

Integrated approach to inclusiveness



2018

ANNUAL REPORT



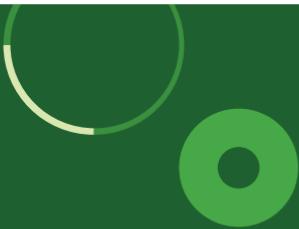


بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





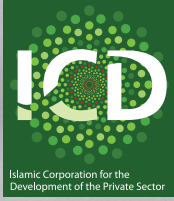
18



ANNUAL REPORT

Integrated
approach
to inclusiveness





Letter from the Chairman of the Board of Directors	7
Message from the Chief Executive Officer (CEO)	8
2018 in Numbers	11
Highlights Since Inception	14
Highlights of 2018	16

Introduction

An Integrated Approach to Promote Inclusive and Sustainable Private Sector Development

Chapter 1

Providing Affordable and Adequate Finance for the Private Sector Development

Chapter 2

Catalyzing Small- and Medium-sized Enterprise (SME) Financing in Fragile and Difficult Settings

Chapter 3

Learning from Past and Leveraging on Successes



23



28



39



48

Organization and Governance

59

Annex 1: Approvals and Disbursements since Inception

68

Annex 2: Abbreviations

69

Annex 3: Financial Highlights

70

Annex 4: Shari'ah Board Report

71

Annex 5: Financial Statements and Independent Auditor's Report

72

Annex 6: Financial Review Report (in USB)





FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS TO THE CHAIRMAN OF THE GENERAL ASSEMBLY

In the name of Allah, the Beneficent, the Merciful

H.E. The Chairman,
General Assembly of the Islamic Corporation for
the Development of the Private Sector

DEAR MR. CHAIRMAN,

Assalam-O-Alaikum Warahmatullah Wabarakatuh

In accordance with the Articles of Agreement and the by-laws of the Islamic Corporation for the Development of the Private Sector (ICD) and on behalf of the ICD Board of Directors, I am pleased to submit to the esteemed General Assembly the Nineteenth Annual Report of the ICD for the fiscal year covering the 2018 calendar year.

This report contains an overview of the ICD's 2018 operations, including its business interventions, development impact, and financial analysis. The ICD will, Insha Allah, pursue all efforts to meet the aspirations of its shareholders.

Please accept, Mr. Chairman, the assurances of my highest consideration.

A handwritten signature in black ink, enclosed within an oval shape.

Dr. Bandar M. H. Hajjar

Chairman, Board of Directors,
Islamic Corporation for the Development of the Private Sector



FROM THE CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER



In the name of Allah, the Beneficent, the Merciful

I am pleased to present the 2018 Annual Report that expresses quite challenging, but still fruitful year for the ICD.

In 2018, global economic activity continued at a steady pace, while facing downside risks, including escalating trade conflicts, rising geopolitical tensions, and tightening financial conditions. Prevailing risks weighed heavily on the market sentiments of some ICD member countries. Nevertheless, some member countries tended to benefit from global economic and financial conditions, such as rising commodity prices and greater financial flows. At the same time, in most member countries, the key instruments for inclusive and sustainable economic growth remained basic ones: structural and policy reforms, strong private-sector involvement in domestic economic activities, and integration within regional and global value chains.

In ICD, we are committed to strengthening the resilience of the private sector and economies of our 54 member countries to better withstand global, regional and country shocks, such as climate change and natural disasters, wars and instabilities, and the volatility of commodity prices and currencies. We are determined, more than ever, to deliver on the vote of confidence we receive from our shareholders through their financial and political support. Through their high rate of subscriptions in the second general capital increase, our members tangibly recognized ICD's important role in fostering sustainable development.

Due to our integrated and innovative approaches, we strive to offer context-sensitive interventions, and to instill more efficient ways to create opportunities for the private sector to thrive in those communities where support is needed the most. We do this through a combination of our investment and advisory solutions. We strive to partner with a broad array of stakeholders to unleash the power of the private sector.

Supporting small- and medium-sized enterprises (SMEs) remains a primary focus of our work. It has proven to be a powerful lever in helping us to achieve our broader goal:

the promotion of sustainable and inclusive private-sector development in our member countries. Today, this focus on SMEs as a means to bring about development goes well beyond their economic contributions. It recognizes and stresses SMEs' potential to build social cohesion, reduce income inequalities, foster resilience, empower marginalized groups, and restore community security. At the same time, this focus allows us to address matters of urgency, such as resilience, climate change, innovation, and disruptive technologies. Our work in sustainable infrastructure financing, for example, strengthens the productive potential of the private sector, and enhances businesses' ability to compete and thrive in challenging environments.

We approach this task with a record of accomplishment of strong developmental results and operations conducted over the 19 years since our establishment. In 2018, we continued to spread our footprint throughout our member countries. At the end of the 2018 fiscal year, ICD's gross cumulative approvals reached around \$6.4 billion, and gross cumulative disbursements exceeded \$3.2 billion. These investments span 51 member countries, encompassing a geographic sweep stretching from Suriname in the Caribbean region to Indonesia in East Asia.

During fiscal year 2018, we approved \$483 million in investments and secured six advisory mandates that expand opportunities to improve the welfare of people and achieve SDGs. We intensified our focus on the most challenging locations. Testaments to our success surface in community-sensitive SME interventions now yielding sustainable development results in economies such as Yemen, Uzbekistan, Nigeria, Tajikistan, Mali, and Palestine. Moreover, nearly a fifth of our investments or approvals last year supported our Least Developed Member Countries (LDMCs).

We realize that "business as usual" is never enough. We strive to learn from our past, and to leverage our successes. Thus, in 2018, we began to take stock of all our activities to understand what does and does not work. We continue to

thoroughly study our past to devise a stronger plan for our future. The lessons we learned will aid us in a great deal in steering the private sector to make larger and more effective contributions to growth and prosperity. Moreover, internal institutional management reforms and transformation of 2018 promise to make our institution leaner and more agile.

Being agile, innovative and responsive is even more important in the current global context, with fast technological disruptions, digitalization, fintech and rapid changes taking place almost everywhere. A constant in this competitive and rapidly evolving environment is the central role that the private sector and SMEs will play in overcoming development challenges. All developers need to work together to catalyze, mobilize and channel more investments, and to help businesses to create the innovative solutions needed to prosper. Indeed, prevailing and new digital technologies present development tools that can help increase the scale, enhance the effectiveness, and reduce the costs of our work.

I pray to Allah the Almighty to guide us in our efforts to overcome the challenges ahead and to help us achieve the welfare and prosperity of the Muslim community, Amin.



