2022 FINANCIAL STATEMENTS

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

ISLAMIC DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of Islamic Development Bank – Ordinary Capital Resources (the "Bank"), which comprise the statement of financial position as at 31 December 2022, 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 2022, and the results of the operations, its cash flows and changes in members' equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

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

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2022. 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.

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Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against project assets As at 31 December 2022, the Bank's project assets amounted to ID 17.02 billion (2021: ID 16.28 billion) representing 62.89% of total assets. The Expected Credit Loss (ECL) allowance was 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.	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

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Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
The material portion of the project assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging override as per the Bank's policies, if required. The measurement of ECL amounts for project assets classified as Stage 1 and Stage 2 are carried out by the ECL models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a review process by an independent third party expert. For the impaired project assets Bank maintains estimates on the resumption of repayments from the counterparties and bases its ECL impairment allowance on the difference between net present value of the original repayment cashflows and net present value of the managements estimates of the revised cashflows. 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.	economic scenarios chosen and related weightings applied. • the assumptions underlying the impairment allowance calculation, such as estimated future cash flows and estimates of recovery period. • the calculation methodology and its alignment with the requirement of FAS 30. • the post model adjustments and management overlays (if any) in order to assess the reasonableness of these adjustments and assessed the qualitative factors which were considered by the Bank to recognize any post model adjustments, in case of data or model limitations. Where such post model adjustments were applied, we assessed those post model adjustments and the governance process around them. 4. We tested models used in the credit impairment process and verified the integrity of data used as input to the impairment models. 5. The bank performed an external validation of the ECL model and LGD models including macro-economic model during 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.

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Report on the Audit of the Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
	6. Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating related inputs and assessing the assumptions used in the ECL model particularly around probability of default, loss given default, exposure at default and macroeconomic variables, forecasted macroeconomic scenarios and probability weights and 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.

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Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2022 Annual Report
Other information consists of the information included in the Bank's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 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 Shari'ah Rules and Principles are the responsibility of the Bank's management and those charged with governance.

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

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

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

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

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Report on the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

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Report on the Audit of the Financial Statements (continued)

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

Deloitte and Touche & Co
Chartered Accountants

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

13 Ramadan, 1444
April 4, 2023

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Statement of Financial Position

As at 31 December 2022

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

	Notes	31 December 2022	31 December 2021
Cash and cash equivalents	4	1,603,817	236,583
Commodity murabaha placements	5	3,980,955	5,528,102
Sukuk investments	6	2,638,856	2,219,216
Murabaha financing	7	318,938	253,421
Treasury assets		**8,542,566**	**8,237,322**
Istisna'a assets	9	8,738,938	8,388,859
Restricted mudaraba	10	580,101	656,238
Instalment sale	11	3,058,916	2,454,022
Ijarah assets	12	2,881,205	2,985,534
Loans (Qard)	13	1,757,086	1,794,183
Project assets		**17,016,246**	**16,278,836**
Equity investments	15	479,356	542,798
Investment in associates	16	795,322	742,856
Other investments		84,437	73,090
Investment assets		**1,359,115**	**1,358,744**
Property, equipment and intangibles		60,416	57,082
Other assets	17	79,258	94,690
Total Assets		**27,057,601**	**26,026,674**
Liabilities			
Sukuk issued	18	16,362,665	15,564,787
Commodity murabaha liabilities	19	392,105	277,176
Other liabilities	20	230,301	640,257
Total Liabilities		**16,985,071**	**16,482,220**
Members' Equity			
Paid-up capital	22	6,411,996	6,177,086
Reserves	23	3,487,426	3,260,435
Net income for the year		173,108	106,933
Total Members' Equity		**10,072,530**	**9,544,454**
Total Liabilities and Members' Equity		**27,057,601**	**26,026,674**
Restricted Investment Accounts	28	82,576	78,502

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 2022

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

	Notes	For the year ended 31 Dec 2022	For the year ended 31 Dec 2021
Income/(loss) from:			
Commodity Murabaha placements		95,847	43,022
Sukuk investments	6	56,675	50,539
Murabaha financing		9,865	8,883
Treasury assets		**162,387**	**102,444**
Istisna'a assets		251,099	253,629
Restricted Mudaraba		21,016	17,827
Instalment sale		87,931	73,402
Ijarah assets, net of depreciation of assets under Ijarah	12.4	90,324	63,026
Loans (Qard)		8,836	9,370
Project assets		**459,206**	**417,254**
Equity investments		26,624	20,396
Share of income from investment in associates	16	27,811	15,700
Other investments		2,358	1,229
Investment assets		**56,793**	**37,325**
Foreign exchange gains		11,161	3,152
Swap hedging losses	17(a)	(2,165)	(688)
Other		6,539	4,034
Other income		**15,535**	**6,498**
Total Income		**693,921**	**563,521**
Financing costs	18, 19, 20	(289,906)	(265,574)
Impairment charge	14	(66,676)	(29,197)
Net income before operating expenses		**337,339**	**268,750**
Administrative expenses	24	(159,236)	(156,814)
Depreciation / amortization on property, equipment and intangibles		(4,995)	(5,003)
Total operating expenses		**(164,231)**	**(161,817)**
Net income for the year		**173,108**	**106,933**

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 2022

(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 2021		**5,940,601**	**2,994,490**	**279,004**	**(153,365)**	**(62,385)**	**3,057,744**	**116,216**	**9,114,561**
Increase in paid-up capital	22	236,485	-	-	-	-	**-**	-	**236,485**
Net changes in fair value of investments		-	-	103,337	-	-	**103,337**	-	**103,337**
Actuarial losses relating to retirement									
pension and medical plans	21	-	-	-	(6,983)	-	**(6,983)**	-	**(6,983)**
Hedge accounting reserve	17	-	(20,911)	-	-	4,191	**(16,720)**	-	**(16,720)**
Share in associates' reserve movement	16	-	-	-	-	22,056	**22,056**	-	**22,056**
Net income for the year		-	-	-	-	-	**-**	106,933	**106,933**
Transfer to general reserve	23	-	116,216	-	-	-	**116,216**	(116,216)	**-**
Allocation for grants	23	-	(15,215)	-	-	-	**(15,215)**		**(15,215)**
Balance at 31 December 2021		**6,177,086**	**3,074,580**	**382,341**	**(160,348)**	**(36,138)**	**3,260,435**	**106,933**	**9,544,454**
Increase in paid-up capital	22	234,910	-	-	-	-	**-**	-	**234,910**
Net changes in fair value of investments		-	-	(53,861)	-	-	**(53,861)**	-	**(53,861)**
Actuarial gain 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 movements	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**

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 2022

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

	Notes	For the year ended 31 Dec 2022	For the year ended 31 Dec 2021
Cash flows from operations			
Net income for the year		173,108	106,933
Adjustments for non-cash items:			
Depreciation / amortization		4,995	5,003
Gain from investment in associates	16	(27,811)	(15,700)
Allowance for credit losses against financial assets	14	66,676	29,197
Accrued income – Sukuk investments	6	(2,994)	(2,929)
Unrealized fair value losses on sukuk	6	8,937	2,587
Amortization of other income		(567)	(567)
Foreign exchange gains		(11,161)	(3,152)
Gain on disposal of investment in equity capital		(4,170)	(6,469)
Operating income before changes in operating assets and liabilities		**207,013**	**114,903**
Changes in operating assets and liabilities:			
Istisna'a assets		(182,170)	(438,510)
Restricted mudaraba		108,703	96,375
Instalment sale		(547,573)	(221,663)
Ijarah assets		200,256	(118,093)
Loans (Qard)		42,393	(12,922)
Other assets		10,221	22,383
Other liabilities		(292,550)	25,757
Commodity murabaha placements		1,662,646	(74,619)
Murabaha financing		(58,221)	76,575
Net cash from/(used in) operating activities		**1,150,718**	**(529,814)**
Cash flows from investing activities			
Acquisition of sukuk investments	6	(726,726)	(815,145)
Proceeds from disposal/redemption of sukuk investments	6	411,115	117,372
Acquisition of equity investments	15	(4,469)	(17,393)
Proceeds from disposal of equity and other investments		16,140	24,129
Acquisition of other investments		(6,908)	(18,471)
Acquisition/increase in share of associate	16	(2,116)	(4,553)
Dividends from associates	16	1,854	2,298
Proceeds from capital repayment/disposal of investment in associates	16	6,016	15,973
Additions to property, equipment and intangibles		(8,329)	(8,331)
Net cash (used in) investing activities		**(313,423)**	**(704,121)**
Increase in paid-up capital		234,910	236,485
Allocation for grants	23	(13,553)	(15,215)
Proceeds from issuance of sukuk		2,089,621	3,365,023
Redemption of sukuk		(1,895,874)	(2,354,890)
Commodity murabaha liabilities		114,165	(21,434)
Redemption of Wakala (Due to)		-	(97,204)
Net cash from financing activities		**529,269**	**1,112,765**
Net change in cash and cash equivalents		1,366,564	(121,170)
Exchange difference on cash and cash equivalents		670	(5,671)
Impairment provision – cash and cash equivalents		-	(499)
Cash and cash equivalents at the beginning of the year		236,583	363,923
Cash and cash equivalents at the end of the year	4	**1,603,817**	**236,583**

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements

At 31 December 2022

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

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 (2021: 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 48th 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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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 intruments.

(i) Classification

<u>Debt-type instruments</u>

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 amortized 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

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 amortized 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.

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

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shareholders' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in members' equity is transferred to the statement of income.

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

The table below summarizes IsDB's major financial assets and liabilities and their measurement and recognition principles. Detailed accounting policies are provided in the relevant sections below.

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

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3. SIGNIFICANT ACCOUNTING POLICIES

Offsetting of financial assets and liabilities

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

Treasury assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and commodity murabaha placements through banks having a maturity of three months or less from the date of placement that are subject to an insignificant risk of changes in their fair value. Cash and cash equivalents are carried at amortized cost less allowance for credit losses in the statement of financial position.

Commodity murabaha placements

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

Sukuk investments

Sukuk are certificates of equal value representing undivided share in ownership to tangible assets, usufructs, services or (in the ownership) of assets of a particular project 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 31 "Liquidity risk" section).

Sukuk that are 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 amortized cost less allowance for credit losses.

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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 not depreciated. No rental income is recognized on the assets during the construction/manufacturing period. Rental income received during the construction period (advance rental) is recorded under Other liabilities and amortized to Ijarah income after the asset is transferred to Ijarah asset in use (Note 12).

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

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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 and funds measured at fair value through equity

Unlisted investments in equities and funds are carried at fair values determined by independent valuers. Fair value gains/losses are reported in fair value reserve in equity. If there is objective evidence that an impairment loss has been incurred, the amount of impairment is measured as the difference between the carrying amount of investment and its expected recoverable amount. Impairment losses recognized in income statement are reversed through statement of changes in members' equity.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

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

Consequently, the Bank does not exercise control over any of its investments regardless of percentage of voting rights. For investments in which the Bank holds 20 per cent or more of the voting rights and having significant influence, such investments are accounted for and classified as investments in associates, unless they are held for sale.

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

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

The Bank determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognizes the amount in the income statement. Intergroup unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interests in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses in associates are recognized in the income statement. The Bank's share of the results of associates is based on financial statements available up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform to the accounting policies of the Bank. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Bank.

Profit rate and cross currency profit rate swaps 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.

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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 amortized cost

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

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

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

organisations, as well as consideration of various internal and external sources of actual and forecast economic information. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing 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.

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

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

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

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

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

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

For Sovereign:
Prolonged Civil War/ external arms conflict

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

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

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

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

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

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-off
When the non-sovereign exposure is deemed uncollectible, it is written-off against the related impairment provision and any excess loss is recognized in the income statement. Such assets are written-off only after all necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the Bank's income statement. Sovereign exposures are not written-off based on the Bank's past experience, since its inception. Bank has not written off any non-sovereign financial assets during the current and prior year.

Financial liabilities

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

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

Impairment of investments held at fair value through members' equity

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

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

Other amortised cost assets

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

Financial liabilities

Commodity murabaha purchase and sale agreements

The Bank enters into commodity murabaha purchase and sale agreements with certain banks for liquidity management purposes. Under the terms of the agreements, the Bank purchases certain commodities from these banks on a deferred payment basis and sells these through those banks to third parties. The payable related to the purchased commodity under these agreements is recognized at the value of consideration paid and is presented as commodity murabaha purchase liabilities in the statement of financial position. The difference between the sale and purchase prices is recognized as financing cost and accrued on an amortized cost basis over the period of agreements.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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 amortization and impairment loss, if any. Land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The depreciable amount of other property, equipment and intangibles is depreciated/amortized using the straight-line method over the estimated useful lives.

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

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

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

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

Post-employment benefit plans

The Bank operates 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.

Actuarial valuation results presented as of December 31, 2022 is based on a roll forward of the data as of 2021 (except for the SRMP plan actives, retirees and beneficiaries, data used to calculate their results are adjusted for the transfers to RMSP). For RMSP, a full valuation was performed based on data at November 30, 2022. Movement during the month of December 2022 is not material to the financial statement.

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 22.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Commodity murabaha placements

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

Investments in sukuk

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

Murabaha financing income, Istisna'a income, income from instalment sale and Restricted Mudaraba income

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

Ijarah assets

Income from Ijarah assets is recognized using the effective yield basis (which represents the Ijarah rental net of depreciation against the Ijarah assets) starting from the date the right to use the asset is transferred to the lessee.

Loan (Qard) service fees

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

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

Dividend income

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

Foreign currency

Foreign currency transactions and balances

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value (including Equity investments) are retranslated into the unit of account at the spot exchange rate at the date that the fair value was determined. Foreign currency differences resulting from translation of such investments are recognized in the fair value reserve account under members' equity.

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

Foreign operations – investments in associates

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

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)
At 31 December 2022
(All amounts in thousands of Islamic Dinars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing cost

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

Zakat and Tax

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

Earnings prohibited by Islamic Shari'ah

Any income earned by the Bank from sources, which are forbidden by the Islamic Shari'ah, is not included in the Bank's income statement but is transferred to the Special Account Resources Waqf Fund, in accordance with the Shari'ah Rules and Principles as determined by the Group Shari'ah Board of the Bank.

Critical accounting judgments and estimates

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

Significant judgements

Unit of Account

The Bank conducts its operations mainly in USD and EUR that take up 75.4% (2021: 72.8%) weight in SDR, to which ID is equalized. Therefore, Management (including Board of Executive Directors) concluded that Islamic Dinar represents the aggregation of economic effects of the underlying transactions, events and conditions of the Bank and is accordingly the Bank's unit of account.

Designation of investments in sukuk

Investments in sukuk are designated as either amortized cost or at fair value through income statement.

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

Designation of Investments in equity capital

Designation of Investments in equity capital and real estate and other funds at fair value through equity is driven by theintention of management to hold these for a long-term.

Going Concern

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Notes to the Financial Statements (continued)
At 31 December 2022
(All amounts in thousands of Islamic Dinars unless otherwise stated)

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 2022, have been adopted in these financial statements if found to be applicable.

Financial Accounting Standard – 37 "Financial Reporting by Waqf Institutions"

The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022. The Bank has evaluated the impact of this standard and concluded that it is not applicable as the Bank is not a Waqf institution.

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

The Bank has adopted FAS 38 – Wa'ad, Khiyar and Tahawwut for annual periods beginning on or after January 1, 2022. There was no impact on the initial application of the standard as the current accounting policy of the Bank is in conformance with FAS 38.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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 – 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. This standard is not applicable to the Bank as it is not a zakah payer.

(ii) 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. This standard is not applicable to the Bank as it is not a conventional financial institution.

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

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

(iv) 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 prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. This standard also establishes the general principles for the presentation of information and adequately reflecting the rights and obligations of different stakeholders within Takaful business model. It stipulates the information that should be disclosed in the financial statements of Takaful institutions to achieve the objectives of accounting and financial reporting.

The standard shall be accompanied by, and read in conjunction with, FAS 43"Accounting for Takaful: Recognition and Measurement", which covers the significant aspects of accounting for Takaful products.

This standard shall be effective on the annual financial statements of the Takaful institutions beginning on or after 01 January 2025 with early adoption of the standard is permitted if adopted alongside FAS 43 "Accounting for Takaful: Recognition and Measurement", provided that FAS 1 "General Presentation and Disclosures in the Financial Statements" has already been adopted or is simultaneously adopted.

FAS 42 shall not impact the financial statements as the Bank is not a Takaful institution

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Notes to the Financial Statements (continued)
At 31 December 2022
(All amounts in thousands of Islamic Dinars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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. Early adoption of the standard is permitted if adopted alongside FAS 42 "Presentation and Disclosure in the Financial Statements of Takaful institutions".

