ISLAMIC DEVELOPMENT BANK

Financial Statements (2017)

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Auditor's Report
For the year ended 31 December 2017

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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 2017, and the income statement, statement of changes in members' equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended 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 Board 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 auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

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 2017, the gross value 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 6,509 million (31 December 2016: ID 5,830 million), against which an impairment of ID 82 million (31 December 2016: ID 76 million) has been recognised to the year end date. Please refer to notes 4, 5, 6, 14, 15 and 16 for details of these investments and corresponding impairment charge, and note 3 for details of the accounting policy adopted by the Bank for the identification and recognition of related impairment. 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 includes determination of a significant or prolonged decline in the fair value. The amount of	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 have 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 of investments.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
	impairment is measured as the difference between the carrying amount of the instrument and its expected recoverable amount. Accordingly, the Bank's management exercises judgment in determining the impairment triggering event. Due to the significance of amount involved and the exercise of significant judgment by management in the process for determination of impairment losses on 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 2017, the Bank's gross project assets and murabaha financing amounted to ID 12,726 million (31 December 2016: ID 11,746 million) and ID 333 million (31 December 2016: ID 260 million), respectively, against which an impairment of ID 236 million (31 December 2016: ID 187 million) and ID 28 million (31 December 2016: ID 39 million), respectively, has been recognised to the year end 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. Judgment is applied to determine appropriate parameters and assumptions used to calculate impairment allowances. The Bank uses historical experience, evaluating the characteristics including forward looking prospects of the sovereign and non-sovereign exposures, valuation of collaterals and the expected future cash flows. Impairment allowance is a highly subjective area due to significant level of judgment applied by the management in the determination of impairment allowances. Due to materiality of project assets and murabaha financing balances and the level of judgment involved in the calculation of impairment allowances for project assets and murabaha financing, this has been considered as a	Our audit procedures in response to the significant risk associated with the impairment on Bank's project assets and murabaha financing included assessing the appropriateness of the corresponding impairment allowances. 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 year. 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 whether impairment had been identified on a timely manner. We tested a sample of project assets and

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
	key audit matter.	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 historical 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 calculations were up to date and appropriate for the purpose. Where impairment allowance was calculated on a collective basis, we tested, on a sample basis, the completeness and accuracy of the inputs to the impairment calculation model used by management, including underlying information, the financial assessment of the 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 statements disclosures with respect to impairment on project assets and murabaha financing

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INDEPENDENT AUDITOR'S REPORT (continued)

Other information included in the Bank's 2017 Annual Report

Other information consists of the information included in the Bank's 2017 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2017 annual report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance for the financial statements

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 Board 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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.
- 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

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

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

1 Rajab 1439H
18 March 2018

Jeddah

17/407/00

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2017

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

	Notes	31 December 2017	31 December 2016
Cash and cash equivalents	4	597,950	997,942
Commodity placements	5	2,954,265	1,690,206
Sukuk investments	6	1,695,598	1,818,946
Murabaha financing	7	305,400	220,745
Treasury assets		**5,553,213**	**4,727,839**
Istisna'a assets	9	5,725,322	4,990,233
Restricted mudaraba	10	788,536	733,079
Instalment sale	11	1,549,131	1,474,980
Ijarah assets	12	2,586,611	2,500,220
Loans	13	1,840,836	1,859,915
Project assets		**12,490,436**	**11,558,427**
Equity investments	15	578,392	756,621
Investment in associates	16	772,466	808,661
Other investments		59,164	44,413
Investment assets		**1,410,022**	**1,609,695**
Property and equipment		59,116	62,675
Other assets	17	163,172	188,175
Total Assets		**19,675,959**	**18,146,811**
Liabilities			
Sukuk issued	18	9,687,329	9,008,706
Commodity purchase liabilities	19	770,387	500,788
Wakala deposits	20	380,566	-
Other liabilities	21	322,832	307,687
Total Liabilities		**11,161,114**	**9,817,181**
Members' Equity			
Paid-up capital	23	5,378,558	5,143,432
Reserves	24	2,939,310	2,879,068
Net income for the year / period		196,977	307,130
Total Members' Equity		**8,514,845**	**8,329,630**
Total Liabilities and Members' Equity		**19,675,959**	**18,146,811**
Restricted Investment Accounts	29	**80,334**	**81,319**

Notes 1 to 35 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Income Statement

For the year ended 31 December 2017

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

	Notes	For the year ended 31 Dec 2017	For the period from 14 Oct 2015 to 31 Dec 2016
Income from:			
Commodity placements		43,018	27,813
Sukuk investments	6	58,157	73,913
Murabaha financing		8,960	9,166
Treasury assets		**110,135**	**110,892**
Istisna'a assets		234,349	253,423
Restricted mudaraba		22,876	18,457
Instalment sale		53,847	71,851
Ijarah assets		242,059	309,464
Depreciation of assets under Ijarah	12	(176,604)	(247,377)
Loans		11,353	12,872
Project assets		**387,880**	**418,690**
Equity investments		80,066	141,674
(Loss) / income from investment in associates	16	(37,976)	8,790
(Loss) / income from other investments		(1,067)	2,415
Investment assets		**41,023**	**152,879**
Other income		8,073	7,239
Foreign exchange gains		799	2,249
Gains/(losses) from swaps valuation	21	27,574	(3,809)
Other income		**36,446**	**5,679**
Total income		**575,484**	**688,140**
Financing costs	18, 19	(169,615)	(160,402)
Impairment charge	14	(54,020)	(61,943)
Net income before operating expenses		**351,849**	**465,795**
Administrative expenses	25	(146,734)	(150,167)
Depreciation / amortization		(8,138)	(8,498)
Total operating expenses		**(154,872)**	**(158,665)**
Net income for the year / period		**196,977**	**307,130**

Notes 1 to 35 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Statement of Changes in Members' Equity
For the year ended 31 December 2017
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	Paid-up capital	Reserves: General reserve	Reserves: Fair value reserve	Reserves: Pension and medical obligations	Reserves: Other reserves	Total reserves	Net income	Total members' equity
Balance at 13 October 2015		**4,939,998**	**2,421,130**	**434,142**	**(87,382)**	**(16,051)**	**2,751,839**	**157,660**	**7,849,497**
Increase in paid-up capital	23	203,434	-	-	-	-	-	-	**203,434**
Net changes in fair value of investments		-	-	58,264	-	-	**58,264**	-	**58,264**
Net transfer of defined benefit obligation to IsDB affiliates	22	-	-	-	29,148	-	**29,148**	-	**29,148**
Actuarial losses relating to retirement pension and medical plans	22	-	-	-	(23,564)	-	**(23,564)**	-	**(23,564)**
Contribution to the principal amount of Islamic Solidarity Fund for Development (ISFD)	26	-	(106,632)	-	-	-	**(106,632)**	-	**(106,632)**
Hedge accounting reserve	21	-	-	-	-	1,131	**1,131**	-	**1,131**
Share in investments in associates reserve movement	16	-	-	-	-	26,575	**26,575**	-	**26,575**
Net income for the period - 14 October 2015 to 31 December 2016		-	-	-	-	-	-	307,130	**307,130**
Transfer to general reserve	24	-	157,660	-	-	-	**157,660**	(157,660)	**-**
Allocation for grants	24	-	(15,353)	-	-	-	**(15,353)**	-	**(15,353)**
Balance at 31 December 2016		**5,143,432**	**2,456,805**	**492,406**	**(81,798)**	**11,655**	**2,879,068**	**307,130**	**8,329,630**
Increase in paid-up capital	23	235,126	-	-	-	-	-	-	**235,126**
Net changes in fair value of investments		-	-	(157,715)	-	-	**(157,715)**	-	**(157,715)**
Actuarial gains relating to retirement pension and medical plans	22	-	-	-	23,489	-	**23,489**	-	**23,489**
Contribution to the principal amount of Islamic Solidarity Fund for Development (ISFD)	26	-	(36,244)	-	-	-	**(36,244)**	-	**(36,244)**
Hedge accounting reserve	21	-	-	-	-	(2,829)	**(2,829)**	-	**(2,829)**
Share in investments in associates reserve movement	16	-	-	-	-	(46,065)	**(46,065)**	-	**(46,065)**
Net income for the year ended 31 December 2017		-	-	-	-	-	-	196,977	**196,977**
Transfer to general reserve	24	-	307,130	-	-	-	**307,130**	(307,130)	**-**
Allocation for grants	24	-	(27,524)	-	-	-	**(27,524)**	-	**(27,524)**
Balance at 31 December 2017		**5,378,558**	**2,700,167**	**334,691**	**(58,309)**	**(37,239)**	**2,939,310**	**196,977**	**8,514,845**

Notes 1 to 35 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Statement of Cash Flows
For the year ended 31 December 2017
(All amounts in thousands of Islamic Dinars unless otherwise stated)

	Notes	For the year ended 31 Dec 2017	For the period from 14 Oct 2015 to 31 Dec 2016
Cash flows from operations			
Net income for the year / period		**196,977**	**307,130**
Adjustments for non-cash items:			
Depreciation / amortization		8,138	8,498
(Loss) / income from investment in associates	16	37,976	(8,790)
Provision for impairment of financial assets	14	54,020	61,943
Unrealised fair value losses on sukuk	6	1,478	3,676
Amortization of other income		(567)	(709)
Foreign exchange gains		(799)	(2,249)
Gains on disposal of investment in equity capital		(47,460)	(90,025)
Changes in accrued income		(131,032)	(129,067)
Changes in accrued expenses		25,168	8,296
Operating income before changes in operating assets and liabilities		**143,899**	**158,703**
Changes in operating assets and liabilities:			
Istisna'a assets		(728,096)	(697,625)
Restricted mudaraba		(99,218)	(172,662)
Instalment sale		(56,400)	(67,728)
Ijarah assets		(183,585)	66,576
Loans		69,420	(32,590)
Other assets		35,410	755
Other liabilities		35,394	42,396
Net cash used in operating activities		**(783,176)**	**(702,175)**
Cash flows from investing activities			
Commodity placements		(1,164,034)	21,614
Acquisition of sukuk investments	6	(214,985)	(394,630)
Proceeds from disposal/redemption of sukuk investments	6	236,723	435,268
Murabaha financing		(94,827)	62,364
Acquisition of equity investments	15	(4,700)	(2,666)
Proceeds from disposal of equity and other investments		12,281	106,569
Acquisition of other investments		(10,292)	(5,464)
Investment in associates, net	16	(49,903)	(41,272)
Dividends from associates	16	2,056	1,131
Additions to property and equipment		(4,579)	(6,918)
Net cash (used in)/from investing activities		**(1,292,260)**	**175,996**
Cash flows from financing activities			
Increase in paid-up capital		235,126	203,434
Allocation for grants	24	(27,524)	(15,353)
Contribution to the principal amount of ISFD	26	(36,244)	(106,632)
Proceeds from issuance of sukuk		2,148,038	2,259,303
Redemption of sukuk		(1,095,266)	(872,625)
Commodity purchases		72,167	(178,625)
Wakala deposits received		382,438	-
Net cash from financing activities		**1,678,735**	**1,289,502**
Net change in cash and cash equivalents		(396,701)	763,323
Exchange difference on cash and cash equivalents		(3,291)	(1,105)
Cash and cash equivalents at the beginning of the year / period		997,942	235,724
Cash and cash equivalents at the end of the year / period	4	**597,950**	**997,942**

Notes 1 to 35 form an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

Islamic Development Bank (the "Bank" or "IsDB") is a Multilateral Development Bank established pursuant to Articles of Agreement signed and ratified by its Member Countries in 1394H (1974). The Bank's headquarter is located in Jeddah, Kingdom of Saudi Arabia. The purpose of the Bank is to foster economic development and social progress of member countries and Muslim communities, in accordance with the Shari'ah principles. The Bank has 57 Member Countries (2016: 57).

