2021 FINANCIAL STATEMENTS

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

This is the second of two volumes of the Annual Report of the Islamic Development Bank. The first volume reviews the development impact of the Bank's investments, projects and policies, highlights innovation in key sectors and initiatives during the year. This is published separately as the Annual Report. Both volumes are available online at **www.isdb.org**.

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Deloitte.

Deloitte and Touche & Co.
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Date 24/4/1419
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INDEPENDENT AUDITOR'S REPORT TO

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – Ordinary Capital Resources
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 2021, 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 2021, 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 Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Bank during the year 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 2021. 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 the 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.

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against project assets As at 31 December 2021, the Bank's project assets amounted to ID 16.28 billion (2020: ID 15.5 billion) representing 62.49% of total assets. The Expected Credit Loss (ECL) allowance was ID 399.7 million as of this date. The audit of impairment allowances for project assets is a key area of focus because of its size and due to the significance of the estimates and judgments used in classifying project assets into various stages, determining related allowance requirements, and the complexity of the judgements, assumptions and estimates used in the ECL models. The Bank recognizes allowances for ECL at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 3 to the financial statements.	1. We have obtained an understanding of the project assets business process, the credit risk management process, the policy for impairment and credit losses and the estimation process of determining impairment allowances for project assets to counter parties and the ECL modelling methodology and evaluated the design and implementation of relevant controls within these processes. 2. We assessed and evaluated the design and implementation of automated and / or manual controls over: • approval, accuracy and completeness of impairment allowances and governance controls over the monitoring of the model, through key management and committee meetings that form part of the approval process for project asset impairment allowances; • model outputs; and • the recognition and measurement of impairment allowances 3. On a sample basis, we selected project assets and assessed and evaluated: • the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner and classification of project assets into various stages and the determination of defaults / individually impaired exposures.

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
The material portion of the project assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging override as per the Bank's policies. The measurement of ECL amounts for project assets classified as Stage 1 and Stage 2 are carried out by the ECL models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a review process by an independent third party expert. For the impaired project assets Bank maintains estimates on the resumption of repayments from the counterparties and bases its ECL provisioning on the difference between net present value of the original repayment cashflows and net present value of the managements estimates of the revised cashflows. The impact of the Covid-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Bank's measurement of ECL, if any. The Group has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments, where applicable. This was considered as a key audit matter and the audit was focused on this matter due to the materiality of the project assets and the complexity of the judgements, assumptions and estimates used in the ECL models especially in light of the uncertain outlook caused by the impact of the Covid-19 pandemic on the sovereign exposures.	• the forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and related weighting applied. • the assumptions underlying the impairment allowance calculation, such as estimated future cash flows and estimates of recovery period. • the calculation methodology and traced a sample back to source data. • the post model adjustments and management overlays (if any) in order to assess the reasonableness of these adjustments and assessed the qualitative factors which were considered by the Bank to recognize any post model adjustments, in case of data or model limitations. Where such post model adjustments were applied, we assessed those post model adjustments and the governance process around them. 4. We tested models used in the credit impairment process and verified the integrity of data used as input to the impairment models. 5. The Bank performed an external validation of the ECL model and LGD models including macro-economic model during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate. Finally, we updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by

Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
Refer to Note 3 to the financial statements for the accounting policy for the impairment of financial assets, Note 14 for the disclosure of impairment and note 31 for credit risk disclosure and the key assumptions and factors considered in determination of ECL.	the Bank to determine future economic conditions at the reporting date. 6. Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating related inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in post model adjustments (if any) as mentioned above. 7. We assessed the adequacy of disclosures in the financial statements against the requirements of the Financial Accounting Standards issued by AAOIFI.

Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2021 Annual Report
Other information consists of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 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.

Other Matter
The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on July 6, 2021.

Responsibilities of the management and those charged with governance for the financial statements
These financial statements and the Bank's undertaking to operate in accordance with Shari'ah Rules and Principles are the responsibility of the Bank's management and those charged with governance.

The management 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

Report on the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements' 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.

Report on 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 those 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.

Deloitte and Touche & Co
Chartered Accountants

ديلويت آند توش وشركاهم
محاسبون ومراجعون قانونيون
فرع مكتب جدة
س.ت. ٤٠٣٠٢٩٧٠٤٩
CR.: 4030297049
Jeddah Branch
Chartered Accountants
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Waleed Bin Moha'd Sobahi
Certified Public Accountant
License No. 378

14 Shawwal, 1443
May 15, 2022

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2021

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

	Notes	31 December 2021	31 December 2020
Cash and cash equivalents	4	236,583	363,923
Commodity murabaha placements	5	5,528,102	5,320,823
Sukuk investments	6	2,219,216	1,466,183
Murabaha financing	7	253,421	325,892
Treasury assets		**8,237,322**	**7,476,821**
Istisna'a assets	9	8,388,859	7,955,365
Restricted mudaraba	10	656,238	732,834
Instalment sale	11	2,454,022	2,225,787
Ijarah assets	12	2,985,534	2,826,878
Loans (Qard)	13	1,794,183	1,779,003
Project assets		**16,278,836**	**15,519,867**
Equity investments	15	542,798	454,723
Investment in associates	16	742,856	728,904
Other investments		73,090	55,394
Investment assets		**1,358,744**	**1,239,021**
Property, equipment and intangibles		57,082	53,754
Other assets	17	94,690	132,474
Total Assets		**26,026,674**	**24,421,937**
Liabilities			
Sukuk issued	18	15,564,787	14,307,777
Commodity murabaha liabilities	19	277,176	308,962
Wakala (Due to)	21	-	347,221
Other liabilities	20	640,257	343,416
Total Liabilities		**16,482,220**	**15,307,376**
Members' Equity			
Paid-up capital	23	6,177,086	5,940,601
Reserves	24	3,260,435	3,057,744
Net income for the year		106,933	116,216
Total Members' Equity		**9,544,454**	**9,114,561**
Total Liabilities and Members' Equity		**26,026,674**	**24,421,937**
Restricted Investment Accounts	29	78,502	78,190

Notes 1 to 34 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Income Statement

For the year ended 31 December 2021

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

	Notes	**For the year ended 31 Dec 2021**	For the year ended 31 Dec 2020
Income / (loss) from:			
Commodity murabaha placements		43,022	71,666
Sukuk investments	6	50,539	57,587
Murabaha financing		8,883	10,752
Treasury assets		**102,444**	**140,005**
Istisna'a assets		253,629	260,822
Restricted mudaraba		17,827	25,160
Instalment sale		73,402	71,097
Ijarah assets, net of depreciation of assets under Ijarah	12.4	63,026	68,346
Loans (Qard)		9,370	9,658
Project assets		**417,254**	**435,083**
Equity investments		20,396	8,148
Share of income from investment in associates	16	15,700	(10,560)
Other investments		1,229	1,173
Investment assets		**37,325**	**(1,239)**
Foreign exchange gains/(losses)		3,152	(1,253)
Swap hedging (losses)/gains	17	(688)	13,522
Other		4,034	6,661
Other income		**6,498**	**18,930**
Total income		**563,521**	**592,779**
Financing costs	18, 19, 20, 21	(265,574)	(277,702)
Impairment charge	14	(29,197)	(29,769)
Net income before operating expenses		**268,750**	**285,308**
Administrative expenses	25	(156,814)	(163,145)
Depreciation / amortization on property, equipment and intangibles		(5,003)	(5,947)
Total operating expenses		**(161,817)**	**(169,092)**
Net income for the year		**106,933**	**116,216**

Notes 1 to 34 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 2021

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

			Reserves						
	Notes	Paid-up capital	General reserve	Fair value reserve	Pension and medical obligations	Other reserves	Total reserves	Net income	Total members' equity
Balance at 1 January 2020		**5,785,122**	**2,949,657**	**325,662**	**(108,196)**	**(27,385)**	**3,139,738**	**140,395**	**9,065,255**
Adjustment against allowance for credit losses – FAS 30 (Note 14)		-	(64,263)	-	-	-	**(64,263)**	-	**(64,263)**
Revised balance as at 1 January 2020 after FAS 30 adjustment		**5,785,122**	**2,885,394**	**325,662**	**(108,196)**	**(27,385)**	**3,075,475**	**140,395**	**9,000,992**
Increase in paid-up capital	23	155,479	-	-	-	-	-	-	**155,479**
Net changes in fair value of investments		-	-	(46,658)	-	-	(46,658)	-	**(46,658)**
Actuarial losses relating to retirement pension and medical plans	22	-	-	-	(45,169)	-	(45,169)	-	**(45,169)**
Hedge accounting reserve	17	-	-	-	-	(3,026)	(3,026)	-	**(3,026)**
Share in associates' reserve movement	16	-	(20,443)	-	-	(31,974)	(52,417)	-	**(52,417)**
Net income for the year		-	-	-	-	-	-	116,216	**116,216**
Transfer to general reserve	24	-	140,395	-	-	-	140,395	(140,395)	**-**
Allocation for grants	24	-	(10,856)	-	-	-	(10,856)		**(10,856)**
Balance at 31 December 2020		**5,940,601**	**2,994,490**	**279,004**	**(153,365)**	**(62,385)**	**3,057,744**	**116,216**	**9,114,561**
Increase in paid-up capital	23	236,485	-	-	-	-	**-**	-	**236,485**
Net changes in fair value of investments		-	-	103,337	-	-	**103,337**	-	**103,337**
Actuarial losses relating to retirement pension and medical plans	22	-	-	-	(6,983)	-	**(6,983)**	-	**(6,983)**
Hedge accounting reserve	17	-	(20,911)	-	-	4,191	**(16,720)**	-	**(16,720)**
Share in associates' reserve movements	16	-	-	-	-	22,056	**22,056**	-	**22,056**
Net income for the year		-	-	-	-	-	**-**	106,933	**106,933**
Transfer to general reserve	24	-	116,216	-	-	-	**116,216**	(116,216)	**-**
Allocation for grants	24	-	(15,215)	-	-	-	**(15,215)**	-	**(15,215)**
Balance at 31 December 2021		**6,177,086**	**3,074,580**	**382,341**	**(160,348)**	**(36,138)**	**3,260,435**	**106,933**	**9,544,454**

Notes 1 to 34 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Cash Flows

For the year ended 31 December 2021

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

	Notes	**For the year ended 31 Dec 2021**	For the year ended 31 Dec 2020
Cash flows from operations			
Net income for the year		106,933	116,216
Adjustments for non-cash items:			
Depreciation / amortization		5,003	5,947
(Gain)/ loss from investment in associates	16	(15,700)	10,560
Allowance for credit losses against financial assets	14	29,197	29,769
Accrued income – Sukuk investments	6	(2,929)	1,112
Unrealized fair value losses / (gains) on sukuk	6	2,587	(5,154)
Amortization of other income		(567)	(567)
Foreign exchange (gains)/ losses		(3,152)	1,253
(Gain)/ on disposal of investment in equity capital		(6,469)	3,928
Operating income before changes in operating assets and liabilities		**114,903**	**163,064**
Changes in operating assets and liabilities:			
Istisna'a assets		(438,510)	(703,639)
Restricted mudaraba		96,375	83,683
Instalment sale		(221,663)	(350,049)
Ijarah assets		(118,093)	(67,330)
Loans (Qard)		(12,922)	18,366
Other assets		22,383	(59,238)
Other liabilities		25,757	(50,339)
Commodity murabaha placements		(74,619)	(1,050,771)
Murabaha financing		76,575	11,517
Net cash used in operating activities		**(529,814)**	**(2,004,736)**
Cash flows from investing activities			
Acquisition of sukuk investments	6	(815,145)	(165,401)
Proceeds from disposal/redemption of sukuk investments	6	117,372	368,305
Acquisition of equity investments	15	(17,393)	-
Proceeds from disposal of equity and other investments		24,129	34,734
Acquisition of other investments		(18,471)	(12,852)
Acquisition/increase in share of associate	16	(4,553)	(48,618)
Dividends from associates	16	2,298	577
Proceeds from capital repayment/disposal of investment in associates	16	15,973	2,947
Additions to property, equipment and intangibles		(8,331)	(6,237)
Net cash (used in) / generated from investing activities		**(704,121)**	**173,455**
Increase in paid-up capital		236,485	155,479
Allocation for grants	24	(15,215)	(10,856)
Proceeds from issuance of sukuk		3,365,023	3,991,039
Redemption of sukuk		(2,354,890)	(1,491,011)
Commodity murabaha liabilities		(21,434)	(1,308,676)
Redemption of Wakala (Due to)		(97,204)	(86)
Net cash from financing activities		**1,112,765**	**1,335,889**
Net change in cash and cash equivalents		(121,170)	(495,392)
Exchange difference on cash and cash equivalents		(5,671)	5,141
Impairment provision – cash and cash equivalents		(499)	-
Cash and cash equivalents at the beginning of the year		363,923	854,174
Cash and cash equivalents at the end of the year	4	**236,583**	**363,923**

Notes 1 to 34 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 Islamic Shari'ah principles. The Bank has 57 Member Countries (2019: 57).

As a supranational institution, the Bank is not subject to any national banking regulations, 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 Group 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 for submission to the Board of Governors 46th Annual Meeting.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and Shari'ah Rules and Principles as determined by the Group 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") provided they do not contradict with the rules and principles of Shari'ah as determined by the Group Shari'ah Board of the Bank.

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

- Investments in equity and funds are measured at fair value through equity;
- Investments in associates are measured using equity method of accounting;
- Certain investments in sukuk are measured at fair value through income statement designated as such at thetime of initial recognition; and
- Profit rate and cross-currency profit rate swaps are measured at fair value.
- Post-employment benefits plan measured using actuarial present value calculation based on projected unit credit method.

Unit of Account

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"). These financial statements have been presented in ID, which is the Unit of Account of the Bank. Except as otherwise indicated, the financial information presented in ID has been rounded to the nearest thousands.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the related contractual rights or obligations.

Financial assets

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.

Recognized financial assets and financial liabilities are initially measured at fair value, for concessional loans (Qard) fair value is best evidenced by the transaction amount. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

On initial recognition, financial assets are classified and measured at either of {i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

a. the institution's business model for managing the investments; and
b. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Financial Assets
Financial assets comprise investments in debt-type and equity-type financial instruments.

(i) Classification
Debt-type instruments

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Investments in debt-type instruments are classified into the following categories: 1) at amortised cost or 2) at fair value through statement of income.

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through the statement of income.

Debt-type investments classified and measured at fair value through statement of income include investments held for trading or designated at fair value through statement of income. At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through statement of income if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Equity-type instruments

Investments in equity-type instruments are classified into the following categories: 1) at fair value through statement of income or 2) at fair value through other comprehensive income.

Equity-type investments classified and measured at fair value through statement of income include investments held for trading or designated at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through statement of income include investments which are managed and evaluated internally for performance on a fair value basis.
On initial recognition, the Bank makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of income to be classified as investments at fair value through other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES

(ii) Recognition and derecognition

Investment securities are recognised at the trade date i.e., the date that the Bank contracts to purchase or sell the asset, at which date the Bank becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Initial recognition

Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through statement of income which are charged to statement of income.

Subsequent measurement

Investments at fair value through statement of income are re-measured at fair value at the end of each reporting period and the resultant re-measurement gains or losses is recognised in the statement of income in the period in which they arise. Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of income.

Investments at fair value through equity are re-measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the statement of changes in shareholders' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in members' equity is transferred to the statement of income.

Investments which do not have a quoted market price or other appropriate methods from which to derive a reliable measure of fair value when on a continuous basis cannot be determined, are stated at cost less impairment allowance, (if any).

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fee and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Company measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the statement of financial position date. For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Bank by discounting future cash flows at current profit rates for contracts with similar term and risk characteristics.

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**
Commodity murabaha placements	Amortized cost
Murabaha financing	Amortized cost
Investments in sukuk classified as either:	Fair value through income statement; or amortized cost
Istisna'a and Installment sale	Amortized cost
Restricted mudaraba	Amortized cost
Ijarah assets	Amortized cost less depreciation and impairment
Loans (Qard)	Disbursements plus accrued service fee less impairment
Equity investments	Fair value through members' equity
Other investments	Amortized cost
Sukuk issued	Amortized cost
Commodity murabaha liabilities	Amortized cost
Wakala due	Amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when there is a legally 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 murabaha placements, sukuk investments and murabaha financing.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity murabaha 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 allowance for credit losses in the statement of financial position.

Commodity murabaha placements

Commodity murabaha placements entails the purchase and sale of commodities at agreed profit rates. The buying and selling of commodities is limited by the terms of agreement between the Bank and other Islamic and conventional financial institutions. Commodity murabaha placements are carried at amortized cost less allowance for credit losses.

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 allowance for credit losses.

After the initial designation, such investments are not permitted to be reclassified into or out of the fair value or amortized cost categories.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 under Murabaha financing 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

A sale contract between two parties whereby the Bank undertakes to construct, for its customer, a specific asset or property according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

The work undertaken is not restricted to be accomplished by the Bank alone and the whole or part of the construction/development can be undertaken by third parties under the control and responsibility of the Bank.

Istisna'a assets in progress represent disbursements made as well as accrued income against assets being either constructed or manufactured Istisna'a profit (difference between the sale price of asset or property to the customer and the Bank total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

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

Sale whereby the Bank sells to a customer, an asset which it has purchased and acquired based on a promise from that customer to buy. The selling price includes the profit margin. Amounts receivable from the instalment sale transactions are stated at selling price, less unearned income, less repayments and allowance for credit losses.

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 and are notdepreciated. No rental income is recognized on the assets during the construction/manufacturing period. Rental income received during the construction period (advance rental) is recorded under Other liabilities and amortized to Ijarah income after the asset is transferred to Ijarah asset in use (Note 12).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (Qard)

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

Loan (Qard) amounts outstanding represent amounts disbursed in respect of projects plus accrued service fees, less repayments received and allowance for credit losses.

Investment Assets

Investment assets include Equity investments, investments in funds, 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 fair values 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 market value

Unlisted investments in equities and funds measured at fair value through equity

Unlisted investments in equities and funds are carried at fair values determined by independent valuers. Fair value gains/losses are reported in fair value reserve in equity. 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 category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and return of capital. When the Bank's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables from the respective associate, 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 associates is based on financial statements available up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform to the accounting policies of the Bank. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Bank.

Profit rate and cross currency profit rate swaps

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assessment

Impairment of assets held at amortized cost

The Bank applies the credit loss approach to financing instruments measured at amortized cost, loan commitments, and treasury investments held at amortized cost. No impairment loss is recognised on equity and other investment carried at fair value and on loan commitments issued and financial guarantee contracts issued as per expected credit loss model. To assess the extent of credit risk, the financial assets are divided into three (3) categories:

i. Stage 1 – No significant increase in credit risk;
ii. Stage 2 – Significant increase in credit risk (SICR); and
iii. Stage 3 – Credit impaired financial assets.

Allocation to different stages is based on the degree of deterioration in the credit quality of the financial asset. At each reporting date, the Bank assesses whether there has been a significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. Currently, the Bank has assessed Nil loss allowance on issued loan commitments and financial guarantee contracts.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of the countries and industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

organisations, as well as consideration of various internal and external sources of actual and forecast economic information. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing, Given that macro-economic scenario data and models for certain countries are not readily available, in such cases proxy scenarios and models have been used.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

All financial assets are allocated to stage 1 on initial recognition. However, if a significant increase in credit risk is identified at the reporting date compared with initial recognition, then the asset is transferred to stage 2 (Refer to Note 31 Risk management). If there is objective evidence of impairment, then the asset is credit-impaired and allocated to stage 3 as described in Note 31 Risk management.

