ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Financial Statements and Independent Auditor's Report

For the year ended 31 December 2023

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INDEPENDENT AUDITOR'S REPORT

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 2023, 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 2023, 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 ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Bank has also complied with the Islamic Shari'ah Rules and Principles as determined by the 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 ("ASIFIs") 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 2023. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Expected credit loss allowance against project assets

As at 31 December 2023, the Bank's project assets amounted to ID 17.34 billion (2022: ID 17.02 billion) representing 59.25% of total assets. The Expected Credit Loss ("ECL") allowance was ID 553 million (2022: ID 446 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.

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, if required.

</td><td>

1. We 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 and the ECL methodology.
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 assets 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.
- the forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and related weightings applied.
- the calculation methodology and its alignment with the requirement of FAS 30.

</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
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, the Bank measures the ECL as the product of LGD and EAD of each instrument. 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. 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 30 for credit risk disclosure and the key assumptions and factors considered in determination of ECL.	• 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 and the IT applications, wherever 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 prior 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 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information included in the Bank's 2023 Annual Report
Other information consists of the information included in the Bank's 2023 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

The management is responsible for the preparation and fair presentation of the financial statements in accordance with FASissued 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 ASIFIs ,issued by AAOIFI, and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As part of an audit in accordance with ASIFIs ,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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our 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.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and 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

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

8 Ramadan, 1445
March 18, 2024

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2023

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

	Notes	31 December 2023	31 December 2022
Cash and cash equivalents	4	1,159,129	1,603,817
Commodity murabaha placements	5	5,476,570	3,980,955
Sukuk investments	6	3,316,708	2,638,856
Murabaha financing	7	361,091	318,938
Treasury assets		**10,313,498**	**8,542,566**
Istisna'a assets	9	8,613,135	8,738,938
Restricted mudaraba	10	477,037	580,101
Instalment sale	11	3,785,564	3,058,916
Ijarah assets	12	2,755,290	2,881,205
Loans (Qard)	13	1,713,051	1,757,086
Project assets		**17,344,077**	**17,016,246**
Equity investments	15	566,945	479,356
Investment in associates	16	834,366	795,322
Other investments		92,963	84,437
Investment assets		**1,494,274**	**1,359,115**
Property, equipment and intangibles		63,401	60,416
Other assets	17	56,864	79,258
Total Assets		**29,272,114**	**27,057,601**
Liabilities			
Sukuk issued	18	17,119,289	16,362,665
Commodity murabaha liabilities	19	1,054,753	392,105
Other liabilities	20	251,241	230,301
Total Liabilities		**18,425,283**	**16,985,071**
Members' Equity			
Paid-up capital	22	6,800,473	6,411,996
Reserves	23	3,729,625	3,487,426
Net income for the year		316,733	173,108
Total Members' Equity		**10,846,831**	**10,072,530**
Total Liabilities and Members' Equity		**29,272,114**	**27,057,601**
Restricted Investment Accounts	28	83,153	82,576
Contingencies and Commitments	25		

Notes 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Income Statement

For the year ended 31 December 2023

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

	Notes	For the year ended 31 Dec 2023	For the year ended 31 Dec 2022
Income from:			
Commodity murabaha placements		258,422	95,847
Sukuk investments	6	91,907	56,675
Murabaha financing		22,085	9,865
Treasury assets		**372,414**	**162,387**
Istisna'a assets		287,155	251,099
Restricted mudaraba		27,287	21,016
Instalment sale		121,819	87,931
Ijarah assets, net of depreciation of assets under Ijarah	12.4	122,609	90,324
Loans (Qard)		8,834	8,836
Project assets		**567,704**	**459,206**
Equity investments		32,656	26,624
Share of income from investment in associates	16	35,796	27,811
Other investments		3,607	2,358
Investment assets		**72,059**	**56,793**
Foreign exchange (losses) / gains		(7,431)	11,161
Swap hedging losses	17(a)	(538)	(2,165)
Other		3,300	6,539
Other (loss) / income		**(4,669)**	**15,535**
Total Income		**1,007,508**	**693,921**
Financing costs	18 & 19	(398,865)	(289,906)
Impairment charge	14	(114,623)	(66,676)
Net income before operating expenses		**494,020**	**337,339**
Administrative expenses	24	(172,317)	(159,236)
Depreciation / amortisation on property, equipment and intangibles		(4,970)	(4,995)
Total operating expenses		**(177,287)**	**(164,231)**
Net income for the year		**316,733**	**173,108**

Notes 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Changes in Members' Equity

For the year ended 31 December 2023

(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 2022		**6,177,086**	**3,074,580**	**382,341**	**(160,348)**	**(36,138)**	**3,260,435**	**106,933**	**9,544,454**
Increase in paid-up capital	22	234,910	-	-	-	-	**-**	-	**234,910**
Net changes in fair value of investments		-	-	(53,861)	-	-	**(53,861)**	-	**(53,861)**
Actuarial gains relating to retirement pension and medical plans	21	-	-	-	143,737	-	**143,737**	-	**143,737**
Hedge accounting reserve	17	-	-	-	-	13,326	**13,326**	-	**13,326**
Share in associates' reserve movement	16	-	-	-	-	30,409	**30,409**	-	**30,409**
Net income for the year		-	-	-	-	-	**-**	173,108	**173,108**
Transfer to general reserve	23	-	106,933	-	-	-	**106,933**	(106,933)	**-**
Allocation for grants	23	-	(13,553)	-	-	-	**(13,553)**	-	**(13,553)**
Balance at 31 December 2022		**6,411,996**	**3,167,960**	**328,480**	**(16,611)**	**7,597**	**3,487,426**	**173,108**	**10,072,530**
Increase in paid-up capital	22	388,477	-	-	-	-	**-**	-	**388,477**
Net changes in fair value of investments		-	-	95,877	-	-	**95,877**	-	**95,877**
Actuarial losses relating to retirement pension and medical plans	21	-	-	-	(471)	-	**(471)**	-	**(471)**
Hedge accounting reserve	17	-	-	-	-	(11,202)	**(11,202)**	-	**(11,202)**
Share in associates' reserve movements	16	-	-	-	-	5,705	**5,705**	-	**5,705**
Net income for the year		-	-	-	-	-	**-**	316,733	**316,733**
Transfer to general reserve	23	-	173,108	-	-	-	**173,108**	(173,108)	**-**
Allocation for grants	23	-	(20,818)	-	-	-	**(20,818)**	-	**(20,818)**
Balance at 31 December 2023		**6,800,473**	**3,320,250**	**424,357**	**(17,082)**	**2,100**	**3,729,625**	**316,733**	**10,846,831**

Notes 1 to 33 form an integral part of these financial statements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Cash Flows

For the year ended 31 December 2023

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

	Notes	For the year ended 31 Dec 2023	For the year ended 31 Dec 2022
Cash flows from operations			
Net income for the year		316,733	173,108
Adjustments for non-cash items:			
Depreciation / amortisation		4,970	4,995
Depreciation on ijarah assets	12	241,867	237,650
Gain from investment in associates		(35,796)	(27,811)
Allowance for credit losses against financial assets	14	114,623	66,676
Accrued income – sukuk investments	6	(3,983)	(2,994)
Unrealised fair value losses on sukuk	6	729	8,937
Gain on disposal of sukuk investments	6	(1,739)	-
Amortisation of other income		(566)	(566)
Foreign exchange losses /(gains)		7,431	(11,161)
Gain on disposal of investment in equity		(4,766)	(4,170)
Operating income before changes in operating assets and liabilities		**639,503**	**444,664**
Changes in operating assets and liabilities:			
Istisna'a assets		117,989	(182,170)
Restricted mudaraba		100,403	108,703
Instalment sale		(714,188)	(547,573)
Ijarah assets		(131,887)	(37,394)
Loans (Qard)		6,121	42,393
Other assets		21,863	10,221
Other liabilities		25,955	(292,550)
Commodity murabaha placements		(1,569,332)	1,662,646
Murabaha financing		(41,290)	(58,221)
Net cash (used in) / generated from operating activities		**(1,544,863)**	**1,150,719**
Cash flows from investing activities			
Acquisition of sukuk investments	6	(930,866)	(726,726)
Proceeds from redemption of sukuk investments	6	234,661	411,115
Acquisition of equity investments	15	-	(4,469)
Proceeds from disposal of equity and other investments	15	7,749	16,140
Acquisition of other investments		(11,565)	(6,908)
Acquisition/increase in share of associate	16	(1,721)	(2,117)
Dividends from associates	16	3,957	1,854
Proceeds from capital repayment/disposal of investment in associates	16	221	6,016
Additions to property, equipment and intangibles		(7,955)	(8,329)
Net cash used in investing activities		**(705,519)**	**(313,424)**
Increase in paid-up capital		388,477	234,910
Allocation for grants	23	(20,818)	(13,553)
Proceeds from issuance of sukuk		3,821,838	2,089,621
Redemption of sukuk		(3,026,185)	(1,895,874)
Commodity murabaha liabilities		641,336	114,165
Net cash from financing activities		**1,804,648**	**529,269**
Net change in cash and cash equivalents		(445,734)	1,366,564
Exchange difference on cash and cash equivalents		1,046	670
Cash and cash equivalents at the beginning of the year		1,603,817	236,583
Cash and cash equivalents at the end of the year	4	**1,159,129**	**1,603,817**

Notes 1 to 33 form an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

Islamic Development Bank (the "Bank" or "IsDB") is a Multilateral Development Bank established pursuant to Articles of Agreement signed and ratified by its Member Countries in 1394H (1974). The Bank's 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 (2022: 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 27.

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

The Bank's official address is 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 49th 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 comprise investments in debt-type, equity-type financial instruments and other investment instruments.

(i) Classification

Debt-type instruments

Categorization

Debt-type instruments are instruments, whereby the transaction structure results in creation of a monetary or non-monetary liability;.