Ayman Amin Sejiny

Chief Executive Officer and General Manager,
Islamic Corporation for the Development of the Private Sector



Numbers and highlights

2018

in numbers



87%
INVESTED IN
FINANCIAL
SECTOR

67%
INVESTED IN
SUB-SAHARAN
AFRICA



9

COUNTRIES REACHED
(PLUS ONE REGIONAL PROJECT)



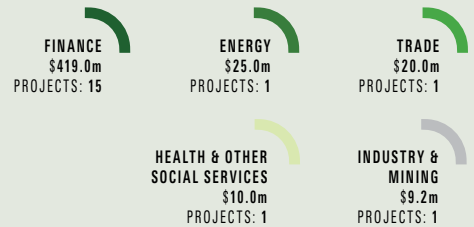
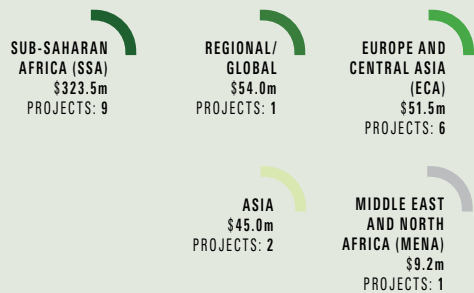
19

PROJECTS
APPROVED



\$483.2m

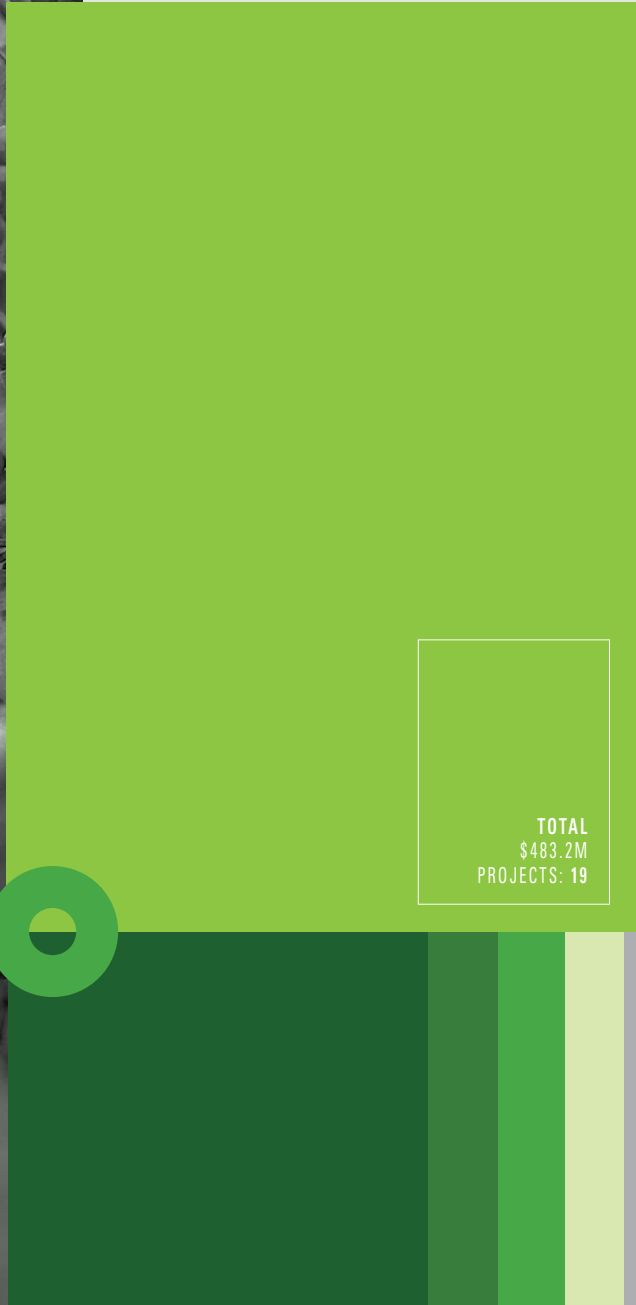
APPROVED



Approvals by sector



Approvals by product



Approvals by region

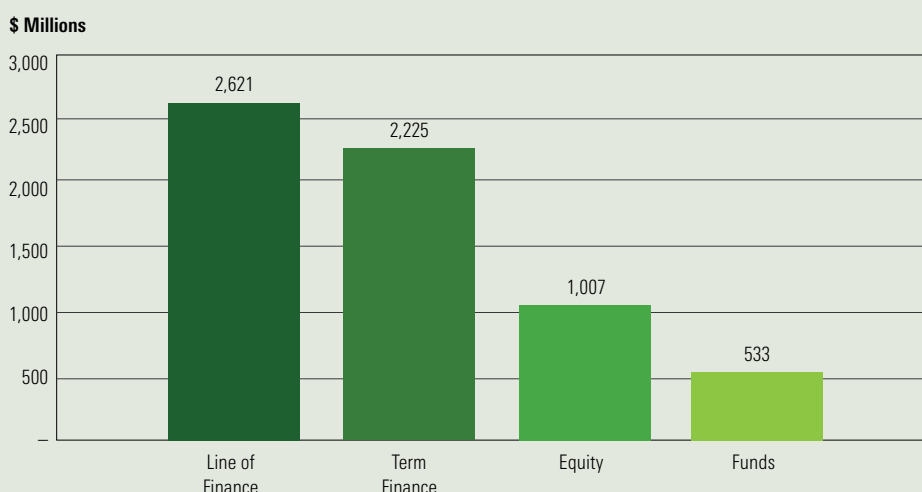
HIGHLIGHTS SINCE INCEPTION

SINCE ITS INCEPTION IN 1999, THE ICD HAS APPROVED MORE THAN 400 PROJECTS, VALUED AT AROUND \$6.4 BILLION. ICD APPROVALS SUPPORT A WIDE ARRAY OF INDUSTRIES INCLUDING FINANCE, INFRASTRUCTURE, AGRICULTURE, MANUFACTURING, AND OIL AND GAS. ICD INVESTMENT OPERATIONS ARE AT WORK IN 51 MEMBER COUNTRIES.

The array of ICD approvals includes: more than 100 Line of Finance projects valued at \$2,621 million; 218 Term Finance projects valued at \$2,225 million; 78 Equity projects valued at \$1,007 million; and 15 Funds projects valued at \$533 million. To date, 76 percent of approvals address Term Finance plus Line of Finance, 16 percent address Equity participation (institutional equity and corporate equity), and the remaining 8 percent address Funds.

Approvals – by product

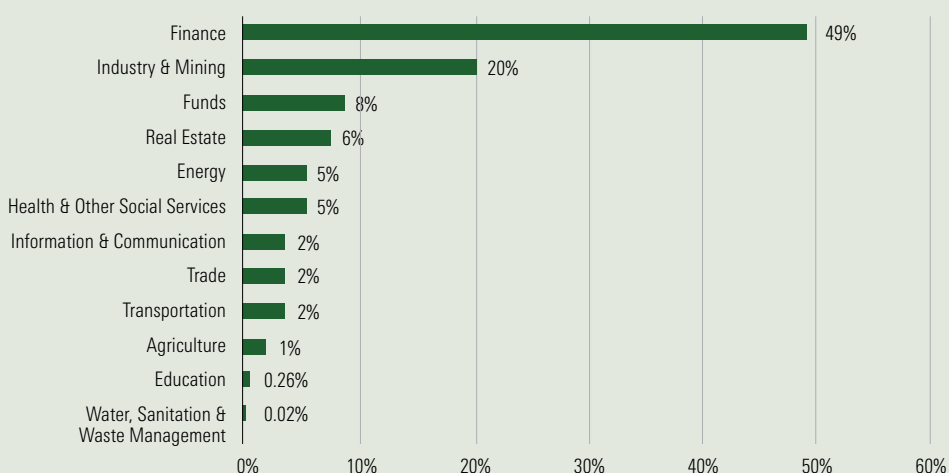
Total approvals by product since inception



By far the largest share of approvals support the financial industry, which represents 49 percent of gross approvals to date. The industrial and mining sector received the second largest share (20 percent), with a gross approved amount of \$1,261 million. Other recipient sectors, include: funds, real estate, health and other social services, information and communication, energy, trade, transportation, agriculture, education, and water, sanitation and waste management.

