ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Auditor's Report

For the year ended 31 December 2018

Contents

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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 accompanying financial statements of Islamic Development Bank – Ordinary Capital Resources (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the related 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 2018, and the results of the operations, its cash flows and changes in members' equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

In our opinion, the Bank has also complied with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the Bank during the period under audit.

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 AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code), 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 AAOIFI and 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 for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 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	How our audit addressed the key audit matter
Impairment of project assets and Murabaha financing	
As at 31 December 2018, the Bank's gross project assets and murabaha financing amounted to ID 13,918 million (2017: ID 12,790 million) and ID 336 million (2017: ID 334 million), respectively, against which an impairment of ID 277 million (2017: ID 236 million) and ID 32 million (2017: ID 28 million), respectively, has been recognised to the year end date. Please refer to notes 7, 8 to 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, assumptions and estimates used to calculate impairment allowances. The Bank uses historical experience, evaluating the characteristics including forward looking prospects of the sovereign and non-sovereign exposures, appropriateness 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, assumptions and estimates involved in the calculation of impairment allowances for project assets and murabaha financing, this has been considered as a key audit matter.	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 (sovereign and non-sovereign exposures), 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 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, assumptions and estimates 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-checked the impairment allowance calculation on a sample basis. In addition, we tested key inputs to the impairment allowance calculation including the expected future cash

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	How our audit addressed the key audit matter
	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 sovereign 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.
Impairment of treasury and investment assets (excluding murabaha financing and investments carried at fair value through income statement (FVIS)) As at 31 December 2018, 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 7,880 million (2017: ID 6,496 million), against which an impairment of ID 80 million (2017: ID 82 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.	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.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	How our audit addressed the key audit matter
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; and • 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 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 treasury and investment assets (excluding murabaha financing and investments carried at FVIS); we have determined it to be a key audit matter.	Furthermore, for a selected sample of investments, we have checked 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)

Other information included in the Bank's 2018 Annual Report

Other information consists of the information included in the Bank's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Board of Executive Directors is responsible for the other information. The Bank's 2018 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 Board of Executive Directors and those charged with governance for the financial statements

These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Executive Directors and those charged with governance.

Board of Executive Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by AAOIFI and for such internal control as Board of Executive Directors 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, Board of Executive Directors 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 Board of Executive Directors either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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.

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 Board of Executive Directors.
- Conclude on the appropriateness of Board of Executive Directors' 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)

Auditor's responsibilities for the audit of the financial statements (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
License No. 356

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

13 March 2019
06 Rajab 1440 H

Jeddah

18/32/MNA

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2018

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

	Notes	31 December 2018	31 December 2017
Cash and cash equivalents	4	815,525	597,950
Commodity placements	5	4,173,355	2,954,265
Sukuk investments	6	1,653,815	1,697,908
Murabaha financing	7	304,092	305,400
Treasury assets		**6,946,787**	**5,555,523**
Istisna'a assets	9	6,667,470	5,725,322
Restricted mudaraba	10	873,252	852,107
Instalment sale	11	1,602,775	1,549,131
Ijarah assets	12	2,684,473	2,586,611
Loans (Qard)	13	1,813,720	1,840,836
Project assets		**13,641,690**	**12,554,007**
Equity investments	15	466,038	578,392
Investment in associates	16	755,816	772,466
Other investments		49,596	46,174
Investment assets		**1,271,450**	**1,397,032**
Property, equipment and intangibles		56,648	59,116
Other assets	17	130,871	110,281
Total Assets		**22,047,446**	**19,675,959**
Liabilities			
Sukuk issued	18	11,683,136	9,687,329
Commodity purchase liabilities	19	789,133	770,387
Wakala deposits	20	388,661	380,566
Other liabilities	21	446,371	322,832
Total Liabilities		**13,307,301**	**11,161,114**
Members' Equity			
Paid-up capital	23	5,595,416	5,378,558
Reserves	24	3,060,826	2,939,310
Net income for the year		83,903	196,977
Total Members' Equity		**8,740,145**	**8,514,845**
Total Liabilities and Members' Equity		**22,047,446**	**19,675,959**
Restricted Investment Accounts	29	79,107	80,334

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 2018

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

	Notes	For the year ended 31 Dec 2018	For the year ended 31 Dec 2017
Income from:			
Commodity placements		85,889	43,018
Sukuk investments	6	50,074	58,157
Murabaha financing		11,469	8,960
Treasury assets		**147,432**	**110,135**
Istisna'a assets		237,175	234,349
Restricted mudaraba		34,598	22,876
Instalment sale		59,187	53,847
Ijarah assets		276,267	242,059
Depreciation of assets under Ijarah	12	(207,913)	(176,604)
Loans (Qard)		13,653	11,353
Project assets		**412,967**	**387,880**
Equity investments		65,172	80,066
Loss from investment in associates	16	(103,501)	(37,976)
Income /(Loss) from other investments		812	(1,067)
Investment assets		**(37,517)**	**41,023**
Other income		6,487	8,073
Foreign exchange (losses)/gains		(3,939)	799
Gains from swaps valuation	21	12,269	27,574
Other income		**14,817**	**36,446**
Total income		**537,699**	**575,484**
Financing costs	18, 19, 20	(244,067)	(169,615)
Impairment charge	14	(49,354)	(54,020)
Net income before operating expenses		**244,278**	**351,849**
Administrative expenses	25	(152,101)	(146,734)
Depreciation / amortization on property, equipment and intangibles		(8,274)	(8,138)
Total operating expenses		**(160,375)**	**(154,872)**
Net income for the year		**83,903**	**196,977**

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 2018

(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 1 January 2017		**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**
Increase in paid-up capital	23	216,858	-	-	-	-	-	-	216,858
Net changes in fair value of investments		-	-	(79,310)	-	-	(79,310)	-	(79,310)
Actuarial gains relating to retirement pension and medical plans	22	-	-	-	10,755	-	10,755	-	10,755
Hedge accounting reserve	21	-	-	-	-	2,256	2,256	-	2,256
Share in investments in associates reserve movement	16	-	-	-	-	9,636	9,636	-	9,636
Net income for the year ended 31 December 2018		-	-	-	-	-	-	83,903	83,903
Transfer to general reserve	24	-	196,977	-	-	-	196,977	(196,977)	-
Allocation for grants	24	-	(18,798)	-	-	-	(18,798)	-	(18,798)
Balance at 31 December 2018		**5,595,416**	**2,878,346**	**255,381**	**(47,554)**	**(25,347)**	**3,060,826**	**83,903**	**8,740,145**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Cash Flows