With the exception of Purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:
- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2).
- As for instruments classified in stage 3, loss allowance is quantified as the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events

For Sovereign:
Prolonged Civil War/ external arms conflict

For Non-Sovereign:
Company files for bankruptcy
Cancellation of Operating License
Clear evidence that the company will not be able to make the future repayments

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTME are credit-impaired at each reporting date

Purchased or originated credit-impaired (POCI) financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Modification and derecognition of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the financial asset, changes to the timing of the cash flows of the financial asset (principal and profit repayment), reduction in the amount of cash flows due (principal and profit forgiveness).
When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective profit rate. If the

difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Bank considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Bank performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses, if any, for financial assets are included in the statement of income in 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:
- All contracts or obligors rated 21 in the Bank's internal scale (equivalent to C in Moody's scale and D in both S&P's and Fitch Ratings' scale); or
- Moreover, the Bank also uses a rebuttable presumption based on DPD. This rule is applied if the contractual payments are due for more than 180 days for sovereign contracts and 90 days for non-sovereign ones, unless there is reasonable and supportable information indicating that the contract is not credit-impaired.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes. The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-off
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. Bank has not written off any non-sovereign financial assets during the current and prior year.

Financial liabilities

The Bank derecognizes financial liabilities when, and only when, its contractual obligations are discharged or cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Bank also derecognizes a financial liability when its terms are modified and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the income statement and statements of changes in members' equity.

Impairment of investments held at fair value through members' equity

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

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

Other amortised cost assets

An assessment is made at each reporting date to determine whether there is objective evidence that an amortised cost asset or a group of such assets may be impaired. The amount of the impairment losses for other 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.

Financial liabilities

Commodity murabaha purchase and sale agreements

The Bank enters into commodity murabaha 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 murabaha 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Wakala due (funds under management)

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 funds are managed in a fiduciary capacity and the Bank has no entitlement to these assets. Muwakkil bear all of the risks and earn all of the rewards on these investments except where the actual profit exceeds the expected profit on the investment. 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 misconduct, negligence or violation of any of the terms of the Wakala agreements accordingly they are recognized on the statement of financial position.

In accordance with the wakala agreement, muwakkil authorized the Bank to commingle its investments with the Bank's own funds and the funds of the sukukholders with due authority to the Bank. Wakala funds are measured at the amount received during the time of contracting plus accrued profit less amounts settled.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment and intangibles

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Commodity murabaha placements

Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on an effective yield 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 and Restricted Mudaraba income

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

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) starting from the date the right to use the asset is transferred to the lessee.

Loan (Qard) service fees

The Bank charges loan (Qard) service fee only to cover its actual administrative costs related to loans provided to the member countries. Thus, the loans (Qard) service fee is calculated during the financial periods starting from the signature date.

The loan (Qard) service fee is allocated and recognized in the income statement over the specified 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 unit of account 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 (including Equity investments) are retranslated into the unit of account 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing cost

Sukuk financing costs are recognized in the income statement and include the amortization of the issuance costs and swap financing cost element. Sukuk issued is recognized at amortized cost, except for those sukuk used as hedged 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.

Earnings prohibited by Islamic Shari'ah

Any income earned by the Bank from sources, which are forbidden by the Islamic 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 Principles as determined by the Group Shari'ah Board of the Bank.

Critical accounting judgments and estimates

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

Significant judgements

Unit of Account

The Bank conducts its operations mainly in USD and EUR that take up 72.8% (2020: 73.1%) 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 underlying transactions, events and conditions of the Bank and is accordingly the Bank's unit of account.

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.

Designation of Investments in equity capital

Designation of Investments in equity capital and real estate and other funds at fair value through equity is driven by theintention 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 going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant estimates

Expected credit losses against financial assets

Expected credit losses against financial assets – The measurement of credit losses under FAS 30 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

i) The Bank's internal credit grading model, which assigns PDs to the individual grades;

ii) The Bank's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment;

iii) Development of ECL models, including the various formulas and the choice of inputs

iv) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

v) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Impact of COVID'19

More than 2 years since the first case of the Coronavirus Disease 2019 ("COVID-19") was reported, the pandemic is still significantly impacting economic and social life in member countries. The anticipated recovery from COVID-19 in 2021 was disrupted by the arrival of new variants and high inflation. Several countries, including Saudi-Arabia reimposed mobility restrictions, while escalating energy prices and supply disruptions have produced high and broad-based inflation. The repercussions of the pandemic have stifled growth, with the aggregated output of IsDB member countries contracting by 1.7 percent in 2020.

Considering these factors, the Bank's management carried out an impact assessment on the overall Bank's operations and business aspects including factors like dealing with member countries, continued day to day business activities, financing, investment and collection as well as working capital projections, etc. and concluded that, as at the issuance date of these financial statements, the Bank did not have significant adverse impact on its operations and businesses due to COVID-19 pandemic and no significant changes are required to the judgements, assumptions and key estimates.

To preserve the health of the employees and support the prevention of contagion in the operational and administrative areas, the Bank took measures, in line with the recommendations of the World Health Organisation and Ministry of Health - Kingdom of Saudi Arabia, such as working from home, social distancing at work place, rigorous cleaning of workplaces and staff accommodation, distribution of personal protective equipment, testing of suspected cases, limiting non-essential travel, self-health declarations and measuring body temperature. In addition, the Bank's nature of activities facilitated seamless operations during the pandemic.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these financial statements. The strong financial position, including access to funds, nature of activities coupled with the actions taken by the Bank to date and the continued operations ensures that the Bank has the capacity to continue through the challenges caused by impacts of the COVID-19 pandemic.

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 rateof 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of investments

The fair values of investment securities that are not quoted in active markets is measured by using valuation techniques and external valuations, which require a certain degree of judgement and estimation. Nonetheless, the actual amounts that are realised in future transactions may differ from the current estimates at fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

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.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity- type instrument at fair value through statement on income, equity-type instrument at fair value through other comprehensive income, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

The effect of new and revised financial accounting standards

The following new FASs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar
The Bank has adopted FAS 31 as issued by AAOIFI on 1 January 2021. The Bank raised funds from ISFD using Wakala structure. These were reported within liabilities under "wakala due' as of 31 December 2020.

In the Agent's books, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance- sheet approach whereby virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet. An agent may maintain multi-level investment arrangements. Under such arrangement, the Group is reinvesting Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent. Wakala due was early redeemed on 31 December 2021 (Note 21). Hence at 31 December 2021, there was no wakala due. Wakala contracts outstanding at 31 December 2020 were accounted for as part of liabilities.

FAS 32 Ijarah

In these financial statements, the Bank has applied FAS 32 – Ijarah, for annual periods beginning on or after January 1, 2021, with earlier permitted. The Bank decided to adopt the standard from January 1, 2021.

Impact of initial application of FAS 32 – Ijarah

In the current year, the Bank has applied FAS 32 Ijarah that is effective for annual periods that begin on or after January 1, 2021.

FAS 32 introduces some new changes as explained below

- changes in the classification. Ijarah transactions under in this standard are classified into the Operating Ijarah, Ijarah Muntahia Bittamleek (Ijarah MBT) with expected transfer of owner ship after the end of the Ijarah term either through a sale or gift and Ijarah MBT with gradual transfer.

- new recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting;

- requirement to identify and separate Ijarah and non-Ijarah components., if needed;

- new recognition and measurement principle for an Ijarah MBT through gradual transfer/ Diminishing Musharaka Ijarah

- allowing effective rate of return/ profit rate method for accounting for rental income, in the hand of the lessor;

- testing for impairment of right-of use asset shall be subject to requirements off FAS 30 "impairment, Credit Losses and Onerous Commitments"; and

- detailed guidelines are provide-d for presentation and disclosures with enhanced disclosure by lessor and lessee of information as compared to previous requirements in FAS 8.

Impact on Lessor Accounting

FAS 32 does not change substantially how a lessor accounts for Ijarah. FAS 32 has changed and expanded the disclosures required.

Under FAS 32, an intermediary lessor accounts for the head Ijarah and the sub-ijarah as two separate contracts. As required by FAS 32, an allowance for expected credit losses has been recognised on the finance lease receivables.

Standards issued but not yet effective

The following new financial accounting standards of The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") 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 – 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.

(ii) Financial Accounting Standard – 37 "Financial Reporting by Waqf Institutions"

The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

(iii) Financial Accounting Standard – 38 Wa'ad, Khiyar and Tahawwut

The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions (the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

(iv) Financial Accounting Standard – 39 "Financial Reporting for Zakah"

This standard aims at setting out accounting treatment of Zakah in the books of an Islamic financial institution, including the presentation and disclosure in its financial statements. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

(v) Financial Accounting Standard – 40 "Financial Reporting for Islamic Finance Windows"

The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in the form of Islamic finance windows). This standard shall be effective on the financial statements of the Islamic finance window of conventional financial institutions for the periods beginning on or after 1 January 2024 with early adoption permitted.

(vi) Financial Accounting Standard – 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements"

The revised FAS 1 describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable on all the Islamic financial institutions and other institutions following AAOIFI FASs. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2023 with early adoption permitted. The Bank is currently evaluating the impact of this standard.

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2021	31 Dec 2020
Cash in hand	3	-
Current and call accounts with Banks	83,412	119,544
Commodity murabaha placements with maturities less than 3 months from origination date (Note 5) (Note 4.1)	164,123	254,835
Less: Allowance for credit loss against cash and cash equivalents (note 14)	(10,955)	(10,456)
	236,583	**363,923**

4.1 Commodity murabaha 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 MURABAHA PLACEMENTS

	31 Dec 2021	31 Dec 2020
Placements with Islamic banks	394,950	587,060
Placements with conventional banks	5,280,494	4,964,150
Accrued income	20,901	28,972
Commodity murabaha placements less than 3 months (note 4)	(164,123)	(254,835)
Less: Allowance for credit loss against commodity murabaha placements (note 14)	(4,120)	(4,524)
	5,528,102	**5,320,823**

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	1,466,183	1,724,211
Movements during the year:		
Additions	815,145	165,401
Redemptions/sales	(117,372)	(368,305)
Accrued income	2,929	(1,112)
Unrealized fair value (losses)/gains	(2,587)	5,154
Unrealized exchange revaluation gains/(losses)	54,933	(59,006)
Less: Allowance for credit loss against sukuk investments (note 14)	(15)	(160)
Closing balance	**2,219,216**	**1,466,183**

	Counterparty rating				
	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
31 Dec 2021					
Sukuk classified at fair value though income statement:					
- Governments	46,209	-	14,688	-	60,897
- Other entities	-	92,114	-	-	92,114
	46,209	**92,114**	**14,688**	**-**	**153,011**
Sukuk classified at amortized cost:					
- Financial institutions	145,413	410,324	103,605	-	659,342
- Governments	81,867	574,140	501,685	96,124	1,253,816
- Other entities	21,799	131,248	-	-	153,047
	249,079	**1,115,712**	**605,290**	**96,124**	**2,066,205**
Total	**295,288**	**1,207,826**	**619,978**	**96,124**	**2,219,216**

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

6. SUKUK INVESTMENTS

	Counterparty rating				
	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
31 Dec 2020					
Sukuk classified at fair value though income statement:				-	
- Governments	45,866	2,912	14,616	-	63,394
- Other entities	-	91,309	-	-	91,309
	45,866	**94,221**	**14,616**	**-**	**154,703**
Sukuk classified at amortized cost:					
- Financial institutions	35,114	304,565	89,634	-	429,313
- Governments	14,035	408,967	344,286	-	767,288
- Supranational	21,189	-	-	-	21,189
- Other entities	-	93,690	-	-	93,690
	70,338	**807,222**	**433,920**	**-**	**1,311,480**
Total	**116,204**	**901,443**	**448,536**	**-**	**1,466,183**

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Coupon income	53,126	52,433
Unrealized fair value (losses)/ gains	(2,587)	5,154
	50,539	**57,587**

7. MURABAHA FINANCING

	31 Dec 2021			31 Dec 2020		
	Sovereign	Non-Sovereign	Total	Sovereign	Non-Sovereign	Total
Gross amount receivable	239,399	19,158	**258,557**	310,502	21,276	**331,778**
Less: Deferred profit	(3,342)	(241)	**(3,583)**	(4,417)	(178)	**(4,595)**
Less: Allowance for credit losses (note 14)	(1,313)	(240)	**(1,553)**	(1,208)	(83)	**(1,291)**
	234,744	**18,677**	**253,421**	**304,877**	**21,015**	**325,892**

8. PROJECT ASSETS

	31 Dec 2021			31 Dec 2020		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Istisna'a assets (Note 9)	8,309,060	201,963	**8,511,023**	7,800,718	264,117	**8,064,835**
Restricted Mudaraba (Note 10)	657,820	-	**657,820**	734,702	-	**734,702**
Instalment sale (Note 11)	2,467,440	42,894	**2,510,334**	2,255,981	17,547	**2,273,528**
Ijarah asset (Note 12)	2,439,981	676,094	**3,116,075**	2,215,230	740,827	**2,956,057**
Loans (Qard) (Note 13)	1,864,817	-	**1,864,817**	1,871,148	185	**1,871,333**
	15,739,118	**920,951**	**16,660,069**	**14,877,779**	**1,022,676**	**15,900,455**
Less: Allowance for credit losses	(365,190)	(16,043)	(381,233)	(360,022)	(20,566)	**(380,588)**
	15,373,928	**904,908**	**16,278,836**	**14,517,757**	**1,002,110**	**15,519,867**

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 2021	31 Dec 2020
Istisna'a assets in progress	4,666,923	4,309,163
Istisna'a receivable	4,318,104	4,358,343
Accrued income	332,122	275,750
Less: deferred profit	(740,350)	(809,348)
Less: Share of syndication participants	(65,776)	(69,073)
Less: Allowance for credit losses (note 14)	(122,164)	(109,470)
	8,388,859	**7,955,365**

10. RESTRICTED MUDARABA

	31 Dec 2021	31 Dec 2020
Restricted Mudaraba assets in progress	76,981	119,256
Restricted Mudaraba receivable	632,450	674,351
Accrued income	15,188	12,759
Less: deferred profit	(66,799)	(71,664)
Less: Allowance for credit losses (note 14)	(1,582)	(1,868)
	656,238	**732,834**

11. INSTALMENT SALE

	31 Dec 2021	31 Dec 2020
Gross amounts receivable	2,660,748	2,404,011
Accrued Income	43,032	35,145
Less: deferred profit	(193,446)	(165,628)
Less: Allowance for credit losses (note 14)	(56,312)	(47,741)
	2,454,022	**2,225,787**

12. IJARAH ASSETS

	31 Dec 2021	31 Dec 2020
Assets under construction (note 12.1)	1,178,234	1,313,185
Assets in use (note 12.2)	4,481,089	3,976,519
Less: Accumulated depreciation of assets in use (note 12.3)	(2,530,980)	(2,314,906)
Balance, net of accumulated depreciation	**3,128,343**	**2,974,798**
Accrued income	57,077	54,562
Less: Share of syndication participants	(69,345)	(73,303)
Balance, net of share of syndication participants	**3,116,075**	**2,956,057**
Less: Allowance for credit losses (note 14)	(130,541)	(129,179)
	2,985,534	**2,826,878**

12.1 Assets under construction

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	1,313,185	1,200,749
Additions	369,619	224,365
Transferred to assets in use	(504,570)	(111,929)
Closing balance	**1,178,234**	**1,313,185**

12.2 Assets in use

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	3,976,519	3,864,590
Transferred from assets under construction	504,570	111,929
Closing balance	**4,481,089**	**3,976,519**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	(2,314,906)	(2,088,206)
Charge for the year	(216,074)	(226,700)
Closing balance	**(2,530,980)**	**(2,314,906)**

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

12.4 Income from Ijarah Assets

	31 Dec 2021	31 Dec 2020
Gross Income	280,710	297,251
Less: Depreciation of assets under Ijarah	(216,074)	(226,700)
Income before share of Syndication participants	**64,636**	**70,551**
Less: Share of syndication participants	(1,610)	(2,205)
Net rental income	**63,026**	**68,346**

12.5 Future cash flows from Ijarah contracts

Future cash outflows related to Ijarah contracts are summarized below:

	Within 1 year	1 Year to 5 years	More than 5 years	Total
31 December 2021	190,185	453,167	35,489	678,841
31 December 2020	183,175	651,312	14,699	849,186

Future cash inflows related to Ijarah contracts are summarized below:

	Within 1 year	1 Year to 5 years	More than 5 years	Total
31 December 2021	51,864	151,988	101,804	305,656
31 December 2020	54,333	174,641	131,014	359,988

13. LOANS (QARD)

	31 Dec 2021	31 Dec 2020
Loans (Qard)	1,864,817	1,871,333
Less: Allowance for credit losses (note 14)	(70,634)	(92,330)
	1,794,183	**1,779,003**

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

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

Provision for impairment comprised of the following:

		31 Dec 2021			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	4	-	-	10,955	10,955
Commodity murabaha placements	5	436	-	3,684	4,120
Sukuk investments	6	175	-	-	175
Murabaha financing	7	1,478	75	-	1,553
Istisna'a assets	9	30,781	32,770	58,613	122,164
Restricted Mudarabah	10	1,582	-	-	1,582
Instalment sale	11	10,622	328	45,362	56,312
Ijarah assets	12	14,254	4,093	112,194	130,541
Loans (Qard)	13	23,308	2,840	44,486	70,634
Other investments		4,317	1,410	4,801	10,528
		86,953	**41,516**	**280,095**	**408,564**
Equity Investments	15				62,932
Investment in Associates	16				20,176
					491,672

		31 Dec 2020			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	4	-	-	10,456	10,456
Commodity murabaha placements	5	840	-	3,684	4,524
Sukuk investments	6	160	-	-	160
Murabaha financing	7	1,209	82	-	1,291
Istisna'a assets	9	32,316	25,964	51,190	109,470
Restricted Mudarabah	10	1,868	-	-	1,868
Instalment sale	11	10,403	1,181	36,157	47,741
Ijarah assets	12	23,305	2,362	103,512	129,179
Loans (Qard)	13	24,242	4,164	63,924	92,330
Other investments		4,926	1,345	1,456	7,727
		99,269	35,098	270,379	404,746
Equity Investments	15				49,324
Investment in Associates	16				10,088
					464,158

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

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

An analysis of changes in ECL allowances in relation to Bank's financial assets were as follows:

	31 Dec 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Provisions as at 1 Jan 2021	99,269	35,098	270,379	404,746
New assets originated or purchased	3,355	-	-	3,355
Assets derecognized or repaid (excluding write offs)	(11,364)	(541)	-	(11,905)
Write offs	-	-	(350)	(350)
Transfer from stage 1 to Stage 2	(11)	11	-	-
Transfer from stage 2 to Stage 3	-	(1,168)	1,168	-
Transfer from stage 2 to Stage 1	1,169	(1,169)	-	-
Transfer from stage 1 to Stage 3	(985)	-	985	-
New and increased provision (net of releases)	(4,480)	9,285	7,913	12,718
ECL Allowance as at 31 Dec 2021	**86,953**	**41,516**	**280,095**	**408,564**
Equity Investments				62,932
Investment in Associates				20,176
				491,672

	31 Dec 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Provisions as at 1 Jan 2020*	90,461	32,191	262,644	385,296
New assets originated or purchased	7,101	-	-	7,101
Assets derecognized or repaid (excluding write offs)	(1,332)	-	-	(1,332)
Transfer from stage 1 to Stage 2	(2,662)	2,662	-	-
Transfer from stage 2 to Stage 3	-	(893)	893	-
Transfer from stage 2 to Stage 1	181	(181)	-	-
Transfer from stage 1 to Stage 3	(5,917)	-	5,917	-
New and increased provision (net of releases)	11,437	1,319	925	13,681
ECL Allowance as at 31 Dec 2020	**99,269**	**35,098**	**270,379**	**404,746**
Equity Investments				49,324
Investment in Associates				10,088
				464,158

* Opening allowance for credit loss as at 1 January 2020 amounting to ID 371.7 million excludes impact of opening adjustment of FAS 30 amounting to ID 64.3 million and includes provision against equity investments amounting to ID 50.7 million. Opening credit loss mentioned in table above amounting to ID 385.3 million as at 1 January 2020, excludes credit loss against equity investments amounting to ID 50.7 million and includes additional provision on adoption of new FAS 30 amounting to ID 64.3 million.