Approvals – by sector

Total approvals by sector since inception



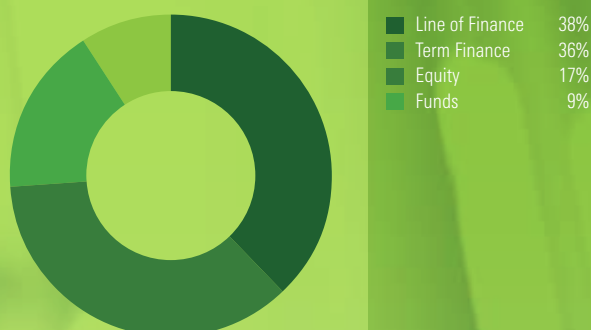
Disbursements – by product

ICD has disbursed around \$3.2 billion since inception. Disbursements vary according to product, with Term Finance and Line of Finance projects accounting for the largest proportion (74 percent). Equity operations accounted for 17 percent, followed by Funds at 9 percent.

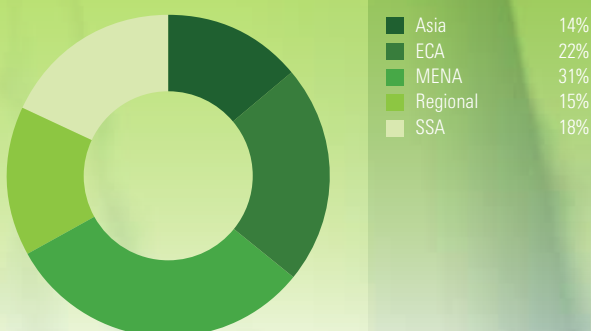
Approvals – by region

Our approvals reflect our wide geographic reach. ICD investment operations include 51 member countries, in addition to a number of regional/global projects covering several economies. Gross approvals encompass the Middle East and North Africa (MENA) region (31 percent); Europe and Central Asia (ECA) (22 percent), Sub-Saharan Africa (SSA) (18 percent), and the Asia and Pacific (14 percent) region. Regional/global projects covering multiple countries and regions represent 15 percent of gross approvals.

Total disbursement by product since inception



Total approvals by region since inception



HIGHLIGHTS OF 2018

IN 2018, THE ICD APPROVED 19 INVESTMENT AND FINANCING PROJECTS TOTALING \$483 MILLION. THESE PROJECTS ADD VALUE TO THE ECONOMIC AND SOCIAL DEVELOPMENT OF MEMBER COUNTRIES BY CREATING NEW JOBS, SUPPORTING PRODUCTIVE CAPACITIES, FACILITATING TECHNOLOGY TRANSFER, AND BOOSTING CROSS-BORDER INVESTMENT.

Approvals – by product

LOF projects (87 percent) represented the largest category of all approvals by far, followed by Term Finance (11 percent), and Corporate Equity (2 percent).

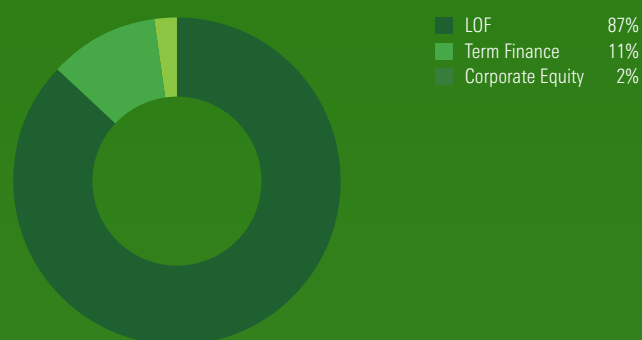
Disbursements – by product

ICD disbursed \$538 million in 2018. The largest disbursement allocation over the past year went to LOF, amounting to \$405 million (75 percent), followed by Term Finance (22 percent), and Equity and Funds (3 percent).

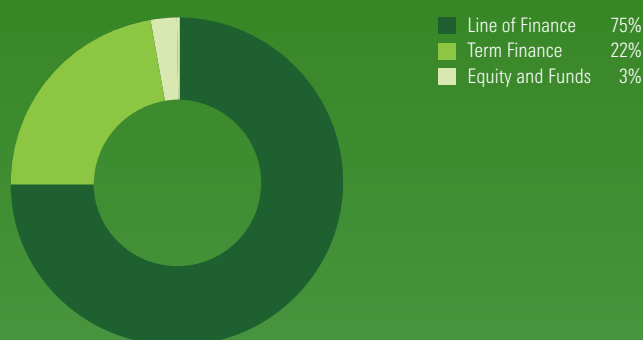
\$483M

IN 2018, THE ICD APPROVED 19 INVESTMENT AND FINANCING PROJECTS TOTALING \$483 MILLION.