Investments in debt-type instruments are categorized into following a) non-monetary debt-type instruments or b) monetary debt-type instruments.

a) Non-monetary debt-type instruments – these are debt-type instruments whereby the transaction structure results in creation of a non-financial liability or usufruct or services to be delivered in future; and are classified into the following categories: 1) at amortised cost, 2) at fair value through changes in members' equity or 3) fair value through income statement

A non-monetary debt-type instrument is classified and measured at amortised cost only if investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument and the investment have a reasonably determinable effective yield.

A non-monetary debt-type instrument classified and measured at fair value through changes in members' equity only if the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment and the investment have a reasonably determinable effective yield.

A non-monetary debt-type instrument classified and measured at fair value income statement include investments held for trading or designated at fair value through income statement at inception. At inception, a non-monetary debt-type instrument can only be designated at fair value through income statement if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise on measuring the assets or liabilities or quasi equity recognising the gains or losses on them on different bases.

b) Monetary debt-type instruments – these are debt-type instruments whereby the transaction structure results in creation of a financial liability / debt; and are classified and measured at cost, till the time the transaction at the back-end is executed: and at amortised cost thereafter.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-type instruments

Equity-type instruments are instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.

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

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

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'.

Investments designated at fair value through income statement are those 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 income statement to be classified as investments at fair value through changes in members' equity.

Other investment instruments

Other investment instruments are investment instruments which do not meet the definition of either debt-type or equity-type instruments.

Other investment instruments are classified into the following categories: 1) at amortised cost, 2) at fair value through changes in equity or 3) fair value through income statement.

Other investment instrument is classified and measured at amortised cost only if investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument and the investment have a reasonably determinable effective yield.

Other investment instrument classified and measured at fair value through changes equity only if the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment and the investment have a reasonably determinable effective yield.

Other investment instrument classified and measured at fair value through income statement include investments held for trading or designated at fair value through income statement at inception. At inception, a non-monetary debt-type instrument can only be designated at fair value through income statement if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise on measuring the assets or liabilities or quasi equity derecognise the gains or losses on them on different bases.

(ii) Recognition and derecognition

Investment securities are derecognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under Financial Accounting Standards ("FAS") issued by AAOIFI, or for gains and losses arising from a group of similar transactions.

Treasury assets

Treasury assets include cash and cash equivalents, commodity 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 amortised 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 amortised 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 or special investment activity, classified as monetary debt-type or non-monetary debt-type instrument measured either 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 30 "Liquidity risk" section).

Sukuk that are initially designated at fair value through income statement, if it eliminates or significantly reduces a measurement or recognition inconsistency. Such securities are grouped under either TOP or COP. On initial recognition, these investments are measured at fair value based on quoted market prices. At the end of each reporting year, such investments are re-measured at fair value with the resulting gain or loss recognized in the income statement and classified within income from sukuk investments.

Sukuk that are acquired with positive intent and ability to hold them to contractual maturity are grouped under SP and are measured at amortised cost less allowance for credit losses.

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 amortised 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-profit 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 measured at fair value through equity

Unlisted investments in equities 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.

Investment in funds at fair value through members' equity

Investments in funds are intended to be held for a long-term period. These investments are Initially and subsequently measured at fair value, and any unrealised gains or losses arising from the change in their fair value are reported in fair value reserve in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in the income statement.

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.

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 unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interests in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses in associates are 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 or wa'ad

The Bank uses Murabaha based profit-rate and cross currency profit-rate swaps or wa'ad for asset/liability management purposes to modify mark-up rate or currency characteristics of sukuk issued. Swaps or wa'ad is a unilateral undertaking which is binding in Shariah to exchange one set of cash flows for another. For profit-rate swaps or wa'ad, counterparties generally exchange fixed and floating rate profit payments in a single currency and offsets principal exchange. For cross-currency profit-rate swaps or wa'ad, fixed and floating profit payments are exchanged in different currencies and principals exchanges in the same currency are offset with each other.

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 (Tahawwut) 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 or wa'ad that use only observable market data and require little management judgment and estimation.

Hedge (Tahawwut) accounting

The Bank designates profit-rate and cross-currency profit-rate swaps or wa'ad, in respect of foreign currency risk and profit rate risk, as cash flow hedges.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flow hedges

The effective portion of changes in the fair value of swaps or wa'ad 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 or wa'ad entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments or wa'ad 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 (Tahawwut), 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 amortised cost

The Bank applies the credit loss approach to financing instruments measured at amortised cost, loan commitments, and treasury investments held at amortised 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 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 rating transitions and/or days past due, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 product of LGD and EAD of each instrument.

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 amortised cost basis over the period of agreements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property, equipment and intangibles

Property, equipment and intangibles are measured at cost less accumulated depreciation, accumulated amortisation 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/amortised using the straight-line method over the estimated useful lives.

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

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

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

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

Post-employment benefit plans

The Bank operates three defined post-employment benefit plans for its employees, the Staff Retirement Pension Plan ("SRPP"), the Staff Retirement Medical Plan ("SRMP") and the Retirement Medical Solidarity Plan ("RMSP"). All of these plans require contributions to be made to separately administered funds. A defined benefit plan is a plan that defines an amount of 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.

A full actuarial valuation is performed every three years by engaging independent actuaries. For intermediate years, the defined benefit obligation is estimated by the independent actuaries using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions, mainly the change in discount rate based on the market condition as at valuation date.

SPP and SRMP actuarial valuation results presented as of December 31, 2023 are based on a roll forward of the data as of 2021. Valuation results for RMSP are based on a roll forward data as of 2022 when a full valuation was performed.

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 US AA rated corporate bonds. The bonds have terms to maturity closely matching the terms of the actual defined benefit obligation.

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. The cost on defined benefit obligation represents increase in liability due to passage of time.

Retrospective modifications to benefits or curtailment gain or loss are accounted for as past service costs or income in the statement of income in the period of plan amendment.

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 pension committee, with advice from the Bank's actuaries, determines the Bank's contributions to the defined benefit scheme and the contributions are transferred to the scheme's independent custodians.

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

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 amortised 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 amortisation of the issuance costs and swap financing cost element. Sukuk issued is recognized at amortised cost, except for those sukuk used as hedged items. Amortised 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 75.7% (2022: 75.4%) 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 amortised cost or at fair value through income statement.

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

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

Post-employee benefits plans

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

Valuation of sukuk and associated swaps

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

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 financial accounting standards ("FAS") of The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements if found to be applicable.

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 has evaluated the impact of this standard and concluded that it is not applicable as the Bank is not a zakah payer

Financial Accounting Standard - 41 "Interim Financial Reporting"

This standard prescribes the principles for the preparation of interim financial reports and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to the Islamic financial institutions in line with AAOIFI FAS.

The standard considers and aligns with the relevant requirements with FAS 1 "General Presentation and Disclosures in the Financial Statements" and other recently issued / revised FASs. This standard also provides an option for an institution to prepare and publish a complete set of financial statements at interim reporting dates in line with the respective FASs. This standard shall be effective for financial periods beginning on or after 1 January 2023.

The Bank has evaluated the requirements of the standard and concluded that it is not applicable on the Bank. The Bank, being a supranatural institution, is not required under law or regulation to prepare interim financial reports neither it prepares interim financial reports on a voluntary basis.

Financial Accounting Standard - 44 "Determining Control of Assets and Business"

This standard prescribes the criteria of obtaining control of assets, i.e., having risks and rewards incidental to ownership of assets, including those related to underlying assets of instruments such as Sukuk and participatory arrangements such as Mudaraba, Musharaka and Wakala. Furthermore, the standard addresses circumstances when control is lost.

This standard also sets out the principles for assessing the need to consolidate financial statements in case an institution controls a business, taking the form of an independent legal entity. This standard shall be effective for the financial periods ended 31 December 2023. The Bank has evaluated the provisions of this standard and concluded that the Bank is already in compliance with the requirements of the Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective

The following new FASs have been issued. The Bank intends to adopt these financial reporting standards when they become effective and is currently assessing the impact of these new FASs on its financial statements and systems.

(i) 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, subject to simultaneous compliance of Financial Accounting Standard – 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements". This standard is not applicable to the Bank as it is not a conventional financial institution.

(ii) 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 2024 with early adoption permitted. The Bank is currently evaluating the impact of this standard on its financial statements.

(iii) Financial Accounting Standard - 42 "Presentation and Disclosures in the Financial Statements of Takaful Institutions"

This standard sets out the principles for the presentation and disclosure for the financial statements of Takaful institutions. It aims to ensure that the Takaful institutions faithfully present the information related to these arrangements to the relevant stakeholders as per the contractual relationship between the parties and the business model of the Takaful business in line with the Shari'ah principles and rules.

This standard improves the presentation and disclosure requirements, in line with the global best practices, and supersedes the existing FAS 12 "General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies".

This standard shall be effective on the annual financial statements of the Takaful institutions beginning on or after 01 January 2025. FAS 42 shall not impact the financial statements as the Bank is not a Takaful institution

(iv) Financial Accounting Standard - 43 "Accounting for Takaful: Recognition and Measurement"

This standard sets out the principles for the recognition, measurement and reporting of Takaful arrangements and ancillary transactions for the Takaful institutions. It aims to ensure that the Takaful institutions faithfully present the information related to these arrangements to the relevant stakeholders as per the contractual relationship between the parties and the business model of the Takaful business in line with the Shari'ah principles and rules. The requirements of this standard are duly aligned with the international best practices of financial reporting for the insurance business.

This standard shall be effective on the financial statements of the Takaful institution for the annual financial reporting period beginning on or after 01 January 2025. FAS 43 shall not impact the financial statements as the Bank is not a Takaful institution.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Financial Accounting Standard - 45 "Quasi-Equity (including Investment Accounts)"

This standard prescribes the principles of financial reporting related to the participatory investment instruments (including investment accounts) in which an Islamic financial institution controls the underlying assets (mostly, as a working partner), on behalf of the stakeholders other than the owners' equity. Such instruments (including, in particular, the unrestricted investment accounts) normally qualify for on-balance sheet accounting and are reported as quasi-equity.

