**-**	**9,817,181**

13 Oct 2015	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	235,724	-	-	-	-	-	**235,724**
Commodity placements	825,402	385,606	153,501	335,285	-	-	**1,699,794**
Sukuk Investments	23,489	7,178	34,509	834,345	864,580	-	**1,764,101**
Murabaha Financing	153,462	75,792	42,884	-	-	-	**272,138**
Istisna'a	74,869	40,745	105,915	1,104,342	2,799,682	-	**4,125,553**
Restricted Mudaraba	-	-	5,060	100,010	422,693	-	**527,763**
Instalment sale	48,492	24,804	64,725	492,689	768,316	-	**1,399,026**
Ijarah	61,546	39,450	79,094	739,786	1,595,708	-	**2,515,584**
Loans	56,067	259	57,024	471,703	1,260,344	-	**1,845,397**
Equity investments	-	-	-	-	-	739,769	**739,769**
Investments in associates	-	-	-	-	-	714,840	**714,840**
Other investments	-	-	-	-	-	32,703	**32,703**
Property and equipment	6,426	3,213	6,426	48,190	-	-	**64,255**
Other assets	84,260	2,210	4,424	22,862	47,040	-	**160,796**
Total Assets	**1,569,737**	**579,257**	**553,562**	**4,149,212**	**7,758,363**	**1,487,312**	**16,097,443**

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

30. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities							
Sukuk liability	421,959	-	535,988	6,005,014	354,473	-	**7,317,434**
Commodity purchase liabilities	285,797	201,436	-	188,926	-	-	**676,159**
Other liabilities	55,793	20,337	1,705	22,374	154,144	-	**254,353**
Total Liabilities	**763,549**	**221,773**	**537,693**	**6,216,314**	**508,617**	**-**	**8,247,946**

Market Risks

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

The overall authority for market risk is vested in ALCO. 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's policy is to regularly monitors and adjust the currency composition of the net assets by currency and regularly aligns it with the composition of the Islamic Dinar basket; namely US Dollar, Sterling Pound, Euro, Japanese Yen and Renminbi.

In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition. Further, currency risk is managed by the use of Shari'ah-approved Murabaha based cross-currency swap instruments (Refer to Note 20). These hedging instruments are used to modify the currency characteristics of the sukuk issued and assets of the Bank.

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

	31 Dec 2016	13 Oct 2015
USD (1ID = 1.34433 USD)	1,378,269	1,108,748
EUR (1ID = 1.27534 EUR)	890,899	793,913
Pound Sterling (1ID = 1.09278 GBP)	217,006	263,240
Japanese Yen (1ID = 157.01800 JPY)	195,603	145,064
Chinese Yuan (1ID = 9.34283 CNY)	282,298	-
Others	12,282	73,908
	2,976,357	**2,384,873**

(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 sale, 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)

30. RISK MANAGEMENT (continued)

Market Risk (continued)

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

	31 Dec 2016	13 Oct 2015
Commodity placements	0.9%	0.8%
Sukuk investments	3.5%	3.5%
Murabaha	3.2%	3.5%
Istisna'a assets	4.6%	4.0%
Instalment sale	4.2%	4.8%
Ijarah	2.1%	2.6%
Sukuk liability	1.6%	1.6%
Commodity purchase liabilities	0.5%	0.1%

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

(iii) Equity price risk

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

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

Operational Risk

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

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

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).

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

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

31 Dec 2016	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk)	363,291	-	-	363,291
Murabaha based profit rate and cross currency profit rate swap (reported within other assets)	-	2,266	-	2,266
Equity type Investments at fair value through equity:				-
Equity	663,666	-	-	663,666
Total Financial Assets at fair value	**1,026,957**	**2,266**	**-**	**1,029,223**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	117,736	-	117,736
Sukuk liability (Fair value hedge)	-	1,276,771	-	1,276,771
Total Financial Liabilities	**-**	**1,394,507**	**-**	**1,394,507**

13 Oct 2015	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk)	527,106	-	-	527,106
Murabaha based profit rate & cross currency profit rate swap (reported within other assets)	-	17,787	-	17,787
Equity type Investments at fair value through equity:				
Equity	618,307	-	-	618,307
Total Financial assets at fair value	**1,145,413**	**17,787**	**-**	**1,163,200**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	42,782	-	42,782
Total Financial Liabilities at fair value	**-**	**42,782**	**-**	**42,782**

During the period ended 31 December 2016 and 13 October 2015, 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 Financial Accounting Standard (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 activitiesor 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.