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

The Bank is required to carry out its activities in accordance with its Articles of Agreement, Financial Regulations and the principles of Shari'ah. The Bank established its own Shari'ah Board whose functions are set out in Note 28.

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

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

The Board of Governors of IsDB passed a resolution BG/4-436 (Dated: 11 June 2015) adopting Solar Hijri calendar to determine the start and end dates of the financial year whilst maintaining the Lunar Hijri as the official calendar of the Bank. Thus, all financial reporting of the Bank covers the period equivalent from 1st January to 31st December. As a result of this transition of the financial year, the prior year financial statements covered a period of 444 days from 14th October 2015 to 31st December 2016 ("period ended 31 December 2016"). As a result, the corresponding figures in the income statement, statement of cashflows, statement of changes in members' equity and its related notes, covering the transition period are not comparable with the current year financial statements.

The financial statements were authorized by the Resolution of the Board of Executive Directors on 25 February 2018 (corresponding to 9 Jumada II 1439H) for submission to the Board of Governors 43rd Annual Meeting.

2. BASIS OF PREPARATION

Statement of compliance

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

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

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

Financial assets and liabilities

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

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially 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 either:	Fair value through income statement; or Amortised cost less impairment
Istisna'a and Installment sale	Amortised cost less impairment
Restricted mudaraba	Cost less impairment
Ijarah assets	Cost less depreciation and impairment
Loans	Disbursements plus accrued service fee less impairment
Equity investments	Fair value through members' equity for listed or cost less impairment for unlisted investments
Other investments	Cost less impairment
Sukuk issued	Amortised cost
Commodity purchase liabilities	Amortised cost
Wakala Deposits	Amortised cost

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legal enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under Financial Accounting Standards (FAS) issued by AAOIFI, or for gains and losses arising from a group of similar transactions.

Treasury assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Commodity placements

Commodity placements entails 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 provision for impairment.

Sukuk investments

Sukuk are debt-type instruments with determinable payments, fixed maturity dates and bear a coupon yield.

IsDB's investments (including sukuk investments) are classified under (i) Transactional Operational Portfolio (TOP), (ii) Core Operational Portfolio (COP) or (iii) Stable Portfolio (SP) (details on and definitions of these portfolios are provided in Note 31 "Liquidity risk" section).

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

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

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

Murabaha financing

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

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

Project assets

Project assets include istisna'a assets, restricted mudaraba, instalment sale, ijarah assets and loans.

Istisna'a assets

Istisna'a is an agreement whereby the Bank sells to the customer an asset which is either constructed or manufactured with agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as accrued income against assets being either constructed or manufactured.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted mudaraba

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

Instalment sale

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

Ijarah assets (Ijarah Muntahia Bittamleek)

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

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

Once constructed/manufactured or acquired, Ijarah assets are transferred to the customer at which time they are classified as Ijarah assets in use. Ijarah assets in use are stated at the aggregate cost, less the accumulated depreciation as at the reporting date and provision for impairment. Ijarah assets are depreciated on the estimated usage basis.

Loans

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

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

Investment Assets

Investment assets include Equity investments, Investments in associates and other investments.

Equity investments at fair value through members' equity

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

Listed investments measured at fair value

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Unlisted investments measured at 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 and having significant influence, such investments are accounted for and classified as investments in associates, unless they are held for sale.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Bank's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss). The Bank's share of its associates' post-acquisition profits or losses is 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.

Profit rate and cross currency profit rate swaps

The Bank uses profit-rate and cross currency profit-rate swaps for asset/liability management purposes to modify mark-up rate or currency characteristics of sukuk issued. Swaps are commitments to exchange one set of cash flows for another. For profit-rate swaps, counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency profit-rate swaps, principal and fixed and floating profit payments are exchanged in different currencies.

These instruments are initially recognized at fair value at the date the contract is entered into and are subsequently re-measured at fair value at the end of each reporting period with the resulting gain or loss recognized in the income statement, unless designated in a hedge relationship, with positive fair values recognized within other assets and those with negative fair values recognized within other liabilities.

The Bank uses widely recognized valuation models for measuring the fair value of profit-rate and cross-currency profit-rate swaps that use only observable market data and require little management judgment and estimation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

The Bank designates certain hedging instruments, i.e. profit-rate and cross-currency profit-rate swaps, in respect of foreign currency risk and profit rate risk, as either fair value hedges or cash flow hedges.

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are 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 changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in the income statement in the line item relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is 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 the income statement, and is included in the "gains/(losses) from swap valuations" line item.

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

Amounts previously recognised in the statement of changes in members' equity are reclassified to income statement in the periods when the hedged item affects the income statement, in the same line as the 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 for objective evidence that a financial asset or a group of financial assets is impaired. There are several steps required to determine the appropriate level of provisions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

There are three steps required to calculate collective impairment provision. First, each sovereign counterparty is assigned a credit risk rating from 1 to 21. The 21 scales are then grouped into 7 category starting from "A" to "G". Second, each risk rating is mapped to an expected default frequency from 0.0001% to 100% according to the internal scoring model calibrated against the international rating agency's ratings. The determination of risk ratings and expected default frequencies is reviewed and updated annually. The severity of loss is a 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) with the expected default rate/frequency and the severity of the loss rate.

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

When the non-sovereign exposure is deemed uncollectible, it is written-off against the related impairment provision and any excess loss is 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 based on the Bank's past experience, since its inception.

<u>Impairment of financial assets held at amortised cost</u>

Financial assets carried at amortized cost are tested for impairment at each reporting period. An impairment loss isassessed 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.

<u>Impairment of financial assets held at fair value through members' equity</u>

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Other financial assets

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

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 agreements.

Wakala deposits

Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital. The agent decides in respect to the investments to be made from the Wakala Capital, subject to the terms of the Wakala agreement. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Wakala agreements. Wakala fee is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

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 used 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are measured at cost less accumulated depreciation, accumulated amortization and impairment loss, if any. Land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The depreciable amount of other property 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 expenditures are capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

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

Post-employment benefit plans

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

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

The current service cost of the defined benefit plan 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 under members' equity in the year they occur. The pension liability is recognized as part of other liabilities in the statement of financial position. The liability represents the present value of the Bank's defined benefit obligations, net of the fair value of plan assets.

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

Further detail and analysis of the post-employment benefit plans are included in Note 22.

Revenue recognition

<u>Commodity placements</u>

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

<u>Investments in sukuk</u>

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, gains and losses resulting from the re-measurement of the fair values at the reporting date are also recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Income from Ijarah assets is recongnized using the effective yield basis (which represents the Ijarah rental net of depreciation against the Ijarah assets).

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.

Dividend income

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

Foreign currency

Foreign currency transactions and balances

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value (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 year) are taken to other reserves within members' equity.

Zakat and Tax

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, in accordance with the Shari'ah rules and principals as determined by the Shari'ah Board of the Bank.

Subsequent events

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

Critical accounting judgments and estimates

The preparation of financial statements in accordance with FAS issued by AAOIFI, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It alsorequires 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 thecircumstances. The most significant judgements and estimates are summarised below:

Significant judgements

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 79.0% (2016: 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 and other funds at fair value through equity is driven by the intention of management to hold these for a long-term.

Going Concern

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. CASH AND CASH EQUIVALENTS

	31 Dec 2017	31 Dec 2016
Cash in hand	8	90
Current and call accounts with Banks	339,332	109,867
Commodity placements with maturities less than 3 months (Note 5)	269,066	898,441
Less: Provision for impairment	(10,456)	(10,456)
	597,950	**997,942**

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 2017	31 Dec 2016
Placements with Islamic banks	123,420	611,752
Placements with Islamic windows of conventional banks	3,080,743	1,966,609
Accrued income	22,852	13,970
Commodity placements less than 3 months, (Note 4)	(269,066)	(898,441)
Less: Provision for impairment	(3,684)	(3,684)
	2,954,265	**1,690,206**

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	1,818,946	1,764,101
Movements during the year / period:		
Additions	214,985	394,630
Sales/redemptions	(236,723)	(435,268)
Accrued income	1,110	2,862
Unrealized fair value losses	(1,478)	(3,676)
Unrealized exchange revaluation (losses) / gains	(101,242)	96,297
Closing balance	**1,695,598**	**1,818,946**

	Counterparty rating					
	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
31 Dec 2017						
Sukuk classified at fair value though income statement:						
- Financial institutions	-	-	-	14,073	-	14,073
- Governments	-	91,230	3,002	67,047	1,444	162,723
- Other entities	-	-	52,023	-	2,691	54,714
	-	**91,230**	**55,025**	**81,120**	**4,135**	**231,510**
Sukuk classified at amortised cost:						
- Financial institutions	16,172	45,811	95,261	35,136	-	192,380
- Governments	16,860	119,679	360,163	410,256	9,574	916,532
- Other entities	-	-	337,417	17,759	-	355,176
	33,032	**165,490**	**792,841**	**463,151**	**9,574**	**1,464,088**
Total	**33,032**	**256,720**	**847,866**	**544,271**	**13,709**	**1,695,598**