The movement in provision for impairment is as follows:

	Year Ended 2021	**Year Ended 2020**
Opening Balance	464,158	371,733
Additional provision on adoption of new FAS 30 impairment rule	-	64,263
Adjusted Opening Balance	464,158	435,996
Charge for the year	29,197	29,769
Write offs / reversals	(1,683)	(1,607)
Closing Balance	491,672	**464,158**

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

As at 31 December 2021 and 31 December 2020, the following is the ageing of the overdue instalments:

	31 Dec 2021						
In months	**0-6**	**7 - 12**	**13 - 24**	**Over 24**	**Total**	**Sovereign**	**Non-Sovereign**
Murabaha financing	-	-	-	-	**-**	**-**	**-**
Istisna'a assets	4,461	-	-	-	**4,461**	**4,461**	**-**
Instalment sale	2,658	2,639	5,278	29,165	**39,720**	**39,720**	**-**
Ijarah assets	4,978	2,909	1,950	39,902	**49,739**	**41,851**	**7,888**
Loans (Qard)	5,757	5,960	10,848	45,681	**68,246**	**68,246**	**-**
Total	**17,854**	**11,508**	**18,076**	**114,728**	**162,166**	**154,278**	**7,888**

	31 Dec 2020						
In months	**0-6**	**7 - 12**	**13 - 24**	**Over 24**	**Total**	**Sovereign**	**Non-Sovereign**
Murabaha financing	-	-	-	-	-	-	-
Istisna'a assets	21,275	-	-	-	**21,275**	**21,275**	-
Instalment sale	2,731	2,245	4,489	24,214	**33,679**	**33,679**	-
Ijarah assets	3,735	1,950	3,899	32,707	**42,291**	**38,556**	**3,735**
Loans (Qard)	4,033	4,166	8,679	34,832	**51,710**	**51,645**	**65**
Total	**31,774**	**8,361**	**17,067**	**91,753**	**148,955**	**145,155**	**3,800**

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

15. EQUITY INVESTMENTS

	31 Dec 2021	31 Dec 2020
Equity investments:		
Listed	466,409	372,400
Unlisted	139,322	131,647
	605,731	**504,047**
Less: Provision for impairment (note 14)	(62,932)	(49,324)
	542,798	**454,723**

The movement in provision for impairment is as follows:

	31 Dec 2021	31 Dec 2020
Opening Balance	49,324	50,700
Charge for the year	14,941	231
Transfer of accumulated impairment to fair value reserve	(952)	(966)
Reversal of impairment on disposal	(381)	(641)
Closing balance	**62,932**	**49,324**

The movement in Equity Investments is as follows:

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	454,723	541,130
Movements during the year:		
Transfer from investment in associates	17,393	-
Disposals	(18,041)	(39,303)
Reversal of impairment on disposal	381	641
Impairment charge	(14,941)	(231)
Net unrealized fair value gains /(losses)	103,283	(47,514)
Closing balance	542,798	454,723

During 2021 and 2020, the Bank has revalued its investments in unlisted equities based on valuation performed by independent valuers. The carrying values of the investments were adjusted to reflect the changes in fair values. Unlisted equity investments of ID 95 million at 31 December 2021 (2020: ID 93 million) have been revalued by the independent valuers, resulting in fair value loss of ID 2 million (2020: fair value loss of ID 12 million)

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

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	738,992	756,875
Additions	4,553	48,618
Disposals / capital repayments	(10,367)	(2,947)
Foreign currency translation and other movements	23,169	(31,974)
Impact of FAS 30 on associates' opening reserves	-	(20,443)
Share on associates' reserves	(1,111)	-
Share of net results	4,674	(8,114)
Net gain / (loss) on disposal of associates	5,420	(2,446)
Dividends receive	(2,298)	(577)
	763,032	738,992
Impairment	(20,176)	(10,088)
Closing balance	**742,856**	**728,904**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Opening balance	10,088	-
Additions	10,088	10,088
Closing balance	**20,176**	10,088

Name of the entity	**Country of incorporation**	**Entity's activities**	**31 Dec 2021**	**31 Dec 2020**
Allied Cooperative Insurance Group	Saudi Arabia	Insurance	-	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	7.24%	23.71%
Syrikat Takaful Indonesia	Indonesia	Insurance	26.39%	26.39%
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	41.67%	43.25%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	35.73%	35.75%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	25.79%	29.93%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.67%	26.67%
The Islamic Infrastructure Fund L.P.	Saudi Arabia	Investment Co.	-	49.40%
Saudi SME Fund Al- Malaz Capital	Saudi Arabia	Investment Co.	25.00%	25.00%
Zeitouna Tamkeen	Tunisia	Investment Co.	-	20.00%

The Islamic Infrastructure Fund L.P, Zeitouna Tamkeen and Allied Cooperative Insurance Group were disposed off during the year.

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

16. INVESTMENT IN ASSOCIATES (continued)

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

	2021						
	Year	**IsDB's Share of investment**	**Total assets**	**Total liabilities**	**Revenue**	**Net Income**	**IsDB's Share of Net income /(loss)**
Allied Cooperative Insurance Group (ACIG)	2021	-	-	-	-	-	-
	2020	5,621	115,161	87,054	65,466	975	195
Bosna Bank International	2021	28,669	593,601	530,535	13,571	4,556	2,071
	2020	28,000	543,584	481,986	13,432	(4,679)	(2,127)
Islamic Bank of Guinea Bank	2021	3,020	83,586	74,012	3,703	408	129
	2020	2,636	85,703	77,347	5,393	737	233
Muamalat Indonesia Syrikat	2021	-	2,605	467	76	-	-
	2020	10,088	2,414	473	77	-	-
Takaful Indonesia	2021	1,583	91,269	80,934	2,515	217	57
	2020	1,466	87,603	78,049	3,825	204	54
Islamic Bank of Senegal	2021	23,826	625,513	553,879	16,470	10,921	3,632
	2020	19,818	466,525	406,941	10,795	7,862	2,615
ICD	2021	321,354	2,149,756	1,378,569	30,347	6,071	2,530
	2020	298,997	2,269,326	1,578,041	29,740	(10,865)	(4,699)
ITFC	2021	256,030	935,232	218,663	51,825	24,045	8,591
	2020	242,674	794,475	115,610	39,430	8,200	2,931
APIF	2021	23,981	95,858	2,859	4,731	2,360	609
	2020	23,742	81,135	1,803	2,768	1,800	539
IsDB Infrastructure Fund II	2021	83,693	306,715	276	3,111	(49,044)	(13,078)
	2020	92,878	341,458	367	14,813	(25,036)	(6,676)
The Islamic Infrastructure Fund L.P.	2021	-	-	-	-		-
	2020	2,430	5,189	269	(704)	(1,139)	(637)
Saudi SME Fund Al- Malaz Capital (CAP Asia)	2021	700	2,823	24	343	536	134
	2020	421	9,745	3,137	343	(1,623)	(406)
Zeitouna Tamkeen	2021	-	-	-	-	-	-
	2020	132	11,295	10,636	1,214	(674)	(135)

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

17. OTHER ASSETS

	31 Dec 2021	31 Dec 2020
Swaps designated in Hedge accounting relationships (Note 17a)	20,275	44,883
Related party balances (Note 30)	18,618	41,733
Advance to Trust Fund (Note 30c)	11,972	6,943
Staff loans and advances (Qard & Financings)	32,298	31,400
Others	11,527	7,515
	94,690	**132,474**

17(a) SWAPs

Detailed information on equity, income statement and position impacts of the cash flow hedges and fair value hedges is provided in the table below.

31 Dec 2021

Swaps	**Notional amount**	**Hedging relationships**		
		Equity	**Income Statement**	
		Closing hedge reserve	**Financing Cost/(credit)**	**loss on changes in fair values**
Fair value hedges	-	-	(1,863)	643
Cash flow hedges	519,041	(1,182)	1,238	(1,331)
		(1,182)	**(625)**	**(688)**

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	**Asset**
	-	-
Cash flow hedges	-	20,275
	-	**20,275**

31 Dec 2020

Swaps	**Notional amount**	**Hedging relationships**		
		Equity	**Income Statement**	
		Hedge accounting reserve	**Financing cost / (credit)**	**Gain / (loss) on changes in fair values**
Fair value hedges	1,041,471	55	(1,072)	11,124
Cash flow hedges	226,419	(3,064)	363	2,398
		3,009	**(709)**	**13,522**

Gain on changes in fair values

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	**Asset**
Fair value hedges	-	5,975
Cash flow hedges	-	38,908
	-	**44,883**

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

The Bank uses profit-rate and cross currency profit-rate swaps for managing its cash flows and hedging the below risks:

A. Currency risk arising out of the change in the foreign exchange rates on sukuk issued; and
B. Mark-up risk arising out of the change in variable mark-up rate applicable on sukuk issued.

The Bank uses fixed to fixed cross-currency profit rate swaps to hedge the exposure to adverse fluctuations in GBP-USD exchange rate giving rise to consequent fluctuation in cash outflows in the form of the fixed periodic distribution amount on the Sukuks issued. There are three outstanding swaps as of December 31, 2021 as below:

1. Cross currency profit rate swap against series 49 Sukuk: The Bank pays 1.49% per annum on USD 110.754 million notional amount and receive 0.965% per annum on GBP 90 million notional amount that equals the principal amount outstanding on the Sukuk issued.
2. Cross currency profit rate swap against series 51 Sukuk: The Bank pays 0.645% per annum on USD 191.097 million notional amount and receive 0.4% per annum on GBP 153 million notional amount that equals the principal amount outstanding on the Sukuk issued.
3. Profit rate swap against series 55 Sukuk. The Bank pays 0.6% per annum on USD 400 million notional amount and receive SOFR-ON +0.25% per annum on USD 400 million notional amount that equals the principal amount outstanding on the Sukuk issued.

	Notional amount		**Fair value**	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Cross currency profit rate swap	233,243	226,420	17,236	38,908
Profit rate swap	285,798	1,041,471	3,039	5,975
	519,041	**1,267,891**	**20,275**	**44,883**

	Notional amount		**Fair value**	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
2021	-	1,041,471	-	5,975
2023	146,857	142,561	6,957	22,503
2024	285,798	-	3,039	-
2029	86,386	83,859	10,279	16,405
	519,041	**1,267,891**	**20,275**	**44,883**

The profit payments on the swaps and Sukuk issued occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate profit payments on debt affect profit or loss.

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

18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2021 and 31 December 2020, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent 31 Dec 2021	ID equivalent 31 Dec 2020	Maturity date	Rate per annum
Listed	02/29/2016	EUR	242,773	253,944	03/01/23	0.255% Fixed
	03/10/2016	USD	-	1,028,751	03/10/21	1.775 % Fixed
	12/07/2016	USD	-	869,017	12/07/21	2.263% Fixed
	04/12/2017	USD	897,177	872,108	04/12/22	2.393 % Fixed
	09/26/2017	USD	897,816	872,604	09/26/22	2.261 % Fixed
	03/15/2018	USD	900,639	875,429	03/15/23	3.100% Fixed
	09/26/2018	USD	936,494	910,040	09/26/23	3.389% Fixed
	11/07/2018	EUR	525,320	549,014	11/07/23	0.554% Fixed
	11/26/2018	USD	-	327,951	11/26/21	3.2867% Fixed
	04/25/2019	USD	1,076,570	1,045,783	04/25/24	2.843 % Fixed
	10/02/2019	USD	1,076,170	1,045,285	10/02/24	1.957% Fixed
	12/04/2019	EUR	807,545	843,775	12/04/24	0.037% Fixed
	01/16/2020	EUR	242,987	253,820	01/06/27	0.3150% Fixed
	02/26/2020	USD	1,436,955	1,395,874	02/26/25	1.8090% Fixed
	05/28/2020	GBP	86,403	92,308	05/28/29	0.9640% Fixed
	06/25/2020	USD	1,071,147	1,040,002	06/25/25	0.9080% Fixed
	03/21/2021	USD	1,288,736	-	10/21/26	1.4350% Fixed
	10/21/2021	USD	1,790,610	-	03/21/26	1.2620% Fixed
			13,277,342	**12,275,705**		
Not Listed	06/29/2016	MYR	59,428	59,897	06/28/24	4.360 % Fixed
	09/19/2016	USD	-	69,419	09/19/21	3 Month LIBOR + 0.43%
	02/24/2017	EUR	243,027	254,164	02/24/24	0.374 % Fixed
	02/27/2017	EUR	121,485	126,951	02/27/24	0.350 % Fixed
	07/19/2018	USD	71,513	69,587	07/19/23	6 Month LIBOR + 0.20%
	01/16/2019	EUR	40,525	42,364	01/16/24	0.385 % Fixed
	12/10/2019	USD	71,425	69,435	12/10/24	3 Month LIBOR + 0.43%
	12/10/2019	USD	71,425	69,429	12/10/24	3 Month LIBOR + 0.43%
	12/11/2019	USD	178,696	173,745	12/11/24	2% Fixed
	01/21/2020	USD	393,623	382,168	01/21/25	6 Month LIBOR + 0.37%
	02/10/2020	CNY	114,916	108,867	02/10/23	2.85 % Fixed
	06/26/2020	GBP	146,761	156,765	06/26/23	0.40 % Fixed
	07/16/2020	USD	71,686	69,611	07/16/25	0.88 % Fixed
	09/30/2020	EUR	363,477	379,670	09/30/26	0.10 % Fixed
	04/27/2021	USD	285,750	-	04/27/24	3 Month SOFR + 0.25%
	08/16/2021	USD	53,708	-	08/16/24	0.789% Fixed
			2,287,445	**2,032,072**		
Total			**15,564,787**	**14,307,777**		

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).

After the sale of the Portfolio, IsDB as a third party, guarantees performance to the Trustees (obligors) of the Portfolio, that if any beneficiary is unable to pay any amount owed under the Portfolio, IsDB will make the payment. 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). 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. Finance cost related to sukuk liabilities during the year ended 31 December 2021 amounted to ID263.8 million (2020: ID 268.2 million).

Principal amount outstanding on Sukuk designated as hedged items is ID 519 million (2020: ID 1,267.9 million) (note 17). The accumulated amount of hedge adjustment included in the carrying amount of the fair value hedged sukuk as at 31 December 2021, amounts to ID Nil million (2020: ID 5.9 million).

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

Subsequent to the year ended December 31, 2021, Sukuk amounting to USD 1.25 billion (ID 0.9 billion) has been matured and redeemed. Further, Sukuk amounting to USD 1.6 billion (ID 1.2 billion) has been issued in April 2022.

19. COMMODITY MURABAHA LIABILITIES

The Bank has entered into commodity murabaha 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 2021 of ID 277.2 million (2020: ID 308.9 million) represents the purchase price under these agreements. Financing cost incurred on commodity murabaha purchases during 2021 was ID 0.01 million (2020: ID 3.8 million).

20. OTHER LIABILITIES

	31 Dec 2021	31 Dec 2020
Related party balances (Note 30)	268,007	11,486
Investment deposits	2,330	2,238
Accrued expenses	15,537	15,101
Deferred income – Ijarah	114,590	99,562
Accrued staff retirement and medical benefit scheme liability (Note 22)	207,898	186,423
Staff related liabilities	15,630	12,620
Deferred grant income	2,267	2,834
Others	13,998	13,152
	640,257	**343,416**

21. Wakala (Due to)

The Bank manages wakala funds contributed by Islamic Solidarity Fund for Development on a comingling basis as follows:

Affiliates	**Currency**	**ID Equivalent in '000 2021**	**2020**	**Placement Date**	**Maturity Date**
Islamic Solidarity Fund for Development	USD	-	347,221	12/21/2017	6/21/2023
			347,221		

Wakala funds have been invested in treasury assets which have expected floating rate of return of up to 0.71%, per annum on invested capital (2020: 0.66% per annum). Actual amount of returns paid to the muwakkil during the year was ID 1.7 million (2020: ID 5.6 million).

The movement of Wakala (due to) is as follows:

	31 Dec 2021	31 Dec 2020
Opening balance	347,221	361,763
Partial redemption	(97,204)	-
Transfer to inter-fund balance with ISFD (Note 30)	(258,898)	-
Exchange gains / (losses)	8,881	(14,542)
Closing balance	**-**	**347,221**

An amount of ID 97 million was redeemed during 2021. In December 2021, the Bank and ISFD agreed to early terminate the wakala agreement whereby the balance amount of ID 258.9 million due to ISFD under the arrangement was transferred to the interfund account (Note 30) to be settled in 2022.

22. POST EMPLOYMENT BENEFIT PLANS

IsDB Group staff retirement plan comprises of defined benefit and hybrid plan, staff pension plan ("SPP") and 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, from the date of joining the Bank.

IsDB Group is a multi- employer plan and includes Islamic Development Bank - Ordinary Capital Resources (IsDB-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)
SPP is a combination of both old defined benefit plan (Pillar I) and new hybrid pension plan (Pillar II) became effective on 1st Rajab 1399H (corresponding to 27 May 1979) and 17/05/1442H (01/01/2021G respectively. 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, from the date joining the Bank and its affiliates. Participation in the hybrid pension plan is limited to those who have less than five years of service as at 31st December 2020 on optional basis however, those who joined the Bank from 01/01/2021 are enrolled automatically.

In the both Pillars, the employee contributes at a rate of 11.1% (2020-11.1%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2020-25.9%).

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% under the old staff retirement plan or 1% under the hybrid plan in the Defined Benefit ("DB") component, of the Weighted Highest Average Remuneration ("WHAR")(as defined by the pension committee)(for each year of pensionable service and limited to a maximum of 30 hijri years
- (iii) 10% of Bank and its Affiliates contribution of 25.9%, and 5% of employees contribution of 11.1%, are used to fund the Defined Contribution ("DC") component of the hybrid plan. The accumulated fund and its investment returns will be paid as retirement lump sum benefits to the participants in the hybrid plan.
- (iv) Benefits payment upon early retirement, disability benefits, termination benefits, pre-retirement death or post retirement death benefits are also paid as determined by the pension committee

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 entitlements payable for each retired employee under the medical plan is computed according to the following formula: WHAR (as defined by the pension committee) X contributory period (limited to a maximum of 30 hijri years) X 0.18%

Benefits payment upon early retirement, disability benefits, termination benefits, pre-retirement death or post retirement death benefits are also paid as determined by the pension committee.

Retirees Medical Solidarity Fund (RMSF)
In February 2019, the BED approved, establishment of the Retirees Medical Solidarity Fund (RMSF) which would provide new medical coverage benefits for IsDB Group staff future retirees. Under the proposal, active staff members who have at least 10 years of service period before their normal retirement age from 1 January 2019 will automatically fall under RMSF. Those staff members who do not meet the minimum service period threshold will be offered the option to join the new Fund.

The plan is to be funded jointly with contributions equal of 4% of the pensionable salary by the Bank and the active staff; and contribution by future retirees equal to 4% of their pension salary (before commutation).

Starting January 2021, the Bank's and Employees' contributions of the staff mapped under the new scheme have been transferred to RMSF.

Administration of SRPs
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.

Risks

Investment risk
The present value of the SRPs' liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on SRPs' asset is below this rate, it will create a plan deficit. Currently the SRPs' have a relatively balanced investment in equity securities, debt instruments and real estate. Due to the long-term nature of the SRPs' liabilities, the administrator of SRPs' consider it appropriate that a reasonable portion of the SRPs' assets should be invested in equity securities and in real estate to leverage the return generated by the fund.

Discount rate
A decrease in the bond return rate will increase the SRPs' liability but this will be partially offset by an increase in the return on the SRPs' debt investments.

Longevity risk
The present value of the SRPs' liability is calculated by reference to the best estimate of the mortality of SRPs' participants both during and after their employment. An increase in the life expectancy of the SRPs' participants will increase the SRPs' liability.