33. CHANGE OF THE ID REPORTING CURRENCY

The IMF, in its review of the SDR basket composition on 30th November 2015, decided to include the Renminbi (known as Chinese Yuan) effective from 1st October 2016 as part of the SDR basket and existing criteria. Accordingly, the Renminbi (10.9%) has been included in the ID basket as a fifth currency, along with the U.S. dollar (41.8%), Euro (30.9%), Japanese yen (8.3%), and British pound (8.1%).

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

Financial Statements and Independent Auditors' Report

For the period from 14 October 2015 to 31 December 2016

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying statement of financial position of Islamic Development Bank – Special Account Resources Waqf Fund (the "Fund") as of 31 December 2016 and the related statements of activities and changes in net assets and cash flows for the period from 14 October 2015 to 31 December 2016. These financial statements and the Fund's undertaking to operate in accordance with Shari'ah are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 December 2016, and of the results of its operations and its cash flows for the period from 14 October 2015 to 31 December 2016 in accordance with the Shari'ah Rules and Principles as determined by the Shari'ah Committee of the Fund and the accounting standards of AAOIFI.

Other matter

The financial statements of the Fund for the period ended 13 October 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 9 March 2016.

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

12 April 2017
15 Rajab 1438H

Jeddah

16/268/OO

Statement of Financial Position **31 December 2016**

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

	Notes	31 December 2016	13 October 2015
Assets			
Treasury assets			
Cash and cash equivalents	4	**391,509**	45,551
Commodity placements	5	**210,201**	278,112
Syndicated Murabaha	6	**9,240**	5,589
Investments in Sukuk	7	**124,904**	135,356
Investments assets			
Equity capital	8	**20,082**	29,300
Associates	9	**130,274**	126,050
Funds	10	**65,584**	55,698
Syndicated Ijarah	11	**13,710**	12,589
Loans	12	**156,247**	164,276
Other assets			
Other assets		**15,318**	13,969
Fixed assets		**22,200**	23,634
Total assets		**1,159,269**	890,124
Liabilities			
Commodity purchase liabilities	13	**347,314**	80,576
Accruals and other liabilities	14	**68,510**	17,327
Total liabilities		**415,824**	97,903
Net assets		**743,445**	792,221
Represented by:			
Waqf Fund principal amount		**771,775**	773,908
Special assistance		**(183,760)**	(139,961)
Special account for Least Developed Member Countries (LDMC)		**155,430**	158,274
Total Funds		**743,445**	792,221

The notes from 1 through 26 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 **14 October 2015 to 31 December 2016**
(All amounts in thousands of Islamic Dinars unless otherwise stated)

Statement of activities		14 Oct 2015 to 31 Dec 2016				
	Notes	Waqf Fund principal amount	Special assistance	Special account for LDMC	Total	25 Oct 2014 to 13 Oct 2015
Income/(loss) from:						
Treasury assets						
Commodity placements					**4,335**	2,439
Syndicated Murabaha					**493**	19
Investments in Sukuk	7				**4,416**	3,626
Investment assets						
Equity capital					**370**	-
Associates	9				**(5,726)**	7,012
Funds					**2,027**	(1,585)
Syndicated Ijarah					**378**	308
Other					**2,149**	3,630
					8,442	15,449
Financing costs	13				**(231)**	(4)
Foreign exchange gain/(loss)					**662**	(1,683)
Income before impairment charge					**8,873**	13,762
Impairment charge					**(14,058)**	(2,695)
Attributable net (loss)/income					**(5,185)**	11,067
Allocation of attributable net loss		(778)	(3,370)	(1,037)		
Donations to Special Assistance			1,771		**1,771**	1,841
Islamic Technical Financial Assistance Grant from IsDB-OCR		-	1,050	-	**1,050**	129
Share of income transferred from IsDB-OCR		17	75	23	**115**	99
Contributions from IsDB-OCR for technical assistance grants and scholarship program	17	-	11,941	-	**11,941**	8,429
Income/(loss) before grants and program expenses		**(761)**	**11,467**	**(1,014)**	**9,692**	21,565
Grants for causes	16	-	(27,890)	-	**(27,890)**	(23,448)
Program expenses	16	-	(21,434)	-	**(21,434)**	(14,760)
Net deficit for the period		**(761)**	**(37,857)**	**(1,014)**	**(39,632)**	(16,643)
Statement of changes in net assets						
Net assets/(liabilities) at beginning of the period		**773,908**	**(139,961)**	**158,274**	**792,221**	800,064
Net deficit for the period		(761)	(37,857)	(1,014)	**(39,632)**	(16,643)
Pension deficit		(1,467)	(6,354)	(1,957)	**(9,778)**	-
Fair value reserves		95	412	127	**634**	8,800
Net assets/(liabilities) at end of the period		**771,775**	**(183,760)**	**155,430**	**743,445**	792,221