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

6. SUKUK INVESTMENTS (continued)

	Counterparty rating					
31 Dec 2016	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value through 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**

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Coupon income	58,985	77,702
Realised gains/(losses) on the sale of Sukuk	650	(113)
Unrealised fair value losses	(1,478)	(3,676)
	58,157	**73,913**

7. MURABAHA FINANCING

	31 Dec 2017			31 Dec 2016		
	Sovereign	**Non-Sovereign**	**Total**	**Sovereign**	**Non-Sovereign**	**Total**
Gross amount receivable	312,363	26,498	**338,861**	174,166	88,426	262,592
Less: Unearned income	(5,170)	-	**(5,170)**	(2,532)	(282)	(2,814)
Less: Provision for impairment	(1,793)	(26,498)	**(28,291)**	(2,125)	(36,908)	(39,033)
	305,400	-	**305,400**	**169,509**	**51,236**	**220,745**

8. PROJECT ASSETS

	31 Dec 2017			31 Dec 2016		
	Sovereign	**Non-sovereign**	**Total**	**Sovereign**	**Non-sovereign**	**Total**
Istisna'a	5,681,719	106,275	**5,787,994**	4,912,751	107,345	5,020,096
Restricted mudaraba	788,536	-	**788,536**	733,079	-	733,079
Instalment sale	1,559,797	13,031	**1,572,828**	1,471,833	21,603	1,493,436
Ijarah	1,900,548	752,610	**2,653,158**	1,685,355	867,237	2,552,592
Loans	1,923,748	144	**1,923,892**	1,946,488	143	1,946,631
	11,854,348	**872,060**	**12,726,408**	**10,749,506**	**996,328**	**11,745,834**
Less: Provision for impairment	(235,430)	(542)	**(235,972)**	(186,924)	(483)	**(187,407)**
	11,618,918	**871,518**	**12,490,436**	**10,562,582**	**995,845**	**11,558,427**

Notes 9-13 provide detailed information on each type of project assets. Note 14 provides detailed information on impairment provisions on treasury, project and investment assets. Note 31 provides information on the credit quality of the treasury, project and investment assets.

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

9. ISTISNA'A ASSETS

	31 Dec 2017	31 Dec 2016
Istisna'a assets in progress	3,396,275	2,864,636
Istisna'a receivable	2,545,835	2,417,008
Accrued income	322,930	228,961
Less: unearned income	(477,046)	(490,509)
Less: Provision for impairment	(62,672)	(29,863)
	5,725,322	**4,990,233**

10. RESTRICTED MUDARABA

	31 Dec 2017	31 Dec 2016
Restricted mudaraba assets in progress	749,394	670,545
Restricted mudaraba receivable	43,428	68,919
Less: Unearned income	(4,286)	(6,385)
Restricted mudaraba assets, net	**788,536**	**733,079**

11. INSTALMENT SALE

	31 Dec 2017	31 Dec 2016
Gross amount receivable	1,774,500	1,719,105
Accrued Income	21,528	16,195
Less: Unearned income	(223,200)	(241,864)
Less: Provision for impairment	(23,697)	(18,456)
	1,549,131	**1,474,980**

12. IJARAH ASSETS

	Note	31 Dec 2017	31 Dec 2016
Assets under construction	*12.1*	1,070,672	1,284,766
Assets in use	*12.2*	3,300,484	2,812,182
Less: Accumulated depreciation of assets in use	*12.3*	(1,648,746)	(1,461,603)
Balance, net of accumulated depreciation		**2,722,410**	**2,635,345**
Less: Share of syndication participants		(69,252)	(82,753)
Balance, net of share of syndication participants		**2,653,158**	**2,552,592**
Less: Provision for impairment	*14*	(66,547)	(52,372)
		2,586,611	**2,500,220**

12.1 Assets under construction

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	1,284,766	1,192,347
Additions	274,208	255,603
Transferred to assets in use	(488,302)	(163,184)
Closing balance	**1,070,672**	**1,284,766**

12.2 Assets in use

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	2,812,182	2,648,998
Transferred from assets under construction	488,302	163,184
Closing balance	**3,300,484**	**2,812,182**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	(1,461,603)	(1,205,916)
Charge for the year / period	(176,604)	(247,377)
Share of syndication participants	(10,539)	(8,310)
Closing balance	**(1,648,746)**	**(1,461,603)**

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

13. LOANS

	31 Dec 2017	31 Dec 2016
Loans	1,923,892	1,946,631
Less: Provision for impairment	(83,056)	(86,716)
	1,840,836	**1,859,915**

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

Provision for impairment comprised of the following:

		31 Dec 2017			31 Dec 2016		
	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	26,963	1,328	**28,291**	37,434	1,599	**39,033**
Istisna'a assets	9	328	62,344	**62,672**	4,754	25,109	**29,863**
Instalment sale	11	20,577	3,120	**23,697**	15,887	2,569	**18,456**
Ijarah assets	12	28,966	37,581	**66,547**	24,912	27,460	**52,372**
Loans	13	43,901	39,155	**83,056**	46,221	40,495	**86,716**
Equity investments	15	68,108	-	**68,108**	58,066	-	**58,066**
Other investments		-	-	-	3,487	-	**3,487**
		202,983	**143,528**	**346,511**	**204,901**	**97,232**	**302,133**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2017			Period ended 31 Dec 2016		
	Specific	**Collective**	**Total**	**Specific**	**Collective**	**Total**
Opening balance	204,901	97,232	**302,133**	175,854	67,586	**243,440**
Charge for the year	7,724	46,296	**54,020**	32,297	29,646	**61,943**
Disposals / Write offs	(9,642)	-	**(9,642)**	(3,250)	-	**(3,250)**
Closing balance	**202,983**	**143,528**	**346,511**	**204,901**	**97,232**	**302,133**

As at 31 December 2017 and 31 December 2016, the following is the ageing of the overdue instalments:

	31 Dec 2017						
In months	**0-6**	**7 - 12**	**13 - 24**	**Over 24**	**Total**	**Sovereign**	**Non Sovereign**
Murabaha financing	527	-	-	29,337	**29,864**	**527**	**29,337**
Istisna'a assets	5,307	119	8	148	**5,582**	**5,582**	**-**
Instalment sale	4,076	2,407	4,438	11,501	**22,422**	**21,642**	**780**
Ijarah assets	3,281	2,066	3,903	21,035	**30,285**	**30,211**	**74**
Loans	4,701	6,079	5,708	11,327	**27,815**	**27,776**	**39**
Total	**17,892**	**10,671**	**14,057**	**73,348**	**115,968**	**85,738**	**30,230**

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

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

	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**

15. EQUITY INVESTMENTS

	31 Dec 2017	31 Dec 2016
Equity investments:		
Listed	494,319	663,666
Unlisted	152,181	151,021
	646,500	**814,687**
Less: Provision for impairment	(68,108)	(58,066)
	578,392	**756,621**

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	756,621	721,454
Movements during the year/ period:		
Additions	4,700	2,666
Disposals	(12,281)	(16,544)
Provision for impairment	(10,042)	(9,219)
Net unrealised fair value (losses)/gains	(160,606)	58,264
Closing balance	**578,392**	**756,621**

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Opening balance	808,661	733,155
Additions	49,903	41,272
Foreign currency translation and other movements	(46,066)	26,575
Share of net results	(36,345)	2,546
Net (loss)/gain on acquisition and disposal of associates	(1,631)	6,244
Cash dividends received	(2,056)	(1,131)
Closing balance	**772,466**	**808,661**

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

16. INVESTMENT IN ASSOCIATES (continued)

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2017	31 Dec 2016
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	20.00%	20.00%
Bosnia Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	31.55%	31.55%
Bank Muamalat Indonesia	Indonesia	Banking	23.71%	23.71%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
International Leasing and Investment Company (ILIC)	Kuwait	Investment Co.	31.24%	31.24%
Sonali Paper & Board Mills	Bangladesh	Manufacturing	-	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	45.08%	45.52%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	36.48%	36.66%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	38.60%	38.60%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.60%	26.60%
The Islamic Infrastructure Fund L.P.	Saudi Arabia	Investment Co.	49.40%	49.40%
Saudi SME Fund Al- Malaz Capital	Saudi Arabia	Investment Co.	25.00%	25.00%
Al Ebda Microfinance Institute	Sudan	Private Sector Investment	25.00%	25.00%

The financial position, revenue and results of associates, based on their latest available financial statements as at the statement of financial position date were as follows:

	Year	IsDB's Share of investment	Total assets	Total liabilities	Revenue	Net income/ (loss)
Allied Cooperative Insurance Group	2017	5,160	101,986	76,184	54,386	1,711
	2016	5,025	118,385	93,262	63,780	2,222
Bosna Bank International	2017	27,096	364,049	304,440	14,150	2,583
	2016	24,257	328,000	274,638	16,901	3,613
Islamic Bank of Guinea	2017	2,713	44,703	36,103	2,963	215
	2016	2,655	39,848	31,431	3,935	623
Bank Muamalat Indonesia	2017	38,164	3,026,561	2,827,600	198,856	1,847
	2016	38,834	3,090,848	2,888,644	224,265	(22,446)
Syrikat Takaful Indonesia	2017	1,246	90,983	86,262	6,010	61
	2016	1,773	70,967	64,244	10,527	147
Sonali Paper & Board Mills	2017	-	-	-	-	-
	2016	128	10,897	10,379	17,357	219
Islamic Bank of Senegal	2017	13,459	400,264	359,800	6,721	4,565
	2016	11,757	344,036	308,688	25,694	6,861
TIIC	2017	-	-	-	-	-
	2016	99	548	59	14	(86)
ICD	2017	336,336	2,095,706	1,349,631	(44,464)	(76,822)
	2016	340,945	1,916,239	1,154,850	50,796	14,504
ITFC	2017	231,627	658,728	23,733	31,271	9,492
	2016	246,253	676,032	21,539	42,473	7,259
APIF	2017	23,609	62,313	1,151	3,354	1,992
	2016	24,964	66,952	2,278	4,219	1,467
IsDB Infrastructure Fund II	2017	33,368	124,272	95	1,364	(35,569)
	2016	39,538	115,446	84	719	(5,965)
The Islamic Infrastructure Fund L.P.	2017	43,713	87,091	46	387	(17,437)
	2016	54,118	85,562	82	13,127	12,359
Saudi SME Fund Al- Malaz Capital	2017	15,311	61,722	479	4,791	(2,676)
	2016	17,494	69,140	481	2,972	(1,080)

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

16. INVESTMENT IN ASSOCIATES (continued)

	Year	IsDB's Share of investment	Total assets	Total liabilities	Revenue	Net income/ (loss)
Al Ebda Microfinance Institute	2017	661	10,535	8,606	2,179	49
	2016	821	12,480	9,703	2,456	283
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 IsDB's share of investment based on the quoted marketprice at 31 December 2017 is ID 14.545 million (2016: ID 11.997 million).