FAS 43 shall not impact the financial statements as the Bank is not a Takaful institution.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

4. CASH AND CASH EQUIVALENTS

	31 Dec 2022	31 Dec 2021
Cash in hand	-	3
Current and call accounts with Banks	111,763	83,412
Commodity Murabaha placements with maturities less than 3 months from origination date (Note 5)	1,503,009	164,123
Less: Allowance for credit loss against cash and cash equivalents (Note 14)	(10,955)	(10,955)
	1,603,817	**236,583**

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 2022	31 Dec 2021
Placements with Islamic Banks	598,998	394,950
Placements with conventional banks	4,847,769	5,280,494
Accrued income	41,008	20,901
Commodity Murabaha placements with maturities less than 3 months (Note 4)	(1,503,009)	(164,123)
Less: Allowance for credit loss against commodity Murabaha placements (Note 14)	(3,811)	(4,120)
	3,980,955	**5,528,102**

6. SUKUK INVESTMENTS

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	2,219,216	1,466,183
Movements during the year:		
Additions	726,726	815,145
Redemptions/sales	(411,115)	(117,372)
Accrued income	2,994	2,929
Unrealized fair value losses	(8,937)	(2,587)
Unrealized exchange revaluation gains	110,287	54,933
Less: Allowance for credit loss against Sukuk investments (Note 14)	(315)	(15)
Closing Balance	**2,638,856**	**2,219,216**

	Counterparty rating				
31 Dec 2022	**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 amortized 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**

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
Notes to the Financial Statements (continued)
At 31 December 2022
(All amounts in thousands of Islamic Dinars unless otherwise stated)

6. SUKUK INVESTMENTS (continued)

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

Income from sukuk investments is comprised of the following:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Coupon income	65,613	53,126
Unrealized fair value losses	(8,938)	(2,587)
	56,675	**50,539**

7. MURABAHA FINANCING

	31 Dec 2022			31 Dec 2021		
	Sovereign	Non - Sovereign	Total	Sovereign	Non - Sovereign	Total
Gross amount receivable	300,971	29,068	330,039	239,399	19,158	258,557
Less: Deferred profit	(8,506)	(789)	(9,295)	(3,342)	(241)	(3,583)
Less: Allowance for credit losses (Note 14)	(1,647)	(159)	(1,806)	(1,313)	(240)	(1,553)
	290,818	**28,120**	**318,938**	**234,744**	**18,677**	**253,421**

8. PROJECT ASSETS

	31 Dec 2022			31 Dec 2021		
	Sovereign	Non - Sovereign	Total	Sovereign	Non - Sovereign	Total
Istisna'a assets (Note 9)	8,751,603	151,536	8,903,139	8,309,060	201,963	**8,511,023**
Restricted Mudaraba (Note 10)	582,981	-	582,981	657,820	-	**657,820**
Instalment sale (Note 11)	3,062,830	67,528	3,130,358	2,467,440	42,894	**2,510,334**
Ijarah asset (Note 12)	2,542,407	481,081	3,023,488	2,439,981	676,094	**3,116,075**
Loans (Qard) (Note 13)	1,822,424	-	1,822,424	1,864,817	-	**1,864,817**
	16,762,245	**700,145**	**17,462,390**	**15,739,118**	**920,951**	**16,660,069**
Less: Allowance for credit losses	(433,688)	(12,456)	(446,144)	(365,190)	(16,043)	**(381,233)**
	16,328,557	**687,689**	**17,016,246**	**15,373,928**	**904,908**	**16,278,836**

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

9. ISTISNA'A ASSETS

	31 Dec 2022	31 Dec 2021
Istisna'a assets in progress	4,245,582	4,666,923
Istisna'a receivable	5,171,191	4,318,104
Accrued income	326,985	332,122
Less: Deferred profit	(824,381)	(740,350)
Less; Share of syndication participants	(16,238)	(65,776)
Less: Allowance for credit losses (Note 14)	(164,201)	(122,164)
	8,738,938	**8,388,859**

10. RESTRICTED MUDARABA

	31 Dec 2022	31 Dec 2021
Restricted Mudaraba assets in progress	75,141	76,981
Restricted Mudaraba receivable	541,108	632,450
Accrued income	18,640	15,188
Less: Deferred profit	(51,908)	(66,799)
Less: Allowance for credit losses (Note 14)	(2,880)	(1,582)
	580,101	**656,238**

11. INSTALMENT SALE

	31 Dec 2022	31 Dec 2021
Gross amounts receivable	3,282,876	2,660,748
Accrued income	60,112	43,032
Less: Deferred profit	(212,630)	(193,446)
Less: Allowance for credit losses (Note 14)	(71,442)	(56,312)
	3,058,916	**2,454,022**

12. IJARAH ASSETS (IJARAH MUNTAHIA BITTAMLEEK)

	31 Dec 2022	31 Dec 2021
Assets under construction (note 12.1)	1,140,454	1,178,234
Assets in use (note 12.2)	4,627,370	4,481,089
Less: Accumulated depreciation of assets in use (12.3)	(2,768,630)	(2,530,980)
Balance, net of accumulated depreciation	**2,999,194**	**3,128,343**
Accrued income	69,057	57,077
Less: Share of syndication participants	(44,763)	(69,345)
Balance, net of share of syndication participants	**3,023,488**	**3,116,075**
Less: Allowance for credit losses (Note 14)	(142,283)	(130,541)
	2,881,205	**2,985,534**

12.1 Assets under construction

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	1,178,234	1,313,185
Additions	108,501	369,619
Transferred to assets in use	(146,281)	(504,570)
Closing balance	**1,140,454**	**1,178,234**

12.2 Assets in use

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	4,481,089	3,976,519
Transferred from assets under construction	146,281	504,570
Closing balance	**4,627,370**	**4,481,089**

12.3 Accumulated depreciation of assets in use

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	(2,530,980)	(2,314,906)
Charge for the year	(237,650)	(216,074)
Closing balance	**2,768,630**	**2,530,980**

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
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At 31 December 2022
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12.4 Income from Ijarah Assets

	31 Dec 2022	31 Dec 2021
Gross Income	331,553	280,710
Less: Depreciation of assets under Ijarah	(237,650)	(216,074)
Income before share of Syndication participants	**93,903**	**64,636**
Less: Share of syndication participants	(3,579)	(1,610)
Net rental income	**90,324**	**63,026**

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 2022	226,237	157,819	-	384,056
31 December 2021	190,185	453,167	35,489	678,841

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 2022	122,407	253,196	323,373	698,976
31 December 2021	51,864	151,988	101,804	305,656

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

13. LOANS (QARD)

	31 Dec 2022	31 Dec 2021
Loans (Qard)	1,822,424	1,864,817
Less: Allowance for credit losses (note 14)	(65,338)	(70,634)
	1,757,086	**1,794,183**

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

Provision for impairment comprised of the following:

		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

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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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 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

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

The movement in provision for impairment is as follows:

	Year Ended 2022	**Year Ended 2021**
Opening Balance	491,672	464,158
Charge for the year	66,676	29,197
Write offs / reversals	(13,986)	(1,683)
Closing Balance	**544,362**	**491,672**

As at 31 December 2022 and 31 December 2021, the following is the ageing of the overdue instalments:

	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**	**-**

	31 Dec 2021						
In months	**0-6**	**7-12**	**13-24**	**Over 24**	**Total**	**Sovereign**	**Non-sovereign**
Murabaha financing	-	-	-	-	**-**	**-**	**-**
Istisna'a assets	4,461	-	-	-	**4,461**	**4,461**	**-**
Instalment sale	2,658	2,639	5,278	29,165	**39,720**	**39,720**	**-**
Ijarah asset	4,978	2,909	1,950	39,902	**49,739**	**41,851**	**7,888**
Loans (Qard)	5,757	5,960	10,848	45,681	**68,246**	**68,246**	**-**
Total	**17,854**	**11,508**	**18,076**	**114,748**	**162,166**	**154,278**	**7,888**

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

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15. EQUITY INVESTMENTS

	31 Dec 2022	31 Dec 2021
Equity investments:		
Listed	333,355	466,409
Unlisted	197,959	139,321
	531,314	605,730
Less: Provision for impairment (note 14)	(51,958)	(62,932)
	479,356	**542,798**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	62,932	49,324
Charge for the year	3,014	14,941
Transfer of net fair value losses to fair value reserve	(7,078)	(952)
Reversal of impairment on disposal	(6,910)	(381)
Closing Balance	**51,958**	**62,932**

The movement in Equity Investments is as follows:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	542,798	454,723
Movements during the year:		
Additions/transfer from investment in associates	4,469	17,393
Disposals	(18,880)	(18,041)
Reversal of impairment on disposal	6,910	381
Impairment charge	(3,014)	(14,941)
Net unrealized fair value (losses)/gains	(52,927)	103,283
Closing Balance	**479,356**	**542,798**

During 2022 and 2021, 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 162 million at 31 December 2022 (2021: ID 95 million) have been revalued by the independent valuers, resulting in fair value gain of ID 72 million (2021: fair value gain of ID 6 million).

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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16. INVESTMENT IN ASSOCIATES

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	763,032	738,992
Additions	2,116	4,553
Disposals/capital repayments	(6,008)	(10,367)
Foreign currency translation reserve movement	32,599	23,169
Share in associates' other reserves	(2,191)	(1,111)
Share of net results	27,424	4,674
Net gain on disposal of associates	380	5,420
Dividend received	(1,854)	(2,298)
	815,498	763,032
Impairment	(20,176)	(20,176)
Closing Balance	**795,322**	**742,856**

The movement in provision for impairment is as follows:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening balance	20,176	10,088
Charge for the year	-	10,088
Closing Balance	**20,176**	**20,176**

Name of the entity	Country of incorporation	Entity's activities	31 Dec 2022	31 Dec 2021
Bosnia Bank International	Bosnia	Banking	45.46%	45.46%
Islamic Bank of Guinea	Guinea	Banking	31.55%	31.55%
Bank Muamalat Indonesia	Indonesia	Banking	7.24%	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	41.57%	41.67%
International Islamic Trade Finance Corporation (ITFC)	Saudi Arabia	Trade Financing	35.69%	35.73%
Awqaf Properties Investment Fund (APIF)	Saudi Arabia	Waqf Real Estate Investment	27.95%	25.79%
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%

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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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:

	2022						
	Year	**IsDB's Share of investment**	**Total assets**	**Total liabilities**	**Revenue**	**Net Income**	**IsDB's Share of Net income /(loss)**
Bosna Bank International	2022	30,524	643,510	576,361	28,857	4,897	2,226
	2021	28,669	593,601	530,535	13,571	4,556	2,071
Islamic Bank of Guinea	2022	3,652	115,655	104,080	5,849	811	256
	2021	3,020	83,586	74,012	3,703	408	129
Bank Muamalat Indonesia	2022	-	210	35	3	-	-
	2021	-	2,605	467	76	-	-
Syrikat Takaful	2022	1,591	89,894	79,493	3,983	258	68
	2021	1,583	91,269	80,934	2,515	217	57
Islamic Bank of Senegal	2022	24,819	739,253	659,901	21,080	8,273	2,752
	2021	23,826	625,513	553,879	16,470	10,921	3,632
ICD	2022	340,245	2,165,975	1,344,474	75,807	8,967	3,688
	2021	321,354	2,149,756	1,378,569	30,347	6,071	2,530
ITFC	2022	281,987	1,031,78	241,686	70,365	43,164	15,405
	2021	256,030	935,232	218,663	51,825	24,045	8,591
APIF	2022	27,373	105,866	8,222	7,237	1,476	413
	2021	23,981	95,858	2,859	4,731	2,360	609
IsDB Infrastructure Fund II	2022	84,616	310,294	747	3,367	9,371	2,499
	2021	83,693	306,715	276	3,111	(49,044)	(13,078)
Saudi SME Fund Al- Malaz Capital (CAP Asia)	2022	515	2,079	21	1,340	474	119
	2021	700	2,823	24	343	536	134

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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17. OTHER ASSETS

	31 Dec 2022	31 Dec 2021
Swaps designated in Hedge accounting relationships (Note 17a)	10,662	20,275
Related party balances (Note 29)	15,187	18,618
Advance to Trust Fund (Note 29c)	7,514	11,972
Staff loans and advances (Qard)	33,096	32,298
Others	12,799	11,527
	79,258	**94,690**

17(a) SWAPs

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

31 Dec 2022

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

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

31 Dec 2021

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

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

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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 three outstanding swaps as of December 31, 2022 and 2021 as below:

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

	Notional amount		Fair value	
	31 Dec 2022	31 Dec 2021	**31 Dec 2022**	31 Dec 2021
Cross currency profit rate swap	220,350	233,243	(8,125)	17,236
Profit rate swap	300,562	285,798	18,787	3,039
	520,912	**519,041**	**10,662**	**20,275**

	Notional amount		Fair value	
	31 Dec 2022	31 Dec 2021	**31 Dec 2022**	31 Dec 2021
2023	138,739	146,857	(4,211)	6,957
2024	300,562	285,798	18,787	3,039
2029	81,611	86,386	(3,914)	10,279
	520,912	**519,041**	**10,662**	**20,275**

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.

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Notes to the Financial Statements (continued)

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18. SUKUK ISSUED

IsDB Trust Services Limited ("ITSL") and Tadamun Services Berhad ("TSB") have issued the following global Sukuk. As at 31 December 2022 and 31 December 2021, sukuk issued were as follows:

	Date of issue	Issue Currency	ID equivalent 31 Dec 2022	ID equivalent 31 Dec 2021	Maturity date	Rate per annum
Listed	02/29/2016	EUR	239,951	242,773	03/01/23	0.255% Fixed
	04/12/2017	USD	-	897,177	04/12/22	2.393 % Fixed
	09/26/2017	USD	-	897,816	09/26/22	2.261 % Fixed
	03/15/2018	USD	947,790	900,639	03/15/23	3.100% Fixed
	09/26/2018	USD	985,392	936,494	09/26/23	3.389% Fixed
	11/07/2018	EUR	519,071	525,320	11/07/23	0.554% Fixed
	04/25/2019	USD	1,132,546	1,076,570	04/25/24	2.843 % Fixed
	10/02/2019	USD	1,131,999	1,076,170	10/02/24	1.957% Fixed
	12/04/2019	EUR	797,706	807,545	12/04/24	0.037% Fixed
	01/16/2020	EUR	239,929	242,987	01/16/27	0.3150% Fixed
	02/26/2020	USD	1,511,492	1,436,955	02/26/25	1.8090% Fixed
	05/28/2020	GBP	81,552	86,403	05/28/29	0.9640% Fixed
	06/25/2020	USD	1,126,394	1,071,147	06/25/25	0.9080% Fixed
	03/21/2021	USD	1,883,427	1,288,736	03/21/26	1.2620% Fixed
	10/21/2021	USD	1,354,834	1,790,610	10/21/26	1.2620% Fixed
	04/28/2022	USD	1,317,069	-	04/28/27	3.2130% Fixed
	10/27/2022	USD	756,842	-	10/27/27	4.7470% Fixed
			14,025,994	**13,277,342**		
Not Listed	06/29/2016	MYR	59,371	59,428	06/28/24	4.360 % Fixed
	02/24/2017	EUR	240,181	243,027	02/24/24	0.374 % Fixed
	02/27/2017	EUR	120,023	121,485	02/27/24	0.350 % Fixed
	07/19/2018	USD	76,331	71,513	07/19/23	6 Month LIBOR + 0.20%
	01/16/2019	EUR	40,041	40,525	01/16/24	0.385 % Fixed
	12/10/2019	USD	75,330	71,425	12/10/24	3 Month LIBOR + 0.43%
	12/10/2019	USD	75,326	71,425	12/10/24	3 Month LIBOR + 0.43%
	12/11/2019	USD	188,036	178,696	12/11/24	2% Fixed
	01/21/2020	USD	419,677	393,623	01/21/25	6 Month LIBOR + 0.37%
	02/10/2020	CNY	110,273	114,916	02/10/23	2.85 % Fixed
	06/26/2020	GBP	138,715	146,761	06/26/23	0.40 % Fixed
	07/16/2020	USD	75,383	71,686	07/16/25	0.88 % Fixed
	09/30/2020	EUR	358,906	363,477	09/30/26	0.10 % Fixed
	04/27/2021	USD	302,607	285,750	04/27/24	3 Month SOFR + 0.25%
	08/16/2021	USD	56,471	53,708	08/16/24	0.789% Fixed
			2,336,671	**2,287,445**		
Total			**16,362,665**	**15,564,787**		

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

After the sale of the Portfolio, IsDB as a third party, guarantees performance to the Trustees (obligors) of the Portfolio, that if any beneficiary is unable to pay any amount owed under the Portfolio, IsDB will make the payment. Also, IsDB undertakes to purchase the portfolio on the Maturity Date or Early Dissolution Date for an amount equivalent to the Aggregate Nominal Amount (i.e. price of the original sale). In the event that IsDB is unable to provide resources for the redemption of the Sukuk under any Series (whether on Maturity or Dissolution), the Board of Governors of IsDB may call such part of the callable capital as may be sufficient for IsDB to meet its obligations under such Series. Finance cost related to sukuk liabilities during the year ended 31 December 2022 amounted to ID 289.5 million (2021: ID 263.8 million).