The notes from 1 through 26 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

Statement of Cash Flows **14 October 2015 to 31 December 2016**

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

	Notes	14 Oct 2015 to 31 Dec 2016	25 Oct 2014 to 13 Oct 2015
Cash flows from operations			
Net deficit for the period		**(39,632)**	(16,643)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		**1,488**	1,197
Provision for impairment		**14,058**	2,695
Share of loss/(income) in associates, net	9	**5,726**	(7,012)
Realised (gain)/loss on sale of other funds		**(708)**	608
Realised gain on sale of Sukuk		**(4)**	-
Investment fair value loss	7	**2,538**	2,348
Foreign exchange gain		**(5,179)**	(165)
Change in operating assets and liabilities			
Syndicated Murabaha		**(7,110)**	(4,554)
Syndicated Ijarah		**(1,121)**	6,846
Loans		**8,029**	20,111
Other assets		**(1,349)**	21,735
Changes in accrued income		**(4,915)**	(1,179)
Accruals and other liabilities		**41,404**	4,292
Net cash from operations		**13,225**	30,279
Cash flows from investing activities			
Commodity placements		**72,920**	(42,647)
Acquisition of investments in Sukuk	7	**(29,773)**	(72,179)
Redemption of investments in Sukuk	7	**41,574**	69,776
Additions to investments in equity capital	8	**(3,450)**	-
Acquisition of investments in associates	9	**(13,264)**	-
Additions to investments in funds	10	**(10,194)**	(10,953)
Disposal of investments in funds	10	**7,440**	34,952
Dividends from associates	9	**796**	1,427
Additions to fixed assets		**(54)**	(50)
Net cash from/ (utilized in) investing activities		**65,995**	(19,674)
Cash flows from financing activity			
Commodity purchase liabilities		**266,738**	(4,665)
Cash from/ (utilized in) financing activity		**266,738**	(4,665)
Net change in cash and cash equivalents		**345,958**	5,940
Cash and cash equivalents at beginning of the period		**45,551**	39,611
Cash and cash equivalents at end of the period	4	**391,509**	45,551

The notes from 1 through 26 dform 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 IsDB non-Member Countries and Least Developed Member Countries ("LDMCs") with particular emphasis on social sector development.

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

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

The Fund derives its income/loss from returns on treasury, investments and other assets. As per the regulations of the Fund, a certain percentage of the total income/loss of the Fund and the same percentage of the return from the IsDB's investments in the international markets are allocated to the principal amount of the Fund every year until it reaches ID1.0 billion. The income/loss 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 income statement (statement of activities) of IsDB but are transferred by IsDB to the Fund.

The Board of Governors of IsDB passed a resolution BG/4-436 approving the use of the Solar Hijri calendar in determining the start and end dates of the financial year whilst maintaining the Lunar Hijri as the official calendar of the Bank. Thus, all future financial years of the Bank and the Fund will cover the period equivalent to 1st January to 31st December.

The current financial statements cover a period of 444 days from 14th October 2015 to 31st December 2016. As a result, the comparative figures covering the Lunar Hijri period equivalent to 25th October 2014 – 13th October 2015 (equal to 353 days) are not comparable.

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 seeks guidance from 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:

- Investment in Funds are measured at fair value through net assets; and
- Certain investments in Sukuk are measured at fair value through income statement (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 Bank and is equal to one Special Drawing Right ("SDR") of the International Monetary Fund ("IMF"), (see Note 25).