Salary risk
The present value of the SRPs' liability is calculated by reference to the future salaries of SRPs' participants. As such, an increase in the salary of the SRPs' participants will increase the SRPS' liability.

(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 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Benefit obligation opening balance	351,680	307,329	30,782	26,494
Current Service costs	16,869	13,556	1,559	1,242
Past Service costs	-	1,822	-	-
Expense on Defined Benefit Obligation ("DBO")	9,353	9,977	817	859
Plan participations contributions	5,539	5,220	272	234
Disbursements from Plan Assets	(13,167)	(13,020)	(838)	(817)
Net actuarial loss	6,428	40,894	808	4001
Currency translation loss/(gain)	10,222	(14,098)	895	(1,231)
Benefit obligation closing balance	**386,924**	**351,680**	**34,295**	**30,782**

The movements in the plan assets are as follows:

	SPP		SRMP	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Fair value of plan assets opening balance	186,123	190,880	9,916	9,280
Other adjustments	3,668	(2,491)	35	-
Profit on Plan Assets	5,053	6,324	267	303
Return on plan assets (less) / greater than discount rate	(3,245)	(5,236)	(204)	313
Plan participation contributions	5,539	5,220	272	234
Employer contribution	12,901	12,232	1,302	1,006
Disbursements from Plan Assets	(13,167)	(13,020)	(837)	(817)
Currency translation gain/(loss)	5,410	(7,786)	288	(403)
Fair value of plan assets closing balance	**202,282**	**186,123**	**11,039**	**9,916**
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation overfair value of plan assets (Note 21)	**184,642**	**165,557**	**23,256**	**20,866**

The above net liability mainly 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 2021 and 31 December 2020 for the Bank comprised the following:

	SPP		SRMP	
	Year ended 31 Dec 2021	Year ended 31 Dec 2020	**Year ended 31 Dec 2021**	Year ended 31 Dec 2020
Current service costs	16,869	13,556	1,559	1,242
Past Service costs	-	1,822	-	-
Expense on DBO	9,353	9,977	817	859
Income on assets	(5,053)	(6,324)	(267)	(303)
Currency translation loss	4,812	-	607	-
Amounts recognized in income statement	**25,981**	**19,031**	**2,716**	**1,798**
Actuarial losses due to assumptions	6,428	40,894	808	4,001
Return on plan assets greater / (less) than discount rate	3,245	5,236	204	(313)
Other adjustments	(3,668)	(3,821)	(34)	(828)
Amounts recognized in statement of changes of equity	**6,005**	**42,309**	**978**	**2,860**

(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 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Discount rate	2,85%	2.60%	2.85%	2.60%
Rate of expected salary increase	4.5%-6.5%	4.50%	4.5%-6.5%	4.5%

The discount rate used in determining the benefit obligations is selected by reference to the long-term rates on AA rated Corporate Bonds. Rate of expected salaries increase for 2021 was based on age i.e., 20-35 years – 6.5%, 35-50 years – 5.0% and above 50 years – 4.5%.

The sensitivity of defined benefit obligation to changes in the weighted principal assumptions is as follows:

	SPP		SRMP	
	+5%	**-5%**	**+5%**	**-5%**
Discount rate	**(31,781)**	**36,429**	**(3,053)**	**3,514**
Rate of expected salary increase	**13,002**	**(13,027)**	**1,112**	**(1,035)**

The following table presents the plan assets by major category:

	SPP		SRMP	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Cash and cash equivalent and commodity murabaha placements	100,503	82,564	5,180	5,556
Managed funds and instalment sales	27,528	24,293	-	-
Investments in sukuk	57,858	60,412	4,178	4,030
Land	16,451	17,484	-	-
Others - net	(58)	1,370	1,681	375
Plan net assets	**202,282**	**186,123**	**11,039**	**9,961**

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-22	**31-Dec-21**	31-Dec-20	31-Dec-19	31-Dec-18
Present value of defined benefit obligation	(404,533)	(386,924)	(351,680)	(307,329)	(236,673)
Fair value of plan assets	209,956	202,282	202,113	190,880	176,720
Plan deficit	**(194,577)**	**(184,642)**	**(149,567)**	**(116,449)**	**(59,953)**

The expected employer contribution for year ended 31 December 2022 is ID 11,474 and expected costs to be recognized in profit or loss is ID 21,409.

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-22	**31-Dec-21**	31-Dec-20	31-Dec-19	31-Dec-18
Present value of defined benefit obligation	(36,379)	(34,295)	(30,782)	(26,494)	(17,034)
Fair value of plan assets	11,041	11,039	9,916	9,280	8,234
Plan deficit	**(25,338)**	**(23,256)**	**(20,866)**	**(17,214)**	**(8,800)**

The expected employer contribution for year ended 31 December 2022 is ID 448 and expected costs to be recognized in profit or loss is ID 2,530.

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

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

	SPP	SRMP	31 Dec 2021 Total	31 Dec 2020 Total
Opening balance	139,515	13,850	153,365	108,196
Actuarial (gain)/loss due to				
a. Effect of changes in demographic assumptions	(5,114)	(102)	(5,216)	-
b. Effect of changes in financial assumptions	(13,894)	(1,375)	(15,269)	46,410
c. Effect of experience adjustments	25,436	2,285	27,721	(1,515)
Return on plan assets greater / (less) than discount rate	3,245	204	3,449	4,923
Other adjustments	(3,668)	(34)	(3,702)	(4,649)
Closing balance	**145,520**	**14,828**	**160,348**	**153,365**

The expected maturity analysis is below:

	31 Dec 2021 SPP	31 Dec 2021 SRMP
Year 1	18,011	979
Year 2	15,834	1,000
Year 3	14,821	1,024
Year 4	17,500	1,072
Year 5	18,801	1,131
Next 5 years	105,404	6,450

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 2021 was as follows:

		31 Dec 2021	31 Dec 2020
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,061,406 (31 December 2020: 5,061,406) shares of ID10,000 each	50,614,060	50,614,060
Less: available for subscription		(353,570)	(353,570)
Subscribed capital		50,260,490	50,260,490
Callable capital		(40,888,595)	(40,888,595)
Called up capital		**9,371,895**	**9,371,895**
Amount not yet due		(2,935,250)	(3,175,735
Instalments overdue		(259,559)	(255,559)
Paid up capital		**6,177,086**	**5,940,601**

The Bank received ID 236.48 million (2020: ID 155.48 million) against paid-up capital during the year.

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2021 ID 0.54 (31 December 2020: ID 0.53) of total accumulated reserves.

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

On 4 Jumad Al-Awwal 1442H (19 December 2020), the IsDB-OCR's subscribed capital was further increased by ID5.5 billion from ID50.3 billion to ID55.5 billion (the sixth General Capital Increase) in accordance with the resolution passed by the Board of Governors by circulation. The sixth GCI will be available for subscription by all member countries according to the rules and the resolution of the Board of Governors.

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 2021, general reserve made up 6.16% of the subscribed capital (31 December 2020: 5.96%). Any excess of the net income over the above limit is available for distribution to Member Countries.

According to the Board of Governors' resolution no BG/5-441 and resolution no BG/6-441, the following allocations were made from the general reserve during the year ended 31 December 2021:

- 10% (2020 - 5%) of the Bank's normalized net income (with a ceiling of US$ 20 million) for the year ended 31 December 2021 was allocated in the form of technical assistance grants to finance strategic programs and other significant operational initiatives in member countries amounting to ID 10.9 million (31 December 2020: ID 7.8 million).

- 4% (2020 - 2%) of the Bank's normalized net income (with a ceiling of US$ 8 million) for the year ended 31 December 2021 was allocated for financing the Bank's Scholarship Programs in the form of grants amounting to ID 4.3 million (31 December 2020: ID 3.1 million).

25. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Staff costs	124,609	130,065
Computerization	5,866	5,158
Consultancy fees	12,463	13,648
Other	13,876	14,274
	156,814	**163,145**

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

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 2021**	31 Dec 2020
Istisna'a assets	3,372,734	4,394,097
Instalment sale	2,366,648	2,043,944
Loans (Qard)	602,134	634,166
Ijarah assets	634,244	840,691
Investment in equity and funds	40,602	28,850
	7,016,062	**7,941,748**

27. EARNINGS AND EXPENDITURES PROHIBITED BY SHARI'AH

Income from transactions not approved by the Shari'ah Board of the IsDB 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 Group Shari'ah Board of the IsDB.

Income realized during the year from transactions which are not approved by the Group Shari'ah Board of the IsDB are as follows:

	2021		2020	
	No of Events	**Amount**	**No of Events**	**Amount**
Commitment fee	1	75	7	236
Interest from legacy accounts with conventional banks	37	39	11	71
Total		**114**		**307**

28. SHARI'AH BOARD

The Bank's business activities are subject to the supervision of the IsDB Group Shari'ah Board consisting of members appointed by the Chairman of the IsDB Group in consultation with the Board of Executive Directors of IsDB. The Group Shari'ah Board was established pursuant to a Resolution of the Board of Executive Directors of IsDB. 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 Islamic Shari'ah, and lay down basic principles for drafting of related contracts and other documents;

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

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

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

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

29. RESTRICTED INVESTMENT ACCOUNTS

The Bank in its capacity as a Mudarib has invested funds of holders of restricted investment accounts for a mudarib's share of profit. 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 2021 amounted to ID 78,2 million (31 December 2020: ID 80.9 million). The profits accrued on the investments made on behalf of the restricted investment account holders amounted to ID 0.8 million (2020: 1.3 million) and Mudarib fee charged by the Bank amounted to ID 0.07 million (2020: 0.09 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 2021		31 Dec2020	
	Due from	**Due to**	**Due from**	**Due to**
World Waqf Foundation	578	-	740	-
Awqaf Properties Investment Fund	-	(4,348)	-	(1,036)
Unit Investment Fund	-	(394)	-	(321)
Islamic Corporation for the Insurance of Investments and Export Credit	1,982	-	433	-
Special Account Resources Waqf Fund	-	(3,227)	23,508	-
IsDB Special Assistance Fund	107		246	-
IsDB Pension Fund	-	(454)	-	(701)
IsDB Medical Fund	84	-	6	-
IsDB Retirees' Medical Solidarity Fund	-	-	-	(4,231)
Building Institutional Capacity	82	-	4	-
Economic Empowerment of the Palestinian people	-	-	1	-
Al-Aqsa Fund	-	-	650	-
Islamic Corporation for Development of Private Sector	4,422	-	2,447	-
Arab Bank for Economic Development in Africa	40	-	39	-
International Islamic Trade Finance Corporation	2,283	-	803	-
Islamic Development Bank – Custodian of The Two Holy Mosques (Late) King Abdullah Bin Abdulaziz Program For Charity Works ("KAAP")	394	-	3,142	(1,423)
Islamic Solidarity Fund for Development	7,545	(258,898)	-	(3,774)
Sacrificial Meat Project		(25)	9,228	-
Bunyan fund	26	-	-	-
Global Muslim Philanthropy Fund for Children	43	-	-	-
Fael Khair Programs		-	3,142	(766)
Kuwait development fund	-	-	-	-
National Education Sector Fund	239	-	-	-
Lives and Livelihoods Fund	793	-	486	-
Total	**18,618**	**(268,007)**	**44,875**	**(12,252)**

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 IsDB OCR resources to ITFC for managing its Murabaha financing, where ITFC will act as a Mudarib (under a Mudaraba agreement). The respective Mudarib share of profits (i.e. ITFC's share of profit generated from the Mudaraba agreement) charged by ITFC during the year amounts to ID 1.6 million (2020: ID 1.7 million).

(b) The Bank has Wakala funds under management placed by Islamic Solidarity Fund for Development amounting to ID258.9 million (2020 – ID 347.2 million) (Note 20). In December 2021, the Bank and ISFD agreed to early terminate the agreement whereby the amounts due to ISFD under the arrangement were transferred to the interfund account for settlement in 2022.

(c) The Bank has advanced an amount of ID 6.9 million (USD 10 million) to a trust fund, Economic Empowerment of Palestinian People and ID 4.8 million (SAR 25.3 million) to Sacrificial Meat Project (Note 17).

(d) Interfund with Special Account Resources Waqf Fund as of 31 December 2020 represents repayment received on the project related to IsDB-OCR made through the Fund's bank account

(e) The Bank acts as Mudarib for Awqaf Properties investment Fund (APIF), its affiliate. The mudarib share of profit charged by the bank during 2021 amounted to ID 0.27 million (2020- 0.20 million)

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

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

Key management comprises the President and the Vice Presidents. The compensation expense for the year related to key management for their services and compensations related to the Board of Executive Directors are shown below:

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Board of Executive Directors expenses	726	717
Salaries and other short-term benefits	2,461	2,401
Accumulated post-employment benefits	836	677

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 have not significantly changed from the previous year.

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

Three management level committees perform risk monitoring and oversight roles: the Asset and Liability Management Committee (ALCO), the Operations and Investment Committees (OC and IC) and Risk Management Committee (RMC). 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 RMC 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 Risk Management Department ("RMD") that is responsible for identification, assessment, mitigation and reporting on key financial risks. Day-to-day operational responsibility for implementing the Bank's financial and risk management policies and guidelines are delegated to the appropriate business departments.

The following sections describe in detail the manner in which the Bank manages the different sources of risks.

Credit Risk

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

The Bank manages three principal sources of credit risk:

(i) credit risk pertaining to its sovereign financing operations portfolio;
(ii) credit risk pertaining to its non-sovereign financing portfolio (projects, corporates, and financial institutions)
(iii) counterparty credit risk in its treasury portfolio.

The Bank has put in place a comprehensive credit risk management framework including policies, guidelines, and tools on various types of financing operations. The credit policy formulation, limit setting and exposure monitoring are performed independently by RMD, 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 categories 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 2021

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,504,582	85,659	1,590,241	9.4%
Indonesia	1,233,291	-	1,233,291	7.3%
Senegal	910,206	31,466	941,672	5.6%
Egypt	859,780	45,508	905,288	5.4%
Pakistan	780,597	99,394	879,991	5.2%
Iran	859,755	137	859,892	5.1%
Morocco	647,190	84,714	731,904	4.3%
Uzbekistan	656,258	11,593	667,851	3.9%
Oman	663,824	-	663,824	3.9%
Tunisia	574,721	19,504	594,225	3.5%
Total top 10 countries	**8,690,204**	**377,975**	**9,068,179**	**53.6%**
Total other countries	**7,284,971**	**561,893**	**7,846,864**	**46.4%**
Total	**15,975,175**	**939,868**	**16,915,043**	**100%**
Total sovereign exposure			15,975,175	94.4%
Total non-sovereign exposure			939,868	5.6%
Total			**16,915,043**	**100%**

31 Dec 2020

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkey	1,599,574	88,059	1,687,633	10.4%
Indonesia	1,110,049	-	1,110,049	6.8%
Pakistan	807,274	120,343	927,617	5.7%
Egypt	855,947	63,200	919,147	5.7%
Iran	899,941	138	900,079	5.5%
Senegal	821,814	36,346	858,160	5.3%
Morocco	661,367	97,534	758,901	4.7%
Tunisia	601,650	26,579	628,229	3.9%
Uzbekistan	613,320	2,928	616,248	3.8%
Oman	520,351	-	520,351	3.2%
Total top 10 countries	**8,491,287**	**435,127**	**8,926,414**	**55.0%**
Total other countries	**6,692,630**	**608,593**	**7,301,223**	**45.0%**
Total	**15,183,917**	**1,043,720**	**16,227,637**	**100.0%**
Total sovereign exposure			15,183,917	93.6%
Total non-sovereign exposure			1,043,720	6.4%
Total			**16,227,637**	**100.0%**

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

Sovereign credit risk

When the Bank finances sovereign entities, it requires a full sovereign guarantee or the equivalent. In extending such financing, the Bank is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk, taking into consideration 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 2021		31 Dec 2020	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	6	0.0%	6	0.0%
Category "B"	2,011,388	12.6%	1,912,676	12.6%
Category "C"	5,668,008	35.5%	5,055,032	33.3%
Category "D"	5,239,680	32.8%	5,330,776	35.1%
Category "E"	1,948,299	12.2%	1,776,699	11.7%
Category "F"	294,183	1.8%	298,065	2.0%
Category "G"	813,611	5.1%	810,663	5.3%
Total	**15,975,175**	**100.0%**	**15,183,917**	**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 2021		31 Dec 2020	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	-	0.0%
Category "B"	430,599	45.8%	404,547	38.8%
Category "C"	208,459	22.2%	233,483	22.4%
Category "D"	254,438	27.1%	329,688	31.6%
Category "E"	46,372	4.9%	75,836	7.2%
Category "F"	-	0.0%	166	0.0%
Category "G"	-	0.0%	-	0.0%
Total	**939,868**	**100.0%**	**1,043,720**	**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 murabaha placements, sukukinvestments and Murabaha-based profit-rate and cross-currency project rate swaps. The Bank minimizes these credit risksthrough a prudential framework of: (i) approved counterparties, (ii) minimum credit rating thresholds for specific instruments and counterparty banks, (iii) prudential exposure limits and (iv) counterparty credit risk mitigation measures.

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

	31 Dec 2021		31 Dec 2020	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	99,157	1.7%	6,361	0.1%
Category "B"	5,648,125	97.7%	5,466,028	95.9%
Category "C"	62	0.0%	187,422	3.3%
Category "D"	1,985	0.0%	1,747	0.0%
Category "E"	-	0.0%	-	0.0%
Category "F"	-	0.0%	-	0.0%
Category "G"	30,819	0.6%	38,167	0.7%
Total	**5,780,148**	**100%**	**5,699,725**	**100.0%**

Concentration of financial assets with credit risk exposure

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The exposure management framework adopted by the Bank addresses country limits at the level of total portfolio and limits for single non-sovereign obligor or group of connected obligors. To maintain appropriate diversification, the framework also covers concentration limits relating to single country, at the level of total portfolio 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 2021	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	155,849	6,564,566	1,189,515	327,392	**8,237,322**
Project assets	6,934,496	9,020,520	311,392	12,428	**16,278,836**
Investment assets	373,398	928,604	4,086	52,656	**1,358,744**
Other assets	13,455	138,317	-	-	**151,772**
Total assets:	**7,477,198**	**16,652,007**	**1,504,993**	**392,476**	**26,026,674**
%	**29%**	**64%**	**6%**	**1%**	**100%**

31 Dec 2020	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	221,354	6,024,328	1,186,296	44,843	**7,476,821**
Project assets	6,374,075	8,830,330	303,246	12,216	**15,519,867**
Investment assets	306,157	894,049	34,673	4,142	**1,239,021**
Other assets	16,510	169,718	-	-	**186,228**
Total assets:	**6,918,096**	**15,918,425**	**1,524,215**	**61,201**	**24,421,937**
%	**29%**	**65%**	**6%**	**0%**	**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 2021	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	6,973,772	-	-	6,973,772	**27%**
Transport and telecom	-	4,265,734	-	-	4,265,734	**16%**
Agriculture	-	1,646,697	-	-	1,646,697	**6%**
Industry and mining	-	167,292	358,458	-	525,750	**2%**
Social Services	-	2,492,801	-	-	2,492,801	**10%**
Financial Institutions	6,424,027	-	940,541	-	7,364,568	**28%**
Governments	1,314,713	-	-	-	1,314,713	**5%**
Trade	253,421	-	-	-	253,421	**1%**
Other	245,161	732,540	59,745	151,772	1,189,218	**5%**
Total assets:	**8,237,322**	**16,278,836**	**1,358,744**	**151,772**	**26,026,674**	**100%**

31 Dec 2020	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	6,666,635	-	-	6,666,635	**27%**
Transport and telecom	-	4,132,934	-	-	4,132,934	**17%**
Agriculture	-	1,489,783	-	-	1,489,783	**6%**
Industry and mining	-	168,528	287,707	-	456,235	**2%**
Social Services	-	2,356,974	-	-	2,356,974	**10%**
Financial Institutions	6,114,058	-	903,140	-	7,017,198	**29%**
Governments	830,682	-	-	-	830,682	**3%**
Trade	325,892	-	-	-	325,892	**1%**
Other	206,189	705,013	48,174	186,228	1,145,604	**5%**
Total assets:	**7,476,821**	**15,519,867**	**1,239,021**	**186,228**	**24,421,937**	**100%**

Expected Credit Risk for financial assets measured at amortized cost

The Bank applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets measured at amortized cost.