Principal amount outstanding on Sukuk designated as hedged items is ID 521 million (2021: ID 519 million) (note 17a).

Subsequent to the year ended December 31, 2022, Sukuk amounting to CNY 1 billion (ID 0.1 billion), USD 1.25 billion (ID 0.9 billion) and EUR 0.3 billion (ID 0.2 billion) matured and redeemed. Further sukuk amounting to USD 2 billion (ID 1.5 billion) has been issued in March 2023.

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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 2022 of ID 392.1 million (2021: ID 277.2 million) represents the purchase price under these agreements. Financing cost incurred on commodity murabaha purchases during 2022 was ID 0.44 million (2021: ID 0.01 million).

20. OTHER LIABILITIES

	31 Dec 2022	31 Dec 2021
Related party balances (Note 29)	3,948	268,007
Investment deposits	2,495	2,330
Accrued expenses	15,779	15,537
Deferred income – Ijarah	102,052	114,590
Accrued staff retirement and medical benefit scheme liability (Note 21)	72,800	207,898
Staff related liabilities	16,356	15,630
Deferred grant income	1,700	2,267
Others	15,171	13,998
	230,301	**640,257**

21. POST EMPLOYMENT BENEFIT PLANS

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

IsDB Group has a multi-employer plan and includes the Corporation, Islamic Development Bank - Ordinary Capital Resources (IsDB-OCR), Special Account Resources Waqf Fund (WAQF), 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) became effective on 1st Rajab 1399H (corresponding to May 27, 1979) and 17/05/1442H (01/01/2022G) respectively. Every person employed by the Bank and its Affiliates on a full-time basis except for fixed term employees, as defined in the employment policies of the Bank and its Affiliates, is eligible to participate in the SPP, from the date joining the Bank and its affiliates. Participation in the hybrid pension plan is limited to those who have less than five years of service as of December 31, 2021 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% (2021-11.1%) of the basic annual salary while the Bank and its Affiliates contribute 25.9% (2021-25.9%).

The main features of the SPP are:

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

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

(iii) 10% of Bank and its Affiliates contribution of 25.9%, and 5% of 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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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At 31 December 2022

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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 employee via the BED resolution dated 18 Shawwal 1418H (corresponding to 15 February 1998). This was extended to eligible staff members of the Bank's Affiliates i.e. for SPP. The Bank and its Affiliates at rate 1% and the staff at a rate 0.5% of the basic salaries respectively fund the SRMP. The purpose of the SRMP is to pay a monthly amount to eligible retired employee towards their medical expenses

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

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

Retirees Medical Solidarity 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 and at August 1, 2021, employees started cash contributions to RMSP. These contributions cumulated before April 1, 2022 have been recognized as part of plan assets during the year

Retirees didn't contribute up until April 1, 2022 and received benefits under the SRMP up until that point.

Administration of SRPs

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

Risks

Investment risk

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

Discount rate

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

Longevity risk

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

Salary risk

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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21. POST EMPLOYMENT BENEFIT PLANS (continued)

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

	SPP		RMSP		SRMP	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Benefit obligation – opening balance	386,924	351,680	-	-	34,295	30,782
Plan combinations – Transfer to RMSP	-	-	20,263	-	(20,263)	
Current service costs	17,153	16,869	1,822	-	147	1,559
Past service costs	-	-	(11,353)	-	-	-
Expense on Defined Benefit obligation	11,453	9,353	578	-	439	817
Plan participations contributions	5,477	5,539	2,425	-	35	272
Disbursements from Plan assets	(12,568)	(13,167)	12	-	(955)	(838)
Net actuarial (gains)/loss	(122,331)	6,428	(7,712)	-	(3,146)	808
Currency translation loss	19,988	10,222	-	-	1,772	895
Benefit obligation – closing balance	**306,096**	**386,924**	**6,035**	**-**	**12,324**	**34,295**

The movements in the plan assets are as follows:

	SPP		RMSP		SRMP	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Fair value of plan assets – opening balance	202,282	186,123	-	-	11,039	9,916
Plan combinations – Transfer to RMSP	-	-	5,246	-	(5,246)	-
Other adjustments	721	3,668	7,296	-	(10)	35
Profit on Plan Assets	6,091	5,053	-	-	171	267
Return on plan assets greater or (less) than discount rate	2,485	(3,245)	-	-	55	(204)
Plan participations contributions	5,477	5,539	2,425	-	35	272
Employer contribution	12,803	12,901	2,386	-	890	1,302
Disbursements from Plan assets	(12,568)	(13,167)	12	-	(955)	(837)
Currency translation gain	10,450	5,410	-	-	570	288
Fair value of plan assets – closing balance	**227,741**	**202,282**	**17,365**	**-**	**6,549**	**11,039**
Deficit/(Surplus)	**78,355**	**184,642**	**(11,330)**	**-**	**5,775**	**23,256**

	31 Dec 2022	31 Dec 2021
Net liability recognized in the statement of financial position representing deficit of benefit obligation over fair value of plan assets (Note 20)	**72,800**	**207,898**

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 2022 and 31 December 2021 for the Bank comprised the following:

	SPP		RMSP		SRMP	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Current service costs	17,153	16,869	1,822	-	147	1,559
Past service costs	-	-	(11,353)	-	-	-
Expense on Defined Benefit obligation	11,453	9,353	578	-	439	817
Income on assets	(6,091)	(5,053)	-	-	(171)	(267)
Currency translation loss	9,538	4,812	-	-	1,202	607
Amount recognized in income statement	**32,053**	**25,981**	**(8,953)**	**-**	**1,617**	**2,716**
Actuarial (gains)/losses due to assumptions	(122,331)	6,428	(7,712)	-	(3,146)	808
Return on plan assets (less) or greater than discount rate	(2,485)	3,245	-	-	(55)	204
Other adjustments	(721)	(3,668)	(7,296)	-	9	(34)
Amount recognized in statement of changes in Members' Equity	**(125,537)**	**6,005**	**(15,008)**	**-**	**(3,192)**	**978**

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21. POST EMPLOYMENT BENEFIT PLANS (continued)

Principal assumptions used in the actuarial valuations are as follows:

	SPP		RMSP		SRMP	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Discount rate	5.1%	2.60%	5.1%	-	5.1%	2.85%
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%

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

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

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)

2021

	SPP		RMSP		SRMP	
	+0.5%	-0.5%	**+0.5%**	-0.5%	**+0.5%**	-0.5%
Discount rate	(31,781)	36,429	-	-	(3,053)	3,514
Rate of expected salary increase	13,002	(13,027)	-	-	1,112	(1,035)

The following table presents the plan assets by major category:

	SPP		RMSP		SRMP	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Cash and cash equivalents and commodity placements	87,385	100,503	2,709	-	8,079	5,180
Syndicated Murabaha	-	-	6,748	-	-	-
Managed funds and instalment sales	54,467	27,528	-	-	-	-
Investments in sukuk	64,274	57,858	3,397	-	679	4,178
Land	20,484	16,451	-	-	-	-
Others - net	1,131	(58)	4,511	-	(2,209)	1,681
Plan net assets	**227,741**	**202,282**	**17,365**	**-**	**6,549**	**11,039**

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:

	31Dec23	**31Dec22**	31Dec21	31Dec20	31Dec19
Present value of defined benefit obligation	(323,574)	(306,096)	(386,924)	(351,680)	(307,329)
Fair value of plan assets	240,219	227,741	202,282	202,113	190,880
Plan deficit	**(83,355)**	**(78,355)**	**(184,642)**	**(149,567)**	**(116,449)**

The expected employer contribution for year ended 31 December 2023 is ID 12,861 and expected costs to be recognized in profit or loss is ID 17,860.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
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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:

	31Dec23	**31Dec22**	31Dec21	31Dec20	31Dec19
Present value of defined benefit obligation	(9,464)	(6,035)	-	-	-
Fair value of plan assets	22,229	17,365	-	-	-
Plan deficit	**12,765**	**11,330**	**-**	**-**	**-**

The expected employer contribution for year ended 31 December 2023 is ID 1,916 and expected costs to be recognized in profit or loss is ID 481.

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:

	31Dec23	**31Dec22**	31Dec21	31Dec20	31Dec19
Present value of defined benefit obligation	(12,211)	(12,324)	(34,295)	(30,782)	(26,494)
Fair value of plan assets	6,095	6,549	11,039	9,916	9,280
Plan deficit	**(6,116)**	**(5,775)**	**(23,256)**	**(20,866)**	**(17,214)**

The expected employer contribution for year ended 31 December 2023 is ID 56 and expected costs to be recognized in profit or loss is ID 397.

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

	SPP	**RMSP**	**SRMP**	**31Dec22 Total**	31DeC21 Total
Opening balance	145,520	-	14,828	160,348	153,365
Actuarial (gain)/loss due:					
Effect of changes in demographic assumptions	-	-	-	-	(5,216)
Effect of changes in financial assumptions	(128,086)	(7,804)	(3,375)	(139,265)	(15,269)
Effect of experience adjustments	5,755	90	231	6,076	27,721
Return on plant assets greater/(less) than discount rate	(2,485)	-	(55)	(2,540)	3,449
Other adjustments	(721)	(7,296)	9	(8,008)	(3,702)
Closing balance	**19,983**	**(15,010)**	**11,638**	**16,611**	**160,348**

The expected maturity analysis is below:

	SPP		**RMSP**		**SRMP**	
	31Dec22	31Dec21	**31Dec22**	31Dec21	**31Dec22**	31Dec21
Year 1	17,520	18,011	(65)	-	852	979
Year 2	11,964	15,834	(56)	-	856	1,000
Year 3	14,176	14,821	(56)	-	876	1,024
Year 4	15,854	17,500	(56)	-	904	1,072
Year 5	16,254	18,801	(50)	-	924	1,131
Next 5 years	84,938	105,404	2,688	-	4,570	6,450

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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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 2022	31 Dec 2021
Authorized capital	10,000,000 shares of ID 10,000 each	100,000,000	100,000,000
Issued capital	5,613,528 (31 December 2021 – 5,061,406) shares of ID 10,000 each	56,135,280	50,614,060
Less: Available for subscription		(878,630)	(353,570)
Subscribed capital		55,256,650	50,260,490
Callable capital		(40,899,205)	(40,888,595)
Called up capital		**14,357,445**	**9,371,895**
Amount not yet due		(7,636,538)	(2,935,250)
Instalments overdue		(308,911)	(259,559)
Paid up capital		**6,411,996**	**6,177,086**

The Bank received ID 234.91 million (2021: ID 236.48 million) against paid-up capital during the year.

For each Islamic Dinar of paid capital, the Bank has as at 31 December 2022 ID 0.57 (31 December 2021: ID 0.54) of total accumulated reserves.

On 4 Jumad Al-Awwal 1442H (19 December 2020), the IsDB-OCR's subscribed capital was further increased by ID5.5 billion from ID50.2 billion to ID55.7 billion (the sixth General Capital Increase) in accordance with the resolution passed by the Board of Governors by circulation. The sixth GCI will be available for subscription by all member countries according to the rules and the resolution of the Board of Governors.

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 2022, general reserve made up 5.69% of the subscribed capital (31 December 2021: 6.16%). 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% (2021 - 10%) of the Bank's normalized net income (with a ceiling of US$ 20 million) for the year ended 31 December 2022 was allocated in the form of technical assistance grants to finance strategic programs and other significant operational initiatives in member countries amounting to ID 9.7 million (31 December 2021: ID 10.9 million).

- 4% (2021 - 4%) of the Bank's normalized net income (with a ceiling of US$ 8 million) for the year ended 31 December 2022 was allocated for financing the Bank's Scholarship Programs in the form of grants amounting to ID 3.9 million (31 December 2021: ID 4.3 million).

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24. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Staff costs	126,583	124,609
IT Expenses	11,781	8,326
Consultancy fees	6,124	12,463
Others	14,748	11,416
	159,236	**156,814**

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 2022	31 Dec 2021
Istisna'a	2,838,019	3,372,734
Intalment sale	2,925,085	2,366,348
Loans (Qard)	523,043	602,134
Ijarah assets	414,393	634,244
Investment in equity and funds	32,012	40,602
	6,732,552	**7,016,062**

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

	2022		2021	
	No of events	Amount	No of events	Amount
Portfolio supervision/monitoring fee	1	8	1	75
Late payment charges	2	56	-	-
Interest from legacy accounts with conventional banks	4	3	37	39
		67		**114**

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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27. SHARI'AH BOARD

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

The Board has the following functions:

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

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

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

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

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

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 realized from their investments and the total obligation as at 31 December 2022 amounted to ID 82.6 million (31 December 2021: ID 78.2 million). The profits accrued on the investments made on behalf of the restricted investment account holders amounted to ID 2.0 million (2021: 0.8 million) and Mudarib fee charged by the Bank amounted to ID 0.10 million (2021: 0.07 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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

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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:

	31Dec22		31Dec21	
	Due from	**Due to**	**Due from**	**Due to**
World Waqf Foundation	-	-	578	-
Awqaf Properties Investment Fund	5,834	-	-	(4,348)
Unit Investment Fund	-	(417)	-	(394)
Islamic Corporation for the Insurance of Investments and Export Credit	1,190	-	1,982	-
Special Account Resources Waqf Fund	-	(2,871)	-	(3,227)
IsDB Special Assistance Fund	440	-	107	-
IsDB Pension Fund	-	(189)	-	(454)
IsDB Medical Fund	7	-	84	(6)
Building Institutional Capacity	87	-	82	-
Economic Empowerment of the Palestinian people	-	(1)	-	(655)
Al Aqsa Fund	-	(470)	-	-
Islamic Corporation for Development of Private Sector	1,632	-	4,422	-
Arab Bank for Economic Development in Africa	39	-	40	-
International Islamic Trade Finance Corporation	2,272	-	2,283	-
Islamic Development Bank – Custodian of the Two Holy Mosques (Late) King Abdullah Bin Abdul Aziz Program for Charity Works (KAAP)	412	-	394	-
Islamic Solidarity Fund for Development	682	-	7,545	(258,898)
Sacrificial Meat Project	59	-	-	(25)
Bunyan Fund	1	-	26	-
Global Muslim Philanthropy Fund for Children	13	-	43	-
National Education Sector Fund	922	-	239	-
Lives and livelihoods Fund	1,519	-	793	-
Dueauville Partnership	68	-	-	-
Science, Technology and Innovation Fund	10	-	-	-
Total	**15,187**	**(3,948)**	**18,618**	**(268,007)**

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

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

(a) In 2008, the Bank's Board of Executive Directors' resolved to allocate USD 1 billion of IsDB OCR resources to ITFC for managing its Murabaha financing, where ITFC will act as a Mudarib (under a Mudaraba agreement). The respective Mudarib share of profits (i.e. ITFC's share of profit generated from the Mudaraba agreement) charged by ITFC during the year amounts to ID 1.7 million (2020: ID 1.6 million).

(b) In 2021, the Bank had Wakala funds under management placed by Islamic Solidarity Fund for Development amounting to ID258.9 million. In December 2021, the Bank and ISFD agreed to early terminate the agreement whereby the amount due to ISFD under the arrangement was transferred to the interfund account. This amount was settled during the year.

(c) The Bank had advanced an amount of ID 7.5 million (2021- ID 6.9 million) to a trust fund, Economic Empowerment of Palestinian People and ID Nil Million (2021 ID 4.8 million) to Sacrificial Meat Project (Note 17). Advance to Sacrificial Meat Project outstanding as of end of 2021 was settled during the year.

(d) The Bank acts as Mudarib for Awqaf Properties investment Fund (APIF), its affiliate. The mudarib share of profit charged by the Bank during 2022 amounted to ID 0.17 million (2021- 0.27 million)

(e) 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 2022	Year ended 31 Dec 2021
Board of Executive Directors expenses	1,004	726
Salaries and other short-term benefits	1,866	2,461
Accumulated post-employment benefits	511	836

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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".

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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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 2022

Country	Total Sovereign Exposure	Total Non-Sovereign Exposure	Total outstanding exposure	% of total outstanding exposure
Turkiye	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%**

31 Dec 2021

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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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 2022		31 Dec 2021	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	6	0.0%	6	0.0%
Category "B"	2,051,675	12.0%	2,011,388	12.6%
Category "C"	5,922,957	34.7%	5,668,008	35.5%
Category "D"	5,805,834	34.1%	5,239,680	32.8%
Category "E"	2,153,175	12.6%	1,948,299	12.2%
Category "F"	300,746	1.8%	294,183	1.8%
Category "G"	820,315	4.8%	813,611	5.1%
Total	**17,054,708**	**100.0%**	**15,975,175**	**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 2022		31 Dec 2021	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	-	0.0%	-	0.0%
Category "B"	243,993	33.5%	430,599	45.8%
Category "C"	193,316	26.6%	208,459	22.2%
Category "D"	218,833	30.0%	254,438	27.1%
Category "E"	72,283	9.9%	46,372	4.9%
Category "F"	-	0.0%	-	0.0%
Category "G"	-	0.0%	-	0.0%
Total	**728,425**	**100.0%**	**939,868**	**100.0%**

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30. RISK MANAGEMENT (continued)

Treasury assets

The assets subject to credit risk within treasury assets include cash and cash equivalents, commodity murabaha placements, sukukinvestments and Murabaha-based profit-rate and cross-currency project rate swaps. The Bank minimizes these credit risksthrough a prudential framework of: (i) approved counterparties, (ii) minimum credit rating thresholds for specificinstruments and counterparty banks, (iii) prudential exposure limits and (iv) counterparty credit risk mitigation measures.