At 31 December 2018

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

	Notes	For the year ended 31 Dec 2018	For the year ended 31 Dec 2017
Cash flows from operations			
Net income for the year		**83,903**	**196,977**
Adjustments for non-cash items:			
Depreciation / amortization		8,274	8,138
Loss from investment in associates	16	103,501	37,976
Provision for impairment of financial assets	14	49,354	54,020
Unrealized fair value losses on sukuk	6	3,604	1,478
Gain on disposal of sukuk		(380)	(650)
Amortization of other income		(4,959)	(567)
Foreign exchange losses/ (gains)		3,939	(799)
Gains on disposal of investment in equity capital		(47,068)	(47,460)
Changes in accrued income		42,111	(131,032)
Changes in accrued expenses		40,500	25,168
Operating income before changes in operating assets and liabilities		**282,779**	**143,249**
Changes in operating assets and liabilities:			
Istisna'a assets		(924,904)	(728,096)
Restricted mudaraba		(10,464)	(99,218)
Instalment sale		(71,623)	(56,400)
Ijarah assets		(80,659)	(183,585)
Loans (Qard)		1,110	21,960
Other assets		(23,739)	35,410
Other liabilities		131,968	35,394
Net cash used in operating activities		**(695,532)**	**(831,286)**
Cash flows from investing activities			
Commodity placements		(1,134,519)	(1,164,034)
Acquisition of sukuk investments	6	(84,723)	(214,985)
Proceeds from disposal/redemption of sukuk investments	6	163,983	237,373
Murabaha financing		3,946	(94,827)
Acquisition of equity investments	15	-	(4,700)
Proceeds from disposal of equity and other investments		76,369	59,741
Acquisition of other investments		(4,679)	(10,292)
Investment in associates, net	16	(79,538)	(49,903)
Dividends from associates	16	1,146	2,056
Proceeds from disposal of investment in associates	16	2,007	-
Additions to property, equipment and intangibles		(5,806)	(4,579)
Net cash used in investing activities		**(1,061,814)**	**(1,244,150)**
Cash flows from financing activities			
Increase in paid-up capital		216,858	235,126
Allocation for grants	24	(18,798)	(27,524)
Contribution to the principal amount of ISFD	26	-	(36,244)
Proceeds from issuance of sukuk		2,741,129	2,148,038
Payments upon redemption of sukuk		(966,084)	(1,095,266)
Commodity purchase liabilities		1,047	72,167
Wakala deposits received		-	382,438
Net cash from financing activities		**1,974,152**	**1,678,735**
Net change in cash and cash equivalents		216,806	(396,701)
Exchange difference on cash and cash equivalents		769	(3,291)
Cash and cash equivalents at the beginning of the year		597,950	997,942
Cash and cash equivalents at the end of the year	4	**815,525**	**597,950**

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 (2017: 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 financial statements were authorized by the Resolution of the Board of Executive Directors on 24 February 2019 (corresponding to 19 Jumada II 1440 H) for submission to the Board of Governors 44th 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 asdetermined 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:

- 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 recognized 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 favorable 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 unfavorable to the Bank.

The table below summarizes 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	Amortized cost less impairment
Murabaha	Amortized cost less impairment
Investments in sukuk classified as either:	Fair value through income statement; or Amortized cost less impairment
Istisna'a and Installment sale	Amortized cost less impairment
Restricted mudaraba	Amortized cost less impairment
Ijarah assets	Cost less depreciation and impairment
Loans (Qard)	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	Amortized cost
Commodity purchase liabilities	Amortized cost
Wakala Deposits	Amortized 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 recognized amounts and the Bank intends to either settle on a net basis, or to realize 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 amortized 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 a 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 amortized cost less provision for impairment.

Sukuk investments

Sukuk are certificates of equal value representing undivided share in ownership to tangible assets, usufructs, services or (in the ownership) of assets of a particular project, classified as either measured at amortised cost or at fair value through income statement.

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 amortized 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 (Qard).

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 recognized 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 Ijarahassets in use. Ijarah assets in use are stated at the aggregate cost, less the accumulated depreciation as at the reportingdate and provision for impairment. Ijarah assets are depreciated on the estimated usage basis.

Loans (Qard)

Loan (Qard) 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 (Qard) amounts outstanding represent amounts disbursed in respect of projects plus accrued service fees, less repaymentsreceived 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 recognized 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 recognized 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 recognized in the income statement; its share of post-acquisition movements in reserves is recognized 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 recognize 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 recognized 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 recognizes the amount in the income statement. Intergroup unrealized 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 recognized in the income statement. The Bank's share of the results of associatesis 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 recognized 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 recognized 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 amortized 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 recognized 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 recognized 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 recognized and accumulated under the heading of other reserves are reclassified to income statement only when the hedged transaction affects the income statement.

Amounts previously recognized 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 recognized 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 (Qard) portfolio to member countries under the Heavily Indebted Poor Countries Program ("HIPC") bytaking the lower of: the net present value discounted at the implicit rate of return or carrying

HIPC is a debt relief initiative whereby IsDB reschedules loans (Qard) 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 recognized 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.

Impairment of financial assets held at amortized cost

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 expectedrecoverable amount of the financial asset. Subsequent recovery of impairment losses are recognized through the incomestatement to the extent of previously recognized impairment losses.

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

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

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

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 recognized 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 recognized as financing cost and accrued on an amortized 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 issued

The Sukuk assets have been recognised in the IsDB financial statements, as IsDB is the Service Agent, whilst noting that IsDB has sold these assets at a price to the sukukholders through the SPV by a valid sale contract transferring ownership thereof to the sukukholders.

De-recognition of financial assets and financial liabilities

The Bank derecognizes 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 recognized in the income statement.

The Bank enters into transactions whereby it transfers assets recognized 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 recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations aredischarged or cancelled or expire.

Property, equipment and intangibles

Property, equipment and intangibles are measured at cost less accumulated depreciation, accumulated amortization and impairment loss, if any. Land is notdepreciated. 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, equipment and intangibles is depreciated/amortized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment and intangibles (continued)

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 recognized 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

Commodity placements

Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Investments in sukuk

Income from investments in sukuk is accrued on an effective yield basis and is recognized 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 recognized in the income statement.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Loan (Qard) service fees

The Bank charges loan (Qard) service fee only to cover its administrative costs related to the signature of an agreement anddisbursements made to the member countries. Thus, the loans (Qard) service fee is calculated during the financial periods startingfrom the signature date through to the date of the last disbursement.

The loan (Qard) service fee is allocated and recognized in the income statement over the financial periods.

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 recognized 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 recognized in the fair value reserve account under members' equity.

Translation differences relating to the changes in the amortized cost are recognized 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 recognized 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.

Financing cost

Sukuk financing costs are recognized in the income statement and include the amortization of theissuance costs and swap related accruals. Sukuk issued is recognized at amortized cost, except for those sukuk used ashedged items. Amortized cost of such sukuk is adjusted for the hedging gains/losses.

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 accountingestimates 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 the circumstances. The most significant judgements and estimates are summarized below:

Significant judgements

Functional and presentation currency

The Bank conducts its operations mainly in USD and EUR that take up 72.7% (2017: 72.7%) weight in SDR, to which ID is equalized. Therefore, Management (including Board of Executive Directors) concluded that Islamic Dinar represents the aggregation of economic effects of the underlyingtransactions, 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.

Amortized 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.