Approvals by product in 2018



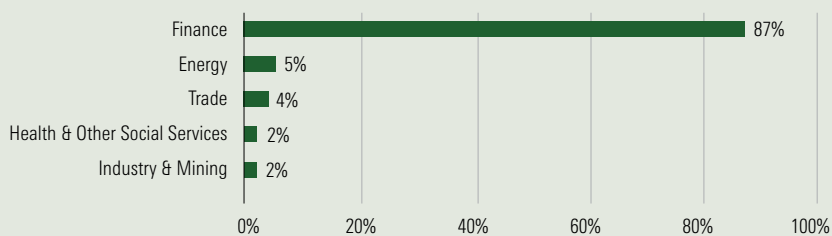
Disbursements by product: 2018





Approvals – by sector

Approvals by sector: 2018

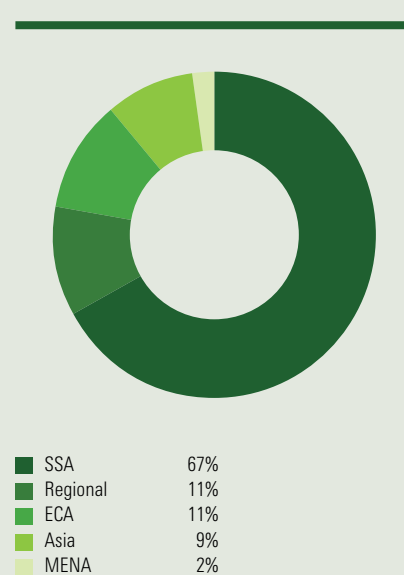


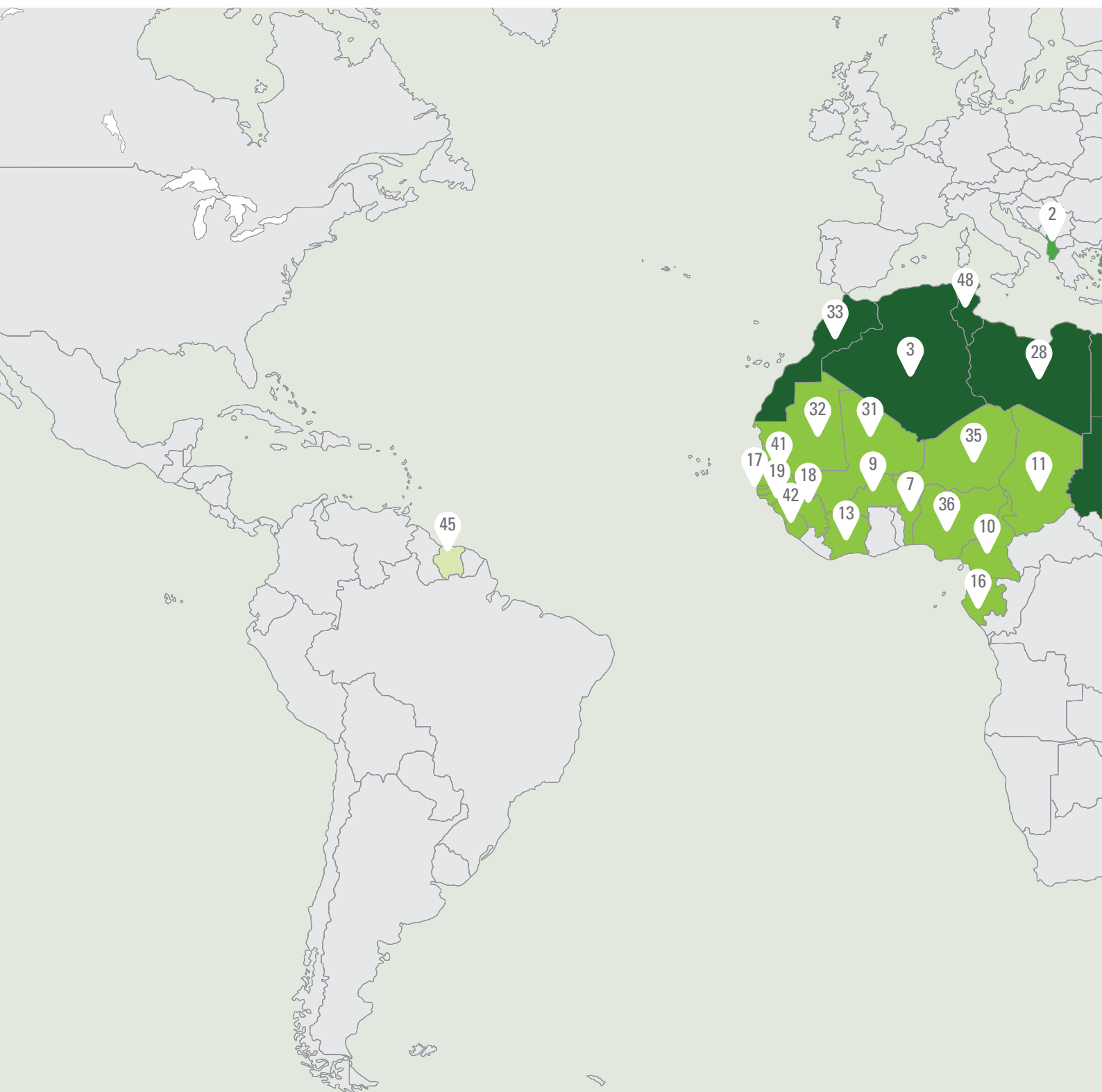
The distribution of the ICD's 2018 approvals across various sectors reflects a strategic focus on the financial sector. Thus, the financial sector accounted for the largest share of approvals (\$419 million, representing 87 percent). This was followed by energy (\$25 million, representing 5 percent), trade (\$20 million, representing 4 percent), health care (\$10 million, representing 2 percent), and industrial projects (\$9.2 million, representing 2 percent).

In 2018, ICD continued to rebalance the geographical allocation of its investment commitments. From this geographical perspective, the allocation of ICD resources was based on a number of factors including member countries' development needs, the readiness of markets, and ICD strategic priorities. The Sub-Saharan Africa region received the largest share (67 percent) of approvals, followed by regional/global (11 percent), Europe and Central Asia (11 percent), Asia (9 percent), and the Middle East and North Africa (2 percent).

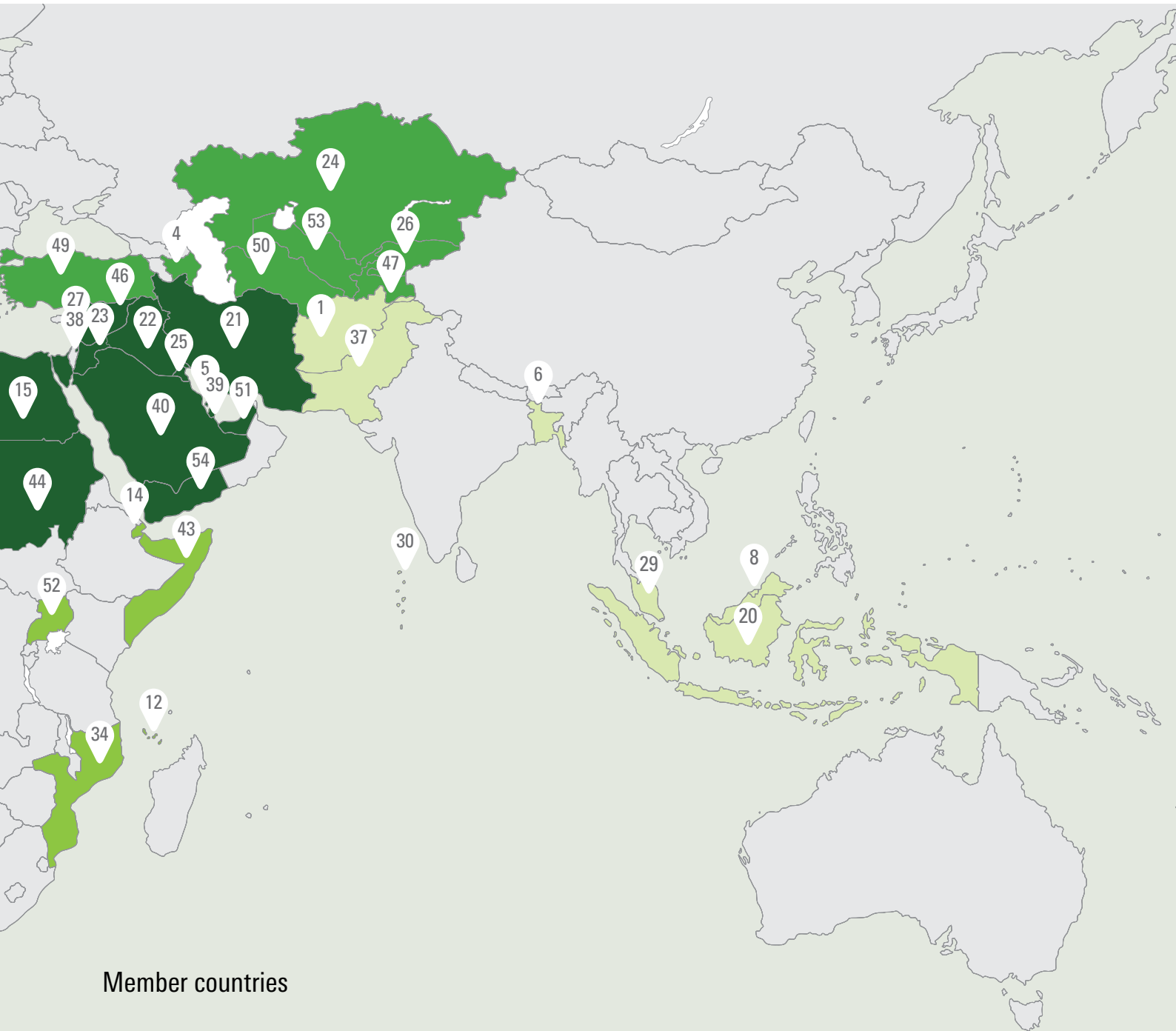
Approvals – by region

Approvals by region: 2018





Disclaimer: Country borders or names do not necessarily reflect ICD's official position. This map is for illustrative purposes and does not imply the expression of any opinion on the part of ICD, concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries.