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
Commodity placements	Amortised cost less impairment
Syndicated Murabaha	Amortised cost less impairment
Investments in Sukuk classified as either:	Fair value through income statement (statement of activities)
	Amortised cost
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	Amortised 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 International Islamic Trade Finance Cooperation (ITFC).

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

f) Investments in Sukuk

Investments in Sukuk are debt-type instruments classified as either measured at amortised cost or at fair value through income statement (statement of activities).

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

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

g) Investments in equity capital

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 value, and any unrealized gains or losses arising from the change in their fair values are recognized directly in 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 income statement (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 less impairment. 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 (statement of activities).

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 to obtain benefits regardless of percentage of voting rights. For investments in which the Fund holds 20 per cent or more of the voting rights the Fund is presumed to have significant influence and hence such investments are accounted for and classified as investments in associates.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Fund's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Fund's share of its associates' post-acquisition profits or losses is recognised in the income statement (statement of activities); its share of post-acquisition movements in reserves is recognised in net assets. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment and reduced by dividends. When the Fund's share of losses in an associate 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 income statement (statement of activities). Dilution gains and losses in associates are recognised in the income statement (statement of activities). The Fund's share of the results of associates is based on financial statements available up to a date not different than three months of the date of the statement of financial position, adjusted to conform to the accounting policies of the Fund. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Fund.

i) Investments in funds

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

j) 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 amounts outstanding represent amounts disbursed in respect of projects plus the accrued loan service fees, less repayments received and 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) Post-employment benefit plans

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

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

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

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

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

n) Revenue recognition

Commodity placements

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

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 income statement (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 income statement (statement of activities).

Investments in equity capital

Dividend income from investments in equity capital and other investment is recognized 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 income statement (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).

o) 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 income statement (statement of activities) as foreign exchange gains/losses.

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

Foreign operations – investments in associates

The results and the net investment in the Fund's associates are translated into 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.

p) 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 exposures. If such objective evidence exists, specific impairment is determined as follows:

- 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 respected default multiplied by the severity of the loss given default rate.

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

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

Other financial assets

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

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

q) Zakat and tax

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

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 or control

Associates are those entities in which the Fund has significant influence, but does not have control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have the control or joint control over those policies. The Fund's investment in associates are determine based on these consideration.

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.

d) Going concern

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

e) Useful lives of fixed assets

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

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

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".

4. CASH AND CASH EQUIVALENTS

	31 December 2016	13 October 2015
Cash at banks	**357,167**	12,710
Commodity placements (maturities less than 3 months)	**34,342**	32,841
	391,509	45,551

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.

5. COMMODITY PLACEMENTS

	31 December 2016	13 October 2015
Placements with Islamic banks	**2,745**	-
Placements with Islamic windows of conventional banks	**234,737**	308,901
Accrued income	**7,061**	2,052
Commodity placements (maturities less than 3 months)	**(34,342)**	(32,841)
	210,201	278,112

6. SYNDICATED MURABAHA

	31 December 2016	13 October 2015
Gross amount receivable	**12,813**	5,783
Less: unearned income	**(114)**	(194)
	12,699	5,589
Less: Impairment provision	**(3,459)**	-
	9,240	5,589

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

7. SUKUK INVESTMENTS

The movement in investments in Sukuk is summarised as follows:

	31 December 2016	13 October 2015
Balance at the beginning of the period	**135,356**	133,146
Movements during the year:		
Additions	**29,773**	72,179
Redemptions	**(41,570)**	(69,776)
Accrued coupon income on Sukuk at amortized cost	**(95)**	761
Unrealized fair value losses	**(2,538)**	(2,348)
Unrealized exchange revaluation gains	**3,978**	1,394
Balance at end of the period	**124,904**	135,356

	Counterparty rating				
31 December 2016	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified as fair value through income statement (statement of activities)					
- Financial institutions	-	-	-	-	**-**
- Governments	-	-	2,362	-	**2,362**
- Other entities	-	-	-	1,270	**1,270**
	-	-	2,362	1,270	**3,632**
Sukuk classified at amortised cost					
- Financial institutions	-	11,413	14,741	6,117	**32,271**
- Governments	-	-	61,417	12,395	**73,812**
- Other entities	-	15,189	-	-	**15,189**
	-	26,602	76,158	18,512	**121,272**
Total	**-**	**26,602**	**78,520**	**19,782**	**124,904**