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

	31 Dec 2022		31 Dec 2021	
Risk rating category	**Amount**	**%**	**Amount**	**%**
Category "A"	120,374	2.1%	99,157	1.7%
Category "B"	5,454,548	97.4%	5,648,125	97.7%
Category "C"	81	0.0%	62	0.0%
Category "D"	1,046	0.0%	1,985	0.0%
Category "E"	-	0.0%	-	0.0%
Category "F"	-	0.0%	-	0.0%
Category "G"	23,489	0.4%	30,819	0.6%
Total	**5,599,538**	**100.0%**	**5,780,148**	**100.0%**

Concentration of financial assets with credit risk exposure

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The exposure management framework adopted by the Bank addresses country limits at the level of total portfolio and limits for single non-sovereign obligor or group of connected obligors. To maintain appropriatediversification, the framework also covers concentration limits relating to single country, at the level of total portfolio andtreasury portfolio, to single counterparty, at the level of treasury portfolio and non-sovereign portfolio, and to sector, at thelevel of non-sovereign portfolio.

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

31 Dec 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%**

31 Dec 2021	**Africa**	**Asia**	**Europe**	**Non Member Countries**	**Total**
Treasury assets	155,849	6,564,566	1,189,515	327,392	**8,237,322**
Project assets	6,934,496	9,020,520	311,392	12,428	**16,278,836**
Investment assets	373,398	928,604	4,086	52,656	**1,358,744**
Other assets	13,455	138,317	-	-	**151,772**
Total assets:	**7,477,198**	**16,652,007**	**1,504,993**	**392,476**	**26,026,674**
%	**29%**	**64%**	**6%**	**1%**	**100%**

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At 31 December 2022
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30. RISK MANAGEMENT (continued)

Credit Risk (continued)

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

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%**

31 Dec 2021	Treasury assets	Project assets	Investment assets	Other assets	Total	%
Public utilities	-	6,973,772	-	-	6,973,772	**27%**
Transport and telecom	-	4,265,734	-	-	4,265,734	**16%**
Agriculture	-	1,646,697	-	-	1,646,697	**6%**
Industry and mining	-	167,292	358,458	-	525,750	**2%**
Social Services	-	2,492,801	-	-	2,492,801	**10%**
Financial Institutions	6,424,027	-	940,541	-	7,364,568	**28%**
Governments	1,314,713	-	-	-	1,314,713	**5%**
Trade	253,421	-	-	-	253,421	**1%**
Other	245,161	732,540	59,745	151,772	1,189,218	**5%**
Total assets:	**8,237,322**	**16,278,836**	**1,358,744**	**151,772**	**26,026,674**	**100%**

Expected Credit Risk for financial assets measured at amortized cost

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

Determining the stage for impairment

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

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

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

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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At 31 December 2022

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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 realizing security.

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

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

Measurement of Expected Credit Losses (ECLs)

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

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

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

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

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

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

Exposure Amounts and ECL coverage

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

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2022.

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30. RISK MANAGEMENT (continued)

Credit Risk (continued)

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%**

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

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

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

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At 31 December 2022

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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 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**

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30. RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 Dec 2021	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Cash & Cash equivalents	236,583	-	-	-	-	-	**236,583**
Commodity murabaha placements	1,504,045	1,947,512	1,909,117	167,428	-	-	**5,528,102**
Sukuk Investments	36,062	296,953	49,258	1,606,775	230,168	-	**2,219,216**
Murabaha Financing	114,375	58,815	80,231	-	-	-	**253,421**
Istisna'a assets	284,117	131,894	340,815	2,164,502	5,467,531	-	**8,388,859**
Restricted Mudaraba	34,274	26,804	57,498	342,310	195,352	-	**656,238**
Instalment sale	74,758	39,841	107,567	700,008	1,531,848	-	**2,454,022**
Ijarah assets	202,024	75,646	115,164	889,410	1,703,290	-	**2,985,534**
Loans (Qard)	74,422	70,307	87,739	574,652	987,063	-	**1,794,183**
Equity investments	-	-	-	-	-	542,798	**542,798**
Investments in associates	-	-	-	-	-	742,856	**742,856**
Other investments	-	-	-	-	-	73,090	**73,090**
Property, equipment and intangibles	-	-	-	-	-	57,082	**57,082**
Other assets	27,816	13,570	14,583	20,905	17,816	-	**94,690**
Total Assets	**2,588,476**	**2,661,342**	**2,761,972**	**6,465,990**	**10,133,068**	**1,415,826**	**26,026,674**

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

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

(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 2022	31 Dec 2021
USD (1ID = 1.33084 USD)	2,967,696	2,479,811
EUR (1ID = 1.25291 EUR)	1,900,979	1,742,432
Pound Sterling (1ID = 1.10279 GBP)	455,682	463,443
Japanese Yen (1ID = 176.537 JPY)	452,704	391,233
Chinese Yuan (1ID = 9.29731 CNY)	678,264	646,448
Others	8,655	5,719
	6,463,980	**5,729,086**

(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 2022	31 Dec 2021
Commodity murabaha placements	1.9%	0.8%
Sukuk investments	2.2%	2.6%
Murabaha financing	3.5%	2.9%
Istisna'a assets	2.9%	3.1%
Instalment sale	3.2%	3.2%
Ijarah assets	3.0%	2.2%
Sukuk issued	1.8%	1.7%
Commodity murabaha liabilities	0.1%	0.0%

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

(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 2022	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value through income statement:				
Sukuk investments	136,538	-	-	**136,538**
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	**453,750**	**10,662**	**162,144**	**626,556**

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

During the years ended 31 December 2022 and 31 December 2021, there were no transfers between level 1 and level 2 and no transfers into or out of level 3.

As at 31 December 2022, sukuk investment carried at amortized cost with carrying value amounting to ID 2.50 billion (2021: ID 2.07 billion) has fair value of ID 2.37 billion (2021: ID 2.10 billion).

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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 involving

i) formulation of detailed implementation roadmap and action plan with the help of an external consultant,
ii) formulation and incorporation of enhanced 'fallback' clause for all prospective contracts,
iii) obtaining clearance from Shariah Technical Committee on use of CME Term SOFR (Chicago Mercantile Exchange 'CME' is an American global markets company. It is the world's largest financial derivatives exchange. CME Group estimates the Term SOFR Reference Rates benchmark as a daily set of forward-looking profit rates for 1-month, 3-month, 6-month and 12-month tenors) as preferred replacement rate to USD LIBOR,
iv) revision in the Sovereign Pricing policy based on new benchmark rates,
v) resource mobilization based on SOFR curve and maintaining the cost pass through mechanism to minimize the ALM (Asset and Liability Management) risks, and
vi) initiation of system upgradation project to enable the use of new pricing policy and reference rates
vii) approval of new pricing policy based on alternate benchmark rates applicable for sovereign project financing,
viii) adoption of the alternate reference rate for all the new contracts approved from 2022 onwards,
ix) management approval on the conversion methodology for legacy portfolio impacted due to Libor cessation,
x) engagement with member countries and other counterparts for building census on the conversion methodology,
xi) drafting and sharing of amendment agreements with the paying agencies for their review and feedback.

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.

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.

ISLAMIC DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

Notes to the Financial Statements (continued)

At 31 December 2022

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

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

2. Legal risk: There is a possibility of not reaching an agreement with the counterparts on revised pricing particularly on the legacy contracts. This could be a result of having ineffective fallback clauses in the signed legal agreements. This risk has been addressed 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.

For the legacy contracts in Treasury portfolio, the strategy is to wait for the Issuer to propose the alternate pricing to all the issue participants. This is because IsDB is only a participant investor amongst many other investors and hence cannot determine and negotiate an alternate rate on its own. In the absence of any such alternate rate from issuer, it is not possible nor logical to run the impact analysis. Therefore, for legacy treasury assets, strategy is to wait till Q1 2023 for issuer to propose an alternate rate and if not, Treasury will formulate an exit strategy for all such trades.

Same is the case of legacy contracts for non-sovereign financing. IsDB is part of large PPP syndicates and hence IsDB is unable to negotiate an alternate rate with the counterparty. The Syndicate leads are expected to propose alternate rates based on which, IsDB will run the assessment and decide accordingly. IsDB has already communicated to the relevant Lead Syndicate that the preferred alternate reference rate is Term SOFR and it has been confirmed that there is a consensus amongst MDBs on use of Term SOFR for PPP portfolio.

For legacy contracts on Capital Markets, the only exposure linked to LIBOR is a bilateral exposure with another group entity. Therefore, the Capital Markets team has updated the holder of the Sukuk about its strategy is to continue with it till the time we have clarity on all the viable alternate pricing options on the Treasury assets so that the same could be discussed and negotiated with the group entity to agree on one of them. The holder is also in agreement with the Bank on conversion of Term SOFR as new reference rate.

For legacy contracts for sovereign financing, the Bank has decided to follow a gradual approach by allowing early adoption option to its member countries on selective basis. During this period, member countries will be offered the conversion option to the new Sovereign Pricing policy. The relevant regional hubs have already started the engagements with member countries and paying agencies to discuss with them the Bank's transition methodology. In parallel, the Bank is also finalizing the amendment agreements.

ISLAMIC DEVELOPMENT BANK

SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants
Jeddah branch office
License #323/11/96/1
Date 24/4/1419
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Islamic Development Bank – Special Account Resources Waqf Fund (the "Fund") which comprise the statement of financial position as of December 31, 2022, and the related statement of financial activities, statement of changes in waqf equity, statement of cash flows and statement of ghallah for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2022, and the results of its activities and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

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

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the '*Auditor's Responsibilities for the Audit of the Financial Statements'* section of our report. We are independent of the Fund in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions ("AAOIFI Code"), and we have fulfilled our other ethical responsibilities in accordance with the AAOIFI Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Fund's 2022 Financial Statement

Other information consists of the statement of service performance appended to the Fund's financial statements for the year ended December 31, 2022, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT - CONTINUED

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT - CONTINUED

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

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

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

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.

Report on Other Legal and Regulatory Requirements

Article 4 of the Regulation of the Special Account Resources Waqf Fund requires maintaining the Principal Amount i.e., waqf corpus in perpetuity. As of December 31, 2022, and 2021, the Fund has accumulated deficit in respect of which required measures are being taken as disclosed in Note 32 of the Fund's financial statements.

Deloitte and Touche & Co.
Chartered Accountants

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

22 Ramadan, 1444
April 13, 2023

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	5	**90,763**	57,455
Commodity murabaha placements	6	**29,186**	197,642
Investment in sukuks	7	**82,236**	88,408
Murabaha financing	8	**-**	1,209
Treasury assets		**202,185**	344,714
Investment in installment sale	9	**3,430**	3,430
Investment in syndicated ijarah	10	**2,932**	2,947
Equity investments	11	**11,649**	18,722
Investment in funds	12	**55,637**	60,170
Investment in associates	13	**175,702**	165,882
Wakala investments	14	**182,187**	65,981
Investment assets		**431,537**	317,132
Loans (Qard)	15	**147,536**	160,509
Other assets	16	**9,622**	14,111
Fixed assets		**21,267**	22,768
TOTAL ASSETS		**812,147**	859,234
LIABILITIES			
Accruals and other liabilities	17	**22,174**	60,492
Restricted funds	18	**24,338**	26,305
TOTAL LIABILITIES		**46,512**	86,797
WAQF EQUITY			
Waqf corpus		**1,069,852**	1,069,852
Accumulated deficit		**(282,289)**	(235,786)
Reserves		**(21,928)**	(61,629)
TOTAL WAQF EQUITY		**765,635**	772,437
TOTAL LIABILITIES AND WAQF EQUITY		**812,147**	859,234

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF FINANCIAL ACTIVITIES
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2022	2021
Income/(loss) from:			
Treasury assets			
Commodity murabaha placements		**1,814**	1,651
Investments in sukuk	7	**3,172**	3,393
Investment assets			
Equity investments		**(2,211)**	-
Investment in funds		**950**	2,719
Investment in associates		**5,877**	6,537
Wakala investment		**(30,217)**	2,350
Other		**539**	2,787
Total income		**(20,076)**	19,437
Foreign exchange (losses)/ gains		**(1,270)**	(4,231)
Total income/(loss) before program expenses		**(21,346)**	15,206
Program expenses	22	**(21,126)**	(25,447)
Income/(loss) before impairment charge		**(42,472)**	(10,241)
Impairment charge for the year	20	**(4,975)**	(7,683)
Attributable net income/(loss)		**(47,447)**	(17,924)
Donation (transferred) / received		**(1,541)**	290
Contributions from IDB-OCR for Technical Assistance Grants and Scholarship Program	21	**18,304**	21,654
Non-Shari'ah income transferred from IsDB- OCR		**190**	161
Net (deficit) / surplus for the year		**(30,494)**	4,181

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF CHANGES IN WAQF EQUITY
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

				Reserves				
	Notes	Waqf corpus	Accumulated deficit	Fair value reserve	Pension fund reserves	Other reserves	Total reserves	Total
Balance at 1 January 2021		1,069,852	(217,368)	(6,021)	(19,163)	(8,037)	(33,221)	819,263
Impact of adoption of FAS-30		-	(3,293)	-	-	-	-	(3,293)
Revised balance as at 1 January 2021		1,069,852	(220,661)	(6,021)	(19,163)	(8,037)	(33,221)	819,263
Net surplus for the year		-	4,181	-	-	-	-	4,181
Change in fair value reserve-net		-	-	(6,535)	-	-	(6,535)	(6,535)
Retirement pension plan liability		-	-	-	(22,350)	-	(22,350)	(22,350)
Share in associates' reserve movement		-	-	-	-	5,823	-	5,823
Movement in other reserves		-	-	-	-	(5,346)	(5,346)	(5,346)
Ghallah distribution		-	(19,306)	-	-	-	-	(19,306)
Balance at 31 December 2021		**1,069,852**	**(235,786)**	**(12,556)**	**(41,513)**	**(7,560)**	**(61,629)**	**772,437**
Net deficit for the year		**-**	**(30,494)**	**-**	**-**	**-**	**-**	**(30,494)**
Change in fair value reserve-net		**-**	**-**	**2,982**	**-**	**-**	**2,982**	**2,982**
Retirement pension plan liability	19	**-**	**-**	**-**	**40,400**	**-**	**40,400**	**40,400**
Share in associates' reserve movement		**-**	**-**	**-**	**-**	**4,410**	**4,410**	**4,410**
Movement in other reserves		**-**	**-**	**-**	**-**	**(8,091)**	**(8,091)**	**(8,091)**
Ghallah distribution		**-**	**(16,009)**	**-**	**-**	**-**	**-**	**(16,009)**
Balance at 31 December 2022		**1,069,852**	**(282,289)**	**(9,574)**	**(1,113)**	**(11,241)**	**(21,928)**	**765,635**

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2022	2021
Cash flows from operations			
Net (deficit)/ surplus for the year		**(30,494)**	4,181
Adjustment for non-cash items:			
Depreciation		**1,501**	1,601
Impairment for the year	20	**4,975**	7,683
Unrealized fair value loss on investment in sukuks	7	**2**	-
Accrued coupon income on investment in sukuks	7	**61**	-
Loss on disposal of equity investments		**2,211**	-
Share of gain in associates, net	13	**(5,978)**	(7,114)
Loss on deemed disposal of associates	13	**101**	576
Share of loss on wakala investments		**29,925**	-
Service cost on pension and medical obligation	19	**3,439**	3,665
Foreign exchange		**(8,091)**	(6,786)
Change in operating assets and liabilities			
Investment in installment sale		**-**	(56)
Restricted funds		**(1,967)**	(1,073)
Loans (Qard)		**19,299**	16,732
Other assets		**4,489**	6
Accruals and other liabilities		**615**	(32,530)
Cash from/ (utilized in) operations		**20,089**	(13,115)
Pension and medical obligation paid	19	**(1,972)**	(1,054)
Ghallah distribution		**(16,009)**	(19,306)
Net cash from/ (utilized in) operations		**2,108**	(33,475)
Cash flows from investing activities			
Net movement in commodity murabaha placements		**168,663**	42,672
Redemption of investments in sukuk	7	**6,066**	2,680
Disposal of equity investments		**1,638**	-
Additions to investment in funds	12	**(200)**	(441)
Disposal of investment in funds	12	**698**	5,095
Dividends from associates	13	**467**	1,001
Additions to wakala investments	14	**(146,131)**	(65,981)
Addition to fixed assets		**-**	(47)
Net cash from/ (utilized in) investing activities		**31,201**	(15,021)
Net change in cash and cash equivalents		**33,308**	(48,496)
Cash and cash equivalents at 1 January		**57,455**	105,951
Cash and cash equivalents at 31 December	5	**90,763**	57,455

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
STATEMENT OF GHALLAH
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

	Notes	2022	2021
Opening balance of over-appropriated ghallah		**(232,089)**	(211,427)
Ghallah for the year			
(Deficit) / surplus for the year		**(30,494)**	4,181
Fair value loss on sukuk		**2**	-
Share of income/loss from associates	13	**(5,877)**	(6,538)
Dividend income on associates	13	**467**	1,001
Total ghallah for the year		**(35,902)**	(1,356)
Ghallah available for distribution		**(267,991)**	(212,783)
Ghallah distribution to beneficiaries	22	**(16,009)**	(19,306)
Closing balance of over-appropriated Ghallah		**(284,000)**	(232,089)

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

1. INCORPORATION AND OPERATIONS

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

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

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

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

IsDB being the sole donor of the Waqf Fund is the Fund's Waqif. In accordance with the approved Amendment to the Waqf Fund Regulation, Board of Trustees of the Waqf Fund is the Nazir of the Fund responsible for its governance and oversight. As of the reporting date, the Board of Trustees is yet to be institutionalised and, in the meantime, IsDB's Board of Executive Directors takes the role of the Fund's Nazir.