This standard provides the overall criteria for on-balance-sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure of quasi-equity. It further addresses financial reporting related to other quasi-equity instruments and certain specific issues.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. The Bank is currently evaluating the impact of this standard on its financial statements.

(vi) Financial Accounting Standard - 46 "Off-Balance-Sheet Assets Under Management"

This standard prescribes the criteria for characterization of off-balance sheet assets under management and the related principles of financial reporting in line with the "AAOIFI conceptual framework for financial reporting".

This standard encompasses the aspects of recognition, derecognition, measurement, selection and adoption of accounting policies etc relating to off balance sheet assets under management, as well as, certain specific aspects of financial reporting, e.g. impairment and onerous commitments by the institution. The standard also includes the presentation and disclosure requirements, particularly aligning the same with the requirements of FAS 1 "General Presentation and Disclosures in the Financial Statements" in respect of the Statement of changes in the off balance sheet assets under management.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi-Equity (including Investment Accounts)". The Bank is currently evaluating the impact of this standard on its financial statements.

(vii) Financial Accounting Standard - 47 "Transfer of Assets Between Investment Pools"

This standard prescribes the financial reporting principles and disclosure requirements applicable to all transfer of assets between investment pools related to (and where material, between significant categories of) owners' equity, quasi-equity and off-balance sheet assets under management of an institution. It requires adoption and consistent application of accounting policies for such transfers in line with Sha'riah principles and rules and describes general disclosure requirements in this respect.

This standard shall be effective for the financial reporting period beginning on or after 01 January 2026 with early adoption permitted. The Standard is not applicable to the Bank as it does not have investment pools.

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2023	31 Dec 2022
Current and call accounts with banks	349,190	111,763
Commodity murabaha placements with maturities less than 3 months from origination date (note 5)	820,894	1,503,009
Less: Allowance for credit loss against cash and cash equivalents (note 14)	(10,955)	(10,955)
	1,159,129	**1,603,817**

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 2023	31 Dec 2022
Placements with Islamic banks	461,423	598,998
Placements with conventional banks	5,750,837	4,847,769
Accrued income	89,109	41,008
Commodity murabaha placements with maturities less than 3 months (note 4)	(820,894)	(1,503,009)
Less: Allowance for credit loss against commodity murabaha placements (note 14)	(3,905)	(3,811)
	5,476,570	**3,980,955**

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	2,638,856	2,219,216
Movements during the year:		
Additions	930,866	726,726
Redemptions	(232,922)	(411,115)
Accrued income	3,983	2,994
Unrealised fair value losses	(729)	(8,937)
Unrealised exchange revaluation (losses)/gains	(23,601)	110,287
Less: Reversal/(allowance) for credit loss against sukuk investments (note 14)	255	(315)
Closing Balance	**3,316,708**	**2,638,856**

	Counterparty rating				
31 Dec 2023	**AA+ to AA-**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at fair value through income statement:					
- Governments	-	34,705	-	-	34,705
- Other entities	-	-	-	-	-
	-	**34,705**	**-**	**-**	**34,705**
Sukuk classified at amortised cost:					
- Financial institutions	192,984	933,655	-	-	1,126,639
- Governments	109,489	784,262	853,685	95,033	1,842,469
- Other entities	-	312,895	-	-	312,895
	302,473	**2,030,812**	**853,685**	**95,033**	**3,282,003**
Total	**302,473**	**2,065,517**	**853,685**	**95,033**	**3,316,708**

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

6. SUKUK INVESTMENTS (CONTINUED)

31 Dec 2022	Counterparty rating				
	AA+ to AA-	A+ to A-	BBB or Lower	Unrated	Total
Sukuk classified at fair value through income statement:					
- Governments	47,254	-	-	-	47,254
- Other entities	-	89,284	-	-	89,284
	47,254	**89,284**	**-**	**-**	**136,538**
Sukuk classified at amortised cost:					
- Financial institutions	153,352	658,931	-	-	812,283
- Governments	162,723	380,772	830,735	90,811	1,465,041
- Other entities	-	224,994	-	-	224,994
	316,075	**1,264,697**	**830,735**	**90,811**	**2,502,318**
Total	**363,329**	**1,353,981**	**830,735**	**90,811**	**2,638,856**

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Coupon income	90,897	65,612
Realised capital gain	1,739	-
Unrealised fair value gains/(losses)	(729)	(8,937)
	91,907	**56,675**

7. MURABAHA FINANCING

	31 Dec 2023			31 Dec 2022		
	Sovereign	Non - Sovereign	Total	Sovereign	Non - Sovereign	Total
Gross amount receivable	215,400	157,290	372,690	300,971	29,068	330,039
Less: Deferred profit	(5,420)	(4,249)	(9,669)	(8,506)	(789)	(9,295)
Less: Allowance for credit losses (note 14)	(1,117)	(813)	(1,930)	(1,647)	(159)	(1,806)
	208,863	**152,228**	**361,091**	**290,818**	**28,120**	**318,938**

8. PROJECT ASSETS

	31 Dec 2023			31 Dec 2022		
	Sovereign	Non - Sovereign	Total	Sovereign	Non - Sovereign	Total
Istisna'a assets (note 9)	8,698,443	133,333	8,831,776	8,751,603	151,536	8,903,139
Restricted mudaraba (note 10)	478,359	-	478,359	582,981	-	582,981
Instalment sale (note 11)	3,784,397	74,912	3,859,309	3,062,830	67,528	3,130,358
Ijarah asset (note 12)	2,526,575	385,393	2,911,968	2,542,407	481,081	3,023,488
Loans (Qard) (note 13)	1,816,309	-	1,816,309	1,822,424	-	1,822,424
	17,304,083	**593,638**	**17,897,721**	**16,762,245**	**700,145**	**17,462,390**
Less: Allowance for credit losses	(547,164)	(6,480)	(553,644)	(433,688)	(12,456)	(446,144)
	16,756,919	**587,158**	**17,344,077**	**16,328,557**	**687,689**	**17,016,246**

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

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

9. ISTISNA'A ASSETS

	31 Dec 2023	31 Dec 2022
Istisna'a assets in progress	3,086,118	4,245,582
Istisna'a receivable	6,650,793	5,171,191
Accrued income	232,669	326,985
Less: Deferred profit	(1,123,633)	(824,381)
Less; Share of syndication participants	(14,171)	(16,238)
Less: Allowance for credit losses (note 14)	(218,641)	(164,201)
	8,613,135	**8,738,938**

10. RESTRICTED MUDARABA

	31 Dec 2023	31 Dec 2022
Restricted mudaraba assets in progress	37,267	75,141
Restricted mudaraba receivable	472,929	541,108
Accrued income	14,344	18,640
Less: Deferred profit	(46,181)	(51,908)
Less: Allowance for credit losses (note 14)	(1,322)	(2,880)
	477,037	**580,101**

11. INSTALMENT SALE

	31 Dec 2023	31 Dec 2022
Gross amounts receivable	3,985,347	3,282,876
Accrued income	81,250	60,112
Less: Deferred profit	(207,288)	(212,630)
Less: Allowance for credit losses (note 14)	(73,745)	(71,442)
	3,785,564	**3,058,916**

12. IJARAH ASSETS

IJARAH MUNTAHIA BITTAMLEEK

	31 Dec 2023	31 Dec 2022
Assets under construction (note 12.1)	1,219,126	1,140,454
Assets in use (note 12.2)	4,663,465	4,627,370
Less: Accumulated depreciation of assets in use (note 12.3)	(3,010,497)	(2,768,630)
Balance, net of accumulated depreciation	**2,872,094**	**2,999,194**
Accrued income	76,930	69,057
Less: Share of syndication participants	(37,056)	(44,763)
Balance, net of share of syndication participants	**2,911,968**	**3,023,488**
Less: Allowance for credit losses (note 14)	(156,678)	(142,283)
	2,755,290	**2,881,205**

12.1 Assets under construction

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	1,140,454	1,178,234
Additions	114,767	108,501
Transferred to assets in use	(36,095)	(146,281)
Closing balance	**1,219,126**	**1,140,454**

12.2 Assets in use

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	4,627,370	4,481,089
Transferred from assets under construction	36,095	146,281
Closing balance	**4,663,465**	**4,627,370**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	(2,768,630)	(2,530,980)
Charge for the year	(241,867)	(237,650)
Closing balance	**(3,010,497)**	**(2,768,630)**

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

12. IJARAH ASSETS (CONTINUED)

IJARAH MUNTAHIA BITTAMLEEK (CONTINUED)

12.4 Income from Ijarah Assets

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Gross Income	368,117	331,553
Less: Depreciation of assets under Ijarah	(241,867)	(237,650)
Income before share of Syndication participants	**126,250**	**93,903**
Less: Share of syndication participants	(3,641)	(3,579)
Net rental income	**122,609**	**90,324**

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 2023	175,651	280,545	-	456,196
31 December 2022	226,237	157,819	-	384,056

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 2023	120,406	153,208	375,882	649,496
31 December 2022	122,407	253,196	323,373	698,976

Since most of the projects are under floating rates, future dues of markup are arrived at by applying underlying reference rates at end of each year.