13 October 2015					
Sukuk classified as fair value through income statement (statement of activities)					
- Financial institutions	-	8,232	2,702	-	10,934
- Governments	-	-	1,539	-	1,539
- Other entities	-	-	-	3,701	3,701
	-	8,232	4,241	3,701	16,174
Sukuk classified at amortised cost					
- Financial institutions	-	12,215	59,896	-	72,111
- Governments	10,817	-	9,378	12,457	32,652
- Other entities	14,419	-	-	-	14,419
	25,236	12,215	69,274	12,457	119,182
Total	25,236	20,447	73,515	16,158	135,356

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

Income from Sukuk investments is comprised of the following:

	14 Oct 2015 to 31 Dec 2016	25 Oct 2015 to 13 Oct 2015
Coupon income	**6,950**	5,914
Realised gains on sale or redemption of Sukuk	**4**	60
Unrealised fair value losses	**(2,538)**	(2,348)
Total	**4,416**	3,626

8. INVESTMENTS IN EQUITY CAPITAL

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

	31 December 2016	13 October 2015
Equity investments - Unlisted	**26,102**	29,300
Less: Impairment provision	**(6,020)**	-
	20,082	29,300

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

	31 December 2016	13 October 2015
Balance at the beginning of the period	**29,300**	35,056
Additions during the period	**3,450**	-
Transfers to other investments (Note 10)	**(4,768)**	(5,575)
Impairment	**(6,020)**	-
Unrealized exchange loss	**-**	(181)
Unrealized fair value loss	**(1,880)**	-
Balance at end of the period	**20,082**	29,300

9. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	31 December 2016	13 October 2015
Balance at the beginning of the period	**126,050**	114,139
Foreign currency translation and other movements through statement of changes in net assets	**(2,518)**	6,326
Additions during the period	**13,264**	-
Share of net results	**(4,226)**	7,012
Net loss on acquisition and disposal of associates	**(1,500)**	-
Cash dividend received	**(796)**	(1,427)
Balance at end of the period	**130,274**	126,050

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

Name of the entity	Country of incorporation	Entity's activities	31 December 2016	13 October 2015
Caspian International Investment Company (CIIC)	Azerbaijan	Investment Company	**27.78%**	27.78%
Islamic Bank of Niger (IBN)	Niger	Banking	**20.46%**	38.46%
Insurance of Investment and Export Credit (ICIEC) *	Saudi Arabia	Insurance	**62.41%**	59.77%
BBI Leasing and Real Estate Company (BBIL) *	Bosnia	Real Estate	**87.46%**	87.46%

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

The total assets, total liabilities, revenue and results of associates based on their latest available financial statements for the interim and final periods in 2016 and 2015 are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share in Net Assets
CIIC	**31 Dec 2016**	**28,484**	**7**	**463**	**9,178**	**7,910**
	13 Oct 2015	22,731	4,685	42	363	8,911
IBN	**31 Dec 2016**	**72,357**	**61,489**	**6,657**	**(5,962)**	**2,223**
	13 Oct 2015	100,305	59,884	16,904	7,716	4,426
ICIEC	**31 Dec 2016**	**208,359**	**51,133**	**4,987**	**(10,426)**	**98,128**
	13 Oct 2015	179,507	23,328	6,108	2,922	93,346
BBIL	**31 Dec 2016**	**31,067**	**5,898**	**4,260**	**2,333**	**22,013**
	13 Oct 2015	33,636	9,513	5,241	2,169	19,367

10. INVESTMENTS IN FUNDS

	31 December 2016			13 October 2015		
	Equity	**Other funds**	**Total**	Equity	Other funds	Total
Balance at the beginning of the period	**7308**	**48,390**	**55,698**	7,308	68,695	76,003
Transfer from equity capital (Note 8)	**-**	**4,768**	**4,768**	-	5,755	5,755
Additions	**-**	**10,194**	**10,194**	-	10,953	10,953
Disposals	**-**	**(6,732)**	**(6,732)**	-	(35,560)	(35,560)
Unrealized fair value gains	**-**	**5,033**	**5,033**	-	2,596	2,596
Unrealized exchange gains/(losses)	**-**	**1,203**	**1,203**	-	(1,354)	(1,354)
Provision for impairment	**-**	**(4,580)**	**(4,580)**	-	(2,695)	(2,695)
Balance at end of the period	**7,308**	**58,276**	**65,584**	7,308	48,390	55,698