Member countries

- | | | | |
|-------------------|---------------------|------------------|--------------------------|
| 1. AFGHANISTAN | 15. EGYPT | 29. MALAYSIA | 43. SOMALIA |
| 2. ALBANIA | 16. GABON | 30. MALDIVES | 44. SUDAN |
| 3. ALGERIA | 17. THE GAMBIA | 31. MALI | 45. SURINAME |
| 4. AZERBAIJAN | 18. GUINEA | 32. MAURITANIA | 46. SYRIA |
| 5. BAHRAIN | 19. GUINEA BISSAU | 33. MOROCCO | 47. TAJIKISTAN |
| 6. BANGLADESH | 20. INDONESIA | 34. MOZAMBIQUE | 48. TUNISIA |
| 7. BENIN | 21. IRAN | 35. NIGER | 49. TURKEY |
| 8. BRUNEI | 22. IRAQ | 36. NIGERIA | 50. TURKMENISTAN |
| 9. BURKINA FASO | 23. JORDAN | 37. PAKISTAN | 51. UNITED ARAB EMIRATES |
| 10. CAMEROON | 24. KAZAKHSTAN | 38. PALESTINE | 52. UGANDA |
| 11. CHAD | 25. KUWAIT | 39. QATAR | 53. UZBEKISTAN |
| 12. COMOROS | 26. KYRGYZ REPUBLIC | 40. SAUDI ARABIA | 54. YEMEN |
| 13. COTE D'IVOIRE | 27. LEBANON | 41. SENEGAL | |
| 14. DJIBOUTI | 28. LIBYA | 42. SIERRA LEONE | |

A low-angle photograph of a modern building with a glass facade. The building's structure is composed of dark grey panels and large glass windows. A semi-transparent green rectangular overlay covers the lower half of the image. In the bottom right corner, there are three decorative circles: a solid green circle, a green outline circle, and a yellow outline circle. The text 'ABOUT THE ICD' is centered in white within the green overlay.

ABOUT THE ICD

Our mission

To complement the role played by the Islamic Development Bank through the development and promotion of the private sector as a vehicle for boosting economic growth and prosperity.

Our vision

To become a premier Islamic multilateral financial institution for the development of the private sector.

Establishment

ICD was established in November 1999 to support the economic development of its member countries through the provision of finance for private sector projects, promoting competition and entrepreneurship, providing advisory services to the governments and private companies and encouraging cross border investments.

Capital

ICD has an authorized capital of \$4 billion. Currently, the shareholders of ICD are the IsDB, 54 Islamic countries and five public financial institutions.

Objectives

The overall objectives of ICD are:

- To identify opportunities in the private sector that could function as engines of growth and to provide them with a wide range of financial products and services.
- To encourage the development of Islamic financing and capital markets.

Strategy

The IsDB Group's 10-Year Strategy resolves around five strategic pillars: (i) Economic and social infrastructure; (ii) Islamic finance sector development; (iii) Social development; (iv) Cooperation between MCs; (v) Private sector development.

As a full-fledged private sector development arm of the IsDB Group, the ICD is well-positioned to play a lead role in the Group's efforts to accomplish its developmental mandate and strategic objectives. Therefore, the ICD's corporate strategy is in perfect harmony with the IsDB Group 10-Year Strategy. Current strategy of the ICD has built on a four-pronged strategy to achieve its vision and mission:

- The first pillar aims to focus on developing Islamic financial channels for a multiplication in development impact. This meant to facilitate SMEs access to financial resources through strengthening local financial institutions in member countries.
- The second pillar adopts a selective approach to real sector interventions. This means that in member countries with a relatively less developed Islamic finance sector, ICD provides finance for private sector firms in high impact sectors.
- The third pillar supports Enabling environment in Member Countries through strong partnerships with the IsDB and other Group entities. ICD aims to gear up with IsDB in various areas such as MCPS, Financial Institutions Development Program, Sukuk Program, and Industry & Business Environment Support Program.
- The fourth pillar seeks to mobilize resources through off balance sheet instruments including syndications, Sukuk issuances and a set of funds development activities.



Introduction

An Integrated Approach to Promote Inclusive and Sustainable Private Sector Development



ICD aims to help its members meet ambitious development goals by using an integrated approach that seeks to remove barriers to progress, particularly in tough environments and circumstances. At ICD, we facilitate the economic development of our member countries by providing broad package of financial assistance and advisory services to private-sector projects in accordance with the principles of Shari'ah. We refer to our innovative, tailored, and efficient solutions as an integrated approach, by which we mean that we offer context-specific interventions tailored to specific societal needs. Our approach is designed to foster efficient ways to provide the private sector with opportunities to thrive in communities facing difficult situations, where support is most needed. Moreover, our integrated approach strives to promote inclusive and sustainable private-sector development. We reinforce this goal by establishing strong partnerships with many other players, including governments, private-sector firms, international financial institutions (IFIs) and institutional investors.



At present, we focus on the following activities:

Financing SMEs Through Local Intermediaries

In many of our member countries, local financial systems do not sufficiently cater to the needs of the private sector, particularly those of small-and medium-sized enterprises (SMEs). This lack of capital has negative consequences for social and economic development. SMEs are often referred to as “the missing middle,” a term that suggests their predicament of being considered too big to garner support from microfinance institutions, and too small and risky to gain support from traditional financiers. Therefore, ICD plays an important role in catalyzing private-sector and SME financing markets in its member countries.

As an international financial institution, we can assure affordability and adequacy of funding by working through local financial intermediaries (“channels”). With this “channel” (or “wholesale”) approach we stimulate the creation of local financial markets. Our work applies strict funding and Shari'ah standards, thoughtfully selects and screens financial channels, and sensibly calibrates controls and incentives.

During 2018, the Corporation continued to extend lines of finance to its new partner institutions, and continued to work closely with existing Islamic and conventional banks as well as Ijara, investment companies and other NBFIs (which serve as key channels).



During the year we approved extending 15 lines of finance, encompassing one regional line, and several individual lines in Uzbekistan, Nigeria, Mali, Côte d'Ivoire, Senegal, and Burkina Faso.

Directly Supporting the Corporate Sector

Across the spectrum of size, firms struggle to obtain funding needed to succeed. A "one size fits all" approach does not serve emerging needs of business in today's dynamic economies. Thus, we specifically tailor our interventions to reach those businesses that are struggling to find the financial instruments that enable them to innovate and grow. We therefore complement our channel (or wholesale) strategy with direct support to private-sector agents, particularly medium and large firms, to address their most critical and immediate needs. We assist them in ways that can lead to enhanced productivity, scaling-up opportunities, better integration with global value chains, and beneficial spill-overs of technology and know-how. Thus, we set the stage for more dynamism and innovation among firms.

Moreover, in the markets in which we operate, investing in critical infrastructure is pivotal to unlocking economic growth and supporting productive capacities of the private sector as a whole, and of SMEs, in particular. Because the infrastructure-financing gap of our member countries is immense, our strategy is to leverage a large network of investors and partners to scale up our interventions.