13. LOANS (QARD)

	31 Dec 2023	31 Dec 2022
Loans (Qard)	1,816,309	1,822,424
Less: Allowance for credit losses (note 14)	(103,258)	(65,338)
	1,713,051	**1,757,086**

(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 2023			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	4	-	-	10,955	10,955
Commodity murabaha placements	5	221	-	3,684	3,905
Sukuk investments	6	138	98	-	236
Murabaha financings	7	1,929	1	-	1,930
Istisna'a assets	9	49,696	75,423	93,522	218,641
Restricted mudarabah	10	861	461	-	1,322
Instalment sale	11	25,106	27,340	21,299	73,745
Ijarah assets	12	26,378	2,472	127,828	156,678
Loans (Qard)	13	27,331	9,568	66,359	103,258
Other investments		1,567	1,608	10,671	13,846
		133,227	**116,971**	**334,318**	**584,516**
Equity investments	15				50,023
Investment in associates	16				20,177
					654,716

		31 Dec 2022			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	4	-	-	10,955	10,955
Commodity murabaha placements	5	127	-	3,684	3,811
Sukuk investments	6	211	280	-	491
Murabaha financings	7	1,803	3	-	1,806
Istisna'a assets	9	43,559	56,513	64,129	164,201
Restricted mudarabah	10	2,309	571	-	2,880
Instalment sale	11	21,923	6,139	43,380	71,442
Ijarah assets	12	21,225	6,363	114,695	142,283
Loans (Qard)	13	20,228	3,972	41,138	65,338
Other investments		755	1,678	6,587	9,020
		112,140	**75,519**	**284,568**	**472,227**
Equity investments	15				51,958
Investment in associates	16				20,177
					544,362

(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 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Provisions as at 1 Jan 2023	112,140	75,519	284,568	472,227
New assets originated or purchased	8,968	-	-	8,968
Assets derecognized or repaid (excluding write offs)	(1,525)	(259)	-	(1,784)
Transfer from stage 1 to Stage 2	(9,122)	9,122	-	-
Transfer from stage 2 to Stage 1	6,425	(6,425)	-	-
Transfer from stage 3 to Stage 2	-	6,469	(6,469)	-
Transfer from stage 1 to Stage 3	-	-	-	-
New and increased provision (net of releases)	16,341	32,545	56,219	105,105
ECL allowance as at 31 Dec 2023	**133,227**	**116,971**	**334,318**	**584,516**
Equity investments				50,023
Investment in associates				20,177
				654,716

	31 Dec 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Provisions as at 1 Jan 2022	86,953	41,516	280,095	408,564
New assets originated or purchased	6,668	-	-	6,668
Assets derecognized or repaid (excluding write offs)	(2,674)	(16)	-	(2,690)
Write offs	-	-	-	-
Transfer from stage 1 to Stage 2	(2,102)	2,102	-	-
Transfer from stage 2 to Stage 3	-	(446)	446	-
Transfer from stage 3 to Stage 2	-	5,040	(5,040)	-
Transfer from stage 1 to Stage 3	(2,146)	-	2,146	-
New and increased provision (net of releases)	25,441	27,323	6,921	59,685
ECL allowance as at 31 Dec 2022	**112,140**	**75,519**	**284,568**	**472,227**
Equity investments				51,958
Investment in associates				20,177
				544,362

The movement in provision for impairment is as follows:

	Year Ended 2023	**Year Ended 2022**
Opening Balance	544,362	491,672
Charge for the year	114,623	66,676
Write offs / reversals	(4,269)	(13,986)
Closing Balance	**654,716**	**544,362**

As at 31 December 2023 and 31 December 2022, the following is the ageing of the overdue balances:

	31 Dec 2023						
In months	**0-6**	**7-12**	**13-24**	**Over 24**	**Total**	**Sovereign**	**Non-sovereign**
Murabaha financing	3,403	-	-	-	**3,403**	**3,403**	**-**
Istisna'a assets	39,567	16,137	17,046	8,111	**80,861**	**80,319**	**542**
Instalment sale	763	492	5,349	42,077	**48,681**	**48,681**	**-**
Ijarah asset	6,879	5,074	9,799	57,921	**79,673**	**77,624**	**2,049**
Loans (Qard)	4,268	6,233	12,822	55,787	**79,110**	**79,110**	**-**
Total	**54,880**	**27,936**	**45,016**	**163,896**	**291,728**	**289,137**	**2,591**

	31 Dec 2022						
In months	**0-6**	**7-12**	**13-24**	**Over 24**	**Total**	**Sovereign**	**Non-sovereign**
Murabaha financing	-	-	-	-	**-**	**-**	**-**
Istisna'a assets	24,530	1,885	3,751	4,360	**34,526**	34,526	**-**
Instalment sale	2,590	2,121	4,242	33,362	**42,315**	42,315	**-**
Ijarah asset	4,821	4,825	6,232	51,234	**67,112**	67,112	**-**
Loans (Qard)	10,041	7,898	13,371	50,215	**81,525**	81,525	**-**
Total	**41,982**	**16,729**	**27,596**	**139,171**	**225,478**	**225,478**	**-**

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

15. EQUITY INVESTMENTS

	31 Dec 2023	31 Dec 2022
Equity investments:		
Listed	410,481	333,355
Unlisted	206,487	197,959
	616,968	531,314
Less: Provision for impairment (note 14)	(50,023)	(51,958)
	566,945	**479,356**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	51,958	62,932
Charge for the year	2,334	3,014
Transfer of net fair value losses to fair value reserve	-	(7,078)
Reversal of impairment on disposal	(4,269)	(6,910)
Closing Balance	**50,023**	**51,958**

The movement in equity investments is as follows:

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	479,356	542,798
Movements during the year:		
Additions	-	4,469
Disposals	(7,252)	(18,880)
Reversal of impairment on disposal	4,269	6,910
Impairment charge	(2,334)	(3,014)
Net unrealised fair value gains/(losses)	92,906	(52,927)
Closing Balance	**566,945**	**479,356**

During 2023 and 2022, 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 175 million at 31 December 2023 (2022: ID 162 million) have been revalued by the independent valuers, resulting in fair value gain of ID 15 million (2022: fair value gain of ID 72 million).

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

16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	815,499	763,032
Additions	1,721	2,117
Disposals/capital repayments	(221)	(6,008)
Foreign currency translation reserve movement	(1,397)	32,599
Share in associates' other reserves	7,102	(2,190)
Share of net results	36,030	27,424
Net (loss)/gain on disposal of associates	(234)	379
Dividend received	(3,957)	(1,854)
	854,543	815,499
Less: Provision for impairment (note 14)	(20,177)	(20,177)
Closing Balance	**834,366**	**795,322**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Opening balance	20,177	20,177
Charge for the year	-	-
Closing Balance	**20,177**	**20,177**

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2023	31 Dec 2022
Bosnia Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	31.55%	31.55%
Bank Muamalat Indonesia	Indonesia	Banking	1.48%	7.24%
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	41.55%	41.57%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	35.68%	35.69%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	27.78%	27.95%
IsDB Infrastructure Fund II	Bahrain	Investment Co.	26.67%	26.67%
Saudi SME Fund Al- Malaz Capital	Saudi Arabia	Investment Co.	25.00%	25.00%

(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:

	Year	IsDB's Share of investment	Total assets	Total liabilities	Revenue	Net Income	IsDB's Share of Net income /(loss)
Bosna Bank International	2023	35,531	651,835	573,673	21,925	9,094	4,134
	2022	30,524	643,510	576,361	28,857	4,897	2,226
Islamic Bank of Guinea	2023	4,305	163,673	150,017	8,638	968	305
	2022	3,652	115,655	104,080	5,849	811	256
Bank Muamalat Indonesia	2023	-	3,092,077	2,839,001	6,073	1,321	-
	2022	-	2,966,183	2,714,732	8,161	1,023	-
Syrikat Takaful	2023	1,688	89,565	79,258	4,420	370	98
	2022	1,591	89,894	79,493	3,983	258	68
Islamic Bank of Senegal	2023	29,415	942,895	854,459	48,022	16,884	5,616
	2022	24,819	739,253	659,901	21,080	8,273	2,752
ICD	2023	343,826	2,189,845	1,362,415	107,366	15,467	6,427
	2022	340,245	2,165,975	1,344,474	75,807	8,967	3,688
ITFC	2023	306,336	1,219,896	361,330	92,653	48,523	17,313
	2022	281,987	1,031,925	241,686	70,365	43,164	15,405
APIF	2023	27,509	102,120	3,098	4,037	2,379	661
	2022	27,373	105,866	8,222	7,237	1,476	413
IsDB Infrastructure Fund II	2023	85,720	321,682	231	2,181	3,899	1,822
	2022	84,616	310,294	747	3,367	9,371	2,499
Saudi SME Fund Al- Malaz Capital	2023	36	698	68	420	(1,382)	(346)
	2022	515	2,079	21	1,340	474	119

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

17. OTHER ASSETS

	31 Dec 2023	31 Dec 2022
Swaps designated in hedge accounting relationships (note 17a)	9,073	10,662
Related party balances (note 29)	7,995	15,187
Advance to trust fund (note 29b)	-	7,514
Staff loans and advances (Qard)	32,463	33,096
Others	7,333	12,799
	56,864	**79,258**

17(a) SWAPs

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

31 Dec 2023

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Closing credit in hedge reserve	Financing income	Loss on changes in fair values
Cash flow hedges	383,540	(3,306)	(13,405)	(538)

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Cash flow hedges	-	9,073

31 Dec 2022

		Hedging relationships		
		Equity	Income Statement	
Swaps	Notional amount	Closing credit in hedge reserve	Financing income	Loss on changes in fair values
Cash flow hedges	520,912	(14,508)	(2,975)	(2,165)

	Statement of Financial Position	
	Swaps designated in hedge relationships	
	Liability	Asset
Cash flow hedges	-	10,662

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

17. OTHER ASSETS (CONTINUED)

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 two outstanding swaps as of December 31, 2023 (2022: three outstanding swaps) 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 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
Cross currency profit rate swap	85,404	220,350	1,556	(8,125)
Profit rate swap	298,136	300,562	7,517	18,787
	383,540	**520,912**	**9,073**	**10,662**

Following are the maturities of the outstanding Swaps:

	Notional amount		Fair value	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
2023	-	138,739	-	(4,211)
2024	298,136	300,562	7,517	18,787
2029	85,404	81,611	1,556	(3,914)
	383,540	**520,912**	**9,073**	**10,662**

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"), IsDB Trust Services No.2 SARL ("ITS Lux") and Tadamun Services Berhad ("TSB") have issued the following global sukuk. As at 31December 2023 and 31 December 2022, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent		Maturity date	Rate per annum
			31 Dec 2023	31 Dec 2022		
Listed	02/29/2016	EUR	-	239,951	03/01/23	0.255% Fixed
	03/15/2018	USD	-	947,790	03/15/23	3.100% Fixed
	09/26/2018	USD	-	985,392	09/26/23	3.389% Fixed
	11/07/2018	EUR	-	519,071	11/07/23	0.554% Fixed
	04/25/2019	USD	1,123,391	1,132,546	04/25/24	2.843 % Fixed
	10/02/2019	USD	1,122,972	1,131,999	10/02/24	1.957% Fixed
	12/04/2019	EUR	821,029	797,706	12/04/24	0.037% Fixed
	01/16/2020	EUR	247,044	239,929	01/16/27	0.3150% Fixed
	02/26/2020	USD	1,499,448	1,511,492	02/26/25	1.8090% Fixed
	05/28/2020	GBP	85,445	81,552	05/28/29	0.9640% Fixed
	06/25/2020	USD	1,117,732	1,126,394	06/25/25	0.9080% Fixed
	03/31/2021	USD	1,868,484	1,883,427	03/21/26	1.2620% Fixed
	10/21/2021	USD	1,344,819	1,354,834	10/21/26	1.2620% Fixed
	04/28/2022	USD	1,311,158	1,317,069	04/28/27	3.2130% Fixed
	10/27/2022	USD	751,332	756,842	10/27/27	4.7470% Fixed
	03/01/2023	EUR	126,784	-	03/01/26	3.539% Fixed
	03/14/2023	USD	1,510,456	-	03/14/28	4.598% Fixed
	10/03/2023	USD	1,583,359	-	10/03/28	4.906% Fixed
	11/14/2023	USD	453,559	-	11/14/28	3.456% Fixed
			14,967,012	**14,025,994**		
Not Listed	06/29/2016	MYR	56,262	59,371	06/28/24	4.360 % Fixed
	02/24/2017	EUR	247,085	240,181	02/24/24	0.374 % Fixed
	02/27/2017	EUR	123,514	120,023	02/27/24	0.350 % Fixed
	07/19/2018	USD	-	76,331	07/19/23	6 Month LIBOR + 0.20%
	01/16/2019	EUR	41,202	40,041	01/16/24	0.385 % Fixed
	12/10/2019	USD	74,755	75,330	12/10/24	3 Month LIBOR + 0.43%
	12/10/2019	USD	74,755	75,326	12/10/24	3 Month LIBOR + 0.43%
	12/11/2019	USD	186,468	188,036	12/11/24	2% Fixed
	01/21/2020	USD	421,276	419,677	01/21/25	6 Month LIBOR + 0.37%
	02/10/2020	CNY	-	110,273	02/10/23	2.85 % Fixed
	06/26/2020	GBP	-	138,715	06/26/23	0.40 % Fixed
	07/16/2020	USD	74,804	75,383	07/16/25	0.88 % Fixed
	09/30/2020	EUR	369,546	358,906	09/30/26	0.10 % Fixed
	04/27/2021	USD	301,029	302,607	04/27/24	3 Month SOFR + 0.25%
	08/16/2021	USD	56,044	56,471	08/16/24	0.789% Fixed
	06/12/2023	EUR	125,537	-	06/12/26	3.508% Fixed
			2,152,277	**2,336,671**		
Total			**17,119,289**	**16,362,665**		

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 istisna'a contracts, restricted mudaraba assets and qard ("the Portfolio") sold at each Series (issuance) by IsDB to IsDB Trust Services Limited, IsDB Trust Services No.2 SARL 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 2023 amounted to ID 379.8 million (2022: ID 289.5 million).

Principal amount outstanding on sukuk designated as hedged items is ID 384 million (2022: ID 521 million) (note 17a).

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

18. SUKUK ISSUED (CONTINUED)

Subsequent to the year ended December 31, 2023, sukuk amounting to EUR 500 million (ID 410.7 million) matured and redeemed.

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 2023 of ID 1,054.8 million (2022: ID 392.1 million) represents the purchase price under these agreements. Financing cost incurred on commodity murabaha purchases during 2023 was ID 19.1 million (2022: ID 0.44 million).

20. OTHER LIABILITIES

	31 Dec 2023	31 Dec 2022
Related party balances (note 29)	4,407	3,948
Investment deposits	2,608	2,495
Accrued expenses	16,666	15,779
Deferred income – Ijarah	113,816	102,052
Accrued staff retirement and medical benefit scheme liability (note 21)	74,763	72,800
Staff related liabilities	16,082	16,356
Deferred grant income	1,134	1,700
Others	21,765	15,171
	251,241	**230,301**

21. POST EMPLOYMENT BENEFIT PLANS

IsDB Group staff retirement plan comprises of defined benefit and hybrid plans within Staff Pension Plan ("SPP") and Retirees Medical Solidarity Plan ("RMSP"), and defined benefit plan within 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 of joining the Bank.

IsDB Group has a multi-employer plan and includes the 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).

Staff Pension Plan (SPP)

SPP is a combination of both old defined benefit plan (Pillar I) and new hybrid pension plan (Pillar II) and became effective on 1st Rajab 1399H (corresponding to May 27, 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 it's affiliates, is eligible to participate in the SPP, from the date joining the Bank and its affiliates. Participation in the hybrid pension plan (Pillar II) is limited to those who have less than five years of service as of December 31, 2020 on optional basis, however, those who joined the Bank from January 1, 2021 are enrolled automatically.

In both pillars, the employee contributes at a rate of 11.1% (2022-11.1%) of the basic annual salary while the Bank it's ats affiliates contribute 25.9% (2022-25.9%).

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") for the old pension plan and Highest Average Remuneration ("HAR") (as defined by the pension committee) for each year of pensionable service and limited to a maximum of 30 hijri years
(iii) 10% of It's and its affiliates contribution of 25.9%, and 5% of employee's 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

21. POST EMPLOYMENT BENEFIT PLANS (CONTINUED)

Staff Retirement Medical Plan (SRMP)

Effective 1st Muharram 1421H (corresponding to 6 April 2000), the Bank established the medical benefit scheme for retired employees 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 employees 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 Plan (RMSP)

In February 2019, the BED approved, establishment of the Retirees Medical Solidarity Plan (RMSP) 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 as of January 1, 2019 will automatically fall under RMSP. Those staff members who do not meet the minimum service period threshold will be offered the option to join the new Fund.

Under RMSP, retirees will have their actual medical costs covered as per the minimum guaranteed benefit schedule. This mainly covers hospitalization and emergency care, repatriation and ambulance transport. Overseas specialist hospitalization and outpatient care is also covered but only in specified countries.

Members of RMSP started to receive benefits as from April 1, 2022 (the start date of the Plan).

RMSP contributions are funded on 4/4/4 % basis. Employees contribute 4% of their pensionable salaries and the employer matches it with 4%. Retirees also contribute 4% of their pension (before commutation withdrawals). Both employer and employee contributions started to accrue on January 1, 2019.

Retirees didn't contribute up until April 1, 2022 and they did not receive benefits under the SRMP up until that point.

Administration of SRPs

The Pension Committee appointed by the President of IsDB Group, administers SPP and SRMP whereas the Executive Committee (EC) administers RMSP as separate funds on behalf of its employees. These two committees are 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 of SPP and SRMP.

Risks

Investment risk

The present value of the SRPs' liability is calculated using a discount rate determined by reference to the US AA-Rated corporate bond market; 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' considers 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 otise stated)

21. POST EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

	SPP		RMSP		SRMP	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Benefit obligation – opening balance	306,096	386,924	6,035	-	12,324	34,295
Plan combinations – Transfer to RMSP	-	-	-	20,263	-	(20,263)
Current service costs	14,078	17,153	1,039	1,822	102	147
Past service costs	-	-	-	(11,353)	-	-
Expense on defined benefit obligation	15,181	11,453	349	578	603	439
Plan participations contributions	5,716	5,477	2,149	2,425	25	35
Disbursements from plan assets	(11,562)	(12,568)	(213)	12	(921)	(955)
Net actuarial loss / (gain)	2,892	(122,331)	(1,828)	(7,712)	315	(3,146)
Currency translation(gain) / loss	(2,471)	19,988	(49)	-	(99)	1,772
Benefit obligation – closing balance	**329,930**	**306,096**	**7,482**	**6,035**	**12,349**	**12,324**

The movements in the plan assets are as follows:

	SPP		RMSP		SRMP	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Fair value of plan assets – opening balance	227,741	202,282	17,365	-	6,549	11,039
Plan combinations – transfer to RMSP	-	-	-	5,246	-	(5,246)
Other adjustments	(2,537)	721	4,618	7,296	38	(9)
Profit on plan assets	11,542	6,091	1,151	-	312	171
Return on plan assets greater or (less) than discount rate	(1,172)	2,485	-	-	(39)	55
Plan participations contributions	5,716	5,477	2,149	2,425	25	35
Employer contribution	13,343	12,803	2,095	2,386	829	889
Disbursements from plan assets	(11,562)	(12,568)	(213)	12	(921)	(955)
Currency translation (loss) / gain	(1,838)	10,450	(140)	-	(53)	570
Fair value of plan assets – closing balance	**241,233**	**227,741**	**27,025**	**17,365**	**6,740**	**6,549**
Deficit/(Surplus)	**88,697**	**78,355**	**(19,543)**	**(11,330)**	**5,609**	**5,775**