Determining the stage for impairment

The Bank's staging model relies on a relative assessment of credit risk, because it reflects the significance increase in credit risk (SICR) since initial recognition of an asset. The staging assessment is made at the contract level rather than counterparty level, since the quantum of change in credit risk may be different for different contracts belonging to the same obligor. Also, different contracts of the same counterparty may have different credit risk at initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition and has not suffered a significant downgrade.

Stage 2 includes financial assets that experience an SICR. When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on its sovereign and non-sovereign exposures has increased significantly since initial recognition when contractual payments are more than 90 days past due for sovereign financings and more than 30 days past due for non-sovereign financings on a material repayment amount. When a stage 2 instrument shows a significant enhancement in credit quality at the assessment date, it can move back to stage 1.

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

Where there is objective evidence that an identified financial asset is impaired, specific provisions for impairment are recognized in the income statement, and under FAS 30, the asset is classified in Stage 3. The Bank presumes that assets are credit-impaired when contractual payments are more than 180 days past due for sovereign financings and more than 90 days past due for non-sovereign financings on a material repayment amount. Besides, the Bank may consider an asset as impaired if the Bank assesses that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realizing security.

A financial asset is no longer considered impaired when all past due amounts have been recovered, and it is determined that the outstanding amounts with future expected income are fully collectable in accordance with the original contractual terms or revised terms of the financial instrument with all criteria for the impaired classification having been remedied. The financial asset will be transferred back to stage 2 after a cure period.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Measurement of Expected Credit Losses (ECLs)

ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 instruments by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting the resulting provision using the instrument's effective profit rate (EPR).

These ECL parameters are generally derived from internally developed models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD represents the likelihood of a counterpart defaulting on its financial obligation over different time horizon (e.g., 1 year or lifetime). The estimates the PDs using internal rating tools tailored to the various categories of counterparties and exposures. These internal rating models are based on internally and externally compiled data comprising both quantitative and qualitative factors. They produce a relative credit risk grading, which is in turn are associated with a likelihood of default (PD) over a one-year horizon, that is calibrated to reflect the Bank's long run average default rate estimates (through-the-cycle (TTC) PD). The Bank uses a specific model based on country and industry parametrization to convert its TTC PDs into point-in time (PIT) PDs and derives a PIT PD term structure.

LGD is the magnitude of the potential loss in the event of a default. This is generally estimated as value lost plus costs net of recovery (if any) as percentage of outstanding amount. The Bank uses internal LGD estimation models that consider the structure, collateral, and seniority of the claim and the counterparty rating and jurisdiction. LGD estimates are calibrated to reflect the recovery experience of the Bank as well as the Multilateral Development Banks' consortium data.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial instrument is its gross carrying amount. For contract under disbursement and financial commitments such as guarantees, letter of credit., the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

FAS 30 requires ECLs to be forward-looking. The Bank uses a statistical model that links its counterparties' future performance to the current and future state of the macroeconomic environment. The model links macroeconomic scenarios to counterparty's default risk. Macroeconomic factors taken into consideration include, but are not limited to, gross domestic product, equity market prices, unemployment rates, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle. The Bank estimates its ECLs by calculating the weighted average ECL of its exposures across three (3) set of forward-looking macroeconomic scenarios.

Exposure Amounts and ECL coverage

The Bank recognizes 12-month ECL for stage 1 instruments and lifetime ECL for stage 2 instruments. For stage 3 instruments, the Bank calculates a loss allowance amount based on the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2021.

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

31. RISK MANAGEMENT (continued)

Credit Risk (continued)

31 Dec 2021	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	16,040,115	452,173	807,812	17,300,100	75,414	36,975	271,496	383,885
Non-Sovereign	7,514,513	77,898	84,431	7,676,842	11,540	4,539	8,600	24,679
Total 31 December 2021	**23,554,628**	**530,071**	**892,243**	**24,976,942**	**86,954**	**41,514**	**280,096**	**408,564**

31 Dec 2021	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.47%	8.18%	33.61%	2.22%
Non-Sovereign	0.15%	5.83%	10.19%	0.32%
Total 31 December 2020	**0.37%**	**7.83%**	**31.39%**	**1.64%**

31 Dec 2020	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	14,855,318	505,365	802,103	16,162,786	76,196	31,199	265,239	372,633
Non-Sovereign	7,004,446	82,425	15,267	7,102,138	23,073	3,899	5,140	32,112
Total 31 December 2020	**21,859,764**	**587,790**	**817,370**	**23,264,924**	**99,269**	**35,098**	**270,379**	**404,746**

31 Dec 2020	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.51%	6.17%	33.07%	2.31%
Non-Sovereign	0.33%	4.73%	33.67%	0.45%
Total 31 December 2020	**0.45%**	**5.97%**	**33.08%**	**1.74%**

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.

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

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

These portfolios are 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 Bank'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 2021	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	236,583	-	-	-	-		**236,583**
Commodity murabaha placements	1,504,045	1,947,512	1,909,117	167,428	-		**5,528,102**
Sukuk Investments	36,062	296,953	49,258	1,606,775	230,168		**2,219,216**
Murabaha Financing	114,375	58,815	80,231	-	-		**253,421**
Istisna'a assets	284,117	131,894	340,815	2,164,502	5,467,531		**8,388,859**
Restricted Mudaraba	34,274	26,804	57,498	342,310	195,352		**656,238**
Instalment sale	74,758	39,841	107,567	700,008	1,531,848		**2,454,022**
Ijarah assets	202,024	75,646	115,164	889,410	1,703,290		**2,985,534**
Loans (Qard)	74,422	70,307	87,739	574,652	987,063		**1,794,183**
Equity investments	-	-	-	-	-	542,798	**542,798**
Investments in associates	-	-	-	-	-	742,856	**742,856**
Other investments	-	-	-	-	-	73,090	**73,090**
Property, equipment and intangibles	-	-	-	-	-	57,082	**57,082**
Other assets	27,816	13,570	14,583	20,905	17,815		**94,690**
Total Assets	**2,588,476**	**2,661,342**	**2,761,972**	**6,465,990**	**10,133,067**	**1,415,826**	**26,026,674**

Sukuk issued	-	897,177	897,816	13,440,405	329,389	-	**15,564,787**
Commodity murabaha liabilities	34,748	-	-	242,428	-	-	**277,176**
Other liabilities	27,997	270,504	32,225	70,933	238,598	-	**640,257**
Total Liabilities	**62,745**	**1,167,681**	**930,041**	**13,753,766**	**567,987**	-	**16,482,220**

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

31. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 Dec 2020	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	363,923	-	-	-	-	-	**363,923**
Commodity murabaha placements	2,508,854	1,106,792	1,584,397	120,780	-	-	**5,320,823**
Sukuk Investments	38,378	20,890	57,846	1,221,442	127,627	-	**1,466,183**
Murabaha Financing	115,981	79,905	130,006	-	-	-	**325,892**
Istisna'a assets	159,302	196,759	413,483	2,902,107	4,283,714	-	**7,955,365**
Restricted Mudaraba	33,826	29,570	58,212	381,822	229,404	-	**732,834**
Instalment sale	128,683	62,049	157,557	740,582	1,136,916	-	**2,225,787**
Ijarah assets	91,214	90,233	149,702	1,116,809	1,378,920	-	**2,826,878**
Loans (Qard)	63,537	68,436	74,473	601,391	971,166	-	**1,779,003**
Equity investments	-	-	-	-	-	454,723	**454,723**
Investments in associates	-	-	-	-	-	728,904	**728,904**
Other investments	-	-	-	-	-	55,394	**55,394**
Property, equipment and intangibles	-	-	-	-	-	53,754	**53,754**
Other assets	37,529	5,647	9,993	56,640	22,665	-	**132,474**
Total Assets	**3,541,227**	**1,660,281**	**2,635,669**	**7,141,573**	**8,150,412**	**1,292,775**	**24,421,937**

Sukuk issued	1,028,751	-	1,266,38	11,286,841	725,797	-	**14,307,777**
Commodity murabaha liabilities	55,552	-	-	253,410	-	-	**308,962**
Wakala due	-	-	-	347,221	-	-	**347,221**
Other liabilities	83,407	12,969	10,138	50,819	186,083	-	**343,416**
Total Liabilities	**1,167,710**	**12,969**	**1,276,526**	**11,938,291**	**911,880**	-	**15,307,376**

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. RMD 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 (Chinese Yuan).

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 2021	31 Dec 2020
USD (1ID = 1.39959 USD)	2,479,811	2,025,242
EUR (1ID = 1.23748 EUR)	1,742,432	1,700,833
Pound Sterling (1ID = 1.04183 GBP)	463,443	413,436
Japanese Yen (1ID = 159.84801 JPY)	391,233	413,262
Chinese Yuan (1ID = 8.91599 CNY)	646,448	560,615
Others	5,719	7,625
	5,729,086	**5,121,013**

(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 murabaha 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 varyaccording 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 2021	31 Dec 2020
Commodity murabaha placements	0.8%	1.3%
Sukuk investments	2.6%	3.3%
Murabaha financing	2.9%	3.6%
Istisna'a assets	3.1%	3.4%
Instalment sale	3.2%	3.5%
Ijarah assets	2.2%	2.4%
Sukuk issued	1.7%	1.9%
Commodity murabaha liabilities	0.0%	0.7%

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.

Shari'ah non-compliance risk (SNCR)

The Bank attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR) as part of its operational risk management. Shari'ah compliance forms an integral part of the Bank's purpose of establishment. Consequently, the Bank effectively manages SNCRs through leveraging on its wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the Shari'ah Compliance function of IsDB Group serves as the 2nd line of defence to strategically manage and monitor SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a risk based internal Shari'ah audit methodology.

(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).

Inputs, which are not based on observable market data, were applied in the valuation of unlisted equity investments for the year ended 31 December 2021 and the impact of the sensitivity is not material.

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

31 Dec 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value through income statement:				
Sukuk investments	153,011	-	-	**153,011**
Equity type Investments at fair value through equity:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other assets)	-	20,275	-	**20,275**
Equity investments	448,200	-	94,598	**542,798**
Total financial assets at fair value	**601,211**	**20,275**	**94,598**	**716,084**

31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Sukuk investments	154,703	-	-	154,703
Equity type Investments at fair value through equity:				
Equity investments	361,920	-	92,804	454,724
Total financial assets at fair value	516,623	-	92,804	609,427
Financial liabilities at fair value through profit or loss:				
Murabaha based profit rate and cross currency profit rate swaps (reported within other liabilities)	-	44,883	-	44,883
Sukuk liability (Fair value hedged)	-	1,041,471	-	1,041,471
Total financial liabilities	-	1,086,354	-	1,086,354

During the years ended 31 December 2020 and 31 December 2021, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

As at 31 December 2021, sukuk investment carried at amortized cost with carrying value amounting to ID 2.07 billion (2020: ID 1.31 billion) has fair value of ID 2.10 billion (2020: ID 1.39 billion).

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 furnished to the Board of Executive Directors do not present discrete financial information with respect to the Bank's performance to the extent envisaged in FAS 22 - the sectorial and geographical distribution of the Bank's assets is set out in Note 31.

34. LIBOR TRANSITION

Benchmark transition

In July 2017, the Financial Conduct Authority (FCA), the regulator of LIBOR, announced that it will no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021 and, therefore, market participants, including IsDB need to set their pricing on the basis of the alternative reference rates because the availability of LIBOR after this date is not a certainty. The regulators' guidance remains that LIBOR should not be used for new contracts after 2021. In consideration of the regulatory guidance and in preparations for the global markets' transition away from LIBOR, IsDB since 2018 has initiated the LIBOR transition program to facilitate a smooth and orderly transition of its financing and funding instruments effected by alternative reference rates.

The Bank's exposure to LIBOR transition is limited in one (1) currency i.e., USD whereas for EUR, the exposure is against EURIBOR which is not subject to cessation.

In the year 2021, various key milestones were overcome involving i) formulation of detailed implementation roadmap and action plan with the help of an external consultant, ii) formulation and incorporation of enhanced 'fallback' clause for all prospective contracts, iii) obtaining clearance from Shariah Technical Committee on use of CME Term SOFR (Chicago Mercantile Exchange 'CME' is an American global markets company. It is the world's largest financial derivatives exchange. CME Group estimates the Term SOFR Reference Rates benchmark as a daily set of forward-looking profit rates for 1-month, 3-month, 6-month and 12-month tenors) as preferred replacement rate to USD LIBOR, iv) revision in the Sovereign Pricing policy based on new benchmark rates, v) resource mobilization based on SOFR curve and maintaining the cost pass through mechanism to minimize the ALM (Asset and Liability Management) risks, and vi) initiation of system upgradation project to enable the use of new pricing policy and reference rates.

The bank has historically used USD LIBOR, US Mid-Swap and EURIBOR benchmark rates as reference rates for pricing financial exposures (both assets and liabilities). The EURIBOR is not expected to be discontinued and hence the bank can continue using it in future, since EURIBOR has already transitioned to the new principles of transaction-based methodology from earlier quotation-based methodology. As of now, the Bank's management has taken a decision to replace the USD LIBOR and USD Mid-Swap rates with the CME Term SOFR and USD OIS Mid-Swap rates in respective tenors.

The Bank's decision to select the CME Term SOFR as a replacement rate to USD LIBOR is based on its functional similarities to the sun-settled LIBOR rate. In fact, given it is also a forward-looking term rate and hence its selection as replacement rate is expected to result in minimal implication. Additionally, the revised Sovereign Pricing policy has been formulated in such a way that the transition from LIBOR is not expected to create any impact in terms of changes in economic value at the individual contract level.

IsDB is actively working through this transition from multiple perspectives: project financing and treasury and liquidity, funding, shariah, risk and legal, accounting, operations, information technology, considering the portfolio of existing assets and funding that use LIBOR as a benchmark.

IsDB has started dialogue with its member countries and other partners to enable smoot transition to CME Term SOFR. IsDB is also engaging with external stakeholders to ensure an orderly transition responsive to regulatory and market developments.

34. LIBOR TRANSITION (continued)

Risks arising from the benchmark reform

The following are the key risk for the Bank that are arose from the benchmark transition.

1. Shariah risk: Given that the Bank must abide but the Shariah principles, the clearance on use of a new benchmark rate for pricing the financial exposures was one of the major milestones in Bank's transition program. However, this risk has been addressed by obtaining the clearance from IsDB's Shariah Technical Committee on use of CME Term SOFR as replacement benchmark.

2. Legal risk: There is a possibility of not reaching an agreement with the counterparts on revised pricing particularly on the legacy contracts. This could be a result of having ineffective fallback clauses in the signed legal agreements. This risk has been addressed by appointing external Law firm to develop the 'Fallback' clause which has been added to all new contracts. Another Law firm is in process of onboarding to address the conversion of Legacy contracts.

3. IT and system risks: It is expected that the booking of new contracts and conversion of legacy contracts from old benchmark to new will require certain enhancements in system functionalities and processes. This risk is addressed by performing the testing on existing systems, by identifying gaps and by upgrading the Bank's core banking systems to the latest versions that offer the needed functionality required for utilizing the new reference rates.

Progress towards adoption of alternative benchmark rates

All newly transacted contracts that referenced a benchmark rate for pricing are already executed with the improved fallback clause. All the sovereign financing contracts will adopt the new pricing policy which is based on alternative benchmark rates.

The bank's main risk policies such as ALM Framework, Exposure Management Framework and Liquidity Policy will remain effective without requiring any change due to benchmark reform.

During 2021, the Bank has issued USD 400 million Sukuk which is linked to SOFR. The Bank in process of formulating the strategy for transition on its outstanding legacy contracts in accordance with the June 2023 timeline for complete decommissioning of LIBOR rates.

Profit rate benchmark transition for non-derivative financial contracts

For EUR denominated contracts, the Bank has historically used EURIBOR as benchmark rate. Therefore, no impact is expected for the Bank because the EURIBOR is not expected to be discontinued since it has already been transformed back in 2019 by the regulator.

For the legacy contracts in Treasury portfolio, the strategy is to wait for the Issuer to propose the alternate pricing to all the issue participants. This is because IsDB is only a participant investor amongst many other investors and hence cannot determine and negotiate an alternate rate on its own. In the absence of any such alternate rate from issuer, it is not possible nor logical to run the impact analysis. Therefore, for legacy treasury assets, strategy is to wait till Q3-Q4 2022 for issuer to propose an alternate rate and if not, Treasury will formulate an exit strategy for all such trades.

Same is the case of legacy contracts for non-sovereign financing. IsDB is part of large PPP syndicates and hence IsDB is unable to negotiate an alternate rate with the counterparty. The Syndicate leads are expected to propose alternate rates based on which, IsDB will run the assessment and decide accordingly.

For legacy contracts on Capital Markets, the only exposure linked to LIBOR is a bilateral exposure with another group entity. Therefore, the strategy is to continue with it till the time we have clarity on all the viable alternate pricing options on the Treasury assets so that the same could be discussed and negotiated with the group entity to agree on one of them

For legacy contracts for sovereign financing, the Bank has decided to follow a gradual approach by allowing early adoption option to its member countries on selective basis. During this period, member countries will be offered the conversion option to the new Sovereign Pricing policy. The relevant regional hubs will accordingly present the new pricing policy and markup rate structure to the member countries.

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants
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Date 24/4/1419
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INDEPENDENT AUDITOR'S REPORT

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – Special Account Resources Waqf Fund
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 – Special Account Resources Waqf Fund (the "Fund") which comprise the statement of financial position as of December 31, 2021, and the related statement of activities and changes in net assets and the 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 Fund as of December 31, 2021, and the results of its activities and changes in net assets and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

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

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. 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 Fund in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions ("AAOIFI Code"), and we have fulfilled our other ethical responsibilities in accordance with the AAOIFI Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Fund for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on May 30, 2021.

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

These financial statements and the Fund's undertaking to operate in accordance with Shari'ah Rules and Principles are the responsibility of the Fund's management and those charged with governance.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by AAOIFI and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – Special Account Resources Waqf Fund
Jeddah
Kingdom of Saudi Arabia

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

In preparing the financial statements, the management is responsible for assessing the Fund'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 the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI, 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Your Excellencies the Chairman and Members of the Board of Governors
Islamic Development Bank – Special Account Resources Waqf Fund
Jeddah
Kingdom of Saudi Arabia

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- Obtain sufficient appropriate audit evidence regarding the financial information of the Company's investments to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for an audit opinion.

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.

Deloitte and Touche & Co.
Chartered Accountants

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س.ت: ٤٠٣٠٢٩٧٠٤٩
CR.: 4030297049
Jeddah Branch
Chartered Accountants
Deloitte and Touche & Co.