The Fund derives its income from returns on treasury assets, investments and other assets. As per the regulations of the Fund, a certain percentage of its attributable net income is allocated to the waqf corpus of the Fund every year until it reaches ID 1 billion (US$ 1.44 billion). In accordance with the resolution of the Board of Executive Directors dated 24 February 2019, new attributable income allocations were approved (as tabled below). Further, the Board decided that effective 2019 all principal repayment of loans shall be allocated to the Special Assistance Programs Fund until the Special Account for LDMCs is offset. Therefore, Special Account for LDMC is treated as part of the Fund's accumulated deficit given there are no further disbursements to be made from this Fund due to its discontinuance.

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

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

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

1. INCORPORATION AND OPERATIONS (continued)

The Fund is required to carry out its activities in accordance with the Rules and Principles of Islamic Shari'ah. In accordance with the Board of Governors' Resolutions, income on IsDB balances with other banks (conventional investments) and other investments balances, which are considered by IsDB Group Shari'ah Board to be forbidden by Shari'ah, are not included in the income statement of IsDB but are transferred to the Fund and included in the statement of financial activities of the Fund (2022 US$ 190 thousand and 2021: US$ 161 thousand).

2. BASIS OF PREPARATION

a) Statement of Compliance

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

b) Basis of measurement

The financial statements are prepared under the historical cost convention except for the following items:
- Investment in funds and equity investments are measured at fair value through changes in waqf equity;
- Wakala investments are accounted for using equity method of accounting.
- Certain investments in sukuk are measured at fair value through statement of financial activities designated as such at the time of initial recognition;
- Investments in associates accounted for using equity method of accounting; and
- Post-employment benefits plan measured using actuarial present value calculation based on projected unit credit method.

c) Functional and presentation currency

Since establishment and up to the end of 2019, the Fund's functional and presentation currency was Islamic Dinar "ID". During 2019, the Board of Executive Directors approved the change of the functional and presentation currency of the Fund from ID to United Stated Dollars ("USD"). Except as otherwise indicated, financial information presented in USD has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

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

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash 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 Fund.

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

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)

Financial assets

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

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

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 amortized cost, 2) at fair value through changes in waqf equity or 3) fair value through statement of financial activities

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 waqf 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 through statement of financial activities include investments held for trading or designated at fair value through statement of financial activities at inception. At inception, a non-monetary debt-type instrument can only be designated at fair value through statement of financial activities 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)

a) Financial assets and liabilities (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 statement of financial activities or 2) at fair value through changes in waqf equity.

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

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

Investments designated at fair value through statement of financial activities are those which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Fund makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of financial activities to be classified as investments at fair value through changes in waqf 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 amortized cost, 2) at fair value through changes in equity or 3) fair value through statement of financial activities.

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 in waqf 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 statement of financial activities include investments held for trading or designated at fair value through statement of financial activities at inception. At inception, other investment instrument can only be designated at fair value through statement of financial activities 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.

(ii) Recognition and derecognition

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)

(iii) Measurement

Initial recognition

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

Subsequent measurement

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

Investments at fair value through changes in waqf 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 waqf equity and presented in a separate fair value reserve within waqf equity. When the investments classified as fair value through waqf equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in waqf equity is transferred to the statement of financial activities.

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets and liabilities (continued)

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

Item	Recognition principles
Commodity murabaha placements	Amortized cost less impairment
Investments in sukuk classified as either:	Fair value through statement of financial activities; or amortized cost
Murabaha financing	Amortized cost
Investment in installment sale	Amortized cost less impairment
Investment in syndicated ijarah	Amortized cost less impairment
Loans (qard)	Disbursements plus accrued service fee less impairment
Equity investments	Fair value through changes in waqf equity
Investment in funds	Fair value through changes in waqf equity
Investment in associates	Equity method of accounting
Wakala investments	Equity method of accounting
Restricted funds	Amortised cost

Offsetting of financial assets and liabilities

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

Financial liabilities

The Fund 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 Fund 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 percent 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 statement of financial activities and statements of changes in waqf equity.

b) 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 cost less impairment in the statement of financial position.

c) Commodity murabaha placements

Commodity murabaha placements entails the purchase and sale of commodities at fixed profit. The buying and selling of commodities are limited by the terms of agreement between the Fund and other Islamic and conventional financial institutions. Commodity murabaha placements are carried at amortized cost less provision for impairment.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investments in sukuk

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

Sukuk that are initially designated at fair value through statement of financial activities, if it eliminates or significantly reduces a measurement or recognition inconsistency. 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 statement of financial activities and classified within income from sukuk investments.

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

e) Murabaha financing

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

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

f) Investment in installment sale

Sale agreements whereby the Fund 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 installment sale transactions are stated at selling price, less unearned income, less repayments and provision for impairment.

g) Investment in syndicated Ijarah

The Fund has maintained investments in syndicated ijarah whereby the Fund carries the same at amortised cost less provision for impairment.

h) Equity investments

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 Fund's developmental activities. Accordingly, the Fund has opted to designate all of its equity investments at fair value through changes in waqf equity.

Listed investments are measured at market value.

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

Unlisted investments in equities and funds are carried at fair values determined by independent valuers. Initially and subsequently such investments are measured at fair value, and any unrealized gains or losses arising from the change in their fair value are recognized directly in waqf equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in waqf equity is recognized in the statement of financial activities. Any subsequent fair value gains post impairment is not reversed through the statement of financial activities and are recognized in fair value reserve in waqf equity.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investments in funds

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

Investments in funds whose fair value cannot be reliably measured are carried at cost less provision for any impairment in the value of such investments.

j) Investments in associates

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

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

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

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

k) Wakala investments

Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The funds are managed in a fiduciary capacity and the Wakeel has no entitlement to these assets. Muwakkil bear all of the risks and earn all of the rewards on these investments except where the actual profit exceeds the expected profit on the investment. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital. The agent decides in respect to the investments to be made from the Wakala Capital, subject to the terms of the Wakala agreement. However, the Wakeel bears the loss in cases of misconduct, negligence or violation of any of the terms of the Wakala agreements accordingly they are recognized on the statement of financial position.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2022
(All amounts in thousands of United States Dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Wakala investments (continued)

The Fund applies the wakala venture approach under which the Fund follows equity method of accounting, since the investments are made into transferrable assets and pools of assets (primarily stocks) where such assets are subject to frequent changes and replacements due to rebalancing and market conditions in accordance with the strategic and dynamic asset allocation at the discretion of the agent. Further, the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. For details of equity method of accounting and impairment, please refer investment in associate policy.

l) Loans (Qard)

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

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

m) Post-employment benefit plans

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

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

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

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

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

n) Waqf corpus

Waqf corpus is the amount contributed by the Waqif in the form of cash, in-kind assets or specified assets:

In case of cash contribution or contribution of in-kind assets (e.g., tangible or intangible assets or investments etc.), the Waqf corpus is their cash equivalents (cash waqf) and in case of specified assets, their value as of the date of the contribution comprises of the Waqf corpus (non-cash waqf).

Contributions by Waqif or others, not specifically defined as the Waaf corpus in terms of Waqf deed (or other form of declaration by Waqif), are not considered as the Waqf corpus and are recognised directly in statement of financial activities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Assets comprising waqf corpus

Initial recognition
Assets comprising of the Waqf corpus are initially recognized at fair value, with a corresponding amount recognized as waqf equity. For cash and in-kind assets contributed by the waqif their cash and cash equivalent value is the fair value of the assets.

Assets comprising of the Waqf corpus not expected to generate economic benefits (e.g., Masjid, manuscripts etc.) are initially recognized at nominal value.

Subsequent measurement
Assets comprising of the Waqf corpus (excluding cash contribution or contribution of in-kind assets) are measured at fair value, with a corresponding effect of fair value gains and losses to be recognized directly in Waqf equity. No depreciation or amortization is charged on such assets. The fair value is reviewed generally at the end of each financial reporting period and is re-measured in case of indications of significant changes from the previous valuation. Any subsequent changes in fair values are recognized directly in waqf equity under fair value reserve.

Income arising from assets comprising of the Waqf corpus is recognized in the statement of financial activities.

Assets comprising of the Waqf corpus which are not expected to generate economic benefits, other than the benefit of usage, (e.g., Masjid, manuscripts etc.) are carried at originally assigned nominal value and disclosed appropriately.

All other assets and liabilities including assets procured through proceeds of cash or in-kind contributions to the Waqf equity are subsequently measured in line with the accounting policies of the Fund.

In case of cash waqf, assets comprising waqf corpus are not required to be disclosed separately from the other assets not comprising waqf corpus.

p) Ghallah

Ghallah represents the net surplus from financial activities and other gains/losses attributable (adjusted for non-cash items and items not available for distribution except for depreciation, amortization and impairment on assets) to the beneficiaries.

q) Accounting for restricted funds

Funds received specifically to carry out certain activities or to be utilized for particular purposes like collection and distribution of Zakah or collection and distribution of specific contributions for a specific purpose are considered restricted funds.

Restricted funds received (distinguishing between Zakah and other significant restricted funds) are initially recorded as a liability. Their utilization, as well as other movements therein, are adequately disclosed in the notes to the financial statements. Corresponding amounts of respective assets pertaining to restricted funds are also required to be disclosed separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Revenue recognition

Commodity murabaha placements through banks
Income from placements with other Islamic banks and Islamic windows of conventional banks is recognized on 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 statement of financial activities, gains and losses resulting from the re-measurement of the fair values at the reporting date are also recognized in the statement of financial activities.

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

Investment in syndicated Ijarah
Income from investments in syndicated ijarah is recognised on an effective yield basis (which represents profit earned on ijarah rentals).

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

Wakala investment
Wakala investment's share of profit is recognized over the period of the contract, net of agency fees.

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

s) Foreign currency

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

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

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

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

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impairment of financial assets

Impairment of Assets held at amortized cost

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

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

Allocation to different stages is based on the degree of deterioration in the credit quality of the financial asset. At each reporting date, the Fund assesses whether there has been a significant increase in credit risk. The Fund 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 Fund will measure the loss allowance based on lifetime rather than 12-month ECL. Currently, the Fund 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 Fund 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 Fund 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 Fund'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 Fund'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 Fund 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 transactions 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.

The PDs used are forward-looking and the Fund 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 Fund 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 29 Risk management). If there is objective evidence of impairment, then the asset is credit-impaired and allocated to stage 3 as described in note 29 Risk management.

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impairment of financial assets (continued)

With the exception of Purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2).
- As for instruments classified in stage 3, loss allowance is quantified as the difference between the carrying amount of the instrument and the net present value of expected future cash flows discounted at the instrument's original effective profit rate (EPR) where applicable.

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

For Sovereign:
Prolonged Civil War/ external arms conflict

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Fund assesses whether debt instruments that are financial assets measured at amortised cost or FVTWE 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 Fund 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 Fund assesses whether this modification results in derecognition. In accordance with the Fund'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 Fund considers the following:

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impairment of financial assets (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 Fund 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 Fund 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 Fund 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 Fund 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 Fund's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Fund's ability to collect the modified cash flows taking into account the Fund'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 Fund 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 Fund 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 financial activities in 'Losses on modification of financial assets'. Then the Fund 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 Fund derecognised 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 Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impairment of financial assets (continued)

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 Fund considers the following as constituting an event of default:
- All contracts or obligors rated 21 in the Fund's internal scale (equivalent to C in Moody's scale and D in both S&P's and Fitch Ratings' scale); or
- Moreover, the Fund 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 Fund 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 Fund 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
the definition of credit impaired is broader than the definition of default.

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 statement of financial activities. Such assets are written-off only after all necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written-off are credited to the Fund's statement of financial activities. Sovereign exposures are not written-off based on the Fund's past experience, since its inception. Fund has not written off any non-sovereign financial assets during the current and prior year.

Impairment of investments held at fair value through waqf equity

The Fund exercises judgment to consider impairment on the financial assets held at fair value through changes in waqf's equity, at each reporting date. A financial asset held at fair value through changes in waqf equity is considered impaired if it has suffered a significant or prolonged decline in its value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Fund evaluates among other factors, the normal volatility in share prices. In addition, the Fund considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

Other amortised cost assets

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

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Zakat and tax

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

v) Subsequent event

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

The most significant judgements and estimates are summarised below:

SIGNIFICANT JUDGEMENTS

a) Significant influence

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

b) Going concern

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

c) Comingling of funds resources

The total assets of the Fund are represented by the waqf corpus as well as the accumulated deficit. Since the Fund is a cash waqf, total assets have not been split between those representing waqf corpus and those representing other components of waqf equity. Management continues to monitor the Fund resources on a totality basis.

d) Impairment of financial assets designated at fair value through waqf equity

The Fund's management has established thresholds to determine significant or prolonged decline in the value below cost of its financial assets designated at fair value through waqf equity as described in the policy notes above, it continues to exercise judgement in making impairment decisions consistently using the said threshold as well as taking into account all the relevant factors in determining that the established thresholds remain relevant as of period ends.

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

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

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets is measured by using valuation techniques which require a certain degree of judgement and estimation.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Employee benefits liabilities

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

THE EFFECT OF NEW AND REVISED FINANCIAL ACCOUNTING STANDARDS

The following new FASs, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these financial statements if found to be applicable.

Impact of initial application of FAS 37 Financial reporting by Waqf Institution

In the current year, the Fund, for the first time, has applied FAS 37 Financial reporting by Waqf Institution ("FAS 37"). FAS 37 as issued by the AAOIFI is effective for annual periods that begin on or after 1 January 2022. The standard provides the guidance on financial reporting by Waqf institution which was not previously covered under the existing AAOIFI standards.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

THE EFFECT OF NEW AND REVISED FINANCIAL ACCOUNTING STANDARDS (continued)

Impact of initial application of FAS 37 Financial reporting by Waqf Institution (continued)

FAS 37 introduces requirements with respect to the presentation and disclosure of the financial statements and inclusion of following statements:

a. The Statement of Ghallah,

Statement of ghallah is a presentation statement and a component of the financial statements, that presents, for the benefit of the users of the financial statements, in one place:

i. the determination of Ghallah in line with the conditions of the Waqif or as essential for the achievement of Wagf objectives (which may, or may not, match with the accounting income
ii. the benefits allocated / distributed during the period out of Ghallah available for distribution; and
iii. balance available of unappropriated Ghallah as of the beginning and the end of the period (being a part of Waqf equity).

b. Risk management disclosure: Waqf equity sustainability

A Waqf institution is required to disclose information that enables the users of the financial statements to evaluate the Waqf institution's objectives and policies for managing risk.

When the Waqf institution is subject to corpus sustainability requirements by the Waqf deed or regulatory authorities, the nature of those requirements and how they are incorporated into the Waqf institution's policies relating to the Waqf corpus management are required to be disclosed.

When the Waqf institution has not complied with the sustainability requirements, the management is required to disclose the reasons and consequences of such non-compliance.

c. The statement of service performance

Waqf institutions are required to prepare and present a statement of service performance, as part of the notes to the financial statements or as appended to the financial statements. The purpose of the statement of service performance is mainly to provide non-financial information to help users understand the operational performance of the Waqf institution in correlation to its financial activities and state of affairs. The management of the Fund has appended this statement to these financial statements.

FAS 37 introduces new requirements with respect to the accounting of contributions received by Waqif in form of cash or in-kind assets or specified assets, asset comprising of the Waqf Corpus, and accounting for restricted funds. These requirements have been described in the policy notes above.