	31 Dec 2023	31 Dec 2022
Net liability recognized in the statement of financial position representing deficit of benefit obligation over fair value of plan assets (note 20)	**74,763**	**72,800**

The above net liability mainly represents the cumulative actuarial losses/(gains) 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 2023 and 31 December 2022 for the Bank comprised the following:

	SPP		RMSP		SRMP	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Current service costs	14,078	17,153	1,039	1,822	102	147
Past service costs	-	-	-	(11,353)	-	-
Expense on defined benefit obligation	15,181	11,453	349	578	603	439
Income on assets	(11,542)	(6,091)	(1,151)	-	(312)	(171)
Currency translation loss/(gain)	633	9,538	(91)	-	46	1,202
Amount recognized in income statement	**18,350**	**32,053**	**146**	**(8,953)**	**439**	**1,617**
Actuarial losses/(gains) due to assumptions	2,892	(122,331)	(1,828)	(7,712)	315	(3,146)
Return on plan assets (less) or greater than discount rate	1,172	(2,485)	-	-	39	(55)
Other adjustments	2,537	(721)	(4,618)	(7,296)	(38)	9
Amount recognized in statement of changes in Members' Equity	**6,601**	**(125,537)**	**(6,446)**	**(15,008)**	**316**	**(3,192)**

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

21. POST EMPLOYMENT BENEFIT PLANS (CONTINUED)

Principal assumptions used in the actuarial valuations are as follows:

	SPP		RMSP		SRMP	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Discount rate	5.0%	5.1%	5.0%	5.1%	5.0%	5.1%
Rate of expected salary increase	4.5%-6.5%	4.5%-6.5%	4.5%-6.5%	4.5%-6.5%	4.5%-6.5%	4.5%-6.5%

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 2023 and 2022 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:

2023

	SPP		RMSP		SRMP	
	+0.5%	-0.5%	**+0.5%**	-0.5%	**+0.5%**	-0.5%
Discount rate	(21,445)	24,088	(1,185)	1,435	(575)	626
Rate of expected salary increase	8,843	(8,292)	-	-	15	(15)

2022

	SPP		RMSP		SRMP	
	+0.5%	-0.5%	**+0.5%**	-0.5%	**+0.5%**	-0.5%
Discount rate	(20,143)	22,630	(1,023)	1,247	(584)	636
Rate of expected salary increase	9,282	(8,673)	-	-	21	(21)

The following table presents the plan assets by major category:

	SPP		RMSP		SRMP	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Cash and cash equivalents and commodity placements	131,422	87,385	17,888	2,709	5,944	8,079
Syndicated murabaha	-	-	-	6,748	-	-
Managed funds and instalment sales	61,360	54,467	-	-	-	-
Investments in sukuk	45,317	64,274	6,356	3,397	703	679
Land	3,105	20,484	-	-	-	-
Others – net	29	1,131	2,781	4,511	93	(2,209)
Plan net assets	**241,233**	**227,741**	**27,025**	**17,365**	**6,740**	**6,549**

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:

	31Dec24	**31Dec23**	**31Dec22**	31Dec21	31Dec20
Present value of defined benefit obligation	(345,053)	(329,930)	(306,096)	(386,924)	(351,680)
Fair value of plan assets	251,181	241,233	227,741	202,282	202,113
Plan deficit	**(93,872)**	**(88,697)**	**(78,355)**	**(184,642)**	**(149,567)**

The expected employer contribution for year ended 31 December 2024 is ID 13,360 thousand and expected costs to be recognized in profit or loss is ID 18,535 thousand.

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

21. POST EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

	31Dec24	**31Dec23**	**31Dec22**	31Dec21	31Dec20
Present value of defined benefit obligation	(11,134)	(7,482)	(6,035)	-	-
Fair value of plan assets	32,550	27,025	17,365	-	-
Plan surplus	**21,416**	**19,543**	**11,330**	**-**	**-**

The expected employer contribution for year ended 31 December 2024 is ID 1,992 thousand and expected costs to be recognized in profit or loss is ID 118 thousand.

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:

	31Dec24	**31Dec23**	**31Dec22**	31Dec21	31Dec20
Present value of defined benefit obligation	(12,205)	(12,349)	(12,324)	(34,295)	(30,782)
Fair value of plan assets	6,283	6,740	6,549	11,039	9,916
Plan deficit	**(5,922)**	**(5,609)**	**(5,775)**	**(23,256)**	**(20,866)**

The expected employer contribution for year ended 31 December 2024 is ID 58 thousand and expected costs to be recognized in profit or loss is ID 372 thousand.

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

	SPP	**RMSP**	**SRMP**	**31Dec23 Total**	31DeC22 Total
Opening balance	19,983	(15,010)	11,638	16,611	160,348
Actuarial (gain)/loss due:					
Effect of changes in financial assumptions	4,488	26	118	4,632	(139,265)
Effect of experience adjustments	(1,596)	(1,854)	197	(3,253)	6,076
Return on plant assets greater/(less) than discount rate	1,172	-	39	1,211	(2,540)
Other adjustments	2,537	(4,618)	(38)	(2,119)	(8,008)
Closing balance	**26,584**	**(21,456)**	**11,954**	**17,082**	**16,611**

The expected maturity analysis is below:

	SPP		**RMSP**		**SRMP**	
	31Dec23	31Dec22	**31Dec23**	31Dec22	**31Dec23**	31Dec22
Year 1	21,139	17,520	(41)	(65)	863	852
Year 2	14,360	11,964	(37)	(56)	885	856
Year 3	16,056	14,176	(33)	(56)	914	876
Year 4	16,352	15,854	(23)	(56)	935	904
Year 5	15,572	16,254	(16)	(50)	951	924
Next 5 years	88,677	84,938	2,994	2,688	4,556	4,570

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

22. PAID UP CAPITAL

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

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

		31 Dec 2023	31 Dec 2022
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,613,528 (31 December 2022 – 5,613,528) shares of ID 10,000 each	56,135,280	56,135,280
Less: Available for subscription		(878,630)	(878,630)
Subscribed capital		55,256,650	55,256,650
Callable capital		(40,899,205)	(40,899,205)
Called up capital		**14,357,445**	**14,357,445**
Amount not yet due		(7,140,695)	(7,636,538)
Instalments overdue		(416,277)	(308,911)
Paid up capital		**6,800,473**	**6,411,996**

The Bank received ID 388.48 million (2022: ID 234.91 million) against paid-up capital during the year.

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2023 ID 0.60 (31 December 2022: ID 0.57) of total accumulated reserves.

On 22 Shawwal 1444 (12 May 2023), the Board of Governors has approved a special capital increase (SCI) for the Republic of Indonesia from the current 2.25% to 8.43% amounting to ID 3.39 billion, of which ID 0.88 billion to be paid in cash and the balance ID 2.51 billion remaining callable. Subsequently, the shareholding increase will be reflected upon receipt of the first instalment in 2024.

23. RESERVES

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

General reserve

In accordance with Section 1 of Article 42 of the Articles of Agreement of the Bank, the annual net income of the Bank is required to be transferred to the general reserve, when approved by the Board of Governors until this reserve equals 25% of the Bank's subscribed capital. As at 31 December 2023, general reserve made up 6.01% of the subscribed capital (31 December 2022: 5.73%). 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 2022:

- 10% (2022 - 10%) of the Bank's normalized net income (with a ceiling of US$ 20 million) for the year ended 31 December 2023 was allocated in the form of technical assistance grants to finance strategic programs and other significant operational initiatives in member countries amounting to ID 14.9 million (31 December 2022: ID 9.7 million).

- 4% (2022 - 4%) of the Bank's normalized net income (with a ceiling of US$ 8 million) for the year ended 31 December 2023 was allocated for financing the Bank's Scholarship Programs in the form of grants amounting to ID 5.9 million (31 December 2022: ID 3.9 million).

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

24. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Staff costs	136,359	126,583
IT Expenses	14,492	11,781
Consultancy fees	3,837	6,124
Others	17,629	14,748
	172,317	**159,236**

25. 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 2023	31 Dec 2022
Istisna'a	2,092,154	2,838,019
Intalment sale	3,637,550	2,925,085
Loans (Qard)	568,895	523,043
Ijarah assets	582,833	414,393
Investment in equity and funds	22,951	32,012
	6,904,383	**6,732,552**

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

	2023		2022	
	No of events	Amount	No of events	Amount
Portfolio supervision/monitoring fee	-	-	1	8
Late payment charges	2	2	2	56
Interest from legacy accounts with conventional banks	7	7	4	3
		9		**67**

27. SHARI'AH BOARD FUNCTIONS

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.

28. 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 realised from their investments and the total obligation as at 31 December 2023 amounted to ID 83.2 million (31 December 2022: ID 82.6 million). The profits accrued on the investments made on behalf of the restricted investment account holders amounted to ID 3.9 million (2022: 2.0 million) and Mudarib fee charged by the Bank amounted to ID 0.27 million (2022: 0.10 million).