Valuation of sukuk and associated swaps

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Useful lives of property, equipment and intangibles and Ijarah assets

The Bank's management determines the estimated useful lives of its property, equipment and intangibles 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 2018	31 Dec 2017
Cash in hand	8	8
Current and call accounts with Banks	254,808	339,332
Commodity placements with maturities less than 3 months from origination date (Note 5)	571,165	269,066
Less: provision for impairment	(10,456)	(10,456)
	815,525	597,950

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 2018	31 Dec 2017
Placements with Islamic banks	415,500	123,420
Placements with Islamic windows of conventional banks	4,298,049	3,080,743
Accrued income	34,655	22,852
Commodity placements less than 3 months, (Note 4)	(571,165)	(269,066)
Less: Provision for impairment	(3,684)	(3,684)
	4,173,355	2,954,265

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	1,697,908	1,823,957
Movements during the year:		
Additions	84,723	214,985
Sales/redemptions	(163,603)	(236,723)
Accrued income	535	(1,591)
Unrealized fair value losses	(3,604)	(1,478)
Unrealized exchange revaluation gains / (losses)	37,856	(101,242)
Closing balance	1,653,815	1,697,908

	Counterparty rating					
	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
31 Dec 2018						
Sukuk classified at fair value though income statement:						
- Governments	-	44,908	2,992	14,035	-	61,935
- Other entities	-	51,822	-	-	-	51,822
	-	96,730	2,992	14,035	-	113,757
Sukuk classified at amortized cost:						
- Financial institutions	8,279	36,103	72,292	61,232	18,176	196,082
- Governments	52,648	133,179	480,963	334,172	-	1,000,962
- Other entities	-	223,997	119,017	-	-	343,014
	60,927	393,279	672,272	395,404	18,176	1,540,058
Total 2018	60,927	490,009	675,264	409,439	18,176	1,653,815

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

6. SUKUK INVESTMENTS (continued)

	Counterparty rating					
31 Dec 2017	AAA	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at fair value through income statement:						
- Financial institutions	-	-	-	14,260	-	14,260
- Governments	-	92,432	3,066	67,362	1,508	164,368
- Other entities	-	-	52,448	-	2,744	55,192
	-	**92,432**	**55,514**	**81,622**	**4,252**	**233,820**
Sukuk classified at amortized 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 2017	**33,032**	**257,922**	**848,355**	**544,773**	**13,826**	**1,697,908**

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Coupon income	53,298	58,985
Realized gains on the sale of Sukuk	380	650
Unrealized fair value losses	(3,604)	(1,478)
	50,074	**58,157**

7. MURABAHA FINANCING

	31 Dec 2018			31 Dec 2017		
	Sovereign	**Non-Sovereign**	**Total**	**Sovereign**	**Non-Sovereign**	**Total**
Gross amount receivable	283,474	56,598	**340,072**	312,363	26,498	338,861
Less: Unearned income	(3,813)	(383)	**(4,196)**	(5,170)	-	(5,170)
Less: Provision for impairment	(1,745)	(30,039)	**(31,784)**	(1,793)	(26,498)	(28,291)
	277,916	**26,176**	**304,092**	**305,400**	**-**	**305,400**

8. PROJECT ASSETS

	31 Dec 2018			31 Dec 2017		
	Sovereign	**Non-sovereign**	**Total**	**Sovereign**	**Non-sovereign**	**Total**
Istisna'a assets	6,552,794	172,941	**6,725,735**	5,681,719	106,275	5,787,994
Restricted mudaraba	873,252	-	**873,252**	852,107	-	852,107
Instalment sale	1,629,749	5,503	**1,635,252**	1,559,797	13,031	1,572,828
Ijarah assets	1,884,740	883,031	**2,767,771**	1,900,548	752,610	2,653,158
Loans (Qard)	1,916,447	-	**1,916,447**	1,923,748	144	1,923,892
	12,856,982	**1,061,475**	**13,918,457**	**11,917,919**	**872,060**	**12,789,979**
Less: Provision for impairment	(276,247)	(520)	**(276,767)**	(235,430)	(542)	(235,972)
	12,580,735	**1,060,955**	**13,641,690**	**11,682,489**	**871,518**	**12,554,007**

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 2018	31 Dec 2017
Istisna'a assets in progress	3,483,961	3,396,275
Istisna'a receivable	3,642,210	2,545,835
Accrued income	310,556	322,930
Less: unearned income	(710,992)	(477,046)
Less: Provision for impairment	(58,265)	(62,672)
	6,667,470	**5,725,322**

10. RESTRICTED MUDARABA

	31 Dec 2018	31 Dec 2017
Restricted Mudaraba assets in progress	581,620	762,384
Restricted Mudaraba receivable	248,835	43,428
Accrued income	43,249	50,581
Less: unearned income	(452)	(4,286)
	873,252	**852,107**

11. INSTALMENT SALE

	31 Dec 2018	31 Dec 2017
Gross amount receivable	1,831,766	1,774,500
Accrued Income	12,822	21,528
Less: Unearned income	(209,336)	(223,200)
Less: Provision for impairment	(32,477)	(23,697)
	1,602,775	**1,549,131**

12. IJARAH ASSETS

	Note	31 Dec 2018	31 Dec 2017
Assets under construction	*12.1*	1,132,494	1,070,672
Assets in use	*12.2*	3,561,875	3,300,484
Less: Accumulated depreciation of assets in use	*12.3*	(1,863,117)	(1,648,746)
Balance, net of accumulated depreciation		**2,831,252**	**2,722,410**
Less: Share of syndication participants		(63,481)	(69,252)
Balance, net of share of syndication participants		**2,767,771**	**2,653,158**
Less: Provision for impairment	*14*	(83,298)	(66,547)
		2,684,473	**2,586,611**

12.1 Assets under construction

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	1,070,672	1,284,766
Additions	323,213	274,208
Transferred to assets in use	(261,391)	(488,302)
Closing balance	**1,132,494**	**1,070,672**

12.2 Assets in use

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	3,300,484	2,812,182
Transferred from assets under construction	261,391	488,302
Closing balance	**3,561,875**	**3,300,484**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	(1,648,746)	(1,461,603)
Charge for the year	(207,913)	(176,604)
Share of syndication participants	(6,458)	(10,539)
Closing balance	**(1,863,117)**	**(1,648,746)**

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

13. LOANS (QARD)

	31 Dec 2018	31 Dec 2017
Loans (Qard)	1,916,447	1,923,892
Less: Provision for impairment	(102,727)	(83,056)
	1,813,720	**1,840,836**

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

Provision for impairment comprised of the following:

		31 Dec 2018			31 Dec 2017		
	Note	Specific	Collective	Total	Specific	Collective	Total
Cash and bank	4	10,456	-	**10,456**	10,456	-	**10,456**
Commodity placements	5	3,684	-	**3,684**	3,684	-	**3,684**
Murabaha financing	7	30,039	1,745	**31,784**	26,963	1,328	**28,291**
Istisna'a assets	9	10,439	47,826	**58,265**	328	62,344	**62,672**
Instalment sale	11	27,687	4,790	**32,477**	20,577	3,120	**23,697**
Ijarah assets	12	34,126	49,172	**83,298**	28,966	37,581	**66,547**
Loans (Qard)	13	54,139	48,588	**102,727**	43,901	39,155	**83,056**
Equity investments	15	65,151	-	**65,151**	68,108	-	**68,108**
Other investments		476	-	**476**	-	-	**-**
		236,197	**152,121**	**388,318**	**202,983**	**143,528**	**346,511**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2018			Year ended 31 Dec 2017		
	Specific	Collective	Total	Specific	Collective	Total
Opening balance	202,983	143,528	**346,511**	204,901	97,232	**302,133**
Charge for the year	40,761	8,593	**49,354**	7,724	46,296	**54,020**
Disposals / Write offs	(7,547)	-	**(7,547)**	(9,642)	-	**(9,642)**
Closing balance	**236,197**	**152,121**	**388,318**	**202,983**	**143,528**	**346,511**

As at 31 December 2018 and 31 December 2017, the following is the ageing of the overdue instalments:

	31 Dec 2018						
In months	**0-6**	**7 - 12**	**13 - 24**	**Over 24**	**Total**	**Sovereign**	**Non-Sovereign**
Murabaha financing	1,517	-	-	30,039	**31,556**	**1,517**	**30,039**
Istisna'a assets	5,337	5,151	5,151	138	**15,777**	**15,777**	**-**
Instalment sale	3,592	3,713	6,054	15,732	**29,091**	**28,601**	**490**
Ijarah assets	3,156	3,115	4,115	24,947	**35,333**	**35,269**	**64**
Loans (Qard)	8,813	8,184	10,536	15,687	**43,220**	**43,220**	**-**
Total	**22,415**	**20,163**	**25,856**	**86,543**	**154,977**	**124,384**	**30,593**

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

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

	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 (Qard)	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**

15. EQUITY INVESTMENTS

	31 Dec 2018	31 Dec 2017
Equity investments:		
Listed	394,266	494,319
Unlisted	136,923	152,181
	531,189	**646,500**
Less: Provision for impairment	(65,151)	(68,108)
	466,038	**578,392**

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	578,392	756,621
Movements during the year:		
Additions	-	4,700
Transfer to Investment in Associates (Note 16)	(830)	-
Disposals	(29,301)	(12,281)
Provision for impairment	(4,591)	(10,042)
Net unrealized fair value losses	(77,632)	(160,606)
Closing balance	**466,038**	**578,392**

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Opening balance	772,466	808,661
Additions	79,538	49,903
Disposals	(2,007)	-
Transfer from Equity Investments (Note 15)	830	-
Foreign currency translation and other movements	9,636	(46,066)
Share of net results	(105,865)	(36,345)
Net gain/(loss) on acquisition and disposal of associates	2,364	(1,631)
Cash dividends received	(1,146)	(2,056)
Closing balance	**755,816**	**772,466**

(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 2018	31 Dec 2017
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%
Northern Jute Company	Bangladesh	Manufacturing	-	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	40.79%	45.08%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	36.19%	36.48%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	36.91%	38.60%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.67%	26.67%
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%
Zeitouna Tamkeen	Tunisia	Investment Co.	20.00%	-

The financial position, revenue and results of associates in IDs, 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	2018	5,362	115,028	88,216	61,589	373
	2017	5,160	101,986	76,184	54,386	1,711
Bosna Bank International	2018	26,891	389,921	330,763	15,154	3,600
	2017	27,096	364,049	304,440	14,150	2,583
Islamic Bank of Guinea	2018	2,772	28,735	44,729	5,412	209
	2017	2,713	44,703	36,103	2,963	215
Bank Muamalat Indonesia	2018	19,970	2,712,237	2,515,685	127,375	4,956
	2017	38,164	3,026,561	2,827,600	198,856	1,847
Syrikat Takaful Indonesia	2018	1,349	82,730	73,958	4,461	622
	2017	1,246	90,983	86,262	6,010	61
Islamic Bank of Senegal	2018	14,675	385,959	341,744	15,696	6,207
	2017	13,459	400,264	359,800	6,721	4,565
ICD	2018	294,431	2,207,974	1,486,089	(199,186)	(230,246)
	2017	336,336	2,095,706	1,349,631	(44,464)	(76,822)
ITFC	2018	243,683	713,891	40,565	40,441	20,040
	2017	231,627	658,728	23,733	31,271	9,492
APIF	2018	24,264	67,665	1,931	2,034	1,580
	2017	23,609	62,313	1,151	3,354	1,992
IsDB Infrastructure Fund II	2018	69,252	261,696	1,169	3,933	(1,571)
	2017	33,368	124,272	95	1,364	(35,569)
The Islamic Infrastructure Fund L.P.	2018	38,963	78,973	100	(7,640)	(11,189)
	2017	43,713	87,091	46	387	(17,437)
Saudi SME Fund Al- Malaz Capital	2018	12,276	49,896	792	1,722	(8,168)
	2017	15,311	61,722	479	4,791	(2,676)
Al Ebda Microfinance Institute	2018	-	-	-	-	-
	2017	661	10,535	8,606	2,179	49

(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)
Zeitouna Tamkeen	2018	493	5,776	3,311	446	(714)
	2017	-	4,039	1,163	198	(1,260)
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 market price at 31 December 2018 is ID 14,265 million (2017: ID 14.545 million).

17. OTHER ASSETS

	31 Dec 2018	31 Dec 2017
Accrued income – Ijarah	60,070	61,842
Related party balances (Note 30)	13,880	9,772
Staff loans and advances	29,787	31,197
Others	27,134	7,470
	130,871	**110,281**

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2018 and 31 December 2017, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent 31 Dec 2018	ID equivalent 31 Dec 2017	Maturity date	Rate
Listed	6/4/2013	USD	-	702,881	06/04/18	1.535 % Fixed
	3/6/2014	USD	1,084,723	1,059,072	03/06/19	1.8125 % Fixed
	7/17/2014	USD	724,938	707,945	07/17/19	1.8118 % Fixed
	9/25/2014	USD	1,084,383	1,058,704	09/25/19	2.111 % Fixed
	3/12/2015	USD	722,724	705,565	03/12/20	1.831 % Fixed
	3/10/2016	USD	1,042,005	1,022,247	03/10/21	1.775 % Fixed
	2/29/2016	EUR	247,588	253,168	03/01/23	0.255% Fixed
	12/7/2016	USD	899,566	878,306	12/07/21	2.263% Fixed
	4/12/2017	USD	902,643	881,197	04/12/22	2.393 % Fixed
	9/26/2017	USD	903,165	881,871	09/26/22	2.261 % Fixed
	3/15/2018	USD	906,261	-	03/15/23	3.100% Fixed
	9/26/2018	USD	942,004	-	09/26/23	3.389 Fixed
	11/7/2018	EUR	534,954	-	11/07/23	0.554% Fixed
	11/26/2018	USD	339,394	-	11/26/21	3.2867% Fixed
			10,334,348	8,150,956		
Not listed	9/20/2010	SAR	181,008	175,192	09/20/20	2.550 % Fixed
	9/20/2010	SAR	179,543	176,751	09/20/20	6 Month LIBOR + 0.15%
	10/20/2014	EUR	-	252,771	10/20/18	0.330 % Fixed
	7/13/2015	EUR	82,466	84,318	07/13/20	0.310 % Fixed
	9/15/2015	EUR	82,397	84,246	09/15/20	0.230 % Fixed
	10/9/2015	EUR	247,118	252,619	10/09/20	0.318 % Fixed
	6/29/2016	MYR	60,470	60,404	06/28/24	4.360 % Fixed
	9/19/2016	USD	71,547	70,266	09/19/21	3 Month LIBOR + 0.43%
	2/24/2017	EUR	247,775	253,353	02/24/24	0.374 % Fixed
	2/27/2017	EUR	123,699	126,453	02/27/24	0.350 % Fixed
	7/19/2018	USD	72,765	-	07/19/23	6 Month LIBOR + 0.20%
			1,348,788	1,536,373		
Total			**11,683,136**	9,687,329		