Following changes were made as a result of the adoption of FAS 37:

i. Statement of ghallah has been presented for the first time for the years ended December 31, 2022, and December 31, 2021.
ii. Statement of waqf equity has been presented for the years ended December 31, 2022, and December 31, 2021. This statement presents similar information as the changes in net assets that formed part of the statement of activities and changes in net assets in the financial statements for the year ended December 31, 2021.
iii. The term "Waqf Fund principal amount" under waqf equity was renamed as "waqf corpus".
iv. Statement of service performance has been appended to the financial statements.

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4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

THE EFFECT OF NEW AND REVISED FINANCIAL ACCOUNTING STANDARDS (continued)

Impact of initial application of FAS 37 Financial reporting by Waqf Institution (continued)

In prior years (before adoption of FAS 37), the Fund recorded the ghallah distribution (grants for causes) as an expense in the statement of financial activities. As per FAS 37, the movement related to ghallah and benefits distribution is to be presented in the statement of changes in waqf equity within the movement of accumulated deficit.

Further, in prior years, the Fund reported both receipt of restricted funds and their disbursement through the statement of financial activities. As per FAS 37 restricted funds received shall be recorded as liabilities and their utilization and movements shall be disclosed in the notes to the financial statements. Following reclassifications were made to the figures as of and for the year ended December 31, 2022:

Statement of financial activities for the year ended 31 December 2021	**As previously stated**	**Reclassification**	**As reclassified**
Grant for causes	(20,383)	20,383	-
Islamic Technical Financial Assistance Grant from ISDB - OCR	1,077	(1,077)	-
	(19,306)	19,306	-
Statement of changes in waqf equity for the year ended 31 December 2021			
Ghallah distribution	-	(19,306)	(19,306)

As per the requirement of FAS 37, restricted funds shall be classified separately as part of the Fund's liabilities. In prior years, restricted funds were classified within Accruals and other liabilities. The reclassification has been made to conform with the requirements of FAS 37.

Further, the balance in special assistance program and special account for Least Developed Member Countries ("LDMC") was merged and presented as accumulated deficit and reserves since the special assistance program constituted the net results of the financial activities of the Fund and the special account for LDMC has been discontinued.

Statement of financial position as at 31 December 2021	**As previously stated**	**Reclassification**	**As reclassified**
Special assistance programs	(457,590)	457,590	-
Special account for Least Developed Member Countries (LDMC)	160,509	(160,509)	-
Waqf corpus	1,069,518	334	1,069,852
Accumulated deficit	-	(235786)	(235786)
Reserves	-	(61,629)	(61,629)
Restricted funds (note 18)	-	26,305	26,305
Accruals and other liabilities	86,797	(26,305)	60,492

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

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

The Fund has evaluated the impact of this standard and concluded that it is not applicable as the Fund is not carrying any such instruments.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

(i) 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. This standard is not applicable to the Fund as it is not a zakah payer.

(ii) 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 offeredby 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. This standard is not applicable to the Fund as it is not a conventional financial institution.

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

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

(iv) 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 prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. This standard also establishes the general principles for the presentation of information and adequately reflecting the rights and obligations of different stakeholders within Takaful business model. It stipulates the information that should be disclosed in the financial statements of Takaful institutions to achieve the objectives of accounting and financial reporting.

The standard shall be accompanied by, and read in conjunction with, FAS 43"Accounting for Takaful: Recognition and Measurement", which covers the significant aspects of accounting for Takaful products.

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4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

This standard shall be effective on the annual financial statements of the Takaful institutions beginning on or after 01 January 2025 with early adoption of the standard is permitted if adopted alongside FAS 43 “Accounting for Takaful: Recognition and Measurement”, provided that FAS 1 “General Presentation and Disclosures in the Financial Statements” has already been adopted or is simultaneously adopted.

FAS 42 shall not impact the financial statements as the Fund is not a Takaful institution.

(v) 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. Early adoption of the standard is permitted if adopted alongside FAS 42 “Presentation and Disclosure in the Financial Statements of Takaful institutions”.

FAS 43 shall not impact the financial statements as the Fund is not a Takaful institution.

5. CASH AND CASH EQUIVALENTS

	2022	2021
Cash at banks	**15,898**	38,629
Short-term commodity murabaha placements (note 6)	**74,865**	18,826
	90,763	57,455

Commodity murabaha placements included within cash equivalents are those interbank placements, which have an original tenor equal to or less than three months. Placements with original maturities of above three months are disclosed in note 6.

6. COMMODITY MURABAHA PLACEMENTS

	2022	2021
Placements with Islamic banks	**-**	27,000
Placements with conventional banks	**103,601**	189,131
Accrued income	**450**	544
Short-term commodity murabaha placements (note 5)	**(74,865)**	(18,826)
Provision for impairment	**-**	(207)
	29,186	197,642

As of December 31, 2022, an amount of USD 24 million is restricted. (2021: USD 26 million) (note 18).

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7. INVESTMENTS IN SUKUK

The movement in investments in sukuk is summarized as follows:

	2022	2021
Balance at beginning of the year	**88,408**	91,146
Redemptions	**(6,066)**	(2,680)
Accrued coupon income	**(61)**	-
Unrealized fair value loss	**(2)**	-
Impairment charge for the year	**(43)**	(58)
Balance at end of the year	**82,236**	88,408

	Counterparty rating				
31 December 2022	**AAA**	**A+ to A-**	**BBB or Lower**	**Unrated**	**Total**
Sukuk classified at amortised cost					
- Financial institutions	**6,031**	**6,091**	**-**	**-**	**12,122**
- Governments	**-**	**-**	**47,442**	**-**	**47,442**
- Other entities	**-**	**20,171**	**-**	**-**	**20,171**
	6,031	**26,262**	**47,442**	**-**	**79,734**
Sukuk classified as fair value through statement of financial activities					
- Other entities	**-**	**-**	**-**	**2,502**	**2,502**
	-	**-**	**-**	**2,502**	**2,502**
Total	**6,031**	**26,262**	**47,442**	**2,502**	**82,236**

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

Sukuk investment is net of impairment of USD 101 (2021: USD 58)

Income from Sukuk investments is comprised of the following:

	2022	2021
Coupon income	**3,203**	3,459
Amortization of sukuk at discount/ premium, net	**(60)**	(66)
Capital gain on realized Sukuk	**29**	-
	3,172	3,393

8. MURABAHA FINANCING

	2022	2021
Gross amount receivable	**9,300**	9,300
Less: provision for impairment	**(9,300)**	(8,091)
	-	1,209

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
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9. INVESTMENT IN INSTALLMENT SALE

	2022	2021
Investment in installment sale	5,332	5,276
Additions	-	56
Less: provision for impairment	(1,902)	(1,902)
Balance at end of the year	3,430	3,430

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

10. INVESTMENT IN SYNDICATED IJARAH

	2022	2021
Balance at beginning of the year	2,947	2,983
Less: impairment charge for the year	(15)	(36)
Balance at end of the year	2,932	2,947

It represents participation in syndicated Ijarah investments with IsDB – Awqaf Properties Investment Fund.

11. EQUITY INVESTMENTS

Equity Investments comprised of the following:

	2022	2021
Equity investments	40,254	42,283
Less: provision for impairment	(28,605)	(23,561)
	11,649	18,722

	2022	2021
Balance at beginning of the year	18,722	27,119
Disposal	(2,796)	-
Realised fair value loss on disposal transferred to statement of financial activities	(1,052)	-
Unrealized fair value (loss)/gains	1,819	(2,155)
Less: impairment charge for the year	(5,044)	(6,242)
Balance at end of the year	11,649	18,722

12. INVESTMENTS IN FUNDS

Investments in funds comprised of the following:

	2022	2021
Investments in funds	129,936	129,272
Less: provision for impairment	(74,299)	(69,102)
	55,637	60,170

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
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12. INVESTMENTS IN FUNDS (continued)

The movement in investments in funds is summarized as follows:

	31 December 2022			31 December 2021		
	Equity Funds	**Other Funds**	**Total**	Equity Funds	Other Funds	Total
Balance at beginning of the year	**-**	**60,169**	**60,169**	2,500	66,144	68,644
Additions	**-**	**200**	**200**	-	441	441
Disposals	**-**	**(698)**	**(698)**	(2,500)	(2,595)	(5,095)
Unrealized fair value gains/(losses)	**-**	**1,163**	**1,163**	-	(4,996)	(4,996)
Impairment charge for the year	**-**	**(5,197)**	**(5,197)**	-	-	-
Reversal of impairment	**-**	**-**	**-**	-	1,176	1,176
Balance at end of the year	**-**	**55,637**	**55,637**	-	60,170	60,170

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

13. INVESTMENTS IN ASSOCIATES

The movement in investment in associates is summarized as follows:

	2022	2021
Balance at beginning of the year	**165,882**	154,522
Foreign currency translation and other movements through changes in waqf equity	**4,410**	5,823
Loss/ (gain) on deemed disposal	**(101)**	(576)
Share of net results	**5,978**	7,114
Cash dividend received	**(467)**	(1,001)
Balance at end of the year	**175,702**	165,882

Name of the entity	**Country of incorporation**	**Entity's activities**	**2022**	2021
Caspian International Investment Company (CIIC)	Azerbaijan	Asset Management	**27.14%**	**27.14%**
Insurance of Investment and Export Credit (ICIEC)	Saudi Arabia	Insurance	**50.87%**	**50.89%**
BBI Leasing and Real Estate Company (BBIL)	Bosnia	Real Estate	**86.40%**	**86.40%**

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

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

	Year	**Total assets**	**Total liabilities**	**Revenues**	**Net results**	**Share of net assets**
CIIC	**2022**	**18,233**	**42**	**-**	**84**	**4,938**
	2021	18,358	-	-	32	4,936
ICIEC	**2022**	**545,682**	**281,091**	**35,159**	**10,997**	**134,597**
	2021	481,334	234,685	30,885	9,214	123,217
BBIL	**2022**	**43,723**	**1,862**	**5,565**	**1,994**	**36,167**
	2021	47,981	3,624	6,138	2,214	37,728

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14. WAKALA INVESTMENTS:

Wakala investments represent investments in securities managed by external portfolio managers as at 31 December 2022:

	2022	2021
Balance at the beginning of the year	65,981	-
Additions	146,131	63,053
Share of (losses)/gains (including management fees)	(29,925)	2,928
Balance at end of the year	182,187	65,981

This represents investments in securities' portfolios managed by an external portfolio manager and held for trading as at 31 December 2022:

	2022	2021
Cash	12,090	-
Investment in equity instruments	10,403	-
Investment in exchange traded fund	37,181	-
Investment in Sukuk funds	42,170	
Investment in funds	80,343	65,981
	182,187	65,981

The Fund has appointed an external fund manager (EFM). This EFM charged an annual fund management fee calculated as percentage on the net asset value of the portfolio and specific annual performance fee. This EFM invested in developed equities amounting USD 140 million and sukuk amounting USD 42.1million. The Fund is charged a flat fee for the entire Investment Management account (IMA) of USD 475K p.a.

15. LOANS (QARD)

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

	2022	2021
Loans (Qard)	156,384	175,683
Less: provision for impairment	(8,848)	(15,174)
	147,536	160,509

The movement in provision for impairment against loans (qard) is summarized as follows:

	2022	2021
Balance at the beginning of the year	15,174	14,084
Impact of first time adoption of FAS 30 implementation	-	1,090
Revised balance at the beginning of the year	15,174	15,174
Reversal of impairment for the year	(6,326)	-
Balance at the end of the year	8,848	15,174

Loans (Qard) are given to member countries with repayment period ranging between 20 to 30 years for which the Fund charges a loan servicing fee, which is transferred to IsDB - Ordinary Capital Resources for its loan process management and administration.

16. OTHER ASSETS

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

	2022	2021
Due from related parties (note 25)	5,302	9,160
Other assets	4,320	4,951
	9,622	14,111

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17. ACCRUALS AND OTHER LIABILITIES

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

	2022	2021
Pension liability (note 19)	**14,454**	53,387
Due to related parties (note 25)	**2,820**	679
Others	**4,900**	6,426
	22,174	60,492

18. RESTRICTED FUNDS

Restricted funds represent funds that are restricted for certain purposes by the Waqif and/or respective donor, In particular Islamic Technical Financial Assistance Fund is formed through net income allocations made by IsDB – Ordinary Capital Resources in prior years specifically aimed at the development of the Islamic finance industry. IsDB Islamic Solidarity Tadamun Prize Fund is aimed at promoting trade between OIC member countries.

These restricted funds have been deployed in commodity murabaha placements due to their liquidity, asset quality and disbursing needs for the related causes.

The movement in restricted fund is as follows:

	Islamic Technical Financial Assistance Grant	IsDB Islamic Solidarity Tadamun Prize	Total
Balance at 01 January 2021	**25,253**	**2,125**	**27,378**
Allocation in 2021	**-**	**4**	**4**
Disbursement in 2021	**(1,077)**	**-**	**(1,077)**
Balance at 31 December 2021	**24,176**	**2,129**	**26,305**
Allocation in 2022	**-**	**48**	**48**
Disbursement in 2022	**(2,015)**	**-**	**(2,015)**
Balance at 31 December 2022	**22,161**	**2,177**	**24,338**

Islamic Technical Financial Assistance Grant
USD 22.16 million represent restricted undisbursed funds (2021: USD 24.18 million) to be disbursed toward Islamic financial industry development programs. There are no assets specifically identified against this fund by the donor and hence assets of this fund are commingled with other assets of the Fund.

IsDB Islamic Solidarity Tadamun Prize
The Tadamun fund has been established by the 1st President, IsDB to promote and enhance the trade among the OIC member countries.

19. POST EMPLOYMENT BENEFIT PLANS

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

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

19. POST EMPLOYMENT BENEFIT PLANS (continued)

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

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

The main features of the SPP are:

(ii) Normal retirement age is the 62nd anniversary of the participant's birth.
(iii) On retirement, the eligible retired employee is entitled to 2.5% under the old staff retirement plan or 1% under the hybrid plan in the Define Benefit ("DB") component, of the Weighted Highest Average Remuneration ("WHAR") (as defined by the pension committee) (for each year of pensionable service and limited to a maximum of 30 Hijri years
(iv) 10% of Bank and its Affiliates contribution of 25.9%, and 5% of employee's contribution of 11.1%, are used to fund the Define Contribution ("DC") component of the hybrid plan. The accumulated fund and its investment returns will be paid as retirement lump sum benefits to the participants in the hybrid plan.
(v) Benefits payment upon early retirement, disability benefits, termination benefits, pre-retirement death or post retirement death benefits are also paid as determined by the pension committee.