In 2018, ICD continued to provide vital investments to real sector projects that are expected to enhance corporations' productive capacities in most needed markets. For example, our direct interventions totaled a \$55 million of transactions allocated exclusively to Bangladesh and Tajikistan.

Catalyzing SME Financing in Difficult Environments

Barriers to development are increasingly concentrated and particularly severe in many parts of the world that are especially hard to reach due to isolated geography, or to the presence of conflict. Against this backdrop, ICD utilizes different ways and means to extend the private sector's reach in creating jobs, reducing poverty, and increasing living standards in the most difficult geographies and settings. We work to build strong institutional capacities in Islamic finance that will cement future opportunities to catalyze and channel new investments and expertise into these high-need areas.

A broad consensus recognizes that SMEs' contribution is not limited to economic development; increasingly, SMEs are also seen as providing a means to build social cohesion, reduce income inequalities, foster resilience, empower marginalized groups, and restore community security. SMEs are believed to be more agile and dynamic in adapting to volatile circumstances than larger corporations. At the same time, however, SMEs are considered to be more sensitive to instabilities, and, in the face of difficult business conditions, SMEs are thought to suffer much more than their larger counterparts. Hence, ICD employs strong advisory strategies to assist SMEs with running their businesses in areas affected by challenging conditions of many kinds, such as socio-political instability, high unemployment, unattractive market conditions, and severe natural disasters.

Throughout 2018, our Islamic Finance Institutions (IFIs) Program established mandates designed to pave the way to strengthen future partnerships, to improve financial inclusion and to add depth to the Islamic finance industry in tough markets and circumstances. We also continued to tailor our Industry and Business Environment Support Program (IBES) to a wider segment of potential beneficiaries. Refining the programs in this way enables us to play an instrumental role in helping many of the most challenging regions, as evidenced by our expanding reach into fragile and conflict-affected areas of Middle East, Africa and Asia.

LEARNING FROM PAST AND LEVERAGING ON SUCCESSES

By the end of

2018

ICD had acquired \$766 million of assets under management (AUM), and had mobilized more than twice the amount of ICD-committed capital.

Within the course of

2018

ICD entered in a number of partnerships that are intended to enhance its goal of increasing shared and sustainable prosperity among its member countries. Moreover, syndication and resource mobilization activities led to a range of deals and structures.

During

2018

we added depth to our equity contributions in settings that offer the potential to achieve great impact on markets by improving their assets bases and governance structures.

We at ICD are determined to deliver on the vote of confidence we received from our shareholders through their financial and political support. Through their subscriptions in the second general capital increase, our members bestowed a testimonial recognizing ICD's critical role in private-sector development.

Solid corporate governance, leadership, and management are paramount considerations for our stakeholders. In 2018, ICD's new management and board have engaged in an extensive dialogue to strengthen the links between investment, reform, and impact. ICD initiated an internal modernization process that seeks to transform the management culture of the institution, improve its efficiency, develop innovative products, and enhance the delivery and measurement of impact.

Accelerating development in challenging markets and instability-prone areas is an enormous and complex task. Since its inception, ICD has proved itself to be a pioneer willing to venture into difficult and immature environments. Our equity investments in both financial and corporate sectors span 22 countries. We have embarked on such project knowing that even should we fail, the lessons we learn will aid us in enhancing our understanding of how to steer the private sector to make larger contributions to growth and prosperity in challenging contexts. We are now able to draw on many lessons learned over 19 years of operations, and, as a result, we are more confident than ever about our abilities and our future endeavors. During 2018, we added depth to our equity contributions in settings that offer the potential to achieve great impact on markets by improving their assets bases and governance structures.

ICD fosters growth and brings financial inclusion by adding depth to international and local capital markets. Experience has taught us that deep and efficient local capital markets are prerequisites for lasting prosperity. They shield local economies against an array of financial hazards that can emerge from various sources. In 2018, ICD has worked on its first ever local currency Sukuk in Kazakhstan Tenge which is targeted to be issued in 2019. The proceeds of the Sukuk will be extended to qualified financial institutions in Kazakhstan, which in turn, will support the private sector, specifically SMEs, in the country.

We continued to connect with sovereign wealth funds, financial institutions, pension funds, insurance companies, endowments, foundations, family offices, and high net-worth individuals with investment opportunities across developing economies and emerging markets. By the end of 2018, ICD had acquired \$766 million of assets under management (AUM), and had mobilized more than twice the amount of ICD-committed capital.

ICD depends on solid partnerships to harness potential resources available for investments and advisory activities. Within the course of 2018, ICD entered in a number of partnerships that are intended to enhance its goal of increasing shared and sustainable prosperity among its member countries. Moreover, syndication and resource mobilization activities led to a range of deals and structures.



Chapter 1

Providing Affordable and Adequate Finance for the Private Sector Development



Across the full spectrum of businesses, firms struggle to obtain adequate and affordable financing to grow their businesses. At present, access to finance is one of the top three obstacles cited by small, medium, and large enterprises in our member countries. For firms operating in Africa and in some parts of the Asian region, access to finance tends to be perceived as the biggest impediment.

To provide affordable and adequate finance to the private sector, ICD utilizes two funding strategies, depending on context and needs. They are:

- a *channel (wholesale) funding approach* that provides SME financing through intermediary institutions
- a *direct funding approach* that provides financing to the corporate sector

Unfortunately, in many of our member countries, local financial institutions such as banks and non-bank financial institutions do not sufficiently cater to the needs of the private sector, or, to the particular needs of SMEs. Our status as an international financial institution, allows us to use our channel (or wholesale) approach to ensure affordability and adequacy of funding by working through these local financial intermediaries (channels). We extend lines of finance to local and regional partner institutions through this mechanism, which plays a key role in catalyzing private-sector.

We are also determined to directly support private-sector agents and SMEs to address the most critical funding needs to help them become more dynamic and innovative. Our direct funding approach helps firms to better integrate into global and regional value chains, to enhance their productivity, and to facilitate the infusion and diffusion of technology. Moreover, together with our large network of international and regional development partners, we invest in critical infrastructure to unlock economic growth, and to develop productive capacities of the corporate sector in our member countries.

1.1. **Financing SMEs Through Intermediaries: Channel Strategy**

ICD's channel (or wholesale") approach strives to address the funding needs of SMEs in the most efficient and effective manner. By working with local and regional partner financial institutions, our channel strategy brings greater financial inclusion and serves as an engine for growth in various member countries.

With this strategy we are able to channel financing to particularly tough markets. These are environments and locations with high levels of volatility, and urgent funding needs. Targeting these especially vulnerable areas allows ICD to live up to its development mandate, and to put into

practice its motto: "*where ICD leads, others follow.*" That is, we seek to amplify our activities in countries where other financiers may shy away. This creates a *window of opportunity* for countries with marginalized economies, and provides a catalyst for potential economic transformation.

Nevertheless, we apply strict funding and Shari'ah standards by thoughtfully selecting and screening our intermediaries, who provide the channels for our strategy. We sensibly calibrate controls and incentives. We aim to increase our local presence to gain better proximity to our clients, and more insight into specific market needs and challenges. As a result, ICD has been able to speed up project execution, shorten disbursement times, tailor training programs, and improve alignment with the United Nations Sustainable Development Goals. This approach is yielding developmental benefits with notable successes. Sometimes, ICD is the only international long-term lender for many local financial institutions in member countries.