17. OTHER ASSETS

	31 Dec 2017	31 Dec 2016
Accrued income – Ijara and restricted mudaraba	112,423	96,916
Accrued income – Investments in sukuk, carried at fair value through income statement	2,310	5,011
Related party balances (Note 30)	9,772	55,068
Swaps designated in hedge accounting relationships (Note 21(a))	-	2,266
Staff loans and advances	31,197	26,300
Others	7,470	2,614
	163,172	**188,175**

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2017 and 31 December 2016, sukuk issued were as follows:

	Date of issue	Issue currency	ID equivalent 31 Dec 2017	ID equivalent 31 Dec 2016	Maturity date	Rate
Listed	26/06/2012	USD	-	595,125	26/06/17	1.357 % Fixed
	12/04/2017	USD	881,197	-	12/04/22	2.393 % Fixed
	26/09/2017	USD	881,871	-	26/09/22	2.261 % Fixed
	04/06/2013	USD	702,881	744,352	04/06/18	1.535 % Fixed
	06/03/2014	USD	1,059,072	1,121,701	06/03/19	1.8125 % Fixed
	17/07/2014	USD	707,945	749,948	17/07/19	1.8118 % Fixed
	25/09/2014	USD	1,058,704	1,121,290	25/09/19	2.111 % Fixed
	12/03/2015	USD	705,565	747,405	12/03/20	1.831 % Fixed
	10/03/2016	USD	1,022,247	1,093,949	10/03/21	1.775 % Fixed
	29/02/2016	EUR	253,168	235,725	01/03/23	0.255% Fixed
	07/12/2016	USD	878,306	930,342	07/12/21	2.263% Fixed
			8,150,956	**7,339,837**		
Not listed	20/09/2010	SAR	175,192	182,822	20/09/20	2.55 % Fixed
	20/09/2010	SAR	176,751	186,669	20/09/20	6 Month LIBOR + 15 BP
	30/01/2012	GBP	-	91,648	30/01/17	3 Month LIBOR +.50%
	11/10/2012	USD	-	372,906	11/10/17	3 Month LIBOR + 0.30%
	22/04/2014	USD	-	74,826	22/04/17	0.90 % Fixed
	27/02/2017	EUR	126,453	-	27/02/24	0.35 % Fixed
	24/02/2017	EUR	253,353	-	24/02/24	0.374 % Fixed
	20/10/2014	EUR	252,771	235,313	20/10/18	0.330 % Fixed
	13/07/2015	EUR	84,318	78,506	13/07/20	0.31 % Fixed
	29/06/2016	MYR	60,404	58,167	28/06/24	4.360 % Fixed
	15/09/2015	EUR	84,246	78,438	15/09/20	0.23 % Fixed
	09/10/2015	EUR	252,619	235,192	09/10/20	0.318 % Fixed
	19/09/2016	USD	70,266	74,382	19/09/21	3 Month LIBOR + 0.43%
			1,536,373	**1,668,869**		
			9,687,329	**9,008,706**		

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.

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

18. SUKUK ISSUED (continued)

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 year ended 31 December 2017 amounted to ID 169.2 million (2016: ID 156.5 million). Sukuk issued, amounting to ID 1,228.8 million have been designated as hedged items. The accumulated amount of hedge adjustment included in the carrying amount of the fair value hedged sukuk as at 31 December 2017, amounts to ID 37.1 million (2016: ID 37 million).

19. COMMODITY PURCHASE LIABILITIES

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 ID 770.4 million as of 31 December 2017 (2016: ID 500.8 million) represents the purchase price under these agreements. Financing cost incurred on commodity purchases during 2017 was ID 0.4 million (2016: ID 3.9 million)

20. WAKALA DEPOSITS

During the year ended 31 December 2017, the Bank received deposits from the below related parties under Wakala agreements as follows:

Affiliates	Currency	ID Equivalent in '000	Placement Date	Maturity Date
Islamic Solidarity Fund for Development	USD	140,437	12/21/2017	6/21/2023
Islamic Solidarity Fund for Development	USD	210,655	12/21/2017	6/21/2023
Islamic Coorporation for the Insurance of Investment and Export Credit	EUR	29,474	12/27/2017	12/30/2020

These Wakala deposits carry fee ranging upto 2.2%, per annum.

21. OTHER LIABILITIES

	31 Dec 2017	31 Dec 2016
Payables against commodity purchase liabilities	15,625	10,279
Related party balances (Note 30)	9,816	1,904
Investment deposits	3,435	12,245
Accrued expense	15,410	3,913
Deferred income – Ijarah	110,003	44,539
Accrued staff retirement and medical benefit scheme liability (Note 22)	72,531	87,289
Swaps designated in hedge accounting relationships – (Note 21 (a))	49,859	58,077
Other Swaps (Note 21(a))	-	39,962
Deferred grant income	8,927	9,494
Others	37,226	39,985
	322,832	**307,687**

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

21. OTHER LIABILITIES (continued)

21(a) SWAPs

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

31 Dec 2017		Hedging relationships			Non-hedging relationships	
		Equity	Income Statement			
Swaps	Notional amount	Hedge accounting reserve	Financing cost	Gain on changes in fair values	Gain / (loss) on changes in fair values	Total net gain from swap valuation
Fair value hedges	1,228,820	(180)	(732)	11,164	-	11,164
Cash flow hedges	175,545	(1,518)	(3,331)	16,410	-	16,410
		(1,698)	**(4,063)**	**27,574**	**-**	**27,574**

	Statement of Financial Position			
	Swaps designated in hedge relationships		Swaps not designated in hedge relationships	
	Liability	Asset	Liability	Asset
Fair value hedges	(37,623)	-	-	-
Cash flow hedges	(12,236)	-	-	-
	(49,859)	**-**	**-**	**-**

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)**

	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)**	**-**

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

21. OTHER LIABILITIES (continued)

Losses incurred on swaps not designated in hedge relationships for the period ended 31 December 2016 can be analyzed as follows:

	Notional amount	Fair value gains/(losses)		
		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)**

22. POST EMPLOYMENT BENEFIT PLANS

IsDB Group staff retirement plan comprises of a defined staff pension plan (SPP) and a staff retirement medical plan (SRMP) (collectively referred to as staff retirement plans (SRPs)). Every person employed by the Bank and its Affiliates on 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 13 October 2015. During the period ended 31 December 2016, a decision was taken by the Pension Committee of IsDBG to share the Defined Benefit Obligation (DBO) and Pension Assets resulting in the Net Actuarial Deficit to be allocated to all the entities in the Group. The deficit was agreed and shared with all the entities within the Group during the period ending 31December 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 employment policies of the Bank and its Affiliates, is eligible to participate in the SPP, upon completion of the probationary period ofservice, generally 1 year.

The main features of the SPP are:

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

Under the SPP, the employee contributes at a rate of 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)

22. 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	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Benefit obligation opening balance	247,047	310,235	16,960	20,412
Allocation Defined Benefit Obligation (DBO) to IsDB affiliates	-	(103,128)	-	(6,969)
Current Service costs	11,803	11,924	1,093	1,223
Profit expense on Defined Benefit Obligation (DBO)	10,313	10,770	726	785
Plan participations contributions	3,812	4,825	208	264
Disbursements from Plan Assets	(11,478)	(9,521)	(230)	(245)
Net actuarial (gain)/loss	(14,230)	10,802	(385)	748
Currency translation (gain)/loss	(13,849)	11,140	(988)	742
Benefit obligation closing balance	**233,418**	**247,047**	**17,384**	**16,960**

The movements in the plan assets are as follows:

	SPP		SRMP	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Fair value of plan assets opening balance	169,517	234,072	7,201	9,193
Allocation of Pension Assets to IsDB affiliates	-	(77,810)	-	(3,139)
Other adjustments	1,025	(944)	-	-
Profit income on Plan Assets	6,937	8,128	299	338
Return on plan assets greater /(less) than discount rate	3,184	(8,361)	14	(55)
Plan participations contributions	3,812	4,825	208	264
Employer contribution	7,592	10,255	376	513
Disbursements from Plan Assets	(11,478)	(9,521)	(230)	(245)
Currency translation (loss)/gain	(9,765)	8,873	(421)	332
Fair value of plan assets closing balance	**170,824**	**169,517**	**7,447**	**7,201**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 21)	**62,594**	**77,530**	**9,937**	**9,759**

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year ended 31 December 2017 and 31 December 2016 for the Bank and its Affiliates comprised the following:

	SPP		SRMP	
	Year ended 31 Dec 2017	Period ended 31 Dec 2016	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Current service costsProfit	11,803	11,924	1,093	1,223
expense on DBO Profit	10,313	10,770	726	785
income on assets	(6,937)	(8,128)	(299)	(339)
Amounts recognized in income statement	**15,179**	**14,566**	**1,520**	**1,669**
Actuarial (gain)/loss due to assumptions	(14,230)	10,802	(385)	748
Return on plan assets (less)/greater than discount rate	(3,184)	8,361	(14)	55
Other adjustments	(1,025)	944	-	-
Currency translation (gain)/loss	(4,084)	2,266	(567)	388
Amounts recognized in statement of changes of equity	**(22,523)**	**22,373**	**(966)**	**1,191**

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

22. POST EMPLOYMENT BENEFIT PLANS (continued)

Principal assumptions used in the actuarial valuations are as follows:

	SPP		SRMP	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Discount rate	4.00%	4.15%	4.00%	4.15%
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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Cash and cash equivalent and commodity placements	24,201	9,994	962	460
Syndicated Murabaha	878	5,275	462	393
Managed funds and instalment sales	38,351	35,549	-	-
Investments in sukuk	89,205	93,834	5,764	6,235
Land	19,237	20,281	-	-
Others (net)	(1,048)	4,584	259	113
Plan assets	**170,824**	**169,517**	**7,447**	**7,201**