The trust certificates (Sukuk) confer Certificate Holders to receive payments (Periodic Distribution) on specified dates (Periodic Distribution Dates) out of the profit elements of Ijarah assets, Equity Investments, Sukuk Investments and receivables in respect of Murabaha and Istisnaa contracts, Restricted Mudaraba assets and Qard (the Portfolio) sold at each Series (issuance) by IsDB to IsDB Trust Services Limited and Tadamun Services Berhad (the Trustees).

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

18. SUKUK ISSUED (continued)

After the sale of the Portfolio, IsDB as a third party, guarantees performance to the Trustees (obligors) of the Portfolio, that if any Trustee is unable to pay any amount owed under the Portfolio, IsDB will make the payment. 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. Sukuk costs incurred on sukuk issued during the year ended 31 December 2018 amounted to ID 218.2 million (2017: ID 169.2 million). Sukuk issued, amounting to ID 1,258.2 million (2017: ID 1228.8 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 2018, amounts to ID 40.9 million (2017: ID 37.1 million).

Also, IsDB undertakes to purchase the portfolio on the Maturity Date or Early Dissolution Date for an amount equivalent to the Aggregate Nominal Amount (i.e. price of the original sale).

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 as of 31 December 2018 of ID 789.1 million (2017: ID 770.4 million) represents the purchase price under these agreements. Financing cost incurred on commodity purchases during 2018 was ID 16.2 million (2017: ID 0.4 million).

20. WAKALA DEPOSITS

The Bank received deposits from the below related parties under Wakala agreements as follows:

Affiliates	Currency	ID Equivalent in '000 2018	2017	Placement Date	Maturity Date
Islamic Solidarity Fund for Development	USD	143,934	140,437	12/21/2017	6/21/2023
Islamic Solidarity Fund for Development	USD	215,901	210,655	12/21/2017	6/21/2023
Islamic Corporation for the Insurance of Investment and Export Credit	EUR	28,826	29,474	12/27/2017	12/30/2020
		388,661	**380,566**		

These Wakala deposits carry fee ranging up to 3.27%, per annum. Financing costs incurred on wakala deposits during the year was ID 9.7 million (2017: Nil)

21. OTHER LIABILITIES

	31 Dec 2018	31 Dec 2017
Payables against commodity purchase liabilities	136,616	15,625
Related party balances (Note 30)	5,428	9,816
Investment deposits	3,794	3,435
Accrued expenses	22,332	15,410
Deferred income - Ijarah	120,780	110,003
Accrued staff retirement and medical benefit scheme liability (Note 22)	68,753	72,531
Swaps designated in hedge accounting relationships - (Note 21 (a))	47,498	49,859
Deferred grant income	3,968	8,927
Others	37,202	37,226
	446,371	**322,832**

(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 2018

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing cost	Gain on changes in fair values
Fair value hedges	1,258,241	(127)	8,555	9,222
Cash flow hedges	179,709	685	5,205	3,047
		558	**13,760**	**12,269**

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Fair value hedges	(40,936)	-
Cash flow hedges	(6,562)	-
	(47,498)	**-**

31 Dec 2017

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Hedge accounting reserve	Financing cost / (credit)	Gain / (loss) on changes in fair values
Fair value hedges	1,228,820	(180)	(732)	11,164
Cash flow hedges	175,545	(1,518)	(3,331)	16,410
		(1,698)	(4,063)	27,574

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Fair value hedges	(37,623)	-
Cash flow hedges	(12,236)	-
	(49,859)	-

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 afull-time basis, as defined in the Bank and Affiliates employment policies, is eligible to participate in the SRP, uponcompletion of 6 months service without interruption of more than 30 days.

IsDB Group is a multi employer plan and includes Islamic Development Bank - Ordinary Capital Resources (IDB-OCR), SpecialAccount Resources Waqf Fund (WAQF), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation forDevelopment (ICD), Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) and Islamic Solidarity Fund for Development (ISFD).

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 Bankand 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

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.

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

22. POST EMPLOYMENT BENEFIT PLANS (continued)

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

	SPP		SRMP	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Benefit obligation opening balance	233,418	247,047	17,383	16,960
Current Service costs	11,918	11,803	1,053	1,093
Profit expense on Defined Benefit Obligation ("DBO")	9,647	10,313	737	726
Plan participations contributions	3,820	3,812	209	208
Disbursements from Plan Assets	(10,258)	(11,478)	(341)	(230)
Net actuarial gains	(17,426)	(14,230)	(2,410)	(385)
Currency translation loss / (gain)	5,554	(13,849)	403	(988)
Benefit obligation closing balance	**236,673**	**233,418**	**17,034**	**17,384**

The movements in the plan assets are as follows:

	SPP		SRMP	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Fair value of plan assets opening balance	170,824	169,517	7,447	7,201
Other adjustments	(3,433)	1,025	(3)	-
Profit income on Plan Assets	6,889	6,937	304	299
Return on plan assets (less) / greater than discount rate	(4,073)	3,184	9	14
Plan participations contributions	3,820	3,812	209	208
Employer contribution	8,764	7,592	420	376
Disbursements from Plan Assets	(10,258)	(11,478)	(341)	(230)
Currency translation gain / (loss)	4,187	(9,765)	189	(421)
Fair value of plan assets closing balance	**176,720**	**170,824**	**8,234**	**7,447**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation overfair value of plan assets (Note 21)	**59,953**	**62,594**	**8,800**	**9,937**

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 2018 and 31 December 2017 for the Bank comprised the following:

	SPP		SRMP	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	**Year ended 31 Dec 2018**	Year ended 31 Dec 2017
Current service costs	11,918	11,803	1,053	1,093
Expense on DBO Profit	9,647	10,313	737	726
Income on assets	(6,889)	(6,937)	(304)	(299)
Amounts recognized in income statement	**14,676**	**15,179**	**1,486**	**1,520**
Actuarial gains due to assumptions	(17,426)	(14,230)	(2,410)	(385)
Return on plan assets greater / (less) than discount rate	4,073	(3,184)	(9)	(14)
Other adjustments	3,433	(1,025)	3	-
Currency translation loss / (gain)	1,367	(4,084)	214	(567)
Amounts recognized in statement of changes of equity	**(8,553)**	**(22,523)**	**(2,202)**	**(966)**

(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 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Discount rate	4.50%	4.00%	4.50%	4.00%
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 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Cash and cash equivalent and commodity placements	59,147	24,201	3,635	962
Syndicated Murabaha	-	878	-	462
Managed funds and instalment sales	30,319	38,351	-	-
Investments in sukuk	67,433	89,205	4,558	5,764
Land	20,740	19,237	-	-
Others (net)	(919)	(1,048)	41	259
Plan assets	**176,720**	**170,824**	**8,234**	**7,447**

The following table summarizes the funding status of the SPP at the end of the last four reporting years and expectations for the next year:

	31-Dec-19	**31-Dec-18**	31-Dec-17	31-Dec-16	13-Oct-15
Present value of defined benefit obligation	(250,498)	(236,673)	(233,418)	(247,047)	(310,235)
Fair value of plan assets	187,366	176,720	170,824	169,517	234,072
Plan deficit	(63,132)	**(59,953)**	**(62,594)**	**(77,530)**	**(76,163)**

The following table summarizes the funding status of the SRMP at the end of the last four reporting years and expectation for the next year:

	31-Dec-19	**31-Dec-18**	31-Dec-17	31-Dec-16	13-Oct-15
Present value of defined benefit obligation	(18,448)	(17,034)	(17,384)	(16,960)	(20,412)
Fair value of plan assets	8,896	8,234	7,447	7,201	9,193
Plan deficit	(9,552)	**(8,800)**	**(9,937)**	**(9,759)**	**(11,219)**

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

	SPP	**SRMP**	**31 Dec 2018 Total**	31 Dec 2017 Total
Opening balance	50,695	7,614	58,309	81,798
Movements during the year	(8,553)	(2,202)	(10,755)	(23,489)
Closing balance	**42,142**	**5,412**	**47,554**	**58,309**

(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 2018 was as follows:

		31 Dec 2018	31 Dec 2017
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,406 (31 December 2017: 5,061,406) shares of ID10,000 each	50,614,060	50,614,060
Less: available for subscription		(388,750)	(426,180)
Subscribed capital		50,225,310	50,187,880
Callable capital		(40,853,415)	(40,815,980)
Called up capital		**9,371,895**	**9,371,900**
Amount not yet due		(3,625,985)	(3,868,440)
Instalments overdue		(150,494)	(124,902)
Paid up capital		**5,595,416**	**5,378,558**

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2018 ID 0.57 (31 December 2017: ID 0.59) 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 2018, general reserve made up 5.74% of the subscribed capital (31 December 2017: 5.39%). 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 2018:

- the higher of 5% of the Bank's normalized net income for the period ended 31 December 2017 and USD 15.2 millionwas allocated to finance technical assistance operations in the form of grants amounting to ID 10.4 million (31December 2017: ID 15.3 million).

- higher of 2% of the Bank's normalized net income for the period ended 31 December 2017 and USD 6.1 million was allocated to the merit scholarship program in the form of grants amounting to ID 4.2 million (31 December 2017: ID 6.1 million).

- higher of 2% of the Bank's normalized net income for the period ended 31 December 2017 and USD 6.1 million was allocated to the Islamic Finance Technical Assistance Operations in the form of grants amounting to ID 4.2 million (31 December 2017: ID 6.1 million).

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

25. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Staff costs	113,151	108,676
Business travel	4,222	4,768
Consultancy fees	16,628	13,384
Other	18,100	19,906
	152,101	**146,734**

26. COMMITMENTS

In the normal course of business, the Bank is a party to financial instruments with off-statement of financial position risk. 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 2018**	31 Dec 2017
Istisna'a assets	4,845,658	5,470,617
Restricted mudaraba	5,998	38,010
Instalment sale	828,005	459,564
Loans (Qard)	677,748	688,327
Ijarah assets	1,465,141	1,684,429
Capital contributions to ICD	89,877	131,659
Equity investments - capital contributions	63,195	80,400
	7,975,622	**8,553,006**

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. The Bank as at 31 December 2018 has paid two instalments amounting to USD 125 million (31 December 2017 - USD 62.5million).

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 realized during the year from transactions which are not approved by the Shari'ah Board of the IDB Group amounted to ID 0.37 million (2017: ID 0.2 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 relatedcontracts 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 fundsprogramme forenhancing the awarenessof its staffmembers of Islamic banking and deepen their understanding of the fundamentals, principles, rules and valuesrelative 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 realized from their investments and the total obligation as at 31 December 2018 amounted to ID 79.1 million (31 December 2017: ID 80.3 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 programs 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 from / (to) the Bank, affiliates and trust funds at the end of the year are as follows:

	31 Dec 2018		31 Dec17	
	Due from	Due to	Due from	Due to
World Waqf Foundation	-	(7)	-	-
Awqaf Properties Investment Fund	-	(517)	-	(1,682)
Unit Investment Fund	-	(365)	-	(327)
Islamic Corporation for the Insurance of Investments and ExportCredit	5,471	-	3,891	-
Special Account Resources Waqf Fund	7,492	-	-	(1,766)
IsDB Special Assistance Fund	-	-	-	(60)
IsDB Pension Fund	-	(307)	-	(3,649)
IsDB Medical Fund	-	(27)	-	(11)
Al-Aqsa Fund	68	-	1,088	-
Islamic Corporation for Development of Private Sector	-	(1,253)	1,939	-
Arab Bank for Economic Development in Africa	39	-	39	-
International Islamic Trade Finance Corporation	433	-	1,498	-
Fael Khair Bangladesh	13	-	8	-
Islamic Solidarity Fund for Development	-	(2,946)	-	(2,321)
Sacrificial Meat Project	-	(6)	69	-
GCC Program for Reconstruction of Gaza	65	-	5	-
Dueauville Partnership	-	-	1	-
Fael Khair Programs	185	-	1,077	-
Lives and Livelihoods Fund	114	-	157	-
Total	**13,880**	**(5,428)**	**9,772**	**(9,816)**

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) in 2008, the Bank's Board of Executive Directors' resolved to allocate USD 1 billion of IDB OCR resources to ITFC for managing its Murabaha financing, where ITFC will act as a Mudarib (under a Mudaraba agreement). The respective Mudarib fee charged by ITFC during the year amounts to ID 2.068 million (2017: ID 1.58 million).