Waleed Bin Moha'd. Sobahi
Certified Public Accountant
License No. 378

13 Shawwal 1443H
May 14, 2022

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(All amounts rounded to the nearest thousand United States Dollars unless otherwise stated)

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	5	**57,455**	105,951
Commodity murabaha placements	6	**197,642**	240,521
Investments in sukuk	7	**88,408**	91,146
Murabaha financing	8	**1,209**	2,651
Treasury assets		**344,714**	440,269
Installment sale	9	**3,430**	5,276
Syndicated Ijarah	10	**2,947**	2,983
Loans (Qard)	11	**160,509**	178,331
Project assets		**166,886**	186,590
Equity investments	12	**18,722**	27,119
Investment in funds	13	**60,170**	68,644
Investment in associates	14	**165,882**	154,522
Managed Investment	15	**65,981**	-
Investment assets		**310,755**	250,285
Other assets	16	**14,111**	14,115
Fixed assets		**22,768**	24,321
TOTAL ASSETS		**859,234**	915,580
LIABILITIES			
Accruals and other liabilities	17	**86,797**	96,317
TOTAL LIABILITIES		**86,797**	96,317
NET ASSETS		**772,437**	819,263
REPRESENTED BY:			
Waqf Fund principal amount		**1,069,518**	1,069,852
Special assistance programs		**(457,590)**	(428,920)
Special account for Least Developed Member Countries (LDMC)		**160,509**	178,331
TOTAL FUNDS		**772,437**	819,263

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

	Notes	2021 Waqf Fund principal amount	2021 Special assistance programs	2021 Special account for LDMC	2021 Total	2020 Total
STATEMENT OF ACTIVITIES						
Income/(loss) from:						
Treasury assets						
Commodity murabaha placements					**1,651**	4,716
Investments in sukuk	7				**3,393**	4,365
Project assets						
Syndicated ijarah					**-**	24
Investment assets						
Investment in funds					**2,719**	1,291
Associates					**6,537**	1,509
Managed investment					**2,350**	-
Other					**2,788**	2,805
					19,438	14,710
Foreign exchange (losses)/ gains					**(4,231)**	2,531
Income before impairment charge					**15,207**	17,241
Impairment charge	19				**(7,684)**	(9,370)
Attributable net income		**-**	**-**	**-**	**7,523**	7,871
Allocation of attributable net income	1	**1,505**	**6,018**	**-**	**-**	-
Donations received	20	**-**	**290**	**-**	**290**	-
Islamic Technical Financial Assistance Grant from IsDB-OCR		**-**	**1,077**	**-**	**1,077**	2,174
Non-Shari'ah income transferred from IsDB-OCR		**32**	**129**	**-**	**161**	426
Contributions from IsDB-OCR for technical assistance grants and scholarship program	20	**-**	**21,654**	**-**	**21,654**	14,894
Income before grants and program expenses		**1,537**	**29,168**	**-**	**30,705**	25,365
Grants for causes	21	**-**	**(20,383)**	**-**	**(20,383)**	(28,055)
Program expenses	21	**-**	**(25,447)**	**-**	**(25,447)**	(20,706)
Net (deficit)/surplus for the year		**1,537**	**(16,662)**	**-**	**(15,125)**	(23,396)

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

		2021				2020
	Notes	**Waqf Fund principal amount**	**Special assistance programs**	**Special account for LDMC**	**Total**	Total
CHANGES IN NET ASSETS						
Net assets at 1 January 2021		**1,069,852**	**(428,920)**	**178,331**	**819,263**	865,083
Adjustment against credit losses -FAS-30 (Note 18)		**(659)**	**(2,634)**	**-**	**(3,293)**	-
Revised balance as at 1 January 2021 after FAS-30 adjustment		**1,069,193**	**(431,554)**	**178,331**	**815,970**	865,083
Net surplus/(deficit) for the year		**1,537**	**(16,662)**	**-**	**(15,125)**	(23,396)
Retirement pension plan liability		**-**	**(22,350)**	**-**	**(22,350)**	(6,088)
Fair value and other reserves		**(1,212)**	**(4,846)**	**-**	**(6,058)**	(16,336)
Reallocation from Special Account for LMDC to Special Assistance Programs Fund		**-**	**17,822**	**(17,822)**	**-**	-
Net assets at 31 December 2021		**1,069,518**	**(457,590)**	**160,509**	**772,437**	819,263

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2021
(All amounts rounded to the nearest thousand United States Dollars unless otherwise stated)

	Notes	2021	2020
Cash flows from operations			
Net deficit for the year		**(15,125)**	(23,396)
Adjustments to reconcile net deficit to net cash used in operating activities			
Depreciation		**1,601**	1,569
Provision for impairment	19	**7,684**	9,370
Share of gain/(loss) in associates, net		**(7,114)**	2,345
Loss/(gain) on deemed disposal of associates		**577**	(338)
Service cost on pension and medical obligation	18	**3,665**	3,343
Foreign exchange		**(6,781)**	(5,580)
Change in operating assets and liabilities			
Murabaha financing		**-**	1,820
Installment sale		**(56)**	(15)
Syndicated Ijarah		**-**	(93)
Loans (Qard)		**16,732**	2,254
Other assets		**4**	5,847
Accruals and other liabilities		**(33,607)**	38,854
Cash (utilized in)/from operations		**(32,420)**	35,980
Pension and medical obligation paid		**(1,054)**	(1,024)
Net cash (utilized in)/from operations		**(33,474)**	34,956
Cash flows from investing activities			
Net movement in commodity placements		**42,672**	(2,995)
Redemption of investments in sukuk	7	**2,680**	9,337
Additions to equity investments	12	**-**	(1,285)
Additions to investments in funds	13	**(441)**	(36)
Disposal of investments in funds	13	**5,095**	2,263
Additions to managed investments	15	**(65,981)**	-
Addition to fixed assets		**(48)**	-
Dividends from associates	14	**1,001**	1,080
Net (utilized in)/ cash from investing activities		**(15,022)**	8,364
Net change in cash and cash equivalents		**(48,496)**	43,320
Cash and cash equivalents at 1 January		**105,951**	62,631
Cash and cash equivalents at 31 December	5	**57,455**	105,951

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

1. INCORPORATION AND OPERATIONS

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

In 1418, the Special Accounts of the IsDB-OCR consisted of the Special Reserve, Special Assistance and Special Account for Least Developed Member Countries. On 1 Muharram 1418H, the balances of these accounts in the books of IsDB-OCR as of 29 Dhul Hijjah 1417H together with the related assets and liabilities were transferred to the Special Account Resources Waqf Fund. The balance of Special Reserve Account has been taken as the uncommitted resources of the Special Account and formed the balance of the Waqf fund principal amount at 1 Muharram 1418H. The balances of the Special Assistance and Special Account have been transferred to the Waqf Fund, but did not form part of the Waqf Fund principal amount. All assets of the Waqf Fund are commingled and are not distinguished between the Waqf Fund principal amount and the other committed resources of the Waqf Fund.

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

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

The Fund derives its income from returns on treasury assets, investments and other assets. As per the regulations of the Fund, a certain percentage of its attributable net income is allocated to the principal amount of the Fund every year until it reaches ID 1 billion (US$ 1.44 billion). In accordance with the Resolution of the Board of Executive Directors dated 24 February 2019, new attributable income allocations were approved (as tabled below). Further, the Board decided that effective 2019 all principal repayment of loans shall be allocated to the Special Assistance Programs Fund until the Special Account for LDMCs is offset.

Allocation of attributable income to:	From 2019	2018 and prior periods
Waqf Fund principal amount	20%	15%
Special Assistance Programs	80%	65%
Special Account for LDMCs	0%	20%

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

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

In accordance with the Board of Governors' Resolutions, income on IsDB balances with other banks (conventional investments) and other investments balances, which are considered by IsDB Group Shari'ah Board to be forbidden by Shari'ah, are not included in the income statement of IsDB but are transferred by IsDB to the Fund and included in the statement of activities of the Fund (2021 US$ 161 thousand and 2020: US $ 426 thousand).

2. BASIS OF PREPARATION

a) Statement of Compliance

The financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Board of the IsDB Group, its entities and funds. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Fund seeks guidance from generally accepted accounting principles as per the conceptual framework of AAOIFI provided they do not contradict the Rules and Principles of Islamic Shari'ah.

b) Basis of measurement

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

- Investment in funds and equity investments are measured at fair value through changes in net assets;
- Certain investments in sukuk are measured at fair value through statement of activities designated as such at the time of initial recognition; and
- Investments in associates accounted for using equity method of accounting.
- Post-employment benefits plan measured using actuarial present value calculation based on projected unit credit method.

c) Functional and presentation currency

Since establishment and up to the end of 2019 the Fund's functional and presentation currency was Islamic Dinar "ID". During 2019, the Board of executive Directors approved the change of the functional and presentation currency of the Fund from ID to United Stated Dollars ("USD").

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized in the statement of financial position when the Fund becomes a party to the 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 oranother financial asset from another entity or to exchange financial assets or financial liabilities with another entity underconditions that are potentially favorable to the Fund.

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

Recognized financial assets and financial liabilities are initially measured at fair value, for concessional loans (Qard) fair value is best evidenced by the transaction amount. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in statement of activities.

On initial recognition, financial assets are classified and measured at either of {i) amortised cost, (ii) fair value through net assets or (iii) fair value through statement of activities, on the basis of both:

a. the institution's business model for managing the investments; and
b. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

For the purpose of these policy notes, fair value through statement of activities or charges thereto refers to fair value and/or charges being recognized in arriving at the income/surplus/(deficit) for the year and fair value through changes in net assets refers to fair value recognized directly in the net assets.

Financial assets comprise investments in debt-type and equity-type financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)

(i) Classification

Debt-type instruments

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Investments in debt-type instruments are classified into the following categories: 1) at amortised cost or 2) at fair value through statement of activities

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through the statement of activities.

Debt-type investments classified and measured at fair value through statement of activities include investments held for trading or designated at fair value through statement of activities. At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through statement of activities if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Equity-type instruments

Investments in equity-type instruments are classified into the following categories: 1) at fair value through statement of activities or 2) at fair value through changes in net assets.

Equity-type investments classified and measured at fair value through statement of activities include investments held for trading or designated at fair value through statement of activities.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through statement of activities include investments which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Fund makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of activities to be classified as investments at fair value through other changes in net assets.

(ii) Recognition and derecognition

Investment securities are recognised at the trade date i.e., the date that the Fund contracts to purchase or sell the asset, at which date the Fund becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risk and rewards of ownership.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)

(iii) Measurement

Initial recognition

Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through statement of activities which are charged to statement of activities.

Subsequent measurement

Investments at fair value through statement of activities are re-measured at fair value at the end of each reporting period and the resultant re-measurement gains or losses is recognised in the statement of activities in the period in which they arise. Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of activities.

Investments at fair value through equity are re-measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the statement of changes in shareholders' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in net assets transferred to the statement of activities.

Investments which do not have a quoted market price or other appropriate methods from which to derive a reliable measure of fair value when on a continuous basis cannot be determined, are stated at cost less impairment allowance, (if any).

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fee and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Company measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the statement of financial position date. For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Fund by discounting future cash flows at current profit rates for contracts with similar term and risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)
The table below summarizes Fund's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below.

Item	**Recognition principles**
Cash equivalents	Amortized cost less impairment
Commodity murabaha placements	Amortized cost less impairment
Investments in sukuk	Fair value through statement of activities; or amortized cost
Murabaha financing	Amortized cost
Installment sale	Amortized cost less impairment
Syndicated Ijarah	Amortized cost less depreciation and impairment
Loans (Qard)	Disbursements plus accrued service fee less impairment
Equity investments	Fair value through changes in net assets
Investment in funds	Fair value through changes in net assets
Managed Investment	Fair value through statement of activities

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 Fund 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.

b) 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.

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

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

The amounts receivable from murabaha financing are stated at the selling price less unearned income to the reporting date, less repayments received and any provision for impairment i.e. at the amortised cost less impairment.

e) Investments in sukuk
Investments in sukuk are debt-type instruments classified and measured at either amortised cost or at fair value through statement of activities depending on their classification.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Equity investments
Equity investments are intended to be held for a long-term period and may be sold in response to needs for liquidity or changes in prices. Initially and subsequently such investments are measured at fair value, and any unrealized gains arising from the change in their fair value are recognized directly in changes in net assets until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in net assets is recognized in the statement of activities.

The Fund revalues its investments in unlisted equities based on valuation performed by independent valuers. The carrying values of the investments were adjusted to reflect the changes in fair values.

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

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

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

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

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

i) Installment sale
Instalment sale agreements are deferred sale agreements whereby the Fund sells an asset, which the Fund 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

k) Loans (Qard)
Loan (Qard) is a long-term concessional facility provided to Member Countries or borrowers therein bearing the service fee rate sufficient to cover the Bank's actual administrative expenses.

Loan (Qard) amounts outstanding represent amounts disbursed in respect of projects, less repayments received and provision for impairment.

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

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

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

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

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

m) Revenue recognition

Commodity murabaha placements
Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on an effective yield basis over the period from the actual disbursement of funds to the date of maturity.

Murabaha financing
Income from murabaha financing is accrued on an effective yield basis over the period from the date of the actual disbursement of funds to their scheduled repayment dates.

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

Equity investments
Dividend income from investments in equity capital and other investments is recognized when the right to receive the dividend is established i.e. according to its declaration date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Revenue recognition (continued)

Syndicated Ijarah
Income from syndicated Ijarah is recognised using the effective yield method.

Loan (Qard) service fees
Since the loan (Qard) portfolio is managed and administered by the Bank, the loan service fee is not recorded by the Fund but is transferred in full to the Bank's Ordinary Capital Resources (OCR).

n) Foreign currency

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

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

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

Foreign operations – investments in associates
The results and the net investment in the Fund's associates are translated into USD as follows:

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

o) Impairment of financial assets

<u>Impairment of Assets held at amortized cost</u>

The Fund applies the credit loss approach to treasury assets and projects assets measured at amortized cost. To assess the extent of credit risk, these assets are divided into three (3) categories:

i. Stage 1 – No significant increase in credit risk;
ii. Stage 2 – Significant increase in credit risk (SICR); and
iii. Stage 3 – Credit impaired financial assets.

Allocation to different stages is based on the degree of deterioration in the credit quality of the respective asset. At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Fund considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.
All assets are allocated to stage 1 on initial recognition. However, if a significant increase in credit risk is identified at the reporting date compared with initial recognition, then the asset is transferred to stage 2 (Refer to Note 31 Risk management). If there is objective evidence of impairment, then the asset is credit-impaired and allocated to stage 3 as described in Note 30 Risk management.

The Fund applies 12-month Expected Credit Loss (ECL) measurement to stage 1 instruments. 12-month ECLs represent the ECLs that result from possible default events within the 12 months after the reporting date.

The Fund recognizes an allowance amount based on Lifetime ECL (i.e. ECLs that result from all possible default events over the expected life of the financial instrument) for stage 2 instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment assessment (continued)

Impairment of Assets held at amortized cost (continued)

As for instruments classified in stage 3, loss allowance is quantified as the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Impairment of investments held at fair value through changes in net assets

The Fund exercises judgment to consider impairment on the investments in equities and funds 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 Fund evaluates among other factors, the normal volatility in share prices. In addition, the Fund 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 Fund considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount.

Other amortised cost assets

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

p) Zakat and tax

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

The most significant judgements and estimates are summarised below:

SIGNIFICANT JUDGEMENTS

a) Significant influence

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

b) Going concern

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

c) Useful lives of fixed assets

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

d) Comingling of funds resources

The management monitors the assets of the Waqf fund in totality though these are split between principal amount, special assistance and special account for LDMC since the assets related to these separate components are commingled. Therefore, the management is committed to fulfil its obligations under the special assistance programs notwithstanding a deficit in its resources which will be funded as approved by the BED (refer note 1) and from the resources of other components, therefore, the management considers that there are no sustainability issues relating to any components of the Fund.

SIGNIFICANT ESTIMATES

Expected credit losses against financial assets

Expected credit losses against financial assets – The measurement of credit losses under FAS 30 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Fund's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

i. The Fund's internal credit grading model, which assigns PDs to the individual grades;
ii. The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment;
iii. Development of ECL models, including the various formulas and the choice of inputs
iv. Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
v. Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Impact of COVID'19

More than 2 years since the first case of the Coronavirus Disease 2019 ("COVID-19") was reported, the pandemic is still significantly impacting economic and social life in member countries. The anticipated recovery from COVID-19 in 2021 was disrupted by the arrival of new variants and high inflation. Several countries, including Saudi-Arabia reimposed mobility restrictions, while escalating energy prices and supply disruptions have produced high and broad-based inflation. The repercussions of the pandemic have stifled growth, with the aggregated output of IsDB member countries contracting by 1.7 percent in 2020.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

SIGNIFICANT ESTIMATES (continued)

Impact of COVID'19 (continued)

Considering these factors, the Fund's management carried out an impact assessment on the overall Fund's operations and business aspects including factors like dealing with member countries, continued day to day business activities, financing, investment and collection as well as working capital projections, etc. and concluded that, as at the issuance date of these financial statements, the Fund did not have significant adverse impact on its operations and businesses due to COVID-19 pandemic and no significant changes are required to the judgements, assumptions and key estimates.

To preserve the health of the employees and support the prevention of contagion in the operational and administrative areas, the Fund took measures, in line with the recommendations of the World Health Organisation and Ministry of Health - Kingdom of Saudi Arabia, such as working from home, social distancing at work place, rigorous cleaning of workplaces and staff accommodation, distribution of personal protective equipment, testing of suspected cases, limiting non-essential travel, self-health declarations and measuring body temperature. In addition, the Fund's nature of activities facilitated seamless operations during the pandemic.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these financial statements. The strong financial position, including access to funds, nature of activities coupled with the actions taken by the Fund to date and the continued operations ensures that the Fund has the capacity to continue through the challenges caused by impacts of the COVID-19 pandemic.

The effect of new and revised financial accounting standards:

FAS 30 Impairment, credit losses and onerous commitments

In these financial statements, the Fund has applied FAS 30 for annual periods beginning on or after 1 January 2021, for the first time

FAS 30 replaces FAS 11 Provisions and Reserves, for annual periods beginning on or after 1 January 2021, with earlier adoption permitted.

As permitted by the transitional provisions of FAS 30, the Fund elected not to restate comparative figures. Therefore, the comparative information for credit losses and impairment in 2020 is reported under FAS 11 and is not comparable to the information presented for 2021. Any adjustments to the carrying amounts of financial contracts at the date of transition were recognized in the opening statement of changes in net assets of the current period without restating prior year numbers.

The effect of new and revised financial accounting standards (continued):

Differences arising from the adoption of FAS 30 have been recognized directly in the -statement of changes in net assets as at 1 January 2021 and are disclosed below.

	Impairment allowance under FAS 11 as at 31 December 2020	Adjustment to credit losses on adoption of FAS 30	Credit loss under FAS 30 after adjustment as at 1 January 2021
Commodity murabaha placements	-	207	207
Investment in sukuk	-	58	58
Installment sale	-	1,902	1,902
Murabaha financing	6,649	-	6,649
Syndiated Ijarah	-	36	36
Loans (Qard)	14,084	1,090	15,174
Total	**20,733**	**3,293**	**24,026**

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

The effect of new and revised financial accounting standards (continued):

The introduction of FAS 30 increased the total impairment allowance held by the Fund by approximately USD3,294 thousand from USD 20,733 thousand as at 31 December 2020 to USD 24,026 thousand as at 1 January 2021. The determination of impairment allowance under FAS 30 considers both the disbursed and the undisbursed counterparty exposure.

Other New FASs with no material impact

The adoption of following FASs has had either no or immaterial impact on the financial statements for the current and prior years.

- FAS 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)" does not have impact on the Fund's financial statements as it does not have any wakala transactions.
- FAS 32 "Ijarah" did not have material impact on the Fund's financial statements as it does not have any significant ijarah transactions.
- The Fund has already in these financial statements provisions of FAS 33 "Investment in sukuk, shares and similar instruments"
- The Fund does not issue sukuk, hence FAS 34 "Financial reporting for Sukuk-holders" is not applicable to the Fund.
- The Fund does not apply provisions of FAS 35 "Risk Reserves" as it does not have Risk reserves.

5. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash at banks	**38,629**	24,902
Short-term commodity murabaha placements (note 6)	**18,826**	81,049
	57,455	105,951

Commodity murabaha 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 6.