29. 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)

29. 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:

	31Dec23		31Dec22	
	Due from	**Due to**	**Due from**	**Due to**
World Waqf Foundation	479	-	-	-
Awqaf Properties Investment Fund	9	-	5,834	-
Unit Investment Fund	-	-	-	(417)
Islamic Corporation for the Insurance of Investments and Export Credit	810	-	1,190	-
Special Account Resources Waqf Fund	-	(2,230)	-	(2,871)
IsDB Special Assistance Fund	1,914	-	440	-
IsDB Staff Retirement Pension Plan	364	-	-	(189)
IsDB Staff Retirement Medical Plan	-	-	7	-
Building Institutional Capacity	-	-	87	-
Economic Empowerment Fund for Palestinian People	-	-	-	(1)
Al Aqsa Fund	1,495	-	-	(470)
Islamic Corporation for Development of Private Sector	803	-	1,632	-
Arab Bank for Economic Development in Africa	-	-	39	-
International Islamic Trade Finance Corporation	1,500	-	2,272	-
Islamic Development Bank – Custodian of the Two Holy Mosques (Late) King Abdullah Bin Abdul Aziz Program for Charity Works (KAAP)	130	-	411	-
Islamic Solidarity Fund for Development	-	(2,015)	682	-
Sacrificial Meat Project	164	-	59	-
Bunyan Fund	-	(1)	1	-
Global Muslim Philanthropy Fund for Children	16	-	13	-
National Education Sector Fund	-	(125)	922	-
Lives and livelihoods Fund	154	-	1,519	-
Dueauville Partnership	68	-	68	-
Science, Technology and Innovation Fund	-	-	10	-
Somalia Trust Fund	2	-	-	-
Myanmar Fund	69	-	1	-
Afghanistan Humanitarian Trust Fund	6	-	-	-
Kafala	12	-	-	-
IsDB Retirement Medical Solidarity Fund	-	(36)	-	-
Total	**7,995**	**(4,407)**	**15,187**	**(3,948)**

The Bank provides management services to its 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 3.8 million (2022: ID 1.7 million).

(b) The Bank had advanced an amount of ID nil (2022: ID 7.5 million equivalent to USD 10 million) to a trust fund, Economic Empowerment Fund for Palestinian People. The said advance outstanding as of end of 2022, was fully settled during 2023.

(c) The Bank acts as Mudarib for Awqaf Properties investment Fund (APIF), its affiliate. The mudarib share of profit charged by the Bank during 2023 amounted to ID 0.26 million (2022: 0.17 million).

(d) 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 2023	**Year ended 31 Dec 2022**
Board of Executive Directors expenses	962	1,004
Salaries and other short-term benefits	2,027	1,866
Accumulated post-employment benefits	507	511

30. RISK MANAGEMENT

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

The Bank is exposed mainly to credit, liquidity, market and operational risks. The degree of risk the Bank is willing to assume in pursuing the developmental mandate is limited by its risk-bearing capacity, risk tolerance and commitment to maintain a prudent risk profile consistent with maintaining 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)

30. 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 2023

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Türkiye	1,405,944	78,287	1,484,231	8.1%
Indonesia	1,270,652	-	1,270,652	7.0%
Senegal	1,192,516	2,119	1,194,635	6.5%
Egypt	852,027	27,319	879,346	4.8%
Iran	795,591	137	795,728	4.4%
Pakistan	743,342	50,774	794,116	4.3%
Oman	754,441	-	754,441	4.1%
Uzbekistan	677,399	24,827	702,226	3.8%
Morocco	607,421	60,445	667,866	3.7%
Cote D'Ivoire	658,425	-	658,425	3.6%
Total top 10 countries	**8,957,758**	**243,908**	**9,201,666**	**50.4%**
Total other countries	**8,556,305**	**502,771**	**9,059,076**	**49.6%**
Total	**17,514,063**	**746,679**	**18,260,742**	**100.0%**
Total sovereign exposure			17,514,063	95.9%
Total non-sovereign exposure			746,679	4.1%
Total			**18,260,742**	**100.0%**

31 Dec 2022

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Türkiye	1,473,645	75,924	1,549,569	8.7%
Indonesia	1,289,603	-	1,289,603	7.3%
Senegal	1,006,036	2,515	1,008,551	5.7%
Egypt	947,011	1,536	948,547	5.3%
Pakistan	864,686	78,522	943,208	5.3%
Iran	874,483	137	874,620	4.9%
Oman	745,500	-	745,500	4.2%
Morocco	634,274	73,097	707,371	4.0%
Uzbekistan	661,397	12,612	674,009	3.8%
Turkmenistan	591,686	-	591,686	3.3%
Total top 10 countries	**9,088,321**	**244,343**	**9,332,664**	**52.5%**
Total other countries	**7,966,386**	**484,083**	**8,450,469**	**47.5%**
Total	**17,054,707**	**728,426**	**17,783,133**	**100.0%**
Total sovereign exposure			17,054,707	95.9%
Total non-sovereign exposure			728,426	4.1%
Total			**17,783,133**	**100.0%**

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

30. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Sovereign credit risk

When the Bank finances sovereign entities, it requires a full sovereign guarantee or the equivalent. In extending such financing, the Bank is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk, taking into consideration its preferred creditor treatment, through appropriate policies and guidelines covering the end-to-end process including country risk assessment (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 2023		31 Dec 2022	
Risk rating category	**Amount**	**%**	**Amount**	
Category "A"	8	0.0%	8	0.0%
Category "B"	1,998,685	11.4%	2,051,675	12.0%
Category "C"	5,259,397	30.1%	5,922,957	34.7%
Category "D"	5,066,704	28.9%	5,805,834	34.1%
Category "E"	4,051,322	23.1%	2,153,175	12.6%
Category "F"	295,433	1.7%	300,746	1.8%
Category "G"	842,514	4.8%	820,315	4.8%
Total	**17,514,063**	**100.0%**	**17,054,710**	**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 2023		31 Dec 2022	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	-	0.0%
Category "B"	251,976	33.7%	243,992	33.5%
Category "C"	142,682	19.1%	193,316	26.6%
Category "D"	184,850	24.8%	218,833	30.0%
Category "E"	165,535	22.2%	72,283	9.9%
Category "F"	1,636	0.2%	-	0.0%
Category "G"	-	0.0%	-	0.0%
Total	**746,679**	**100.0%**	**728,424**	**100.0%**

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

30. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Treasury assets

The assets subject to credit risk within treasury assets include cash and cash equivalents, commodity murabaha placements, sukuk investments 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 2023		31 Dec 2022	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category “A”	143,575	2.2%	120,374	2.1%
Category “B”	6,492,350	97.6%	5,454,548	97.4%
Category “C”	151	0.0%	81	0.0%
Category “D”	1,974	0.0%	1,046	0.0%
Category “E”	-	0.0%	-	0.0%
Category “F”	-	0.0%	-	0.0%
Category “G”	12,509	0.2%	23,489	0.4%
Total	**6,650,559**	**100.0%**	**5,599,538**	**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 2023	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	278,411	8,104,381	1,394,720	535,986	**10,313,498**
Project assets	8,052,147	8,981,253	299,378	11,299	**17,344,077**
Investment assets	400,113	947,550	-	146,611	**1,494,274**
Other assets	10,662	109,603	-	-	**120,265**
Total assets:	**8,741,333**	**18,142,787**	**1,694,098**	**693,896**	**29,272,114**
%	**30%**	**62%**	**6%**	**2%**	**100%**

31 Dec 2022	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	165,024	7,384,244	717,559	275,739	**8,542,566**
Project assets	7,545,026	9,140,741	318,807	11,672	**17,016,246**
Investment assets	304,002	1,003,369	1,914	49,830	**1,359,115**
Other assets	12,383	127,291	-	-	**139,674**
Total assets:	**8,026,435**	**17,655,645**	**1,038,280**	**337,241**	**27,057,601**
%	**30%**	**65%**	**4%**	**1%**	**100%**

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

30. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

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

31 Dec 2023	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	7,170,114	-	-	7,170,114	**24%**
Transport and telecom	-	4,559,297	-	-	4,559,297	**16%**
Agriculture	-	2,025,724	-	-	2,025,724	**7%**
Industry and mining	-	186,809	365,054	-	551,863	**2%**
Social Services	-	2,858,670	-	-	2,858,670	**10%**
Financial Institutions	7,762,326	-	1,063,147	-	8,825,473	**30%**
Governments	1,877,204	-	-	-	1,877,204	**6%**
Trade	361,091	-	-	-	361,091	**1%**
Other	312,877	543,463	66,073	120,265	1,042,678	**4%**
Total assets:	**10,313,498**	**17,344,077**	**1,494,274**	**120,265**	**29,272,114**	**100%**

31 Dec 2022	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	7,116,084	-	-	7,116,084	**26%**
Transport and telecom	-	4,389,384	-	-	4,389,384	**16%**
Agriculture	-	1,832,214	-	-	1,832,214	**7%**
Industry and mining	-	176,178	283,269	-	459,447	**2%**
Social Services	-	2,742,200	-	-	2,742,200	**10%**
Financial Institutions	6,397,055	-	1,006,385	-	7,403,440	**27%**
Governments	1,512,295	-	-	-	1,512,295	**6%**
Trade	318,938	-	-	-	318,938	**1%**
Other	314,278	760,186	69,461	139,674	1,283,599	**5%**
Total assets:	**8,542,566**	**17,016,246**	**1,359,115**	**139,674**	**27,057,601**	**100%**

Expected Credit Risk for financial assets measured at amortised cost

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

Determining the stage for impairment

The Bank's staging model relies on a relative assessment of credit risk, because it reflects the significant 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 a 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.

30 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 realising 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 of 6 months.

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, Stage 2 and Stage 3 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 amortisation. 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 as the product of LGD and EAD of each instrument.

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

30. RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

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 amortised cost as at 31 December 2023.