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

	31-Dec-17	31-Dec-16	13-Oct-15	24-Oct-14	4-Nov-13
Present value of defined benefit obligation	(233,418)	(247,047)	(310,235)	(270,133)	(225,811)
Fair value of plan assets	170,824	169,517	234,072	186,917	141,345
Plan deficit	**(62,594)**	**(77,530)**	**(76,163)**	**(83,216)**	**(84,466)**

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

	31-Dec-17	31-Dec-16	13-Oct-15	24-Oct-14	4-Nov-13
Present value of defined benefit obligation	(17,384)	(16,960)	(20,412)	(17,318)	(13,466)
Fair value of plan assets	7,447	7,201	9,193	7,618	6,752
Plan deficit	**(9,937)**	**(9,759)**	**(11,219)**	**(9,700)**	**(6,714)**

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

	SPP	SRMP	31 Dec 2017 Total	31 Dec 2016 Total
Opening balance	73,218	8,580	81,798	87,382
Movements during the year / period	(22,523)	(966)	(23,489)	(5,584)
Closing balance	**50,695**	**7,614**	**58,309**	**81,798**

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

23. PAID UP CAPITAL

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

The capital of IsDB as at 31 December 2017 was as follows:

		31 Dec 2017	31 Dec 2016
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,410 (31 December 2016: 5,061,410) shares of ID10,000 each	50,614,060	50,614,060
Less: available for subscription		(426,180)	(517,070)
Subscribed capital		50,187,880	50,096,990
Callable capital		(40,815,980)	(40,725,090)
Called up capital		**9,371,900**	**9,371,900**
Amount not yet due		(3,868,440)	(4,018,987)
Instalments overdue		(124,902)	(209,481)
Paid up capital		**5,378,558**	**5,143,432**

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2017 ID 0.59 (31 December 2016: ID 0.62) of total accumulated reserves.

24. RESERVES

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

General reserve

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors until this reserve equals 25% of the Bank's subscribed capital. As at 31 December 2017, general reserve made up 5.39% of the subscribed capital (31 December 2016: 4.9%). 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 year ended 31 December 2017:

- the higher of 5% of the Bank's normalized net income for the period ended 31 December 2016 and USD 5 million was allocated to finance technical assistance operations in the form of grants amounting to ID 15.3 million (31 December 2016: ID 8.5 million).

- higher of 2% of the Bank's normalized net income for the period ended 31 December 2016 and USD 2 million was allocated to the merit scholarship program in the form of grants amounting to ID 6.1 million (31 December 2016: ID 3.4 million).

- higher of 2% of the Bank's normalized net income for the period ended 31 December 2016 and USD 4 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 6.1 million (31 December 2016: ID 3.4 million).

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

25. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Staff cost	108,676	122,864
Business travel	4,768	5,492
Consultancy fees	13,384	5,637
Other	19,906	16,174
	146,734	**150,167**

26. 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 2017**	**31 Dec 2016**
Istisna'a assets	5,470,617	5,744,116
Restricted mudaraba	38,010	130,523
Instalment sale	459,564	590,308
Loans	688,327	721,768
Ijarah assets	1,684,429	1,541,033
Capital contributions to ICD	131,659	185,966
Equity investments - capital contributions	80,400	330,909
Principal contributions to ISFD	-	37,193
	8,553,006	**9,281,816**

Capital contributions to ISFD

The Islamic Solidarity Fund for Development ("ISFD") was established pursuant to the decision taken at the Third Extraordinary session of the 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 USD 10.0 billion and the Bank has committed to contribute USD 1.0 billion, payable in 10 annual instalments of USD 100.0 million each year. The Bank as at 31 December 2017 has paid all the ten instalments amounting to USD 1.0 billion (31 December 2016: USD 950 million).

Capital contributions to ICD

IsDB Board of Executive Director by its resolution No.BED/18/06/437/(311)/55 approved IsDB's participation in the second capital increase of ICD and shall subscribe to 50% of the shares allotted to IsDB and Financial Institutions, not exceeding USD 250 million, subject to maximum of the 34% total subscribed capital of ICD. IsDB shall pay this amount over 4 equal annual instalments starting from financial year ending 2017. During 2017, the Bank paid it's first instalment of USD 62.5 million.

27. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH

Income from transactions not approved by the Shari'ah Board of the IDB Group is not recorded in the income statement of the Bank, but transferred to Special Account Resources Waqf Fund in accordance with Shari'ah rules and principles as determined by the Shari'ah Board of the IDB Group.

Income realised during the year from transactions which are not approved by the Shari'ah Board of the IDB Group amounted to ID 0.2 million (2016: ID 0.12 million).

28. SHARI'AH BOARD

The Bank's business activities are subject to the supervision of the IDB Group Shari'ah Board consisting of members appointed by the Chairman of the IDB Group in consultation with the Board of Executive Directors of IDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IDB. The members of the Board are appointed for 3 years and may be reappointed.

The Board has the following functions:

- to consider all products introduced by the Bank, its affiliates and trust funds for use for the first time and rule on their conformity with the principles of the 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.

29. 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 investment accounts realised from their investments and the total obligation as at 31 December 2017 amounted to ID 80.3 million (31 December 2016: ID 81.3 million).

30. RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of its activities, the Bank transacts with related parties defined as Member Countries, affiliates, associate entities, trust funds and other 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 and the entities controlled or influenced by such parties.

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

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

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	31 Dec 2017		31 Dec 16	
	Assets	**Liabilities**	**Assets**	**Liabilities**
World Waqf Foundation	-	-	221	-
Awqaf Properties Investment Fund	-	(1,682)	798	-
Unit Investment Fund	-	(327)	-	(913)
Islamic Corporation for the Insurance of Investments and Export Credit	3,891	-	1,428	-
Special Account Resources Waqf Fund	-	(1,766)	33,087	-
IsDB Special Assistance Fund	-	(60)	201	-
IsDB Pension Fund	-	(3,649)	-	(392)
IsDB Medical Fund	-	(11)	-	(30)
Al-Aqsa Fund	1,088	-	372	-
Islamic Corporation for Development of Private Sector	1,939	-	8,636	-
Arab Bank for Economic Development in Africa	39	-	40	-
International Islamic Trade Finance Corporation	1,498	-	1,551	-
Fael Khair Bangladesh	8	-	-	(11)
Islamic Solidarity Fund for Development	-	(2,321)	-	(558)
Sacrificial Meat Project	69	-	130	-
GCC Program for Reconstruction of Gaza	5	-	-	-
Dueauville Partnership	1	-	-	-
Fael Khair Programs	1,077	-	8,200	-
Lives and Livelihoods Fund	157	-	404	-
Total	**9,772**	**(9,816)**	**55,068**	**(1,904)**

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

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

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

(b) During the year ended 31 December 2017, the Bank received Wakala Deposits from its affiliates, namely; Islamic Solidarity Fund for Development and Islamic Corporation for the Insurance of Investment and Export Credit amounting to ID 351.1 million (USD 500 million) and ID 29.5 million (EUR 35 million), respectively (Note 20).

(c) During the year ended 31 December 2017, the Bank, sold its sukuk amounting to ID 37.4 million equivalent to USD 53 million (2016: ID 203.8 million equivalent to USD 274 million) to Islamic Solidarity Fund for Development.

(d) During the period ended 31 December 2016, the Bank, sold its sukuk amounting to ID 127.2 million equivalent to USD 171 million to Fael Khair Programs.

(e) Compensation of Key management and expenses of the Board of Executive Directors

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

	Year ended 31 Dec 2017	Period ended 31 Dec 2016
Board of Executive Directors expenses	1,826	1,594
Salaries and other short-term benefits	2,300	1,594
Accumulated post-employment benefits	95	2,987

31. RISK MANAGEMENT

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

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

The highest level of risk management oversight in the Bank is assured by the Board of Executive Directors and is delegated to the Bank's President. The Board is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Audit Committee of the Board regularly reviews trends in the Bank's riskprofiles 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 areperformed independently by GRMD, which ensures that business departments comply with relevant guidelines andprudential limits established by the Board of Executive Directors ("BED") and Management. The Bank uses a 21-scale riskrating system, with "1" being the best rated exposure and corresponding to "AAA" on the international rating agenciesscale and 21 as selective default. The 21 scales are again grouped into 7 category starting from "A" to "G".

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

The Bank's total outstanding gross exposure as at the yearend on its sovereign and non-sovereign project assets and Murabaha financing are summarized below:

31 Dec 2017

Country	Total outstanding exposure	% of total outstanding exposure
Turkey	1,431,379	11.0%
Pakistan	1,096,116	8.4%
Iran	893,430	6.8%
Morocco	816,434	6.3%
Indonesia	683,550	5.2%
Egypt	510,913	3.9%
Tunisia	505,422	3.9%
Bahrain	491,128	3.8%
Bangladesh	427,143	3.3%
Azerbaijan	398,513	3.1%
Total top 10 countries	***7,254,028***	***55.5%***
Total other countries	***5,806,071***	***44.5%***
Total	**13,060,099**	**100.00%**
Total sovereign exposure	12,161,540	93.1%
Total non-sovereign exposure	898,559	6.9%
Total	**13,060,099**	**100.00%**

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	**12,005,612**	**100.0%**
Total sovereign exposure	10,921,140	91.0%
Total non-sovereign exposure	1,084,472	9.0%
Total	**12,005,612**	**100.0%**

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

Sovereign credit risk

When the Bank finances sovereign entities, it requires a full sovereign guarantee or the equivalent. In extending such financing, the Bank is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk, taking into consideration itspreferred 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 toguidelines 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 2017		31 Dec 2016	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	32	0.0%	-	-
Category "B"	3,269,557	26.9%	3,845,693	35.2%
Category "C"	3,129,462	25.7%	1,864,977	17.1%
Category "D"	3,491,525	28.7%	3,320,346	30.4%
Category "E"	1,291,930	10.6%	1,117,877	10.2%
Category "F"	390,710	3.2%	475,971	4.4%
Category "G"	588,324	4.9%	296,276	2.7%
Total	**12,161,540**	**100.0%**	**10,921,140**	**100.0%**

Non-sovereign credit risk

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

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

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

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

	31 Dec 2017		31 Dec 2016	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	390	0.0%	390	0.0%
Category "B"	269,838	30.0%	297,279	27.4%
Category "C"	331,941	37.0%	413,227	38.1%
Category "D"	224,916	25.0%	284,143	26.2%
Category "E"	44,470	5.0%	52,426	4.9%
Category "G"	27,002	3.0%	37,007	3.4%
Total	**898,557**	**100.0%**	**1,084,472**	**100.0%**