In 2018, we approved extending 15 lines of finance with a gross value of \$419 million. The approvals encompassed projects spanning the countries such as Uzbekistan, Nigeria, Mali, Côte d'Ivoire, Senegal, and Burkina Faso. In addition, one regional project, namely for West and Central Africa, was approved.



PROJECT HIGHLIGHT

CÔTE D'IVOIRE

Expanding our Reach and Coverage

- Product** €100 million global LOF facility
- Clients** Eligible financial institutions operating in Côte d'Ivoire
- Purpose** To (i) finance private-sector development projects, and/or (ii) provide funding to financial institutions and banking groups in Côte d'Ivoire.

In 2018, ICD approved a Global LOF of €100 million to be allocated to eligible financial institutions in Côte d'Ivoire. The ultimate beneficiaries of this financing facility are private-sector enterprises, particularly SMEs in Côte d'Ivoire.

The Global LOF to Côte d'Ivoire enables ICD to provide the Ivorian economy with a sizable amount to: support SMEs, assist the government's budget (with regard to increasing taxable income), promote Islamic finance, and assist the country in making progress toward achieving the United Nations Sustainable Developmental Goals.



PROJECT HIGHLIGHT

WEST AND CENTRAL AFRICAN COUNTRIES Embracing Greater Geographies

- Product** €45 million LOF facility
- Client** Afriland, a banking group with operations in nine countries, and with three representative offices
- Purpose** To finance private-sector development projects in ICD's member countries in Western and Central Africa

In 2018, ICD approved a €45 million LOF facility under a Wakala financing framework coupled with a commodity Murabaha facility to Afriland First Group. The project is to be utilized to finance SMEs through Afriland's Islamic window in three member countries (Cameroon, Côte d'Ivoire and Guinea). The line was disbursed in its entirety within the first three months.

This is the first facility that ICD has extended to a bank holding group. This new approach allowed ICD to deploy interventions in multiple countries through a single transaction.

The structure enables Afriland to finance eligible SMEs in Africa, particularly in Western and Central Africa, under a Murabaha, commodity Murabaha, or any other Shari'ah-compliant instrument that has been operational and effective in other ICD member countries.



PROJECT HIGHLIGHT

SENEGAL

Adding Depth to Islamic Finance in African Member Countries

Product €50 million LOF facility
Client BANQUE ISLAMIQUE DU SENEGAL (BIS)
Purpose To finance SMEs and private-sector projects

This Shari'ah-compliant Line of Financing facility finances private-sector projects in Senegal by channeling funds through Banque Islamique du Senegal, which acts as ICD's agent to select eligible projects and SMEs.



PROJECT HIGHLIGHT

NIGERIA

Blending Our Interventions in Supporting SMEs

Product \$80 million LOF facilities
Client Fidelity Bank (\$40 million) and Bank of Industry (\$40 million)
Purpose To finance SMEs and private-sector projects in Nigeria

With Fidelity Bank and Bank of Industry providing solid pipelines, these Shari'ah-compliant LOF facilities are envisioned to finance SME projects in Nigeria. The projects are intended to promote best management practices, and to provide strong development impact.





CASE STUDY

UZBEKISTAN Long-term Partnership to Support SMEs

Product	\$10 million LOF facility
Client	Joint-Stock Commercial Bank Qishloq Qurilish Bank
Purpose	Financing SMEs in Uzbekistan

As part of a long-term partnership, ICD has extended to Qishloq Qurilish Bank LOF facilities with a total value of \$21 million over eight years. We created our first LOF facility, for \$5 million, in 2011; the second, for \$6 million, in 2012 (under the Global LOF to Uzbekistan); and the third, for \$10 million, in 2018.

A significant portion of the bank's activities are related to its role as a government agent in improving the living conditions of the rural population, financing construction in villages, accelerating the development of industrial and social infrastructure in rural areas, and supporting SMEs by granting long-term loans for the purchase of equipment for manufacturing and service sectors. The bank covers all regions of the country, and provides financial services in 42 branches, which employ nearly 3,000 people.

So far, the bank has successfully disbursed the total of \$21 million and channeled financing to 42 sub-projects of SMEs. As a result, 520 new jobs were created by SMEs in enterprises that include the production of paper, textiles, poultry, confectionaries, and plastic facing profiles.



CASE STUDY

BURKINA FASO Diversifying the Offerings to SMEs in Least Developed Member Countries (LDMCs)

Product	€4 million LOF facilities
Client	Fidelis Finance Burkina Faso
Purpose	Financing SMEs in Burkina Faso

Burkina Faso is highly dependent on SMEs as key drivers for economic growth, job creation, and poverty reduction. A large portion of private enterprises in Burkina Faso consider access to affordable and adequate finance to be the prime obstacle to business growth. In this context, ICD support was immensely important in providing funds for local entrepreneurs to address their constraints. In 2018, ICD supported Burkina Faso's SME sector by extending a €4 million facility under a Wakala arrangement coupled with a commodity Murabaha structure to Fidelis Finance, an SME bank operating locally.

In 2017, Fidelis Finance won the Capital Finance International (CFI.co) award for Best Social Impact SME Finance in Burkina Faso. The jury commended Fidelis Finance for its tailored range of financing services to SMEs. The ICD's LOF facility will further assist Fidelis to diversify its product offerings to SMEs in Burkina Faso.

CASE STUDY

NIGERIA

Supporting the Islamic Finance Industry in Nigeria

Product \$20 million LOF facilities

Client Jaiz Bank

Purpose Financing SMEs in Nigeria

In 2018, ICD extended a \$20 million LOF facility to Jaiz Bank in Nigeria. The facility will be mainly utilized to support SMEs in Nigeria, where access to finance remains one of the private sector's key binding constraints. Through this support, ICD aims to create a strong development impact in terms of job generation, poverty alleviation, and Islamic finance development in Nigeria.

Though Nigeria has a large Muslim population, Jaiz is the only fully fledged Islamic bank in the country. Jaiz Bank was licensed in November 2011, with a regional mandate to operate in Nigeria as a non-interest financial institution. Jaiz was recently granted a license by the Central Bank of Nigeria to operate nationwide.

Jaiz Bank possesses a rich and balanced pipeline to well-established SMEs in key employment sectors such as agriculture, construction, and trade. In addition, the bank promotes women's economic empowerment through its gender-inclusive workplace culture, and through business activities that provide products and services specifically designed for women.



1.2. Direct Funding of the Private Sector

We complement our channel strategy by directly supporting and funding private-sector agents. This direct support aims to address businesses' most critical and immediate needs, and to help them to become more dynamic and innovative. Rather than employing a "one size fits all" strategy, we are committed to tailoring our interventions directly to markets and clients who struggle to find appropriate funding mechanisms. Our efforts to build productive capacities, business resilience, and sustainability support corporate-sector competitiveness in our member countries. Moreover, infrastructure financing is a key priority for ICD. Such infrastructure investments can unlock economic growth, and support productive capacities of the private sector and SMEs.

During 2018, our direct interventions represented transactions valued at \$55 million, allocated exclusively to Bangladesh (\$45 million) and Tajikistan (\$10 million). In terms of disbursements, we have processed \$120 million.