(b) The Bank has Wakala Deposits outstanding as at 31 December 2018 with affiliates, namely; Islamic Solidarity Fund for Development amounting to ID 359.5 million (2017 - ID 351.1 million) equivalent to USD 500 million; and Islamic Corporation for the Insurance of Investment and Export Credit amounting to ID 28.8 million (2017 - ID 29.5 million) equivalent to EUR 35 million, respectively (Note 20).

(c) During the year ended 31 December 2018, the Bank sold its equity investments amounting to ID 51.3 million (USD 72.1 million) to Islamic Solidarity Fund for Development at market value.

(d) During the year ended 31 December 2017, the Bank sold its sukuk amounting to ID 37.4 million equivalent to USD 53 million to Islamic Solidarity Fund for Development at market value.

(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 2018	Year ended 31 Dec 2017
Board of Executive Directors expenses	1,115	1,826
Salaries and other short-term benefits	2,924	2,300
Accumulated post-employment benefits	118	95

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 its 'AAA' credit rating. The risks and processes to mitigate these risks havenot 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 toapproving 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 and prudential limits established by the Board of Executive Directors ("BED") and Management. The Bank uses a 21-scale risk rating system, with "1" being the best rated exposure and corresponding to "AAA" on the international rating agencies scale and 21 as selective default. The 21 scales are again grouped into 7 category starting from "A" to "G".

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

31 Dec 2018

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,417,973	81,344	1,499,317	10.5%
Pakistan	847,665	183,453	1,031,118	7.3%
Iran	946,881	130	947,011	6.6%
Indonesia	841,701	-	841,701	5.9%
Morocco	776,635	38,149	814,784	5.7%
Egypt	650,263	6,538	656,801	4.6%
Tunisia	522,358	40,719	563,077	4.0%
Senegal	543,990	6,240	550,230	3.9%
Uzbekistan	486,124	530	486,654	3.4%
Bahrain	476,957	-	476,957	3.3%
Total top 10 countries	**7,510,547**	**357,103**	**7,867,650**	**55.2%**
Total other countries	**5,626,096**	**760,587**	**6,386,683**	**44.8%**
Total	**13,136,643**	**1,117,690**	**14,254,333**	**100.00%**
Total sovereign exposure			13,136,643	92.2%
Total non-sovereign exposure			1,117,690	7.8%
Total			**14,254,333**	**100.00%**

31 Dec 2017

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,490,137	4,813	1,494,950	11.4%
Pakistan	948,634	147,482	1,096,116	8.4%
Iran	893,406	24	893,430	6.8%
Morocco	783,169	33,265	816,434	6.2%
Indonesia	683,550	-	683,550	5.2%
Egypt	510,913	-	510,913	3.9%
Tunisia	456,247	49,175	505,422	3.9%
Bahrain	491,128	-	491,128	3.7%
Bangladesh	427,143	-	427,143	3.3%
Azerbaijan	398,513	-	398,513	3.0%
Total top 10 countries	**7,082,840**	**234,759**	**7,317,599**	**55.8%**
Total other countries	**5,142,272**	**663,799**	**5,806,071**	**44.2%**
Total	**12,225,112**	**898,558**	**13,123,670**	**100.00%**
Total sovereign exposure			12,225,112	93.2%
Total non-sovereign exposure			898,558	6.8%
Total			**13,123,670**	**100.00%**

(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 its preferred creditor treatment, through appropriate policies and guidelines covering the end-to-end process including country risk assessment (via country's credit rating) and limit setting, operations planning, quality at entry of project proposals, disbursement, repayment and overdue management. Portfolio monitoring is performed on regular basis to ensure adherence to guidelines and limits and appropriate actions are taken to preserve the quality of the portfolio.

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

	31 Dec 2018		31 Dec 2017	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	38	0.0%	32	0.0%
Category "B"	2,049,756	15.6%	3,269,557	26.7%
Category "C"	4,253,917	32.4%	3,129,462	25.6%
Category "D"	4,406,990	33.6%	3,555,096	29.1%
Category "E"	1,383,298	10.5%	1,291,930	10.6%
Category "F"	267,537	2.0%	390,710	3.2%
Category "G"	775,107	5.9%	588,325	4.8%
Total	**13,136,643**	**100.0%**	**12,225,112**	**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 2018		31 Dec 2017	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	390	0.0%
Category "B"	381,617	34.1%	269,838	30.0%
Category "C"	323,574	28.9%	331,941	37.0%
Category "D"	315,861	28.3%	224,916	25.0%
Category "E"	64,576	5.8%	44,470	5.0%
Category "F"	2,024	0.2%	-	0.0%
Category "G"	30,038	2.7%	27,003	3.0%
Total	**1,117,690**	**100.0%**	**898,558**	**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 specificinstruments 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):

Risk rating category	31 Dec 2018 Amount	%	31 Dec 2017 Amount	%
Category "A"	383,471	7.7%	202	0.0%
Category "B"	4,569,900	91.4%	399,777	11.2%
Category "C"	250	0.0%	2,137,993	60.0%
Category "D"	898	0.0%	913,194	25.6%
Category "E"	46	0.0%	75,465	2.1%
Category "F"	-	0.0%	-	0.0%
Category "G"	44,771	0.9%	39,724	1.1%
Total	4,999,336	100.0%	3,566,355	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 appropriatediversification, the framework also covers concentration limits relating to single country, at the level of total portfolio andtreasury portfolio, to single counterparty, at the level of treasury portfolio and non-sovereign portfolio, and to sector, at thelevel of non-sovereign portfolio.

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

31 Dec 2018	Africa	Asia	Europe	Non Member Countries	Total
Treasury assets	535	5,577,602	206,061	1,162,589	**6,946,787**
Project assets	5,046,361	8,264,322	328,232	2,775	**13,641,690**
Investment assets	47,659	1,217,181	5,058	1,552	**1,271,450**
Other assets	20,127	167,392	-	-	**187,519**
Total assets:	**5,114,682**	**15,226,497**	**539,351**	**1,166,916**	**22,047,446**
%	**23%**	**70%**	**2%**	**5%**	**100%**

31 Dec 2017	Africa	Asia	Europe	Non Member Countries	Total
Treasury assets	184,949	4,241,073	-	1,129,501	**5,555,523**
Project assets	4,177,796	8,067,693	308,518	-	**12,554,007**
Investment assets	71,318	1,319,294	5,058	1,362	**1,397,032**
Other assets	20,533	148,864	-	-	**169,397**
Total assets:	**4,454,596**	**13,776,924**	**313,576**	**1,130,863**	**19,675,959**
%	**23%**	**70%**	**2%**	**5%**	**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 2018	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	5,605,670	-	-	**5,605,670**	**25%**
Transport and telecom	-	3,697,269	625	-	**3,697,894**	**17%**
Agriculture	-	1,353,488	-	-	**1,353,488**	**6%**
Industry and mining	-	315,824	269,176	-	**585,000**	**3%**
Social Services	-	1,919,712	-	-	**1,919,712**	**9%**
Financial Institutions	5,184,962	-	192,663	-	**5,377,625**	**24%**
Governments	1,062,897	-	-	-	**1,062,897**	**5%**
Trade	304,092	-	-	-	**304,092**	**1%**
Other	394,836	749,727	808,986	187,519	**2,141,068**	**10%**
Total assets:	**6,946,787**	**13,641,690**	**1,271,450**	**187,519**	**22,047,446**	**100%**