6. COMMODITY MURABAHA PLACEMENTS

	31 December 2021	31 December 2020
Placements with Islamic banks	**27,000**	55,213
Placements with conventional banks	**189,131**	264,867
Accrued income	**544**	1,490
Short-term commodity murabaha placements (note 5)	**(18,826)**	(81,049)
Impairment	**(207)**	-
	197,642	240,521

7. INVESTMENT IN SUKUK

The movement in investments in sukuk is summarized as follows:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Balance at beginning of the year	**91,146**	100,945
Additions	**-**	-
Redemptions	**(2,680)**	(9,337)
Unrealized exchange revaluation losses	**-**	(462)
Impairment	**(58)**	-
Balance at end of the year	**88,408**	91,146

	Counterparty rating				
31 December 2021	**AAA**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at amortised cost					
- Financial institutions	**6,031**	**12,171**	**-**	**-**	**18,202**
- Governments	**-**	**-**	**47,492**	**-**	**47,492**
- Other entities	**-**	**20,208**	**-**	**-**	**20,208**
	6,031	**32,379**	**47,492**	**-**	**85,902**
Sukuk classified as fair value through statement of activities					
- Other entities	**-**	**-**	**-**	**2,506**	**2,506**
	-	**-**	**-**	**2,506**	**2,506**
Total	**6,031**	**32,379**	**47,492**	**2,506**	**88,408**

	Counterparty rating				
31 December 2020	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at amortised cost					
- Financial institutions	6,031	12,199	-	-	18,230
- Governments	-	-	47,543	2,121	49,664
- Other entities	-	20,253	-	-	20,253
	6,031	32,452	47,543	2,121	88,147
Sukuk classified as fair value through statement of activities					
- Other entities	-	-	-	2,999	2,999
	-	-	-	2,999	2,999
Total	6,031	32,452	47,543	5,120	91,146

Income from Sukuk investments is comprised of the following:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Coupon income	**3,459**	4,142
Amortization of sukuk at discount/ premium	**(66)**	405
Capital Gain Sukuk Realized	**-**	(182)
	3,393	4,365

8. MURABAHA FINANCING

	31 December 2021	31 December 2020
Gross amount receivable	**9,300**	9,300
Less: impairment provision	**(8,091)**	(6,649)
	1,209	2,651

9. INSTALLMENT SALE

	31 December 2021	31 December 2020
Balance at beginning of the year	**5,276**	5,276
Add: Additions	**56**	-
Less: Impairment	**(1,902)**	-
Balance at end of the year	**3,430**	5,276

The above represents installment sale agreement whereby the Fund has contributed USD 5.3 million (remaining equal share is contributed by ICD) for credit sale of equipment. The project is not yet operational and has been restructured, which resulted in impairment of the balance.

10. SYNDICATED IJARAH

	31 December 2021	31 December 2020
Balance at beginning of the year	**2,983**	2,983
Less: Impairment	**(36)**	-
Balance at end of the year	**2,947**	2,983

It represents participation in syndicated Ijarah investments with IsDB-APIF.

11. LOANS (QARD)

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

	31 December 2021	31 December 2020
Loans (Qard)	**175,683**	192,415
Less: provision for impairment	**(15,174)**	(14,084)
	160,509	178,331

Loans (Qard) are given to member countries with repayment period ranging between 20 to 30 years for which the Fund charges a loan servicing fee, which is transferred to IsDB-OCR.

12. EQUITY INVESTMENTS

Equity Investments comprised of the following:

	31 December 2021	31 December 2020
Equity investments	**42,283**	44,438
Less: Impairment provision	**(23,561)**	(17,319)
	18,722	27,119

The cumulative impairment on equity investments of USD23.5M is mainly related to fully impaired investment Bank Maumalat Indonesia (BMI). Impairment charge for 2021 equaled to USD6.2M.

12. EQUITY INVESTMENTS (continued)

	For the year ended 31 December 2021	For the year ended 31 December 2020
Balance at beginning of the year	**27,119**	31,259
Additions	**-**	1,285
Unrealized fair value (loss)/gains	**(2,155)**	753
Impairment provision	**(6,242)**	(6,178)
Balance at end of the year	**18,722**	27,119

13. INVESTMENTS IN FUNDS

Investments in funds comprised of the following:

	31 December 2021	31 December 2020
Investments in funds	**129,272**	138,922
Less: Impairment provision	**(69,102)**	(70,278)
	60,170	68,644

The movement in investments in funds is summarized as follows:

	31 December 2021			31 December 2020		
	Equity Funds	**Other Funds**	**Total**	Equity Funds	Other Funds	Total
Balance at beginning of the year	**2,500**	**66,144**	**68,644**	2,489	91,030	93,519
Additions	**-**	**441**	**441**	-	36	36
Disposals	**(2,500)**	**(2,595)**	**(5,095)**	-	(2,263)	(2,263)
Unrealized fair value gains/(losses)	**-**	**(4,996)**	**(4,996)**	11	(21,853)	(21,842)
Provision for impairment	**-**	**-**	**-**	-	(1,193)	(1,193)
Reversal of impairment	**-**	**1,176**	**1,176**	-	387	387
Net balance at end of the year	**-**	**60,170**	**60,170**	2,500	66,144	68,644

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

14. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Balance at beginning of the year	**154,522**	157,609
Foreign currency translation and other movements through changes in net assets	**5,824**	(3,516)
Loss/ (gain) on deemed disposal	**(577)**	338
Share of net results	**7,114**	1,171
Cash dividend received	**(1,001)**	(1,080)
Balance at end of the year	**165,882**	154,522

14. INVESTMENTS IN ASSOCIATES (continued)

Name of the entity	Country of incorporation	Entity's activities	2021	2020
Caspian International Investment Company (CIIC)	Azerbaijan	Asset Management	**27.14%**	**27.78%**
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	**50.89%**	**50.95%**
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	**86.40%**	**87.46%**

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

The total assets, total liabilities, revenue and results of associates based on their financial statements for the interim and final periods in 2021 and 2020 are as follows:

	Year	Total assets	Total liabilities	Revenues	Net results	Share of net assets
CIIC	**2021**	**18,358**	**-**	**-**	**32**	**4,936**
	2020	18,376	-	111	97	5,104
ICIEC	**2021**	**481,334**	**234,685**	**30,885**	**9,214**	**123,217**
	2020	474,811	188,224	29,282	8,565	101,408
BBIL	**2021**	**47,981**	**3,624**	**6,138**	**2,214**	**37,728**
	2020	75,560	2,491	9,376	2,091	40,260

15. MANAGED INVESTMENTS:

This represents investment in securities 'portfolio managed by an external portfolio manager and held for trading as at 31 December 2021:

	31 December 2021	31 December 2020
Investment in funds- Funding	**63,053**	-
Unrealized fair market valuation	**2,928**	-
	65,981	-

The fund has appointed Cambridge Associates as Outsourced Chief Investment Officer (OCIO). The fund is charged a flat rate of 20bps for the entire Investment Management account (IMA) with a minimum fee of USD475K p.a.

16. OTHER ASSETS

Other assets at the end of the year comprised the following:

	31 December 2021	31 December 2020
Due from related parties (Note 24)	**9,160**	7,834
Other assets	**4,951**	6,281
	14,111	14,115

17. ACCRUALS AND OTHER LIABILITIES

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

	31 December 2021	31 December 2020
Unutilized Islamic Technical Financial Assistance Fund (Note 20)	**24,176**	25,253
Pension liability (Note 18)	**53,387**	29,300
Due to related parties (Note 24)	**679**	34,505
Others	**8,555**	7,259
	86,797	96,317

18. POST EMPLOYMENT BENEFIT PLANS

IsDB Group staff retirement plan comprises of defined benefit and hybrid plan, staff pension plan ("SPP") and staff retirement medical plan (SRMP) (collectively referred to as staff retirement plans ("SRPs")). Every person employed by the Bank and its Affiliates on a full-time basis, as defined in the Bank and Affiliates employment policies, is eligible to participate in the SRP, from the date joining the Bank or its affiliates.

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

<u>Staff Pension Plan (SPP)</u>

SPP is a combination of both old defined benefit plan (Pillar I) and new hybrid pension plan (Pillar II) became effective on 1st Rajab 1399H (corresponding to 27 May 1979) and 17/05/1442H (01/01/2021G respectively. Every person employed by the Bank and its Affiliates on a full-time basis except for fixed term employees, as defined in the employment policies of the Bank and its Affiliates, is eligible to participate in the SPP, from the date joining the Bank and its affiliates. Participation in the hybrid pension plan is limited to those who have less than five years of service as at 31st December 2020 on optional basis however, those who joined the Bank and its affiliates from 01/01/2021 are enrolled automatically.

In the both Pillars, the employee contributes at a rate of 11.1% (2020-11.1%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2020-25.9%).

The main features of the SPP are:

(ii) Normal retirement age is the 62nd anniversary of the participant's birth

(iii) On retirement, the eligible retired employee is entitled to 2.5% under the old staff retirement plan or 1% under the hybrid plan in the Define Benefit ("DB") component, of the Weighted Highest Average Remuneration ("WHAR")(as defined by the pension committee)(for each year of pensionable service and limited to a maximum of 30 hijri years

(iv) 10% of Bank and its Affiliates contribution of 25.9%, and 5% of employees contribution of 11.1%, are used to fund the Define Contribution ("DC") component of the hybrid plan. The accumulated fund and its investment returns will be paid as retirement lump sum benefits to the participants in the hybrid plan.

(v) Benefits payment upon early retirement, disability benefits, termination benefits, pre-retirement death or post retirement death benefits are also paid as determined by the pension committee

<u>Staff Retirement Medical Plan (SRMP)</u>

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

18. POST EMPLOYMENT BENEFIT PLANS (continued)

The entitlements payable for each retired employee under the medical plan is computed according to the following formula:
WHAR (as defined by the pension committee) X contributory period (limited to a maximum of 30 Hijri years) X 0.18%

Benefits payment upon early retirement, disability benefits, termination benefits, pre-retirement death or post retirement death benefits are also paid as determined by the pension committee.

Administration of SRPs
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.

Risks

Investment risk
The present value of the SRPs' liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on SRPs' asset is below this rate, it will create a plan deficit. Currently the SRPs' have a relatively balanced investment in equity securities, debt instruments and real estate. Due to the long-term nature of the SRPs' liabilities, the administrator of SRPs' consider it appropriate that a reasonable portion of the SRPs' assets should be invested in equity securities and in real estate to leverage the return generated by the fund.

Discount rate
A decrease in the bond return rate will increase the SRPs' liability but this will be partially offset by an increase in the return on the SRPs' debt investments.

Longevity risk
The present value of the SRPs' liability is calculated by reference to the best estimate of the mortality of SRPs' participants both during and after their employment. An increase in the life expectancy of the SRPs' participants will increase the SRPs' liability.

Salary risk
The present value of the SRPs' liability is calculated by reference to the future salaries of SRPs' participants. As such, an increase in the salary of the SRPs' participants will increase the SRPS' liability.

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

	2021			2020
	SPP	**SRMP**	**Total**	Total
Benefit obligation - opening balance	**54,520**	**4,748**	**59,268**	49,889
Current Service Costs	**2,678**	**235**	**2,913**	2,421
Past Service Cost	**-**	**-**	**-**	275
Expense on Defined Benefit Obligation (DBO) Plan	**1,405**	**122**	**1,527**	1,628
Plan participations contributions	**433**	**10**	**443**	380
Disbursements from Plan Assets	**(1,894)**	**(89)**	**(1,983)**	(1,613)
Net actuarial loss	**20,701**	**1,837**	**22,538**	6,288
Benefit obligation closing balance	**77,843**	**6,863**	**84,706**	59,268

18. POST EMPLOYMENT BENEFIT PLANS (continued)

The movement in the plan assets are as follows:

	2021			2020
	SPP	**SRMP**	**Total**	Total
Fair value of plan assets - opening balance	**28,544**	**1,424**	**29,968**	29,903
Other adjustments to the opening balance	**738**	**7**	**745**	(386)
Income on Plan Assets	**739**	**36**	**775**	981
Return on Plan Assets greater/ (less) than the discount rate	**267**	**50**	**317**	(322)
Plan participation contributions	**433**	**10**	**443**	380
Employer contribution	**1,011**	**43**	**1,054**	1,024
Disbursements from Plan Assets	**(1,894)**	**(89)**	**(1,983)**	(1,612)
Fair value of plan assets closing balance	**29,838**	**1,481**	**31,319**	29,968
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (Note 18)	**48,005**	**5,382**	**53,387**	29,300

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

Based on the actuarial valuations, the pension and medical benefit expenses for the year ended 31 December 2021 are as follows:

	2021			2020
	SPP	**SRMP**	**Total**	Total
Gross current service costs	**2,678**	**235**	**2,913**	2,421
Gross past service costs	**-**	**-**	**-**	275
Expense on DBO	**1,405**	**122**	**1,527**	1,628
Income on assets	**(739)**	**(36)**	**(775)**	(981)
Amount recognized in the Statement of Activities	**3,344**	**321**	**3,665**	3,343
Actuarial loss due to assumptions	**20,701**	**1,837**	**22,538**	6,288
Return on plan assets (greater)/ less than the discount rate	**(267)**	**(50)**	**(317)**	322
Other adjustments	**(738)**	**(7)**	**(745)**	373
Forex adjustment	**121**	**3**	**124**	-
Amount recognized in changes in net assets	**19,817**	**1,783**	**21,600**	6,983

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

	2021		2020	
	SPP	**SRMP**	SPP	SRMP
Discount rate	**2.85%**	**2.85%**	2.6%	2.6%
Rate of expected salary increase	**4.5%-6.5%**	**4.5%-6.5%**	4.5%	4.5%

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

18. POST EMPLOYMENT BENEFIT PLANS (continued)

The following table presents the plan assets by major category:

	2021			2020
	SPP	**SRMP**	**Total**	Total
Cash and cash equivalent and commodity murabaha placements	**14,669**	**723**	**15,392**	13,467
Managed funds and Instalment sales	**4,093**	**-**	**4,093**	3,726
Investments in sukuk	**8,445**	**583**	**9,028**	9,849
Land	**2,402**	**-**	**2,402**	2,681
Other (net)	**229**	**175**	**404**	245
Plan net assets	**29,838**	**1,481**	**31,319**	29,968

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

Provision for impairment comprised of the following:

	31-Dec-21				31-Dec-20
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Commodity murabaha placements	**207**	**-**	**-**	**207**	-
Investment in sukuk	**58**	**-**	**-**	**58**	-
Installment sales	**-**	**-**	**1,902**	**1,902**	-
Murabaha financing	**-**	**-**	**8,091**	**8,091**	6,649
Syndicated Ijarah	**36**	**-**	**-**	**36**	-
Loans (Qard)	**1,218**	**1,498**	**12,458**	**15,174**	14,084
	1,519	**1,498**	**22,451**	**25,468**	20,733
Equity Investments				**23,561**	17,319
Investment in funds				**69,102**	70,278
				118,131	108,330

The movement in provision for impairment is as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Opening Balance	**108,330**	99,347
Additional provision on first time adoption of FAS 30	**3,293**	-
Adjusted Opening Balance	**111,623**	99,347
Charge for the year	**7,684**	9,370
Reversal (through changes in net assets)	**(1,176)**	(387)
Closing Balance	**118,131**	108,330

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

According to the Board of Governors' resolution no BG/5-441at the Forty-Fifth Annual Meeting of the Islamic Development Bank in 2020, technical assistance Grant resource allocation be increased from the existing 5% to 10% from 2020 with a ceiling of USD20M for three years from 2020. IsDB-OCR 2020 net income amounting to USD 15.5 million was allocated to finance Technical Assistance Operations in the form of grants during 2021 (2020: USD 10.64 million)

According to the Board of Governors' resolution no BG/6-441 at the Forty-Fifth Annual Meeting of the Islamic Development Bank in 2020, annual grant allocation be increased from 2% to 4% with a ceiling of USD8M to finance the scholarship Programs for three years from 2020. IsDB-OCR 2020 net income amounting to USD 6.2 million was allocated to finance the Bank's PHD/Post-doctoral Research Program (known as merit scholarship program) in the form of grant during 2021 (2020: USD 4.25 million). Scholarship program undisbursed commitment as of 31/12/2021 is USD43.3M

21. ASSISTANCE

The following amounts were distributed as grants from the Fund during the years ended 31 December 2021 and 31 December 2020 as part of the activities of the Special Assistance accounts pursuant to its objectives:

	2021	2020
Technical assistance grants	**12,371**	19,317
Scholarship program	**7,555**	8,205
Assistance for Islamic causes	**457**	533
	20,383	28,055

The following amounts were incurred as program expenses from the Fund during the year ended 31 December 2021 and 31 December 2020 as part of the activities of the Special Assistance accounts pursuant to its objectives.

	2021	2020
Operational Administrative	**12,851**	12,588
Science, Technology and Innovation (STI) Department	**1,319**	1,886
Sacrificial meat project	**5,256**	4,100
Scholarship Program	**6,021**	2,132
	25,447	20,706

22. UNDISBURSED COMMITMENTS

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

	31 December 2021	31 December 2020
Scholarship program	**60,882**	66,252
Technical assistance grants	**43,374**	46,292
Special allocation funds (SAF)	**8,716**	8,898
Investments in Funds	**6,755**	15,296
(Qard) to LDMC	**-**	1,374
	119,727	138,112

23. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The net assets and liabilities of the Fund in respective currencies (in thousands of USD equivalents) at the end of 31 December are as follows:

	2021	2020
Islamic Dinar	**174,071**	191,891
Japanese Yen	**-**	34,388
Euro	**23,366**	25,169
Saudi Riyal	**10,990**	9,857
Pound Sterling	**1,518**	182
Other currencies	**-**	2,124

24. RELATED PARTY BALANCES AND TRANSACTIONS

The Fund is managed by the IsDB and its transactions are executed by IsDB. Moreover, in the ordinary course of its activities, the Fund has certain transactions with IsDB - OCR and other affiliates.

Principal arrangements related to investment in sukuk, commodity placements and their related income are between IsDB and counter parties. The bank accounts and investments of the Fund are held in the name of IsDB, for the beneficial interest of the Fund.