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

11. INVESTMENT IN SYNDICATED IJARAH

	31 December 2016	13 October 2015
Balance at the end of the period	**13,710**	12,589

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

12. LOANS

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

	31 December 2016	13 October 2015
Loans	**163,683**	171,712
Less: provision for impairment	**(7,436)**	(7,436)
	156,247	164,276

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 mark-up under these agreements. The related finance cost for the period ended 31 December 2016 was ID 231 thousand (13 October 2015 – ID 4 thousand).

14. ACCRUALS AND OTHER LIABILITIES

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

	31 December 2016	13 October 2015
Accruals and other liabilities	**8,336**	6,129
Islamic Technical Financial Assistance (Note 17)	**10,426**	8,064
Pension liability (Note 15)	**11,192**	-
Payable to IDB-OCR under Wakala agreement -Note 14 (a)	**21,838**	-
Due to related parties	**16,718**	3,134
	68,510	17,327

(a) The Fund entered into a Wakala agreement with Islamic Development Bank – Ordinary Capital Resources and borrowed an amount of USD 30 million (ID 21,838 thousand). The Fund will pay Muwakkil profit of 1% to IDB-OCR on these funds. This transaction will mature on 27 March 2017.

15. POST EMPLOYMENT BENEFIT PLAN

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

IsDBG is a multi employer plan and includes Islamic Development Bank –Ordinary Capital Resources (IDB-OCR), Special Account Resources Waqf Fund ("WAQF"), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation for Development (ICD), Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) and Islamic Solidarity Fund for Development (ISFD) however the Assets, Liabilities and the ensuring deficit was booked by IsDB-OCR until 30 Dhul Hijjah (13 October 2015). During 2016 a decision was taken by Pension Committee of IsDBG to share the Defined Benefit Obligation (DBO) and Pension Assets resulting in the Net Actuarial Deficit to all the entities in the Group. The deficit was agreed to be shared for period ending 31 December 2016 and include all the entities in the Group.

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

Staff Pension Plan (SPP)

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

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

The main features of the SPP are:

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

Under the SPP, the employee contributes at a rate of 9% of the basic annual salary while the Bank and its Affiliates contribute 21%.

Staff Retirement Medical Plan (SRMP)

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

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

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

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

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

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

	SPP	SRMP
	31 December 2016	
Benefit obligation – Opening Balance	**-**	**-**
Transfer from IDB-OCR	**24,768**	**1,572**
Current Service costs	**1,275**	**154**
Interest cost on Defined Benefit Obligation (DBO)	**1,288**	**92**
Plan participations contributions	**272**	**15**
Disbursements from Plan Assets	**(288)**	**(30)**
Net actuarial loss	**1,299**	**242**
Currency translation loss	**1,371**	**95**
Benefit obligation at 31 December 2016	**29,985**	**2,140**

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

The movements in the plan assets are as follows:

	SPP	SRMP
	31 December 2016	
Fair value of plan assets – Opening balance	**-**	**-**
Transfer from IDB-OCR	**18,575**	**708**
Interest income on Plan Assets	**972**	**39**
Return on Plan Assets less than discount rate	**(967)**	**(6)**
Plan participations contributions	**272**	**15**
Employer contribution	**625**	**30**
Disbursements from Plan Assets	**(288)**	**(30)**
Currency translation gain	**950**	**38**
Fair value of plan assets at 31 December 2016	**20,139**	**794**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 14)	**9,846**	**1,346**

The above net liability includes the cumulative actuarial losses resulting from the difference between the actual experience and the assumptions used in estimating the liability, which is recognized by the Fund in the Reserves immediately in the year, it arises, if material.