31 Dec 2017	Treasury Assets	Project Assets	Investment Assets	Other Assets	Total	%
Public utilities	-	5,150,263	-	-	5,150,263	**26%**
Transport and telecom	-	3,310,856	625	-	3,311,481	**17%**
Agriculture	-	1,302,728	-	-	1,302,728	**7%**
Industry and mining	-	355,307	353,134	-	708,441	**4%**
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	**1%**
Other	412,199	736,807	822,215	169,397	2,140,618	**11%**
Total assets:	**5,555,523**	**12,554,007**	**1,397,032**	**169,397**	**19,675,959**	**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 favorable, and to draw upon these assets when markets are not so favorable. 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 summarizes 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 2018	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	815,525	-	-	-	-	-	815,525
Commodity placements	1,862,739	620,589	1,018,623	671,404	-	-	4,173,355
Sukuk Investments	110,184	9,213	52,648	906,437	575,333	-	1,653,815
Murabaha Financing	152,095	100,825	51,172	-	-	-	304,092
Istisna'a assets	114,697	70,925	548,782	2,433,890	3,499,176	-	6,667,470
Restricted Mudaraba	5,781	117,393	163,608	236,964	349,506	-	873,252
Instalment sale	46,456	29,718	144,202	586,534	795,865	-	1,602,775
Ijarah assets	103,525	81,931	296,659	1,005,998	1,196,360	-	2,684,473
Loans (Qard)	61,251	68,298	156,248	602,569	925,354	-	1,813,720
Equity investments	-	-	-	-	-	466,038	466,038
Investments in associates	-	-	-	-	-	755,816	755,816
Other investments	-	-	-	-	-	49,596	49,596
Property, equipment and intangibles	-	-	-	-	-	56,648	56,648
Other assets	47,560	3,412	9,811	30,064	40,024	-	130,871
Total Assets	**3,319,813**	**1,102,304**	**2,441,753**	**6,473,860**	**7,381,618**	**1,328,098**	**22,047,446**
Liabilities							
Sukuk issued	1,084,722	-	1,809,322	8,357,148	431,944	-	11,683,136
Commodity purchase liabilities	-	-	-	789,133	-	-	789,133
Wakala deposits		-	-	388,661	-	-	388,661
Other liabilities	196,732	100,998	13,196	12,333	123,112	-	446,371
Total Liabilities	**1,281,454**	**100,998**	**1,822,518**	**9,547,275**	**555,056**	-	**13,307,301**

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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 and Cash equivalents	597,950	-	-	-	-	-	**597,950**
Commodity placements	798,211	1,173,669	763,756	218,629	-	-	**2,954,265**
Sukuk Investments	64,488	-	64,247	807,539	761,634	-	**1,697,908**
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	-	79,164	257,732	509,413	-	**852,107**
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 (Qard)	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	-	-	-	-	-	46,174	**46,174**
Property, equipment and intangibles	-	-	-	-	-	59,116	**59,116**
Other assets	52,678	4,814	3,525	37,102	12,162	-	**110,281**
Total Assets	**1,803,023**	**1,602,651**	**1,599,564**	**5,422,911**	**7,791,662**	**1,456,148**	**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**

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 2018	31 Dec 2017
USD (1ID = 1.39079 USD)	1,760,151	1,300,563
EUR (1ID = 1.21424 EUR)	1,270,565	1,003,000
Pound Sterling (1ID = 1.0955 GBP)	290,460	241,076
Japanese Yen (1ID = 154.14101 JPY)	283,745	218,557
Chinese Yuan (1ID = 9.53107 CNY)	453,524	333,007
Others	3,583	7,319
	4,062,028	**3,103,522**

(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 2018	31 Dec 2017
Commodity placements	2.1%	1.8%
Sukuk investments	3.2%	3.3%
Murabaha financing	3.5%	3.2%
Istisna'a assets	3.9%	4.4%
Instalment sale	3.8%	3.6%
Ijarah assets	2.6%	2.6%
Sukuk issued	2.1%	1.8%
Commodity purchase liabilities	2.0%	0.1%

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

(iii) Equity price risk

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

The Bank's investments in equities are held for strategic rather than trading purposes and are not actively traded. While the Bank has certain exposure to equity price risk, net income would remain unaffected if equity prices changed during the 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 2018	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk)	113,757	-	-	**113,757**
Equity type Investments at fair value through equity:				
Equity investments	386,196	-	-	**386,196**
Total financial assets at fair value	**499,953**	**-**	**-**	**499,953**
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	47,498	-	**47,498**
Sukuk liability (Fair value hedged)	-	1,258,240	-	**1,258,240**
Total financial liabilities	**-**	**1,305,738**		**1,305,738**

31 Dec 2017	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Debt Type investments (Sukuk)	233,820	-	-	233,820
Equity type Investments at fair value through equity:				
Equity investments	485,971	-	-	485,971
Total financial assets at fair value	**719,791**	**-**	**-**	**719,791**
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 at fair value	**-**	**1,278,679**	**-**	**1,278,679**

During the year ended 31 December 2018 and period ended 31 December 2017, 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 isresponsible 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 programs. Further, the internal reports furnishedto 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 year figures have been reclassified to conform to current year's presentation.

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.

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(iv) **Financial Accounting Standard – 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)"**

This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments to be in line with the ever-changing global best practices, in hand of both the principal and the agent.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2020.

(v) **Financial Accounting Standard – 33 "Investment in Sukuk, shares and similar instruments"**

This standard improves upon and supersedes the AAOIFI's Financial Accounting Standard (FAS) 25 "Investment in Sukuk, Shares, and Similar Instruments" issued in 2010. This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions).

The standard defines the key types of instruments of Shari'ah compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investment is made, managed and held.

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2020.

(vi) **Financial Accounting Standard – 34 "Financial reporting for Sukuk-holders"**

This standard intends to prescribe the accounting principles and reporting requirements for underlying assets of the Sukuk instrument. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-Holders.

This standard shall be applicable to Sukuk in accordance with the Shari'ah rules and principles issued by an Islamic Financial Institution or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with the requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard. This Standard shall be effective from the financial periods beginning on or after 1 January 2020.

(vii) **Financial Accounting Standard – 35 "Risk Reserves"**

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions. This standard shall apply to risk reserves that are established by an IFI entity, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by stakeholders. On the other hand, operations risk is the responsibility of the IFI itself, so this standard shall not be applied on any risk reserve created to mitigate the operational risk.

This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments" and they shall be adopted simultaneously. Both of standards FAS 30 and FAS 35 together supersedes the earlier FAS 11 "Provisions and Reserves".

This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021. Early adoption is permitted, only if the IFI decided to early adopt FAS 30 "Impairment, Credit Losses and Onerous Commitments".