Staff Retirement Medical Plan (SRMP)

Effective 1st Muharram 1421H (corresponding to 6 April 2000), the Bank established the medical benefit scheme for retired employee via the BED resolution dated 18 Shawwal 1418H (corresponding to 15 February 1998). This was extended to eligible staff members of the Bank's Affiliates i.e. for SPP. The Bank and its Affiliates at rate 1% and the staff at a rate 0.5% of the basic salaries respectively fund the SRMP. The purpose of the SRMP is to pay a monthly amount to eligible retired employee towards their medical expenses

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

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

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

Risks

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

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19. POST EMPLOYMENT BENEFIT PLANS (continued)

Risks (continued)

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

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

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

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

	2022				2021
	SPP	RMSF	SRMP	Total	Total
Benefit obligation - opening balance	77,843	-	6,863	84,706	59,268
Current Service Costs	2,580	268	22	2,870	2,913
Past Service Cost	-	(951)	-	(951)	-
Expense on Defined Benefit Obligation (DBO) Plan	2,208	90	104	2,402	1,527
Plan participations contributions	698	315	5	1,018	443
Disbursements from Plan Assets	(2,550)	(1)	(90)	(2,641)	(1,983)
Increase (decrease) due to plan combinations	-	3,087	(3,087)	-	-
Net actuarial loss	(21,738)	(2,195)	(875)	(24,808)	22,538
Benefit obligation closing balance	59,041	613	2,942	62,596	84,706

The movement in the plan assets are as follows:

	2022				2021
	SPP	RMSF	SRMP	Total	Total
Fair value of plan assets - opening balance	29,841	-	1,478	31,319	29,968
Other adjustments to the opening balance	101	1,227	-	1,328	745
Income on Plan Assets	866	-	16	882	775
Return on Plan Assets greater/ (less) than the discount rate	13,347	-	917	14,264	317
Plan participation contributions	698	315	5	1,018	443
Employer contribution	1,629	306	37	1,972	1,054
Disbursements from Plan Assets	(2,550)	(1)	(90)	(2,641)	(1,983)
Increase (decrease) due to plan combinations	-	799	(799)	-	-
Fair value of plan assets closing balance	43,932	2,646	1,564	48,142	31,319
Funded status - net liability recognized in the statement of financial position representing excess of benefit obligation over fair value of plan assets (note 17)	15,109	(2,033)	1,378	14,454	53,387

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

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19. POST EMPLOYMENT BENEFIT PLANS (continued)

Based on the actuarial valuations, the pension and medical benefit expenses for the year ended 31 December 2022 are as follows:

	2022				2021
	SPP	**RMSF**	**SRMP**	**Total**	Total
Gross current service costs	**2,580**	**268**	**22**	**2,870**	2,913
Gross past service costs	**-**	**(951)**	**-**	**(951)**	-
Expense on DBO	**2,208**	**90**	**104**	**2,402**	1,527
Income on assets	**(866)**	**-**	**(16)**	**(882)**	(775)
Amount recognized in the statement of financial activities	**3,922**	**(593)**	**110**	**3,439**	3,665
Actuarial loss due to assumptions	**(21,738)**	**(2,195)**	**(875)**	**(24,808)**	22,538
Return on plan assets (greater)/ less than the discount rate	**(13,347)**	**-**	**(917)**	**(14,264)**	(317)
Other adjustments	**(101)**	**(1,227)**	**-**	**(1,328)**	(745)
Increase (decrease) due to plan combinations	**-**	**3,088**	**(3,088)**	**-**	
Forex adjustment	**-**	**-**	**-**		124
Amount recognized in changes in waqf equity	**(35,186)**	**(334)**	**(4,880)**	**(40,400)**	21,600

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

	2022			2021	
	SPP	**RMSF**	**SRMP**	SPP	SRMP
Discount rate	**5.10%**	**5.01%**	**5.10%**	2.85%	2.85%
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%

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

The following table presents the plan assets by major category:

	2022				2021
	SPP	**RMSF**	**SRMP**	**Total**	Total
Cash and cash equivalent and commodity murabaha placements	**16,856**	**413**	**1,929**	**19,198**	15,392
Syndicated Murabaha	**-**	**1,028**	**-**	**1,028**	
Managed funds and Instalment sales	**10,506**	**-**	**-**	**10,506**	4,093
Investments in sukuk	**12,398**	**518**	**162**	**13,078**	9,028
Land	**3,951**	**-**	**-**	**3,951**	2,402
Other (net)	**221**	**687**	**(527)**	**381**	404
Plan net assets	**43,932**	**2,646**	**1,564**	**48,142**	31,319

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

Provision for impairment comprised of the following:

	31-Dec-22			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commodity murabaha placements	**-**	**-**	**-**	**-**
Investment in sukuk	**101**	**-**	**-**	**101**
Murabaha financing	**-**	**-**	**9,300**	**9,300**
Investment in installment sales	**-**	**-**	**1902**	**1,902**
Investment in syndicated Ijarah	**51**	**-**	**-**	**51**
Loans (Qard)	**1,332**	**1,165**	**6,351**	**8,848**
	1,484	**1,165**	**17,553**	**20,202**
Equity Investments				**28,605**
Investment in funds				**74,299**
				123,106

	31-Dec-21			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commodity murabaha placements	207	-	-	207
Investment in sukuks	58	-	-	58
Murabaha financing	-	-	8,091	8,091
Investment in installment sales	-	-	1,902	1,902
Investment in syndicated Ijarah	36	-	-	36
Loans (Qard)	1,218	1,498	12,458	15,174
				25,468
Equity Investments				23,561
Investment in funds				69,102
				118,131

The movement in provision for impairment is as follows:

	2022	2021
Balance as at 1 January	**118,131**	108,330
Additional provision on first time adoption of FAS 30	**-**	3,293
Adjusted Opening Balance	**118,131**	111,623
Impairment charge for the year	**4,975**	7,684
Reversal (through changes in net assets)	**-**	(1,176)
Balance as at 31 December	**123,106**	118,131

21. CONTRIBUTION FROM IsDB-OCR FOR TECHNICAL ASSISTANCE GRANT AND SCHOLARSHIP PROGRAMS

According to the Board of Governors' resolution no BG/5-441 at the Forty-Fifth Annual Meeting of the Islamic Development Bank in 2020, technical assistance Grant resource allocation be increased from the existing 5% to 10% from 2020 with a ceiling of USD 20M for three years from 2020. IsDB-OCR 2021 net income amounting to USD 13.0 million was allocated to finance Technical Assistance Operations in the form of grants during 2022 (2021: USD 15.5 million)

According to the Board of Governors' resolution no BG/6-441 at the Forty-Fifth Annual Meeting of the Islamic Development Bank in 2020, annual grant allocation be increased from 2% to 4% with a ceiling of USD 8M to finance the scholarship Programs for three years from 2020. IsDB-OCR 2021 net income amounting to USD 5.3 million was allocated to finance the Bank's PHD/Post-doctoral Research Program (known as merit scholarship program) in the form of grant during 2022 (2021: USD 6.2 million). Scholarship program undisbursed commitment as of 31/12/2022 is USD 40.1m.

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22. ASSISTANCE

The following amounts were distributed as grants from the Fund during the years ended 31 December 2022 and 31 December 2021 as part of the activities of the Fund pursuant to its objectives:

	2022	2021
Technical assistance grants	**8,831**	11,294
Scholarship program	**4,913**	7,555
Assistance for islamic causes	**2,265**	457
Total ghallah distributions	**16,009**	19,306
Distributions related to restricted funds (note 18)	**2,015**	1,077
	18,024	20,383

The following amounts were incurred as program expenses from the Fund during the year ended 31 December 2022 and 31 December 2021 as part of the activities of the Fund pursuant to its objectives.

	2022	2021
Operational Administrative	**13,606**	12,851
Science, Technology and Innovation (STI) Department	**1,925**	1,319
Sacrificial meat project	**3,425**	5,256
Scholarship program	**2,170**	6,021
	21,126	25,447

23. UNDISBURSED COMMITMENTS

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

	31 December 2022	31 December 2021
Scholarship program	**40,100**	60,882
Technical assistance grants	**35,429**	43,374
Special allocation funds (SAF)	**8,623**	8,716
Wakala investments	**4,983**	6,755
	89,135	119,727

24. NET ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

	2022	2021
Islamic Dinar	**157,365**	174,071
Euro	**359**	23,366
Saudi Riyal	**5,784**	10,990
Pound Sterling	**1,197**	1,518
Other currencies	**36**	-

25. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

Further, the Fund entered into investment in installment sale with the subsidiary of Adahi (note 9) and into syndicated ijarah with Awqaf Properties Investment Fund (note 10).

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25. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Due from related parties

	2022	2021
IsDB – OCR	**4,810**	4,596
World Waqf Foundation	**-**	179
The International Islamic Trade Finance Corporation	**1**	1,271
The Islamic Corporation for Development of Private Sector	**404**	3,028
Mobile Clinic Fund	**80**	-
Others	**7**	86
	5,302	9,160

Due to related parties:

	2022	2021
The Saudi Project for Utilization of Hajj Meat – Adahi	**56**	644
IsDB – Islamic Solidarity Fund for Development	**1,452**	-
IsDB – Pension Fund	**1,304**	29
Others	**8**	6
	2,820	679

26. SHARI'AH BOARD

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

The Board has the following functions:

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

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27. ASSETS AND LIABILITIES ACCORDING TO THEIR RESPECTIVE MATURITY PERIODS

31 December 2022	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	**90,763**	**-**	**-**	**-**	**-**	**90,763**
Commodity murabaha placements	**29,186**	**-**	**-**	**-**	**-**	**29,186**
Investment in sukuks	**-**	**20,171**	**62,065**	**-**	**-**	**82,236**
Investment assets						
Investment in installment sale	**-**	**-**	**-**	**3,430**	**-**	**3,430**
Investment in syndicated Ijarah	**-**	**-**	**2,932**	**-**	**-**	**2,932**
Equity investments	**-**	**-**	**-**	**-**	**11,649**	**11,649**
Investment in funds	**-**	**-**	**-**	**-**	**55,637**	**55,637**
Investment in associates	**-**	**-**	**-**	**-**	**175,702**	**175,702**
Wakala investments	**-**	**-**	**-**	**-**	**182,187**	**182,187**
Loans (Qard)	**-**	**-**	**64,564**	**82,972**	**-**	**147,536**
Other assets	**5,215**	**3,406**	**-**	**1,001**	**-**	**9,622**
Fixed assets	**-**	**-**	**-**	**21,267**	**-**	**21,267**
Total assets	**125,164**	**23,577**	**129,561**	**108,670**	**425,175**	**812,147**
Liabilities						
Accruals and other liabilities	**2,775**	**18,908**	**-**	**-**	**491**	**22,174**
Restricted fund	**-**	**-**	**-**	**-**	**24,338**	**24,338**
Total liabilities	**2,775**	**18,908**	**-**	**-**	**24,829**	**46,512**

31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	No stated maturity	Total
Assets						
Treasury assets						
Cash and cash equivalents	57,455	-	-	-	-	57,455
Commodity murabaha placements	79,912	117,730	-	-	-	197,642
Investment in sukuks	-	-	88,408	-	-	88,408
Murabaha financing	1,209	-	-	-	-	1,209
Investment assets						
Investment in installment sale	-	-	-	3,430	-	3,430
Investment in syndicated Ijarah	-	-	2,947	-	-	2,947
Equity investments	-	-	-	-	18,722	18,722
Investment in funds	-	-	-	-	60,170	60,170
Investment in associates	-	-	-	-	165,882	165,882
Wakala investments	-	-	-	-	65,981	65,981
Loans (Qard)	-	13,369	65,004	82,136	-	160,509
Other assets	-	10,946	-	3,165	-	14,111
Fixed assets	-	-	-	22,768	-	22,768
Total assets	138,576	142,045	156,359	111,499	310,755	859,234
Liabilities						
Accruals and other liabilities	24,166	21,118	-	-	15,208	60,492
Restricted fund	-		-	-	26,305	26,305
Total liabilities	24,166	21,118	-	-	41,513	86,797

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28. CONCENTRATION OF ASSETS

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

	IsDB's Member countries			Non-member	
	Asia	Africa	Europe	countries	Total
31 December 2022	**631,689**	**164,548**	**1,110**	**14,800**	**812,147**
31 December 2021	591,061	185,730	12,495	69,948	859,234

The geographical locations of assets for 2022 and 2021 reflect the countries in which the beneficiaries of the assets are located.

29. RISK MANAGEMENT

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

a) Credit risk

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

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

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

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

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

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29. RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

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

Expected Credit Risk for financial assets measured at amortized cost

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

Determining the stage for impairment

The Fund’s staging model relies on a relative assessment of credit risk, because it reflects the significance increase in credit risk (SICR) since initial recognition of an asset. The staging assessment is made at the contract level rather than counterparty level for non-sovereign, 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. For sovereign the staging assessment is made at the country level.

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

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

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

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

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

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29. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Measurement of Expected Credit Losses (ECLs)

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

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

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

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

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

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

Exposure Amounts and ECL coverage

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

Tables below present the breakdown of gross exposure amount (project and treasury assets and other investments debt-type that are subject to credit risk), impairment allowance, and the coverage ratio by exposure type for financial instruments measured at amortized cost as at 31 December 2022.

31 December 2022	Gross Exposure Amount				Impairment Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	**136,812**	**29,911**	**29,752**	**198,475**	**1,431**	**1,165**	**2,164**	**4,760**
Non-Sovereign	**140,983**	**-**	**28,006**	**168,989**	**53**	**-**	**15,389**	**15,442**
Total 31 December 2022	**279,795**	**29,911**	**57,758**	**367,464**	**1,484**	**1,165**	**17,553**	**20,202**

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29. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposure Amounts and ECL coverage (continued)

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

31 December 2022	**Coverage Ratio (Impairment Allowance / Exposure Amount)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Sovereign	**1.03%**	**3.89%**	**7.27%**	**2.40%**
Non-Sovereign	**0.04%**	**-**	**54.95%**	**9.14%**
Total 31 December 2022	**0.53%**	**3.89%**	**30.39%**	**5.50%**

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

b) Country risk

Country risk refers to the risks associated with the economic, social and political environments of the beneficiary's home country. Guidelines are in place for assessing and monitoring country risk profiles and exposure to safeguard the Fund, as well as the other entities of the Bank, against undue risk. The country risk profiles and exposure limits are periodically reviewed taking into consideration the macro-economic, financial and other developments in the member countries, as well as the status of their business relationship with IDB and its managed funds, perception of the rating agencies and institutions of repute, risk perception of market participants and experience of other multilateral development banks (MDB's). Countries are classified under 7 risk categories; i.e., "A" to "G", whereby "A" represents the highest creditworthy category (lowest risk) and "G" represents the lowest creditworthy category (highest risk).

c) Market risk

The Fund is exposed to following market risks:

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

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

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29. RISK MANAGEMENT (continued)

d) Liquidity risk

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

e) Operational risk

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

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

Shari'ah non-compliance risk (SNCR)

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

f) Fair values of financial assets and liabilities

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

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

The following table presents the Fund's assets and liabilities that are measured at fair value at 31 December 2022 and 2021.

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through statement of financial activities:				
- Investments in sukuk (note 7)	**2,502**	**-**	**-**	**2,502**
Investments carried at fair value through statement of changes in waqf equity:				
- Investments in funds (note 12)	**2,774**	**-**	**52,863**	**55,637**
- Equity investments (note 11)		**7,968**	**3,681**	**11,649**
	5,276	**7,968**	**56,544**	**69,788**

(All amounts in thousands of United States Dollars unless otherwise stated)

29. RISK MANAGEMENT (continued)

f) Fair values of financial assets and liabilities (continued)

31 December 2021	Level 1	Level 2	Level 3	Total
Investments carried at fair value through statement of financial activities:				
- Investments in sukuk (note 7)	2,506	-	-	2,506
Investments carried at fair value through statement of changes in waqf equity:				
- Investments in funds (note 12)	2,878	-	57,292	60,170
- Equity investment (note 11)	-	10,404	8,318	18,722
	5,384	10,404	65,610	81,398

There were no transfers between levels during the years ended 31 December 2022 and 31 December 2021.

30. SEGMENT INFORMATION

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

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

Various key milestones were overcome involving:

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

31. LIBOR TRANSITION (continued)

Benchmark transition (continued)

vi) initiation of system upgradation project to enable the use of new pricing policy and reference rates
vii) approval of new pricing policy based on alternate benchmark rates applicable for sovereign project financing,
viii) adoption of the alternate reference rate for all the new contracts approved from 2022 onwards,
ix) management approval on the conversion methodology for legacy portfolio impacted due to Libor cessation,
x) engagement with member countries and other counterparts for building census on the conversion methodology,
xi) drafting and sharing of amendment agreements with the paying agencies for their review and feedback.

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

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

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.

Risks arising from the benchmark reform

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

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

b. 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 Fund is engaged with paying agencies and counterparts on building consensus on the conversion of Libor linked outstanding contracts.

c. 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 Fund in its new pricing policy and the legal documentation already included the improved fallback clause.

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

31. LIBOR TRANSITION (continued)

Profit rate benchmark transition for non-derivative financial contracts

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

For the legacy contracts in Treasury portfolio, the strategy is to wait for the Issuer to propose the alternate pricing to all the issue participants. This is because IsDB is only a participant investor amongst many other investors and hence cannot determine and negotiate an alternate rate on its own. In the absence of any such alternate rate from issuer, it is not possible nor logical to run the impact analysis. Therefore, for legacy treasury assets, strategy is to wait till Q1 2023 for issuer to propose an alternate rate and if not, Treasury will formulate an exit strategy for all such trades.

Same is the case of legacy contracts for non-sovereign financing. IsDB is part of large PPP syndicates and hence IsDB is unable to negotiate an alternate rate with the counterparty. The Syndicate leads are expected to propose alternate rates based on which, IsDB will run the assessment and decide accordingly. IsDB has already communicated to the relevant Lead Syndicate that the preferred alternate reference rate is Term SOFR and it has been confirmed that there is a consensus amongst MDBs on use of Term SOFR for PPP portfolio.

For legacy contracts on Capital Markets, the only exposure linked to LIBOR is a bilateral exposure with another group entity. Therefore, the Capital Markets team has updated the holder of the Sukuk about its strategy is to continue with it till the time we have clarity on all the viable alternate pricing options on the Treasury assets so that the same could be discussed and negotiated with the group entity to agree on one of them. The holder is also in agreement with the Fund on conversion of Term SOFR as new reference rate.

For legacy contracts for sovereign financing, the Fund has decided to follow a gradual approach by allowing early adoption option to its member countries on selective basis. During this period, member countries will be offered the conversion option to the new Sovereign Pricing policy. The relevant regional hubs have already started the engagements with member countries and paying agencies to discuss with them the Fund's transition methodology. In parallel, the Fund is also finalizing the amendment agreements.