Due from related parties

	31 December 2021	31 December 2020
IsDB – OCR	**4,596**	-
World Waqf Foundation	**179**	1,505
The International Islamic Trade Finance Corporation	**1,271**	2,386
The Islamic Corporation for Development of Private Sector	**3,028**	1,627
Mobile Clinic Fund	**-**	2,200
Others	**86**	116
	9,160	7,834

Due to related parties:

	31 December 2021	31 December 2020
IsDB – OCR	**-**	33,781
The Saudi Project for Utilization of Hajj Meat – Adahi	**644**	460
IsDB – Medical Solidarity Fund	**-**	200
Awqaf Properties Investment Fund	**-**	52
IsDB – Pension Fund	**29**	-
Others	**6**	12
	679	34,505

25. RESERVES

	Pension Fund Reserves	**Equity Investments & Investments in Funds**	**Investments in Associates**	**Forex Reserves**	**Total**
1 January 2020	12,930	(14,682)	11,947	843	11,038
Movement during the year	6,983	20,702	3,516	(8,269)	22,932
Other adjustments	(750)	-	-	-	(750)
31 December 2020	**19,163**	**6,020**	**15,463**	**(7,426)**	**33,220**
Movement during the year	**21,600**	**5,975**	**(5,824)**	**5,346**	**27,097**
Other adjustments	**750**	**561**	**-**	**-**	**1,311**
31 December 2021	**41,513**	**12,556**	**9,639**	**(2,080)**	**61,628**

26. SHARI'AH BOARD

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

The Board has the following functions:

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

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

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

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

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

27. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	**57,455**	**-**	**-**	**-**	**-**	**57,455**
Commodity murabaha placements	**79,912**	**117,730**	**-**	**-**	**-**	**197,642**
Investments in sukuk	**-**	**-**	**88,408**	**-**	**-**	**88,408**
Murabaha financing	**1,209**	**-**	**-**	**-**	**-**	**1,209**
Project assets						
Installment sale	**-**	**-**		**3,430**	**-**	**3,430**
Syndicated Ijarah	**-**	**-**	**2,947**	**-**	**-**	**2,947**
Loans (Qard)	**-**	**13,369**	**65,004**	**82,136**	**-**	**160,509**
Investments assets						
Equity capital	**-**	**-**	**-**	**-**	**18,722**	**18,722**
Associates	**-**	**-**	**-**	**-**	**165,882**	**165,882**
Managed investment	**-**	**-**	**-**	**-**	**65,981**	**65,981**
Investment in funds	**-**	**-**	**-**	**-**	**60,170**	**60,170**
Other assets						
Other assets and fixed assets	**-**	**10,946**	**-**	**25,933**	**-**	**36,879**
Total assets	**138,576**	**142,045**	**156,359**	**111,499**	**310,755**	**859,234**
Liabilities						
Accruals and other liabilities	**24,166**	**21,118**	**-**	**-**	**41,513**	**86,797**
Total liabilities	**24,166**	**21,118**	**-**	**-**	**41,513**	**86,797**

27. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS (continued)

31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	105,951	-	-	-	-	105,951
Commodity murabaha placements	72,810	147,493	20,218	-	-	240,521
Murabaha financing	2,651	-	-	-	-	2,651
Investments in sukuk	2,121	-	86,026	2,999	-	91,146
Investments assets						
Equity capital	-	-	-	-	27,119	27,119
Associates	-	-	-	-	154,522	154,522
Investment in funds	-	-	-	-	68,644	68,644
Installment sale	-	-	5,276	-	-	5,276
Syndicated Ijarah	-	-	2,983	-	-	2,983
Loans (Qard)	-	4,651	45,123	128,557	-	178,331
Other assets						
Other assets and fixed assets	7,834	3,111	-	27,491	-	38,436
Total assets	191,367	155,255	159,626	159,047	250,285	915,580
Liabilities						
Accruals and other liabilities	34,505	5,965	27,378	28,469	-	96,317
Total liabilities	34,505	5,965	27,378	28,469	-	96,317

28. CONCENTRATION OF ASSETS

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

	IsDB's Member countries			Non-member	
	Asia	Africa	Europe	countries	Total
31 December 2021	**591,061**	**185,730**	**12,495**	**69,948**	**859,234**
31 December 2020	632,537	160,780	74,143	48,120	915,580

The geographical locations of assets for 2021 and 2020 reflect the countries in which the beneficiaries of the assets are located.

29. RISK MANAGEMENT

The Fund is monitored by the IsDB's Risk Management Department ("RMD"). The Bank has a Risk Management Department ("RMD") that is independent from all business departments as well as other entities and funds of the Bank. The RMD is responsible for dealing with all risk policies, guidelines and procedures with a view to achieving sound, safe and sustainable low risk profile through the identification, measurement and monitoring of all types of risks inherent in its activities. The Bank has also established a Risk Management Committee which is responsible for reviewing the risk management policies, procedures, guidelines and defining the Bank, its affiliates and its funds risk management framework and appetite, with a view to ensuring that there are appropriate controls on all major risks resulting from the Bank, its affiliates and its funds financial transactions.

29. RISK MANAGEMENT (continued)

a) Credit risk

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

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

The Fund's liquid fund investments portfolio is managed by the Bank's Treasury Department and comprise deals with reputable banks. Liquid fund investment in commodity placements, murabaha financing, sukuk whose ratings are acceptable to the Bank per its policies. The Fund's loan and syndicated Ijarah are covered, in most cases, by sovereign guarantees from Member Countries, or commercial bank guarantees from banks acceptable to the Bank per its policies. The Bank, its affiliates and its funds benefit from preferred creditor status on sovereign financing, which gives it priority over other creditors in the event of default thus constituting a strong protection against credit losses. Historically, the Fund has had a very low level of overdue balances. The management is of the opinion that, with the exception of what has already been provided for; additional significant credit loss is unlikely to occur.

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

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

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

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

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

Expected Credit Risk for financial assets measured at amortized cost

The Fund applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets measured at amortized cost.

Determining the stage for impairment

The Fund's staging model relies on a relative assessment of credit risk, because it reflects the significance increase in credit risk (SICR) since initial recognition of an asset. The staging assessment is made at the contract level rather than counterparty level, since the quantum of change in credit risk may be different for different contracts belonging to the same obligor. Also, different contracts of the same counterparty may have different credit risk at initial recognition.

29. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition and has not suffered a significant downgrade.

Stage 2 includes financial assets that experience an SICR. When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign exposures has increased significantly since initial recognition when contractual payments are more than 90 days past due for sovereign financings and more than 30 days past due for non-sovereign financings on a material repayment amount. When a stage 2 instrument shows a significant enhancement in credit quality at the assessment date, it can move back to stage 1.

Where there is objective evidence that an identified financial asset is impaired, specific provisions for impairment are recognized in the statement of activities, and under FAS 30, the asset is classified in Stage 3. The Fund presumes that assets are credit-impaired when contractual payments are more than 180 days past due for sovereign financings and more than 90 days past due for non-sovereign financings on a material repayment amount. Besides, the Fund may consider an asset as impaired if the Fund assesses that the obligor is unlikely to pay its credit obligations in full, without recourse by the Fund to actions such as realizing security.

A financial asset is no longer considered impaired when all past due amounts have been recovered, and it is determined that the outstanding amounts with future expected income are fully collectable in accordance with the original contractual terms or revised terms of the financial instrument with all criteria for the impaired classification having been remedied. The financial asset will be transferred back to stage 2 after a cure period.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Measurement of Expected Credit Losses (ECLs)

ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 instruments by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting the resulting provision using the instrument's effective profit rate (EPR).

These ECL parameters are generally derived from internally developed models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD represents the likelihood of a counterpart defaulting on its financial obligation over different time horizon (e.g., 1 year or lifetime). The estimates the PDs using internal rating tools tailored to the various categories of counterparties and exposures. These internal rating models are based on internally and externally compiled data comprising both quantitative and qualitative factors. They produce a relative credit risk grading, which is in turn are associated with a likelihood of default (PD) over a one-year horizon, that is calibrated to reflect the Fund's long run average default rate estimates (through-the-cycle (TTC) PD). The Fund uses a specific model based on country and industry parametrization to convert its TTC PDs into point-in time (PIT) PDs and derives a PIT PD term structure.

LGD is the magnitude of the potential loss in the event of a default. This is generally estimated as value lost plus costs net of recovery (if any) as percentage of outstanding amount. The Fund uses internal LGD estimation models that consider the structure, collateral, and seniority of the claim and the counterparty rating and jurisdiction. LGD estimates are calibrated to reflect the recovery experience of the Fund as well as the Multilateral Development Banks' consortium data.

29. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Measurement of Expected Credit Losses (ECLs) (continued)

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial instrument is its gross carrying amount. For contract under disbursement, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

FAS 30 requires ECLs to be forward-looking. The Fund uses a statistical model that links its counterparties' future performance to the current and future state of the macroeconomic environment. The model links macroeconomic scenarios to counterparty's default risk. Macroeconomic factors taken into consideration include, but are not limited to, gross domestic product, equity market prices, unemployment rates, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle. The Fund estimates its ECLs by calculating the weighted average ECL of its exposures across three (3) set of forward-looking macroeconomic scenarios.

Exposure Amounts and ECL coverage

The Fund recognizes 12-month ECL for stage 1 instruments and lifetime ECL for stage 2 instruments. For stage 3 instruments, the Fund calculates a loss allowance amount based on the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2021.

31 December 2021	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	151,897	16,040	33,026	200,963	1,255	1,498	8,178	10,931
Non-Sovereign	272,937	-	18,550	291,487	264	-	14,273	14,537
Total 31 December 2021	**424,834**	**16,040**	**51,576**	**492,450**	**1,519**	**1,498**	**22,451**	**25,468**

31 December 2021	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.83%	9.34%	24.76%	5.44%
Non-Sovereign	0.10%	-	76.94%	4.99%
Total 31 December 2021	**0.36%**	**9.34%**	**43.53%**	**5.17%**

b) Market risk

The Fund is exposed to following market risks:

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Fund does not hedge its currency exposure by means of hedging instruments. Exposure to exchange risk is limited. Most of the Fund's operations are affected in USD. The Fund does not trade in currencies. Therefore, it is not exposed to currency trading risk. The investment portfolio is held primarily in USD and EUR. The Fund has a conservative policy whereby the currency composition of the portfolio is monitored and adjusted regularly.

29. RISK MANAGEMENT (continued)

b) Market risk (continued)

Mark-up risk

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

c) Liquidity risk

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

d) Operational risk

The fund 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 risks, failure in fiduciary responsibilities and legal risk.

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

Shari'ah non-compliance risk (SNCR)

The fund attaches value in safeguarding its operations from Shari'ah non-compliance risk (SNCR) as part of its operational risk management. Shari'ah compliance forms an integral part of the fund's purpose of establishment. Consequently, the fund effectively manages SNCRs through leveraging on the IsDB Group wide robust framework of procedures and policies. The business or risk-taking unit, as the 1st line of defence, embeds a culture of Shari'ah compliance, while the Shari'ah Compliance function of IsDB Group serves as the 2nd line of defence to strategically manage and monitor SNCRs pre-execution of transactions/operations. The IsDB Group Internal Shari'ah Audit function provides independent reasonable assurance as the 3rd line of defence post-execution of transactions/operations adopting a risk-based internal Shari'ah audit methodology.

e) Fair values of financial assets and liabilities

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

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

29. RISK MANAGEMENT (continued)

e) Fair values of financial assets and liabilities

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2021 and 2020.

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through statement of activities:				
- Investments in sukuk (note 7)	**2,506**	**-**	**-**	**2,506**
- Managed investment	**-**	**65,981**	**-**	**65,981**
Investments carried at fair value through changes in net assets:				
- Investments in funds (note13)	**2,878**	**-**	**57,292**	**60,170**
- Equity investments (note 12)		**10,404**	**8,318**	**18,722**
	5,384	**76,385**	**65,610**	**147,379**

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through statement of activities):				
- Investments in sukuk (note 7)	2,999	-	-	2,999
Investments carried at fair value through statement of changes in net assets:				
- Investments in funds (note 13)	4,957	-	63,687	68,644
- Equity investment (note 12)	-	18,801	8,318	27,119
	7,956	18,801	72,005	98,762

There were no transfers between levels during the years ended 31 December 2021 and 31 December 2020.

30. SEGMENT INFORMATION

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

31. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new financial accounting standards of The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") have been issued. The Fund intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new financial accounting standards on its financial statements and systems.

(i) **Financial Accounting Standard – 36 "First Time Adoption of AAOIFI Financial Accounting Standards"**

This standard provides principles of financial reporting for Islamic financial institutions, to be applied in the financial statements prepared for the first time according to the AAOIFI FASs, and to prescribe the transitional effects arising at the time of adoption.

The standard became effective from the date of issuance. Management believes that FAS 36 shall not impact the financial statements as the Fund is not the first-time adopter.

31. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(ii) Financial Accounting Standard – 37 "Financial Reporting by Waqf Institutions"

This standard provides comprehensive accounting and financial reporting requirements for Waqf and similar institutions including general presentation and disclosures, specific presentation requirements (e.g. in case of Ghallah) and the key accounting treatments in respect of certain aspects specific to Waqf institutions.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2022, with early adoption permitted. Complete set of financial statement will include additional statements such as:

(a) Statement of Ghallah for the period (it is a presentation statement which reflects the true nature of a waqf institution. It presents the computation of Ghallah and attribution of benefits included in the statement of financial activities and statement of changes in waqf equity.)

(b)Statement of changes in Waqf equity for the period (it presents the movement in different components of waqf equity during the period like movement related to Ghallah and benefits distribution within the movement of unappropriated surplus/accumulated deficit.)

(c)Statement of service performance and Waqf equity sustainability in notes to the financial statements (it provides non-financial information to understand the operational performance of the waqf institution in correlation to its financial activities and state of affairs.)

The FAS will have significant impact on the financial statements of the Fund due to it being the Waqf Fund and the management is currently assessing the specific impacts and changes which will be required in its 2022 financial statements.

(iii) Financial Accounting Standard – 38 "Wa'ad, Khiyar and Tahawwut"

This standard intends to set out principles for measurement, recognition and disclosure of Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) transactions that are carried out by Islamic financial institutions.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2022. The Fund is currently assessing the impact of tahawwut on its financial statements. The Fund believes that wa'ad will not have any significant impact and khiyar is not applicable as the Fund does not use Khiyar in its contractual arrangements.

(iv) Financial Accounting Standard – 39 "Financial Reporting for Zakah"

This standard improves upon and supersedes the AAOIFI's FAS 9 "Zakah" issued in 1998. This standard aims at setting out the accounting treatment of Zakah in the books of an Islamic financial institutions.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2023. FAS 39 shall not impact the financial statements as the Fund is not zakah payer.

(v) Financial Accounting Standard – 40 "Financial reporting for Islamic Finance Windows"

This standard improves upon and supersedes the AAOIFI's FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions" issued in 2002. This standard requires conventional financial institutions offering Islamic financial services though an Islamic finance window to prepare and present the financial statements of the Islamic finance window in line with the requirement of this standard, read with other AAOIFI FASs. This standard provides principles of financial reporting including the presentation and disclosure requirements applicable on Islamic finance windows.

This standard shall be applicable on the financial statements of the Fund for the periods beginning on or after 1 January 2024. FAS 40 shall not impact the financial statements as the Fund is an Islamic finance institution.

31. AAOIFI STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(vi) **Financial Accounting Standard – 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements"**

The revised FAS 1 describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable on all the Islamic financial institutions and other institutions following AAOIFI FASs. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard shall be effective on the financial statements of the institutions beginning on or after 1 January 2023 with early adoption permitted. The fund is currently evaluating the impact of this standard.

32. LIBOR TRANSITION

Benchmark transition

In July 2017, the Financial Conduct Authority (FCA), the regulator of LIBOR, announced that it will no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021 and, therefore, market participants, including IsDB and its affiliates need to set their pricing on the basis of the alternative reference rates because the availability of LIBOR after this date is not a certainty. The regulators' guidance remains that LIBOR should not be used for new contracts after 2021. In consideration of the regulatory guidance and in preparations for the global markets' transition away from LIBOR, IsDB since 2018 has initiated the LIBOR transition program to facilitate a smooth and orderly transition of its financing and funding instruments effected by alternative reference rates.

The Fund's exposure to LIBOR transition is limited in one (1) currency i.e., USD whereas for EUR, the exposure is against EURIBOR which is not subject to cessation.

In the year 2021, various key milestones were overcome involving i) formulation of detailed implementation roadmap and action plan with the help of an external consultant, ii) formulation and incorporation of enhanced 'fallback' clause for all prospective contracts, iii) obtaining clearance from Shariah Technical Committee on use of CME Term SOFR (Chicago Mercantile Exchange 'CME' is an American global markets company. It is the world's largest financial derivatives exchange. CME Group estimates the Term SOFR Reference Rates benchmark as a daily set of forward-looking profit rates for 1-month, 3-month, 6-month and 12-month tenors) as preferred replacement rate to USD LIBOR, iv) revision in the Sovereign Pricing policy based on new benchmark rates, v) resource mobilization based on SOFR curve and maintaining the cost pass through mechanism to minimize the ALM (Asset and Liability Management) risks, and vi) initiation of system upgradation project to enable the use of new pricing policy and reference rates.

The Fund has historically used USD LIBOR, US Mid-Swap and EURIBOR benchmark rates as reference rates for pricing financial exposures (both assets and liabilities). The EURIBOR is not expected to be discontinued and hence the Fund can continue using it in future, since EURIBOR has already transitioned to the new principles of transaction-based methodology from earlier quotation-based methodology. As of now, the Fund's management has taken a decision to replace the USD LIBOR and USD Mid-Swap rates with the CME Term SOFR and USD OIS Mid-Swap rates in respective tenors.

The Fund's decision to select the CME Term SOFR as a replacement rate to USD LIBOR is based on its functional similarities to the sun-settled LIBOR rate. In fact, given it is also a forward-looking term rate and hence its selection as replacement rate is expected to result in minimal implication. Additionally, the revised Sovereign Pricing policy has been formulated in such a way that the transition from LIBOR is not expected to create any impact in terms of changes in economic value at the individual contract level.

The Fund is actively working through this transition from multiple perspectives: project financing and treasury and liquidity, funding, shariah, risk and legal, accounting, operations, information technology, considering the portfolio of existing assets and funding that use LIBOR as a benchmark.

32. LIBOR TRANSITION (continued)

Benchmark transition (continued)

IsDB and its affiliates have started dialogue with its member countries and other partners to enable smoot transition to CME Term SOFR. IsDB is also engaging with external stakeholders to ensure an orderly transition responsive to regulatory and market developments.

Risks arising from the benchmark reform

The following are the key risk for the Fund that are arose from the benchmark transition.

1. Shariah risk: Given that the Fund must abide but the Shariah principles, the clearance on use of a new benchmark rate for pricing the financial exposures was one of the major milestones in Fund's transition program. However, this risk has been addressed by obtaining the clearance from IsDB's Shariah Technical Committee on use of CME Term SOFR as replacement benchmark.

2. Legal risk: There is a possibility of not reaching an agreement with the counterparts on revised pricing particularly on the legacy contracts. This could be a result of having ineffective fallback clauses in the signed legal agreements. This risk has been addressed by appointing external Law firm to develop the 'Fallback' clause which has been added to all new contracts. Another Law firm is in process of onboarding to address the conversion of Legacy contracts.

3. IT and system risks: It is expected that the booking of new contracts and conversion of legacy contracts from old benchmark to new will require certain enhancements in system functionalities and processes. This risk is addressed by performing the testing on existing systems, by identifying gaps and by upgrading the Bank's core banking systems to the latest versions that offer the needed functionality required for utilizing the new reference rates.

Progress towards adoption of alternative benchmark rates

All newly transacted contracts that referenced a benchmark rate for pricing are already executed with the improved fallback clause. All the sovereign financing contracts will adopt the new pricing policy which is based on alternative benchmark rates.

The Fund's main risk policies such as ALM Framework, Exposure Management Framework and Liquidity Policy will remain effective without requiring any change due to benchmark reform.

Profit rate benchmark transition for non-derivative financial contracts

For EUR denominated contracts, the Fund has historically used EURIBOR as benchmark rate. Therefore, no impact is expected for the Fund because the EURIBOR is not expected to be discontinued since it has already been transformed back in 2019 by the regulator.

For the legacy contracts in Treasury portfolio, the strategy is to wait for the Issuer to propose the alternate pricing to all the issue participants. This is because Fund is only a participant investor amongst many other investors and hence cannot determine and negotiate an alternate rate on its own. In the absence of any such alternate rate from issuer, it is not possible nor logical to run the impact analysis. Therefore, for legacy treasury assets, strategy is to wait till Q3-Q4 2022 for issuer to propose an alternate rate and if not, Treasury will formulate an exit strategy for all such trades.

Same is the case of legacy contracts for non-sovereign financing. Fund is part of large PPP syndicates and hence Fund is unable to negotiate an alternate rate with the counterparty. The Syndicate leads are expected to propose alternate rates based on which, Fund will run the assessment and decide accordingly.

For legacy contracts on Capital Markets, the only exposure linked to LIBOR is a bilateral exposure with another group entity. Therefore, the strategy is to continue with it till the time we have clarity on all the viable alternate pricing options on the Treasury assets so that the same could be discussed and negotiated with the group entity to agree on one of them

32. LIBOR TRANSITION (continued)

Profit rate benchmark transition for non-derivative financial contracts (continued)

For legacy contracts for sovereign financing, the Fund has decided to follow a gradual approach by allowing early adoption option to its member countries on selective basis. During this period, member countries will be offered the conversion option to the new Sovereign Pricing policy. The relevant regional hubs will accordingly present the new pricing policy and markup rate structure to the member countries.

33. AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue in accordance with the resolution of the Board of Executive Directors dated 17 April 2022 (corresponding to 16 Ramadan 1443H).

NOTES

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