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

31. RISK MANAGEMENT (continued)

Treasury assets

The assets subject to credit risk within treasury assets include cash and cash equivalents, commodity 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 (gross cash and cash equivalents and commodity placements):

	31 Dec 2017		31 Dec 2016	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	202	0.0%	351,445	13.0%
Category "B"	399,777	11.2%	2,198,761	81.4%
Category "C"	2,137,993	60.0%	135,500	5.0%
Category "D"	913,194	25.6%	-	0.0%
Category "E"	75,465	2.1%	-	0.0%
Category "G"	39,724	1.1%	16,582	0.6%
Total	**3,566,355**	**100.0%**	**2,702,288**	**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 2017	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	184,949	4,238,763	-	1,129,501	**5,553,213**
Project assets	4,164,806	8,017,112	308,430	88	**12,490,436**
Investment assets	71,318	1,332,284	5,058	1,362	**1,410,022**
Other assets	20,533	201,755	-	-	**222,288**
Total assets:	**4,441,606**	**13,789,914**	**313,488**	**1,130,951**	**19,675,959**
%	**23%**	**70%**	**2%**	**5%**	**100%**

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%**

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

31 Dec 2017	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	5,122,342	-	-	**5,122,342**	**26%**
Transport and telecom	-	3,310,856	625	-	**3,311,481**	**17%**
Agriculture	-	1,296,385	-	-	**1,296,385**	**7%**
Industry and mining	-	355,307	353,134	-	**708,441**	**3%**
Social Services	-	1,698,046	13,489	-	**1,711,535**	**9%**
Financial Institutions	4,631,471	-	207,569	-	**4,839,040**	**24%**
Governments	206,453	-	-	-	**206,453**	**1%**
Trade	305,400	-	-	-	**305,400**	**2%**
Other	409,889	707,500	835,205	222,288	**2,174,882**	**11%**
Total assets:	**5,553,213**	**12,490,436**	**1,410,022**	**222,288**	**19,675,959**	**100%**

31 Dec 2016	Treasury Assets	Project Assets	Investment Assets	Other Assets	Total	%
Public utilities	-	4,611,253	-	-	4,611,253	**25%**
Transport and telecom	-	3,149,044	-	-	3,149,044	**17%**
Agriculture	-	1,188,478	-	-	1,188,478	**7%**
Industry and mining	-	412,353	-	-	412,353	**2%**
Social Services	-	1,546,188	-	-	1,546,188	**9%**
Financial Institutions	3,634,764	-	-	-	3,634,764	**20%**
Governments	602,782	-	-	-	602,782	**3%**
Trade	220,745	-	-	-	220,745	**1%**
Other	269,548	651,111	1,609,695	250,850	2,781,204	**15%**
Total assets:	**4,727,839**	**11,558,427**	**1,609,695**	**250,850**	**18,146,811**	**100%**

Liquidity Risk

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

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

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

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

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

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

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

These portfolios are sub-divided into currency specific sub-portfolios.

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

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

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 was as follows:

31 Dec 2017	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	597,950	-	-	-	-	-	**597,950**
Commodity placements	798,211	1,173,669	763,756	218,629	-	-	**2,954,265**
Sukuk Investments	62,178	-	64,247	807,539	761,634	-	**1,695,598**
Murabaha Financing	11,089	55,241	239,070	-	-	-	**305,400**
Istisna'a assets	106,684	75,318	209,180	2,066,594	3,267,546	-	**5,725,322**
Restricted Mudaraba	5,798	-	15,593	257,732	509,413	-	**788,536**
Instalment sale	45,766	34,313	73,985	619,421	775,646	-	**1,549,131**
Ijarah assets	65,141	201,356	105,592	860,353	1,354,169	-	**2,586,611**
Loans	55,218	57,940	61,045	555,541	1,111,092	-	**1,840,836**
Equity investments	-	-	-	-	-	578,392	**578,392**
Investments in associates	-	-	-	-	-	772,466	**772,466**
Other investments	-	-	-	-	-	59,164	**59,164**
Property and equipment	-	-	-	-	-	59,116	**59,116**
Other assets	52,678	4,814	3,525	37,102	65,053	-	**163,172**
Total Assets	**1,800,713**	**1,602,651**	**1,535,993**	**5,422,911**	**7,844,553**	**1,469,138**	**19,675,959**
Liabilities							
Sukuk issued	-	702,881	252,771	8,038,299	693,378	-	**9,687,329**
Commodity purchase liabilities	-	-	-	770,387	-	-	**770,387**
Wakala deposits	-	-	-	29,474	351,092	-	**380,566**
Other liabilities	42,993	104,145	2,922	61,875	110,897	-	**322,832**
Total Liabilities	**42,993**	**807,026**	**255,693**	**8,900,035**	**1,155,367**	-	**11,161,114**

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 Dec 2016	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturit	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	-	-	-	-	-	756,621	**756,621**
Investments in associates	-	-	-	-	-	808,661	**808,661**
Other investments	-	-	-	-	-	44,413	**44,413**
Property and equipment	-	-	-	-	-	62,675	**62,675**
Other assets	71,611	3,427	4,863	23,479	84,795	-	**188,175**
Total Assets	**2,196,697**	**1,070,318**	**482,332**	**3,435,635**	**9,289,459**	**1,672,370**	**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**

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 21). These hedging instruments are used to modify the currency characteristics of the sukuk issued and assets of the Bank.

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

31. RISK MANAGEMENT (continued)

Market Risk (continued)

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

	31 Dec 2017	31 Dec 2016
USD (1ID = 1.42413 USD)	1,300,563	1,378,269
EUR (1ID = 1.18747 EUR)	1,003,000	890,899
Pound Sterling (1ID = 1.05402 GBP)	241,076	217,006
Japanese Yen (1ID = 160.785 JPY)	218,557	195,603
Chinese Yuan (1ID = 9.27343 CNY)	333,007	282,298
Others	7,319	12,282
	3,103,522	**2,976,357**

(ii) Mark-up risk

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

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

	31 Dec 2017	31 Dec 2016
Commodity placements	1.8%	0.9%
Sukuk investments	3.3%	3.5%
Murabaha financing	3.2%	3.2%
Istisna'a assets	4.4%	4.6%
Instalment sale	3.6%	4.2%
Ijarah assets	2.6%	2.1%
Sukuk issued	1.8%	1.6%
Commodity purchase liabilities	0.1%	0.5%

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

(iii) Equity price risk

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

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

Operational Risk

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

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

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

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

31 Dec 2017	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk)	231,510	-	-	**231,510**
Equity type Investments at fair value through equity:				
Equity investments	485,971	-	-	**485,971**
Total financial assets at fair value	**717,481**	-	-	**717,481**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	**49,859**	-	**49,859**
Sukuk liability (Fair value hedged)	-	**1,228,820**	-	**1,228,820**
Total financial liabilities	-	**1,278,679**	-	**1,278,679**

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 investments	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)	-	98,039	-	98,039
Sukuk liability (Fair value hedged)	-	1,276,771	-	1,276,771
Total financial liabilities at fair value	-	**1,374,810**	-	**1,374,810**

During the year ended 31 December 2017 and period ended 31 December 2016, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

33. 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 Standards (FAS) 22 "Segment Reporting" since the Board of Executive Directors monitors the performance and financial position of the Bank as a whole, without distinguishing between the developmental activities and the ancillary supporting liquidity management activities or geographical distribution of its development 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 31.

34. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current year presentation, which are not material in nature.

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards have been issued except for FAS 29 “sukuk issuances” which is in the stage of exposure draft and is expected to be issued in near future. The Bank intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

(i) Financial Accounting Standard – 30 “Impairment and credit losses”

FAS 30 will be replacing FAS 11 “Provisions and Reserves” and has been developed on the new approach towards identification and recognition of impairment and credit losses, in particular the forward looking expected losses approach, as introduced under International Financial Reporting Standard (IFRS) 9 “Financial Instruments”. FAS 30 shall also apply to off-balance sheet exposures.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

(ii) Financial Accounting Standard – 28 “Murabaha and other deferred payment sales”

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

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

(iii) Financial Accounting Standard – 29 “Sukuk Issuances”

The standard aims to provide guidance for accounting, classification and presentation for Sukuk issuances primarily based on the Sukuk structure, which may include on balance sheet, as well as, off balance sheet accounting. These classifications depend on the control of such assets comprising of power to control and nature of control i.e. for risks and rewards as well as varying benefits to the institution or the fiduciary responsibility on behalf of the Sukuk-holders. This standard shall be applied for accounting and financial reporting for Sukuk issuance in the books of the issuer.

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

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

Financial Statements and Independent Auditors' Report
For the year ended 31 December 2017

ISLAMIC DEVELOPMENT BANK
SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

Financial Statements

For the year ended 31 December 2017

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Building a better working world

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INDEPENDENT AUDITORS' 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 2017 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements and the Fund's undertaking to operate in accordance with Shari'ah are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 December 2017, and of the results of its operations and its cash flows for the year then ended in accordance with the Shari'ah Rules and Principles as determined by the Shari'ah Board of the Islamic Development Bank and the financial accounting standards, issued by AAOIFI.