32. WAQF EQUITY SUSTANABILITY

Waqf fund corpus shall constitute sustainable equity in order to attain the stated objectives and sustainability of the Waqf Fund itself. However, during the prior periods, income and/or the ghallah from the Fund's assets were less than its expenses, which lead to accumulation of deficit. To tackle the issue, a consultant was engaged in 2019 by IsDB-OCR to develop the turnaround strategy to curtail the deficit. As a result, the Fund and the IsDB-OCR have been taking the following measures and steps in order to reduce the deficit of the Fund:

- amendments to the existing Regulation of the Fund have been made, which entailed creation of a special governance body in the form of the Board of Trustees to govern activities of the Fund;
- New Special and Trust Funds Department has been established to supervise and monitor Trust Funds, including the Waqf Fund;
- Program expenses and grants for causes have been steadily declining to curtail the spending gap
- In 2021 IsDB onboarded external fund managers ("EFM") aiming to achieve target profit rates on its investments. Currently, USD 210 million has been deployed by the EFM for that purpose.

Further, in prior years, the Fund has made USD100 million contributions toward Science and Technology Innovation Fund ("STI") from its net assets. Since STI is to be liquidated (once approved by the governing body in 2023), It is envisaged that USD 100 million previously contributed resources will be returned to the Fund thus further improving its sustainability.

It is expected that these measures shall contribute toward curtailment of deficit and reinstatement of the Fund's waqf corpus.

33. AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue in accordance with the resolution of the Board of Executive Directors dated April 1, 2023 (corresponding to 10 Ramadan, 1444H).

ISLAMIC DEVELOPMENT BANK - SPECIAL ACCOUNT RESOURCES WAQF FUND (WAQF FUND)
APPENDIX – STATEMENT OF SERVICE PERFORMANCE
YEAR ENDED 31 DECEMBER 2022
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STATEMENT OF SERVICE PERFORMANCE

The purpose of the statement of service performance is mainly to provide non-financial information to better understand the operational performance of the Waqf institution in correlation to its financial activities and state of affairs. Quantitative performance measures using performance ratio such as Governance & management expenses/total Ghallah and Distribution & net program expenses/total Ghallah.

Special Allocation Fund to Development of the Islamic Financial Services Industry

Approval of the Special Allocation Fund

The IsDB Group has been instrumental in developing the Islamic financial services industry globally by leveraging the available resources and forging international partnerships. Based on growing demands from Member Countries, industry development needs, and IsDB's Vision, the Board of Governors (BOG), in its Plenary Sitting during the 38th Annual Meeting in Dushanbe, Tajikistan on 12 Rajab 1434H (22 May 2013), adopted the Resolution No. BG/4-434 for a special allocation comprising a part of IsDB's expected net income, specifically for the development of the Islamic financial services industry. The period of commitments of the first Special Allocation was 1434H to 1436H (2013G-2015G).

Further to the progress made on the 1st Special Allocation, the 2nd Special Allocation was approved by the BOG through Resolution No. BG/5/436 in its Plenary Sitting of the 40th Annual Meeting held in Maputo, Mozambique, on 11 June 2015 for 1437H to 1439H (2016G-2018G). The BOG has approved US$ 29.0 million through the two Special Allocations from 1434-39H (2013-18G), of which US$ 8.0 million has already been committed in the way of grants.

After the 2nd Special Allocation period expires, Resolution No. BED/25/2/018/(324)/6-A was approved for the remaining cumulative unutilized balance of the two Special Allocations (1st and 2nd) to be carried over and utilized until 2022G, or earlier, whichever comes first.

Finally, the Board of Executive Directors (BED) adopted Resolution No. IsDB/BED/022/(347)/10.2 for the remaining cumulative unutilized balance has been extended until the end of the year 2025G for the Development of the Islamic Financial Services Industry.

Grant System in the Special Allocation Fund

Since its establishment, the IsDB has supported the development of the Islamic Financial Services Industry (IFSI) through various initiatives, such as (i) equity investments in Islamic financial institutions; (ii) grant activities for Islamic finance capacity building, (iii) establishment of Islamic finance Infrastructure Institutions (III's); (iv) development of Islamic financial products/funds; and (v) development of long-term policy frameworks (e.g., "Ten-Year Framework for Developing the IFSI") jointly with other international organizations.
In this regard, IsDB created a Special Allocation Fund to develop the Islamic Financial Services Industry (IFSI). Mainly two programs are actively used by the Fund. "Islamic Finance Grants" and "Islamic Finance Capacity Building & Awareness Enhancement."

Grant Scheme: Islamic Finance Grant is an initiative that predates the approvals of the Special Allocation and is formalized through the various BOG resolutions, as mentioned earlier, to develop the Islamic Finance industry. This program provides Islamic finance grants to Central Banks, Ministries of Finance, Capital Market Authorities, other regulators, banks, Takaful companies, and other financial services stakeholders. The objective is to create an enabling environment for Islamic finance in their respective jurisdictions. In addition to IsDB Member and Non-Member Country stakeholders, Islamic finance grants are also offered to III's developing standards, guidelines, and best practices for the Islamic Financial Services Industry.

These interventions have paved the way for introducing and strengthening Islamic finance worldwide by creating the requisite enabling environment consisting of legal, regulatory, and supervisory frameworks, building local capacities, and transferring knowledge.

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Grant System in the Special Allocation Fund (continued)

Islamic Finance Capacity Building and Awareness Enhancement: Promoting the acceptance of Islamic finance is one of the industry's fundamental challenges. The Islamic finance awareness creation program plays an essential role in achieving this objective through organizing seminars, conferences, training, and capacity building on various topics related to Islamic finance to highlight its key features and potential benefits. The program has created greater acceptance for Islamic finance, as is evident from several new jurisdictions requesting grants for Islamic finance regulations.

Utilization of the Fund

During 2013-2022, 25 Islamic finance grant projects and 34 capacity building & awareness initiatives have been completed, which have expanded Islamic finance offerings in IsDB Member and Non-Member Countries and other stakeholders. Moreover, the support given by the IsDB/IsDBI has strengthened the Islamic Infrastructure Institutions in nurturing the development of the industry.

Between 2013 and year-end 2022, the cumulative approvals of the Special Allocation Fund stand at US$ 17.4 million, leaving a balance of US$ 13.5 million as of 1 January 2023.

SPECIAL ASSISTANCE DIVISION

Communities Outreach Program

Since its inception, the Communities Outreach Program has approved a total of 1,854 projects with a total amount of USD 904 million. Out of the 1,854 approved projects, 1,081 projects were developmental projects, while 773 projects were relief projects. In terms of amounts, developmental projects amounted to USD 282 million, while relief projects amounted to USD 622 million. These Operations were delivered in 84 countries in 8 geographical sub-regions in Non-Member Countries (NMCs) globally.

The Communities Outreach Program approved a total of 7 (Seven) projects in 2022 with the total amount of US$ 1.455 million. One of the seven projects is a relief project for an amount of USD 200,000 to respond to the impacts of the drought on community in Ethiopia. The other six projects are development projects with a total amount of USD 1.255 million to support the education sector in 5 countries, namely: (i) Infrastructure and Equipment Enhancement Grant for Iqra Girls' Academy in Lusaka (Zambia) with the amount of US$ 0.2 million; (ii) Expansion of Public Second Gymnasium School in Mostar (Bosnia and Herzegovina) with the amount of US$ 0.185 million; (iii) Expansion of Vocational Training Center for Hamidiya Islamiya School Society in Panwari (India) with the amount of US$ 0.2 million; (iv) Expansion of Markaz-E-Adab-O-Science Primary School in Ranchi (India) with the amount of US$ 0.2 million; (v) Construction of Primary School Building within the Institute of Islamic & Secular Studies (IISS), Vallée des Prêtres, Port-Louis, Mauritius, with the amount of US$ 0.25 million; and (vi) The Expansion of Rahma Pre School and Primary School , Dodoma City -Tanzania, with the amount of 0.22 million.

The implementation of 14 projects has been completed this year. There are 51 projects at various stages of implementation throughout various continents, including 21 in Africa, 11 in Europe, 14 in Asia, and 5 in America.

Scholarship Program

The IsDB Scholarship Program was established in 1983 to promote human capital development in member countries (MCs) and Muslim communities in non-MCs. The Program plays a crucial role in human resource development and workforce mobility. It also facilitates capacity building with the innovation, knowledge, and technology needed to compete in a rapidly changing global community.

There are 4 (four) scholarship Programs offered by the IsDB: (i) Undergraduate Program for Muslim communities in non-MCs (SPMC), (ii) Merit Scholarship Program for High Technology (MSP), (iii) M.Sc. Scholarship Program in Science and Technology for IsDB LDMC (M.Sc.) and (iv) IsDB-ISFD Scholarship Program for LDMCs.

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Scholarship Program (continued)

Over the past 39 years of operations, the Bank offered scholarships to 18,493 students from 122 countries worldwide (56 MCs and 66 Muslim communities in non-MCs) consisting of 15,277 for SPMC, 1197 M.Sc., 1,681 MSP, and 338 IsDB-ISFD. Gender representation is 70% Male and 30% Female. Since inception as of the end of December 2022, the total accumulated expenditure for the entire program comes to US$ 233,932 Million.

The scholarships provided under the Undergraduate Program for Muslim communities in non-MCs (SPMC) are loans to the students and grant to the respective Muslim community refundable after graduation and gainful employment to the IsDB Education Trusts (IETs) established by the Bank in each Muslim community to recycle these funds for offering additional scholarships to other needy students from the same community. As a result, IETs in 14 countries have so far offered 2,181 scholarships bringing the total scholarships provided since inception to 20,519.

During the academic year 2022, 1,233 students and scholars are currently continuing their studies. Of the total awardees, 13,716 students 13,711 from 104 countries (51 MCs and 53 Muslim communities in NMCs) have graduated from reputable universities in key areas of development. In terms of regional distribution, 52% of the total graduates are from Asia, followed by Member Countries at 26%, while 16% are from Africa. The remaining 6% went to Europe, Oceania, and North & South America Indeed, it is encouraging and gratifying to note that the SP are achieving their mission as most graduates have gained employment in important positions, are advancing in their careers, and have made significant contributions to the development of their countries.

Islamic Development Bank Institute

The Islamic Development Bank Institute ("IsDBI") is the knowledge beacon of the IsDB Group. Guided by Islamic economics and finance principles, the Institute is mandated to lead the development of innovative knowledge-based solutions to support the sustainable economic advancement of IsDB Member Countries and various Muslim communities worldwide.

It was established in 1981 as the Islamic Research and Training Institute (IRTI); the Institute was renamed in April 2021 as IsDBI to align the Institute with the IsDB Group's emerging priorities and enable the Institute to effectively lead the delivery of innovative knowledge-based solutions for sustainable development.

Main Functions of IsDBI

- Innovative knowledge solutions
- Pioneering research and original economic analysis
- Human capital development
- Publications in Islamic economics and development
- Advisory, Islamic finance grant, and consultancy services
- Knowledge creation, management, and dissemination

Capacity Building

The Institute enhanced its capacity-building programs to contribute to developing future knowledge leaders for Member Countries (MCs). IsDBI offered a rerun of the Islamic Banking and Finance eLearning programs on the edX platform in 2022, attracting 2360 participants worldwide. The Institute significantly enhanced its e-learning technologies to provide secure, collaborative, flexible and easy-to-use solutions to all beneficiaries and partners. Notably, in 2022, IsDBI professional staff delivered in-kind capacity-building activities virtually and physically without financial sponsorship for 216 participants in Uzbekistan, Saudi Arabia, Yemen, and Kenya.

IsDBI has continued to build statistical capacity. For example, the Institute and Global Partnership for Sustainable Development Data (GPSDD) helped the governments of Senegal and Togo collect timely data through National Aeronautics and Space Administration (NASA) satellite technology and Amazon Web Services analytics, allowing them to monitor and track environmental data. Furthermore, together with the Asian Development Bank (ADB), the Institute continued to train national statisticians from MCs on economic globalization.

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Innovative Knowledge Solutions

In 2020, IsDBI obtained three fintech patents. Following this success in the last two years, the Institute began developing a fourth patent and took steps toward capitalizing on the three previously acquired patents. The obtained patents are for blockchain-based innovative solutions for financing economic development in IsDB MCs. IsDBI started developing a strategic framework for capitalization and entering partnerships for some of the patented solutions. Under the Institute's Smart Economy Grants Programme, seven winners were selected and awarded US$ 10,000 each to advance their projects.

Islamic Finance Grant Program

Developing Islamic Finance Ecosystems: IsDBI provides grants for developing the Islamic finance ecosystem to develop the Islamic Finance industry. Under this program, Islamic finance grants are provided to Central Banks, Ministries of Finance, Capital Market Authorities, other regulators, banks, Takaful companies, and other financial services stakeholders. The objective is to create an enabling environment for Islamic finance in their respective jurisdictions. In addition to IsDB Member and Non-Member Country stakeholders, Islamic finance grants are also offered to III's (Islamic Finance Infrastructure Institutions) developing standards, guidelines, and best practices for the Islamic Financial Services Industry. Since its inception in 2013, the cumulative approvals of the Islamic Finance Grants till the end of 2022 stand at US$ 13.7 million. More recently, the IsDBI has also initiated work on some flagship projects, such as the Awqaf Free Zones, to explore the possibility of providing accurate and impactful solutions to some of the most pressing needs of IsDB MCs, such as food and energy security.

Islamic Finance Capacity Building and Awareness Creation Initiatives: Promoting the acceptance of Islamic finance is one of the industry's fundamental challenges. The Islamic finance awareness creation program plays an essential role in achieving this objective through organizing seminars, conferences, training, and capacity building on various topics related to Islamic finance to highlight its key features and potential benefits. Under the Islamic Finance Grant Program, IsDBI also provides Islamic Finance Capacity Building and Awareness Creation initiatives. This program has created greater acceptance for Islamic finance, as is evident from the fact that several new jurisdictions have requested grants for Islamic finance regulations. Since the inception of the Islamic Finance Grants and as of 1 January 2023, 72 small-scale capacity-building and awareness-creation activities have been approved.

Islamic Finance Architecture Development

The expansion of the Islamic finance industry has brought about the need for standardization and harmonization across different countries and jurisdictions over the last few decades. The IsDB has been essential in addressing this challenge by establishing IIIs. IsDBI continues to support these institutions through active membership and grants programs and, more importantly, in-kind representation on Boards, Working Groups, Technical Committees, and Taskforces.

Strengthening Strategic Partnerships

The IsDB/IsDBI also works closely with other stakeholders and partners, such as the World Bank, IMF, UNDP, etc., for the joint promotion and development of the Islamic finance industry. IsDB partners with the relevant institutions on a case-by-case project basis or through long-term partnerships via Memorandum of Understanding (MoUs) and Letters of Understanding (LoUs) on joint projects within a defined scope and project implementation framework.

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Publishing in Islamic Economics and Finance

IsDBI strengthened its leadership in Islamic economics and finance publications in 2022 by releasing the IsDBI Reader, a modern e-Book reader app for smart devices. The app is integrated into the IsDBI website (https://isdbinstitute.org/), allowing users to purchase and download e-publications. During the same year, more than 500 publications (books, flagship reports, journals, working papers, etc.) have been printed. As part of its knowledge-creation activities, the Institute also continued to issue Islamic economics and finance publications. These included a new book detailing practical ways of curtailing risk in Islamic finance, a new report on artificial intelligence and Islamic finance, and two issues of the Islamic Economic Studies journal, among many others.

IsDB Prize for Impactful Achievement in Islamic Economics

The awards were presented to two of the prize winners, Prof. Habib Ahmed (first prize) and Prof. Mansur Masih (second prize), during the Host Country Gala Dinner held on the sidelines of the 2022 IsDB Group Annual Meetings in Sharm El Sheikh, Egypt. The third prize winner, Prof. Tariqullah Khan, could not attend the ceremony. The three laureates are internationally recognized academics who produced pioneering and impactful scholarly works. They won the Knowledge Contribution category of the prize for their significant and influential contributions to the field of Islamic economics and finance.

Partnerships for Delivery

Partnerships are a critical strategic tool the Institute uses to ensure efficient delivery and a more significant impact. In 2022, the Institute partnered with various stakeholders on programs related to data and statistics, Islamic finance research, and capacity building. Significant partners included the Oxford Poverty and Human Development Initiative (OPHI), the Asian Development Bank (ADB), the Global Partnership for Sustainable Development Data (GPSDD), the Arab Monetary Fund (AMF), and the Brunei Institute of Leadership and Islamic Finance (BILIF). These collaborations resulted in improvements to evidence-based research and analysis, the development of statistical frameworks, skills enhancement in various aspects of Islamic finance, and joint knowledge events.

Enhancing Institutional Effectiveness

Several activities were implemented to strengthen the Institute's governance and operational effectiveness. These included completing the New Statute of the Institute, formulating resource mobilization guidelines, revamping the Islamic finance grant program, and implementing performance evaluation processes.

Best Islamic Research Firm 2022 Award

In 2022, for the third consecutive year, IsDBI won the 'Best Islamic Research Firm' award after securing the highest score in the Islamic Finance News (IFN) Service Providers Poll. The award recognized the Institute's innovative approach to creating knowledge solutions to achieve sustainable development. Winners of the annual IFN Service Providers Poll, now in its 16th year, are voted for by the global Islamic financial industry and IFN readers in recognition of the best and leading players in the industry and their contributions.

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