31 Dec 2023	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	16,848,983	1,435,224	838,349	19,122,556	125,610	114,355	325,786	565,751
Non-Sovereign	7,361,074	77,360	28,326	7,466,760	7,617	2,616	8,532	18,765
Total 31 December 2023	**24,210,057**	**1,512,584**	**866,675**	**26,589,316**	**133,227**	**116,971**	**334,318**	**584,516**

31 Dec 2023	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.75%	7.97%	38.86%	2.96%
Non-Sovereign	0.10%	3.38%	30.12%	0.25%
Total 31 December 2023	**0.55%**	**7.73%**	**38.57%**	**2.20%**

31 Dec 2022	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	16,730,949	1,007,951	843,286	18,582,186	104,130	68,338	279,764	452,232
Non-Sovereign	7,370,010	112,624	35,839	7,518,473	8,012	7,179	4,804	19,995
Total 31 December 2022	**24,100,959**	**1,120,575**	**879,125**	**26,100,659**	**112,142**	**75,517**	**284,568**	**472,227**

31 Dec 2022	Coverage Ratio (Impairment Allowance / Exposure Amount)			
	Stage 1	Stage 2	Stage 3	Total
Sovereign	0.62%	6.78%	33.18%	2.43%
Non-Sovereign	0.11%	6.37%	13.40%	0.27%
Total 31 December 2022	**0.47%**	**6.74%**	**32.37%**	**1.81%**

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:

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

30. 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 2023	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Cash & cash equivalents	1,159,129	-	-	-	-	-	**1,159,129**
Commodity murabaha placements	1,628,773	2,621,703	1,226,094	-	-	-	**5,476,570**
Sukuk investments	173,352	224,300	323,530	2,144,425	451,101	-	**3,316,708**
Murabaha financing	109,704	172,117	79,270	-	-	-	**361,091**
Istisna'a assets	230,077	242,388	409,492	3,239,408	4,491,770	-	**8,613,135**
Restricted mudaraba	31,853	38,865	55,643	292,387	58,289	-	**477,037**
Instalment sale	59,285	45,319	108,223	1,172,913	2,399,824	-	**3,785,564**
Ijarah assets	72,764	114,611	164,393	1,058,469	1,345,053	-	**2,755,290**
Loans (Qard)	67,360	79,175	78,826	611,935	875,755	-	**1,713,051**
Equity investments	-	-	-	-	-	566,945	**566,945**
Investments in associates	-	-	-	-	-	834,366	**834,366**
Other investments	-	-	-	-	-	92,963	**92,963**
Property, equipment and intangibles	-	-	-	-	-	63,401	**63,401**
Other assets	18,031	17,427	2,818	7,570	11,018	-	**56,864**
Total Assets	**3,550,328**	**3,555,905**	**2,448,289**	**8,527,107**	**9,632,810**	**1,557,675**	**29,272,114**
Sukuk issued	411,801	1,480,681	2,336,027	12,805,335	85,445	-	**17,119,289**
Commodity murabaha liabilities	700,992	98,763	-	254,998	-	-	**1,054,753**
Other liabilities	22,743	20,834	29,918	63,856	113,890	-	**251,241**
Total Liabilities	**1,135,536**	**1,600,278**	**2,365,945**	**13,124,189**	**199,335**	-	**18,425,283**

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

30. RISK MANAGEMENT (CONTINUED)

Liquidity Risk (continued)

31 Dec 2022	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Cash & cash equivalents	1,603,817	-	-	-	-	-	**1,603,817**
Commodity murabaha placements	2,963,963	376,355	640,637	-	-	-	**3,980,955**
Sukuk investments	102,746	137,304	-	2,243,705	155,101	-	**2,638,856**
Murabaha financing	87,978	76,593	154,367	-	-	-	**318,938**
Istisna'a assets	189,045	223,009	370,176	3,026,569	4,930,139	-	**8,738,938**
Restricted mudaraba	36,533	32,610	53,801	321,847	135,310	-	**580,101**
Instalment sale	86,469	38,535	90,618	908,002	1,935,292	-	**3,058,916**
Ijarah assets	90,500	94,218	139,547	1,060,623	1,496,317	-	**2,881,205**
Loans (Qard)	73,967	74,460	76,303	595,273	937,083	-	**1,757,086**
Equity investments	-	-	-	-	-	479,356	**479,356**
Investments in associates	-	-	-	-	-	795,322	**795,322**
Other investments	-	-	-	-	-	84,437	**84,437**
Property, equipment and intangibles	-	-	-	-	-	60,416	**60,416**
Other assets	25,489	14,189	6,031	27,087	6,462	-	**79,258**
Total Assets	**5,260,507**	**1,067,273**	**1,531,480**	**8,183,106**	**9,595,704**	**1,419,531**	**27,057,601**
Sukuk issued	1,298,014	138,716	1,580,785	13,263,598	81,552	-	**16,362,665**
Commodity murabaha liabilities	392,105	-	-	-	-	-	**392,105**
Other liabilities	17,148	15,915	26,246	57,326	113,666	-	**230,301**
Total Liabilities	**1,707,267**	**154,631**	**1,607,031**	**13,320,924**	**195,218**	-	**16,985,071**

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 17). 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)

30. RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

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

	31 Dec 2023	31 Dec 2022
USD (1ID = 1.34167 USD)	3,273,470	2,967,696
EUR (1ID = 1.21753 EUR)	2,338,446	1,900,979
Pound Sterling (1ID = 1.05381 GBP)	513,192	455,682
Japanese Yen (1ID = 190.454 JPY)	446,741	452,704
Chinese Yuan (1ID = 9.58727 CNY)	844,565	678,264
Others	8,451	8,655
	7,424,865	**6,463,980**

(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 2023	31 Dec 2022
Commodity murabaha placements	4.7%	1.9%
Sukuk investments	3.1%	2.2%
Murabaha financing	6.2%	3.5%
Istisna'a assets	3.3%	2.9%
Instalment sale	3.7%	3.2%
Ijarah assets	4.3%	3.0%
Sukuk issued	2.3%	1.8%
Commodity murabaha liabilities	3.5%	0.1%

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

(iii) Equity price risk

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

The Bank's investments in equities are held for strategic rather than trading purposes and are not actively traded. While the Bank has certain exposure to equity price risk, net income would remain unaffected if equity prices changed during the 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)

31. 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:

i. In the principal market for the asset or liability, or
ii. 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:

a. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
b. 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);
c. 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 2022 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 2023	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Sukuk investments	34,705	-	-	**34,705**
Other investments	1,720	-	30,443	**32,163**
Equity type Investments at fair value through equity:				
Equity investments	392,083	-	174,862	**566,945**
Murabaha based profit rate and cross currency profit rate swaps (reported within other assets)	-	9,072	-	**9,072**
Total financial assets at fair value	**428,508**	**9,072**	**205,305**	**642,885**

31 Dec 2022	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Sukuk investments	136,538	-	-	**136,538**
Other investments	2,071	-	20,179	**22,250**
Equity type Investments at fair value through equity:				
Equity investments	317,212	-	162,144	**479,356**
Murabaha based profit rate and cross currency profit rate swaps (reported within other assets)	-	10,662	-	**10,662**
Total financial assets at fair value	**455,821**	**10,662**	**182,323**	**648,806**

During the years ended 31 December 2023 and 31 December 2022, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

As at 31 December 2023, sukuk investment carried at amortised cost with carrying value amounting to ID 3.28 billion (2022: ID 2.50 billion) has fair value of ID 3.2 billion (2022: ID 2.37 billion).

32. SEGMENT INFORMATION

Management has determined the chief operating decision maker to be the Board of Executive Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its Member Countries. In order to ensure sufficient resources to enable it to meet its developmental objectives, the Bank actively engages in treasury and liquidity management. Development initiatives are undertaken through a number of Islamic finance products as disclosed on the face of the Statement of Financial Position, which are financed, by the Bank's equity and external funding. Management has not identified separate operating segments within the definition of Financial Accounting 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 30.

33. 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.

Various key milestones were overcome in the current and previous years, 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,
vi) adoption of the alternate reference rate for all the new contracts approved from 2022 onwards,
vii) management approval on the conversion methodology for legacy portfolio impacted due to Libor cessation,
viii) engagement with member countries and other counterparts for building census on the conversion methodology,
ix) drafting and sharing of amendment agreements with the paying agencies for their review and feedback.
x) Obtaining the signatures for the amendment agreements from the beneficiary and IsDB.
xi) Changing the reference rate to the alternative reference rate in the SAP System for all the projects listed in the signed amendment agreements.

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. For the USD denominated exposures, 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.

In March 2023, UK FCA announced that the LIBOR's administrator, ICE Benchmark Administration Limited (IBA), will continue the publication of the 1-, 3- and 6-month US dollar LIBOR settings for a short period after 30 June 2023, using an unrepresentative 'synthetic' methodology ('synthetic US dollar LIBOR'), which will cease on 30 September 2024. IsDB approved the use of the synthetic US dollar LIBOR, but strongly encourage all the beneficiaries to agree to use CME Term SOFR.

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.

33. 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 by 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 with the formulation of enhanced 'Fallback' clause which has been added to all new contracts and for legacy contracts, an external Law firm is in process of drafting amendment agreements while the Bank is engaged with paying agencies and counterparts on building consensus on the conversion of Libor linked outstanding 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 may require certain enhancements in system functionalities and processes. This risk is addressed by performing thorough business user testing on existing systems, and running various use cases that will be required for utilizing the new reference rates.

Progress towards adoption of alternative benchmark rates

All newly approved sovereign financing contracts now reference the alternative benchmark rate for pricing as adopted by the Bank in its new pricing policy and the legal documentation already included the improved fallback clause.

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.

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.

Treasury assets:

All contracts have transitioned to SOFR except for certain US dollar floating rate sukuks that are indexed to synthetic LIBOR.

Project assets:

To date, 74% of the projects under PPP have agreed to adopt the alternative rates proposed by IsDB, while the remaining will use synthetic LIBOR on temporary basis until finalization of the amendment agreements.

For legacy contracts for sovereign financing 93% of the paying agencies and governments eligible for LIBOR transition have agreed to the terms and amendments proposed by IsDB, while the remaining will use synthetic LIBOR on temporary basis until finalization of the amendment agreements.

Sukuk liability:

For the three remaining Libor-based Sukuk issuances (Series 42, 43 and 46), and given that the last coupon re-set date for these Sukuk falls before 30 September 2024 (expected cessation date for synthetic Libor, as announced by the UK FCA), the Bank decided to maintain the Libor reference under synthetic format for the three Sukuk until their maturity. The decision was directly negotiated and agreed with the Investors.