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

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

25 February 2018
9 Jumada'II 1439H

Jeddah
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ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

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

	Notes	31 December 2017	31 December 2016
Assets			
Treasury assets			
Cash and cash equivalents	4	47,162	391,509
Commodity placements	5	367,099	210,201
Syndicated Murabaha	6	13,778	9,240
Investments in Sukuk	7	91,983	124,904
Investments assets			
Equity capital	8	21,968	20,082
Associates	9	114,743	130,274
Funds	10	69,896	65,584
Syndicated Ijarah	11	13,266	13,710
Loans	12	148,729	156,247
Other assets			
Other assets		12,866	15,318
Fixed assets		21,011	22,200
Total assets		**922,501**	**1,159,269**
Liabilities			
Commodity purchase liabilities	13	146,124	347,314
Accruals and other liabilities	14	41,923	68,510
Total liabilities		**188,047**	**415,824**
Net assets		**734,454**	**743,445**
Represented by:			
Waqf Fund principal amount		772,239	771,775
Special assistance		(193,834)	(183,760)
Special account for Least Developed Member Countries (LDMC)		156,049	155,430
Total Funds		**734,454**	**743,445**

The accompanying notes from 1 to 27 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended 31 December 2017

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

	Notes	1 January 2017 to 31 December 2017				14 October 2015 to 31 December 2016
		Waqf Fund principal amount	Special assistance	Special account for LDMC	Total	
STATEMENT OF ACTIVITIES						
Income/(loss) from:						
Treasury assets						
Commodity placements					17,535	4,335
Syndicated Murabaha					268	493
Investments in Sukuk	7				4,810	4,416
Investment assets						
Equity capital					78	370
Associates	9				3,062	(5,726)
Funds					1,814	2,027
Syndicated Ijarah					443	378
Other					4,084	2,149
					32,094	**8,442**
Financing costs	13				(13,609)	(231)
Foreign exchange gains					2,617	662
Income before impairment charge					**21,102**	**8,873**
Impairment charge					(1,102)	(14,058)
Attributable net income/(loss)					**20,000**	**(5,185)**
Allocation of attributable net income		3,000	13,000	4,000		
Donations to Special Assistance		-	1,560	-	1,560	1,771
Islamic Technical Financial Assistance Grant from IsDB-OCR		-	605	-	605	1,050
Share of income transferred from IsDB-OCR		30	131	40	201	115
Contributions from IsDB-OCR for technical assistance grants and scholarship program	17	-	21,408	-	21,408	11,941
Income before grants and program expenses		**3,030**	**36,704**	**4,040**	**43,774**	**9,692**
Grants for causes	16	-	(17,019)	-	(17,019)	(27,890)
Program expenses	16	-	(18,642)	-	(18,642)	(21,434)
Net surplus/(deficit) for the year/period		**3,030**	**1,043**	**4,040**	**8,113**	**(39,632)**
STATEMENT OF CHANGES IN NET ASSETS						
Net assets/(liabilities) at 1 January		771,775	(183,760)	155,430	743,445	792,221
Net surplus/(deficit) for the year/period		3,030	1,042	4,040	8,113	(39,632)
Pension surplus/(deficit)		318	1,379	424	2,121	(9,778)
Fair value and other reserves		(2,884)	(12,496)	(3,845)	(19,225)	634
Net assets/(liabilities) at 31 December 2017		**772,239**	**(193,834)**	**156,049**	**734,454**	**743,445**

The accompanying notes from 1 to 27 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

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

	Note	1 January 2017 to 31 December 2017	14 October 2015 to 31 December 2016
Cash flows from operations			
Net surplus/(deficit) for the year/period		**8,113**	(39,632)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		1,193	1,488
Provision for impairment		1,295	14,058
Share of (loss)/income in associates, net	9	(3,062)	5,726
Realised gain/(loss) on sale of other funds		-	(708)
Realised gain on sale of Sukuk	7	-	(4)
Investment fair value loss		2,771	2,538
Foreign exchange gain		(478)	(5,179)
Change in operating assets and liabilities			
Syndicated Murabaha		(5,416)	(7,110)
Syndicated Ijarah		(351)	(1,121)
Loans		7,524	8,029
Other assets		2,405	(1,349)
Changes in accrued income		3,546	(4,915)
Accruals and other liabilities		(27,233)	41,404
Net cash from operations		**(9,693)**	**13,225**
Cash flows from investing activities			
Commodity placements		(354,139)	72,920
Acquisition of investments in Sukuk	7	-	(29,773)
Redemption of investments in Sukuk	7	27,614	41,574
Additions to investments in equity capital	8	(2,441)	(3,450)
Acquisition of investments in associates	9	-	(13,264)
Additions to investments in funds	10	(7,250)	(10,194)
Disposal of investments in funds	10	-	7,440
Dividends from associates	9	1,566	796
Additions to fixed assets		(4)	(54)
Net cash (utilized in)/from investing activities		**(334,654)**	**65,995**
Cash flows from financing activities			
Commodity purchase liabilities		-	266,738
Cash from financing activities		**-**	**266,738**
Net change in cash and cash equivalents		(344,347)	345,958
Cash and cash equivalents at 1 January 2017		391,509	45,551
Cash and cash equivalents at 31 December 2017	4	**47,162**	**391,509**

The accompanying notes from 1 to 27 form an integral part of these financial statements.

1. INCORPORATION AND OPERATIONS

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

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

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

The Fund derives its income from returns on treasury, investments and other assets. As per the regulations of the Fund, a certain percentage of the total income of the Fund and the same percentage of the return from the IsDB's investments in the international market are allocated to the principal amount of the Fund every year until it reaches ID1.0 billion. The income of the Fund must be allocated as follows:

- Principal Amount of the Fund: 15%;
- Special Account for LDMCs: 20%; and
- Special Assistance Programs: 65%.

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

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

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

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

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

The current financial statements cover a period of 365 days from 1 January 2017 to 31 December 2017 and, the comparative figures cover a period of 444 days from 14 October 2015 to 31 December 2016 and therefore 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 Board 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

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 market 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).

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investments in equity capital (continued)

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.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments is recognized when the right to receive the payments is established.

Investment in syndicated Ijarah

Income from investments in syndicated Ijarah is recognised using 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.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Foreign currency (continued)

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 and non-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 based on the Fund's experience with Member Countries payment track records over the years and ranges from 0% to 20%.

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

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Impairment of financial assets (continued)

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

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

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

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

3.1 Significant judgments (continued)

c) Going concern

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

d) Useful lives of fixed assets

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

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

	2017	2016
Cash at banks	**45,138**	357,167
Commodity placements (maturities less than 3 months)	**2,024**	34,342
	47,162	**391,509**

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

	2017	2016
Placements with Islamic banks	**4,032**	2,745
Placements with Islamic windows of conventional banks	**359,034**	234,737
Accrued income	**6,057**	7,061
Commodity placements (maturities less than 3 months)	**(2,024)**	(34,342)
	367,099	**210,201**

6. SYNDICATED MURABAHA

	2017	2016
Gross amount receivable	**17,304**	12,813
Less: unearned income	**(67)**	(114)
	17,237	**12,699**
Less: impairment provision	**(3,459)**	(3,459)
	13,778	**9,240**

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

7. SUKUK INVESTMENTS

The movement in investments in Sukuk is summarised as follows:

	2017	2016
Balance at beginning of the year/ period	**124,904**	135,356
Movements during the year/period:	**-**	
Additions	**-**	29,773
Redemptions	**(27,614)**	(41,570)
Accrued coupon income on Sukuk at amortized cost	**(427)**	(95)
Unrealized fair value losses	**(248)**	(2,538)
Unrealized exchange revaluation (losses)/ gains	**(4,632)**	3,978
Balance at end of the year/ period	**91,983**	124,904

	Counterparty rating				
31 December 2017	**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	-	-	2,161	-	**2,161**
- Other entities	-	-	-	2,979	**2,979**
	-	**-**	**2,161**	**2,979**	**5,140**
Sukuk classified at amortised cost					
- Financial institutions	-	-	9,954	-	**9,954**
- Governments	-	-	45,327	13,322	**58,649**
- Other entities	-	18,240	-	-	**18,240**
	-	**18,240**	**55,281**	**13,322**	**86,843**
Total	**-**	**18,240**	**57,442**	**16,301**	**91,983**

	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**

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

7. SUKUK INVESTMENTS (continued)

Income from Sukuk investments is comprised of the following:

	2017	2016
Coupon income	**4,881**	6,950
Realised gains on sale or redemption of	**-**	4
Sukuk Unrealised fair value losses	**(71)**	(2,538)
	4,810	**4,416**

8. INVESTMENTS IN EQUITY CAPITAL

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

Equity investments:	2017	2016
Equity investments - Unlisted	**28,543**	26,102
Less:Impairment provision	**(6,575)**	(6,020)
Balance at end of the year/ period	**21,968**	**20,082**

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

	2017	2016
Balance at beginning of the year/ period	**20,082**	29,300
Additions during the year/ period	**2,441**	3,450
Transfers during the year/ period	**-**	(4,768)
Impairment reversal	**(555)**	(6,020)
Unrealized fair value loss	**-**	(1,880)
Balance at end of the year/ period	**21,968**	**20,082**

9. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	2017	2016
Balance at beginning of the year/ period	**130,274**	126,050
Foreign currency translation and other movements through statement of changes in net assets	**(2,767)**	(2,518)
Additions during the year/ period	**-**	13,264
Share of net results	**3,062**	(4,226)
Net loss on acquisition and disposal of associates	**(14,260)**	(1,500)
Cash dividend received	**(1,566)**	(796)
Balance at end of the year/ period	**114,743**	**130,274**

Name of the entity	**Country of incorporation**	**Entity's activities**	**2017**	**2016**
Caspian International Investment Company (CIIC)	Azerbaijan	Investment Company	**27.78%**	27.78%
Islamic Bank of Niger (IBN)	Niger	Banking	**20.46%**	20.46%
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	**53.30%**	62.41%
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	**87.46%**	87.46%

*The Fund does not have representation on the Board of Governers 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.

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

9. INVESTMENTS IN ASSOCIATES (continued)

The total assets, total liabilities, revenue and results of associates based on their financial statements for the interim and final periods in 2017 and 2016 are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share of net assets
CIIC	**2017**	**13,862**	**1**	**98**	**(190)**	**3,850**
	2016	28,484	7	463	9,178	7,910
IBN	**2017**	**95,576**	**2,847**	**4,846**	**3,974**	**18,970**
	2016	72,357	61,489	6,657	(5,962)	2,223
ICIEC	**2017**	**259,497**	**104,046**	**12,510**	**1,096**	**82,855**
	2016	208,359	51,133	4,987	(10,426)	98,128
BBIL	**2017**	**35,142**	**6,022**	**2,786**	**1,180**	**25,467**
	2016	31,067	5,898	4,260	2,333	22,013

10. INVESTMENTS IN FUNDS

	2017			2016		
	Equity	Other funds	Total	Equity	Other funds	Total
Gross balance at beginning the year/ period	**7,308**	**58,276**	**65,584**	7,308	48,390	55,698
Transfers from equity capital	**-**	**-**	**-**	-	4,768	4,768
Additions	**-**	**7,250**	**7,250**	-	10,194	10,194
Disposals	**-**		**-**	-	(6,732)	(6,732)
Unrealized fair value (loss)/ gains	**-**	**(2,199)**	**(2,199)**	-	5,033	5,033
Unrealized exchange (loss)/gains	**-**	**-**	**-**	-	1,203	1,203
Reversal of provision for impairment	**-**	**(739)**	**(739)**	-	(4,580)	(4,580)
Net balance at end of the year/ period	**7,308**	**62,588**	**69,896**	**7,308**	**58,276**	**65,584**

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

11. INVESTMENT IN SYNDICATED IJARAH

	2017	2016
Balance at 31 December	**13,266**	13,710

12. LOANS

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

	2017	2016
Loans	**156,199**	163,683
Less: provision for impairment	**(7,470)**	(7,436)
	148,729	156,247

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

13. COMMODITY PURCHASE LIABILITIES

The Bank (on behalf of the Fund) has entered into commodity purchase and sale agreements with certain banks. Under the terms of the agreements, the Bank (on behalf of the Fund) has purchased certain commodities from other banks on deferred payment basis and has simultaneously sold these through those banks to third parties. The purchase price includes the accrued markup under these agreements.