Based on the actuarial valuations, the pension and medical benefit expenses for the period from 14 October 2015 to 31 December 2016 are as follows:

	SPP	SRMP
	31 December 2016	
Gross current service costs	1,275	154
Interest cost on DBO	1,288	92
Interest income on assets	(972)	(39)
Cost recognized in the Statement of Activities	**1,591**	**207**
Actuarial loss due to assumptions	1,343	251
Return on plan assets greater than discount rate	1,000	6
Other adjustments	113	-
Foreign exchange	7	-
Cost recognized in Reserves	**2,463**	**257**

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:

	SPP	SRMP
	31 December 2016	
Discount rate	4.15%	4.15%
Rate of expected salary increase	4.50%	4.50%

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

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

The following table presents the plan assets by major category:

	SPP	SRMP
	31 December 2016	
Cash and Cash Equivalent and Commodity placements	1,187	51
Syndicated Murabaha	627	43
Managed funds and Instalment sales	4,224	687
Investments in sukuk	11,149	7
Land	2,410	6
Other (net)	542	-
Plan assets	**20,139**	**794**

2.7% of staff retirement plan assets are invested respectively within the Fund and its Affiliates as of 31 December 2016.

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

	SPP	SRMP
	31 December 2016	
Net Deficit transferred from IDB-OCR	6,194	864
Movements during the period	2,463	257
Balance at 31 December 2016	**8,657**	**1,121**

16. ASSISTANCE

The following amounts were distributed as grants from the Fund during the periods as part of the activities of the Special Assistance accounts pursuant to its objectives:

	14 October 2015 To 31 December 2016	25 October 2014 To 13 October 2015
Technical assistance grants	**13,948**	9,839
Scholarship program	**9,063**	8,691
Assistance for Islamic causes	**4,530**	4,294
Technical cooperative program	**303**	255
Relief against disasters and calamities	**46**	369
Total	**27,890**	23,448

The following amounts were incurred as program expenses from the Fund during the period as part of the activities of the Special Assistance accounts pursuant to its objectives.

	14 October 2015 To 31 December 2016	25 October 2014 To 13 October 2015
IRTI – Operational	**1,933**	1,507
Administrative	**10,478**	6,420
Technical cooperation office	**1,412**	1,183
Special Assistance office	**3,494**	2,667
Sacrificial meat project	**2,182**	1,230
Scholarship Program	**1,935**	1,753
Total	**21,434**	14,760

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

17. 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 1434H (22 May 2013) an amount equivalent to 5% but not less than USD 5 million of the IsDB-OCR net income for the period 25 October 2014 to 13 October 2015 shall be allocated to finance Technical Assistance Operations in the form of grants during the year 2016. This amounted to ID 8.5 million (2015: ID 6.0 million).
- According to the Board of Governors' resolution No. BG/5-434 dated 12 Rajab 1434H (22 May 2013) an amount equivalent to 2% but not less than USD 4 million of IsDB-OCR net income for the period 25 October 2014 to 13 October 2015 shall be allocated for the Islamic Finance Technical Assistance operations in the form of grant for the period 2016G provided that the amount to be allocated shall not be less than USD 4 million. This amounted to ID 3.4 million (2015: ID 2.8 million).
- According to the Board of Governors' resolution No. BG/3-432 dated 12 Rajab 1434H (22 May 2013) an amount equivalent to 2% but not less than USD 2 million of IsDB-OCR net income for the period 25 October 2014 to 13 October 2015 shall be allocated for financing of Scholarship Programs in the form of grants for the period 2016. This amounted to ID 3.4 million (2015: ID 2.4 million).

18. UNDISBURSED COMMITMENTS

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

	31 December 2016	13 October 2015
Special assistance grants	**50,574**	51,405
Loan to LDMC	**9,520**	12,280
Special loans	**952**	600
Technical assistance grants	**37,420**	35,010
Scholarship program	**38,840**	45,450
Total	**137,306**	144,745

19. 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 the periods are as follows:

	31 December 2016	13 October 2015
United States Dollar	**184,016**	236,711
Euro	**125,301**	188,948
Japanese Yen	**36,939**	49,637
Pound Sterling	**36,767**	33,573
Chinese Yuan	**50,498**	-
Other currencies	**20,938**	35,446

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

20. 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.

21. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
<u>**31 December 2016**</u>						
Assets						
Treasury assets						
Cash and cash equivalents	391,509	-	-	-	-	**391,509**
Commodity placements	53,632	156,569	-	-	-	**210,201**
Syndicated Murabaha	5,230	4,010	-	-	-	**9,240**
Investments in Sukuk	-	-	43,572	81,332	-	**124,904**
Investments assets						
Equity capital	-	-	-	-	20,082	**20,082**
Associates	-	-	-	-	130,274	**130,274**
Funds	-	-	-	-	65,584	**65,584**
Syndicated Ijarah	-	-	-	-	13,710	**13,710**
Loans	3,495	7,285	32,251	113,216	-	**156,247**
Other assets						
Accrued income and other assets and fixed assets	-	12,213	3,105	22,200	-	**37,518**
Total assets	**453,866**	**180,077**	**78,928**	**216,748**	**229,650**	**1,159,269**
Liabilities						
Commodity purchase liabilities	-	-	347,314	-	-	**347,314**
Accruals and other liabilities	-	43,600	13,717	11,193	-	**68,510**
Total liabilities		**43,600**	**361,031**	**11,193**	**-**	**415,824**

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

	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
13 October 2015						
Assets						
Treasury assets						
Cash and cash equivalents	45,551	-	-	-	-	45,551
Commodity placements	58,508	123,478	96,126	-	-	278,112
Syndicated Murabaha	-	5,589	-	-	-	5,589
Investments in Sukuk	5,046	3,187	127,123	-	-	135,356
Investments assets						
Equity capital	-	-	-	-	29,300	29,300
Associates	-	-	-	-	126,050	126,050
Funds	-	-	-	-	55,698	55,698
Syndicated Ijarah	-	-	-	-	12,589	12,589
Loans	3,345	3,455	32,394	125,082	-	164,276
Other assets						
Accrued income and other assets and fixed assets	3,291	10,679	445	23,188	-	37,603
Total assets	115,741	146,388	256,088	148,270	223,637	890,124
Liabilities						
Commodity purchase liabilities	80,576	-	-	-	-	80,576
Accruals and other liabilities	3,132	14,195	-	-	-	17,327
Total liabilities	83,708	14,195	-	-	-	97,903

22. CONCENTRATION OF ASSETS

- REMOVED -

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		
31 December 2016	**970,747**	**153,612**	**25,096**	**9,814**	**1,159,269**
13 October 2015	632,061	142,907	55,803	59,353	890,124

The geographical locations of assets for periods ended 31 December 2016 and 13 October 2015 reflect the countries in which the beneficiaries of the assets are located.

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 Group Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank, its affiliates and its funds risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank, its affiliates and its funds financial transactions.

a) Credit Risk

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

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

The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Liquid fund investment in commodity placements, syndicated Murabaha, Sukuk whose ratings are acceptable to the Bank per its policies. The Fund's loan and Investments in syndicated Ijarah are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks acceptable to the Bank per its policies. The Bank, its affiliates and its funds 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 GRMD, which endeavours to ensure that business lines comply with risk parameters and prudential limits established by the BED and Management of the Bank and the Fund.

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

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

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

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. Price risk

The Fund is exposed to equity price risks arising from investments. Other funds investments comprise equity investments which are held for strategic rather than trading purposes. These investments are classified as fair value 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 cash requirements. To guard against this risk, the Fund adopts a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents and Investment in syndicated Murabaha with short-term maturity of three to twelve months.

(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 periods end are as follows:

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through income statement (statement of activities):				
- Sukuk	-	3,632	-	3,632
Investments carried at fair value through net assets:				
- Investments in funds	-	48,276	-	48,276
	-	**51,908**	**-**	**51,908**
13 October 2015				
Investments carried at fair value through income statement (statement of activities):				
- Sukuk	-	16,174	-	16,174
Investments carried at fair value through net assets:				
- Investments in funds	-	48,390	-	48,390
	-	64,564	-	64,564

There were no transfers between levels during the period ended 31 December 2016 and 13 October 2015.

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. CHANGE OF THE ID COMPONENT CURRENCY

The IMF, in its review of the SDR basket composition on 30th November 2015, decided to include the Renminbi (known as Chinese Yuan) effective from 1st October 2016 as part of the SDR basket and existing criteria. Accordingly, the Renminbi (10.9%) has been included in the ID basket as a fifth currency, along with the U.S. dollar (41.8%), Euro (30.9%), Japanese yen (8.3%), and British pound (8.1%).

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized for issue in accordance with a resolution of the Board of Executive Directors on 27 Jumad Thani 1438H (26 March 2017).

PROVIDING RESOURCES
FIGHTING POVERTY
RESTORING DIGNITY

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