	2017	2016
Balance at 31 December	146,124	347,314

14. ACCRUALS AND OTHER LIABILITIES

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

	2017	2016
Accruals and other liabilities	8,340	8,336
Islamic Technical Financial Assistance (Note 17)	15,938	10,426
Pension Liabilty (Note 15)	10,028	11,192
Payable to IDB-OCR under Wakala agreement - Note 14(a)	5,480	21,838
Due to related parties	2,137	16,718
	41,923	68,510

a) The Fund entered into a Wakala agreement with Islamic Development Bank – Ordinary Capital Resources in the Financial year ended 31 December 2016 and borrowed an amount of USD 30 million (ID 21,838 thousand). The balance of the Wakala agreement as at 31 December 2017 is USD 7 million (ID 5,480 thousand). The Fund will pay Muwakkil profit of 1% to IDB-OCR on these funds.

15. POST EMPLOYMENT BENEFIT PLANS

IsDB Group (IsDBG) staff retirement plan comprises of a defined staff pension plan (SPP) and a staff retirement medical plan (SRMP). Every person employed by the Bank 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.

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.

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

15. POST EMPLOYMENT BENEFIT PLANS (continued)

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 2017	
Benefit obligation - Opening Balance	29,985	2,140
Transfer from IDB-OCR	-	-
Current Service Costs	1,297	118
Interest cost on Defined Benefit Obligation (DBO)	1,252	92
Plan participations contributions	463	26
Disbursements from Plan Assets	(1,393)	(29)
Net actuarial loss	(841)	(163)
Currency translation loss	(1,701)	(121)
Benefit obligation at 31 December 2017	**29,062**	**2,063**

The movement in the plan assets are as follows:

	SPP	SRMP
	31 December 2017	
Fair value of plan assets - Opening Balance	20,139	794
Transfer from IDB-OCR	121	-
Interest income on Plan Assets	824	33
Return on Plan Assets less than the discount rate	378	2
Plan participation contributions	463	26
Employer contributions	903	42
Disbursements from Plan Assets	(1,393)	(29)
Currency translation gain	(1,160)	(46)
Fair value of plan assets at 31 December 2017	**20,275**	**822**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 14)	8,787	1,241

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

15. POST EMPLOYMENT BENEFIT PLANS (continued)

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 year ended 31 December 2017 are as follows:

	SPP	SRMP
	31 December 2017	
Gross current service costs	11,803	1,093
Interest cost on DBO	10,313	726
Interest income on assets	(6,937)	(299)
Cost recognized in the Statement of Activities	**15,179**	**1,520**
Actuarial loss due to assumptions	(14,230)	(386)
Return on plan assets greater than the discount rate	(3,184)	(14)
Other adjustments	-	-
Foreign exchange	-	-
Cost recognised in Reserves	**(17,414)**	**(400)**

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 2017	
Discount rate	4.0%	4.0%
Rate of expected salary increase	4.5%	4.5%

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

The following table presents the plan assets by major category:

	SPP	SRMP
	31 December 2017	
Cash and cash equivalent and commodity placements	3,090	127
Syndicated Murabaha	112	61
Managed funds and Instalment sales	4,896	-
Investments in sukuk	11,389	759
Land	2,456	-
Other (net)	(94)	10
Plan assets	**21,849**	**957**

1.2% of staff retirement plan assets are invested respectively within the Fund and its Affiliates as of 31 December 2017.

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

	SPP	SRMP
	31 December 2017	
Net Deficit at beginning of period	8,657	1,121
Movements during the period	(17,414)	(400)
Balance at 31 December 2017	**(8,757)**	**721**

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

16. ASSISTANCE

The following amounts were distributed as grants from the Fund during the year/period ended 31 December 2017 and 31 December 2016 as part of the activities of the Special Assistance accounts pursuant to its objectives:

	2017	2016
Technical assistance grants	**9,233**	13,948
Scholarship program	**6,110**	9,063
Assistance for Islamic causes	**1,649**	4,530
Technical cooperative program Relief	**0**	303
against disasters and calamities	**27**	46
	17,019	**27,890**

The following amounts were incurred as program expenses from the Fund during the year/period ended 31 December 2017 and 31 December 2016 as part of the activities of the Special Assistance accounts pursuant to its objectives.

	2017	2016
IRTI – Operational	**1,130**	1,933
Administrative	**9,560**	10,478
Technical cooperation office	**165**	1,412
Special Assistance office	**4,820**	3,494
Sacrificial meat project	**1,847**	2,182
Scholarship Program	**1,121**	1,935
Total	**18,643**	**21,434**

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 2016 net income shall be allocated to finance Technical Assistance Operations in the form of grants during the year 2017. This amounted to ID 15.3 million (2016: ID 8.5 million).

- According to the Board of Governors' resolution No. BG/5-436 dated 24 Sha'baan 1436H (11 June 2015) an amount equivalent to 2% but not less than USD 4 million of IsDB-OCR net income for 2016 shall be allocated for the Islamic Finance Technical Assistance operations in the form of grant for the year 2017 provided that the amount to be allocated shall not be less than USD 4 million This amounted to ID 6.1 million (2016: ID 3.4 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 2016 shall be allocated for financing of Scholarship Programs in the form of grants for the year 2017. This amounted to ID 6.1 million (2016: ID 3.4 million).

18. UNDISBURSED COMMITMENTS

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

	2017	2016
Special assistance grants	**49,565**	50,574
Loan to LDMC	**3,583**	9,520
Special loans	**1,444**	952
Technical assistance grants	**17,107**	37,420
Scholarship program	**50,480**	38,840
Total	**122,179**	**137,306**

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 31 December are as follows:

	2017	2016
United States Dollar	**148,477**	184,016
Euro	**138,851**	125,301
Japanese Yen	**74,255**	36,939
Pound Sterling	**32,470**	36,767
Chinsese Yuan	**2,502**	50,498
Other currencies	**29,672**	20,938

20. SHARI'AH BOARD

The Fund's activities are subject to the supervision of the IDB Group Shari'ah Board consisting of members appointed by the Chairman of the IDB Group in consultation with the Board of Executive Directors of the IDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IDB. The members of the Board are appointed for 3 years and may be reappointed.

The Board has the following functions:

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

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

21. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

2017	Less than 3 months	3 to 12 month	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	47,162	-	-	-	-	47,162
Commodity placements	-	177,717	183,326	-	6,056	367,099
Syndicated Murabaha	6,530	7,248	-	-	-	13,778
Investments in Sukuk	-	10,525	22,574	58,884	-	91,983
Investments assets						
Equity capital	-	-	-	-	21,968	21,968
Associates	-	-	-	-	114,743	114,743
Funds	-	-	-	-	69,896	69,896
Syndicated Ijarah	-	-	-	-	13,266	13,266
Loans	4,256	-	1,008	143,465	-	148,729
Other assets						
Accrued income and other assets and fixed assets	240	11,592	1,352	20,693	-	33,877
Total assets	**58,188**	**207,082**	**208,260**	**223,042**	**225,929**	**922,501**
Liabilities						
Commodity purchase liabilities	-	-	146,124	-	-	146,124
Accruals and other liabilities	-	14,573	17,321	10,029	-	41,923
Total liabilities	**-**	**14,573**	**163,445**	**10,029**	**-**	**188,047**

2016	Less than 3 months	3 to 12 month	1 to 5 years	Greater than 5 years	No stated maturity	Total
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 expressed in thousands of Islamic Dinars unless otherwise stated)

22. CONCENTRATION OF ASSETS

Economic sectors:

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

	IsDB's Member countries			Non-member countries	Total
	Asia	Africa	Europe		
31 December 2017	**720,890**	**127,280**	**34,218**	**40,113**	**922,501**
31 December 2016	970,747	153,612	25,096	9,814	1,159,269

The geographical locations of assets for 2017 and 2016 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.

23. RISK MANAGEMENT (continued)

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 expressed in thousands of Islamic Dinars unless otherwise stated)

23. RISK MANAGEMENT (continued)

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 31 December 2017 and 2016

31 December 2017	Level 1	Level 2	Level 3	Total
Investments carried at fair value through income statement (statement of activities):				
- Sukuk	-	2,161	-	**2,161**
Investments carried at fair value through net assets:				
- Investments in funds	-	59,007	-	**59,007**
	-	**61,168**	**-**	**61,168**
31 December 2016				
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**

There were no transfers between levels during the year/period ended 31 December 2017 and 31 December 2016.

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 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%).

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized by the Resolution of the Board of Executive Directors on 9 Jumada'll 1439H (25 February 2018G) for submission to the Board of Governors 42st Annual Meeting.

27. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards have been issued except for FAS 29 "sukuk issuances" which is in the stage of exposure draft and is expected to be issued in near future. The Fund intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

(i) **Financial Accounting Standard – 30 "Impairment and credit losses"**

FAS 30 will be replacing FAS 11 "Provisions and Reserves" and has been developed on the new approach towards identification and recognition of impairment and credit losses, in particular the forward looking expected losses approach, as introduced under International Financial Reporting Standard (IFRS) 9 "Financial Instruments". FAS 30 shall also apply to off-balance sheet exposures.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

(ii) **Financial Accounting Standard – 28 "Murabaha and other deferred payment sales"**

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

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

(iii) **Financial Accounting Standard – 29 "Sukuk Issuances"**

The standard aims to provide guidance for accounting, classification and presentation for Sukuk issuances primarily based on the Sukuk structure, which may include on balance sheet, as well as, off balance sheet accounting. These classifications depend on the control of such assets comprising of power to control and nature of control i.e. for risks and rewards as well as varying benefits to the institution or the fiduciary responsibility on behalf of the Sukuk-holders. This standard shall be applied for accounting and financial reporting for Sukuk issuance in the books of the issuer.

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

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