In 2018, short-to-medium term finance facilities extended to corporate clients made up the largest share of total approvals of \$30 million, representing 55 percent of direct interventions, while project finance facilities were extended to greenfield infrastructure projects, totaling \$25 million representing the remaining 45 percent.



HEALTHCARE
RECEIVED
\$10 MILLION



THE POWER AND
ENERGY SECTOR
RECEIVED
THE HIGHEST
ALLOCATIONS,
TOTALING
\$25 MILLION



INDUSTRY
AND MINING
RECEIVED
\$20 MILLION
IN APPROVALS



CASE STUDY

BANGLADESH Partnering to Support Infrastructure

In 2018, ICD contributed \$24.3 million in a long-term co-financing facility with two partners: the OPEC Fund for International Development (OFID) and the Infrastructure Development Company Limited (IDCOL).

Ace Alliance Power Limited is a 149 MW dual-fuel power-generation company in Bangladesh sponsored by the Summit Group on a “build, own, and operate” (BOO). The project is the result of the ongoing efforts of the government of Bangladesh to enhance the country’s power-generation capacity to support the expansion of economic growth. Electricity generated by the plant will be delivered via the national grid at a level of 132 KV to supply the greater Dhaka area through nearby Kooda with a 132KV grid substation.

Our interventions will contribute toward the strengthening of investor interest in taking part in much-needed future private-sector-driven projects in the power sector of Bangladesh. The project reflects ICD’s support to Bangladesh in bridging the electricity demand-supply gap, improving the efficiency of the power sector, and providing affordable electric power.

CASE STUDY

TURKEY Cultivating Success: Partnerships for Development

Construction of the Manisa Education and Research Hospital project in Turkey was completed in 2018. ICD was a co-financier of the project (ICD financing was approved in 2016). YDA, an established, leading public-private partnership (PPP) player in Turkey, entered into arrangements with the Ministry of Health to provide financing, design, and construction, and to supply medical devices and other equipment for the 558-bed health campus in Manisa. The project is part of a Turkish government program for collaborating with the private sector to build and expand hospitals and other healthcare facilities across the country. The program is intended to expand resources available for delivering quality services in the healthcare sector.

CASE STUDY

BANGLADESH Financing Value Chains

The planned Meghna Sugar Refinery Limited operation is a greenfield sugar refinery with a 4,000 MT/day capacity. The refinery is to be established in Meghna Economic Zone, roughly 50 km from Dhaka. The project is sponsored by the Meghna Group, one of the largest conglomerates in Bangladesh. The total project cost is \$131.6 million, of which the equivalent of \$82 million will be financed by different development financial institutions including ICD, KFW DEG of Germany, FMO of Netherlands, and the Austrian Development Bank. ICD approved \$20 million financing for the project in 2018.

The Project is expected to support Bangladesh to further strengthen its industrial and productive capacities by:

- The continued capital increase in Al-Akhdar Bank after its successful launch of operations;
- creating more than 1,100 jobs
- strengthening the competitiveness of the local sugar industry by expanding production capacity fostering the transfer of technology from foreign suppliers
- training of local professionals
- attracting foreign investments through utilizing economic zone benefits
- exploiting export potential in neighboring countries.



CASE STUDY

EGYPT

Investing in Production Value Chains

In November 2011 and amid the turmoil that marked historical shifts taking place across the MENA region, ICD approved a \$22.2 million investment in the Al Sharkeya Sugar Manufacturing Company (ASSM) in Egypt. ASSM is a beetroot-based sugar manufacturing plant with a crushing capacity of up to 12,000 tons per day and a refining capacity of up to 1,768 tons per day. The plant is located in northeastern Egypt's East Delta region, a beet farming and production center. The region is undergoing planning and development initiatives intended to make it the country's largest beet-producing region.

The project is expected to have a significant impact on job creation, both directly, by employing 440 workers, and indirectly, by boosting the agricultural workforce needed to produce the factory's beet supply on an estimated 80,000 feddans across the Delta region. The project also addresses one of Egypt's import-substitution goals. Currently, the country imports nearly 1.5m tons of sugar annually.

The project encourages a strategic shift from sugar cane, the traditional crop for sugar manufacturing in Egypt, to beets, which require less water, and produce more sugar per unit of land. The project, thus, contributes to the pressing need to find and implement water-saving strategies in a region that is experiencing population growth. The project also contributes to another important developmental objective: the building of rural communities with robust economies.

The project stands on strong economic grounds: the funding structure was limited to funds from development financial institutions; more than 11 local and international commercial banks participated in a syndicated financing facility to fund the project. This project reflects ICD's willingness to invest in its member states at times when political instabilities and socioeconomic challenges may prove to be impediments for other financial institutions. ICD continues to support the project, with an additional \$12.3 million in funding disbursed throughout 2018 to address project needs and to reach commissioning on time.







Chapter 2

Catalyzing Small- and Medium-sized Enterprise (SME) Financing in Fragile and Difficult Settings

The private sector contributes not only to economic development, but also to building social cohesion, reducing inequalities, fostering resilience, and empowering women and youth. These are particularly important contributions in tough, volatile, and fragile contexts. SMEs are important players in these missions because they are thought to be more agile and dynamic in adapting to difficult situations and unstable environments. By their very nature, SMEs can tap different opportunities unavailable to larger or foreign corporations.

Fragile settings confront overlapping, and, at times, overwhelming challenges. Failing to operate in such settings means that major human, social, economic, and security issues will go unaddressed. Against this backdrop, a strong call has emerged for immediate and efficient solutions to support the private sector in fragile and unstable contexts. To succeed, we have to act differently and in an innovative manner.

ICD devotes itself to helping our member countries secure access to finance, address immediate instabilities, and build resilience against challenges on the horizon. In volatile situations, such steps can help fragile member states to achieve and maintain stability, which is a prerequisite to economic growth.

To go where we are most needed, and to achieve our twin goals of developing the private sector and promoting Islamic finance, we rely on advisory and technical assistance interventions. Throughout 2018, we secured a number of advisory mandates through our Islamic Financial Institutions (IFIs) Program (see Section 2.1). These mandates, in turn, promise to strengthen future partnerships, and to add depth to the Islamic finance industry in our journey of supporting SMEs.

Moreover, we do not shy away from pledging our own resources during periods of vulnerability facing member countries. ICD, with its strong advisory strategies, assists SMEs with businesses management in areas affected by socio-political instability, high unemployment, tough market conditions, and natural disasters. In 2018 we continued to tailor our Industry and Business Environment Support Program (IBES) to reach a wider segment of potential beneficiaries in fragile settings.

2.1. **Building Institutional Capacities to Support SMEs**

We largely conduct our active engagement in institutional capacity building in difficult environments through the Islamic Financial Institutions (IFIs) Program. This program offers advisory solutions on:

- establishing new Islamic financial institutions
- transforming conventional financial institutions to Islamic financial institutions
- establishing business units offering Shari’ah-compliant products and services (Islamic windows) in conventional financial institutions
- developing Islamic finance regulatory frameworks.

Since its beginnings in 2012, the program has been instrumental in implementing mandates for over 40 financial institutions across 26 member countries in diverse regions and in hard-to-reach locations. Momentum continued in 2018, with the signing of four new mandates, including the full transformation of Sohibkorkbank, which was established as Tajikistan’s first Islamic bank.

Our interventions have promoted financial inclusion and Islamic finance across a wide geographic range and in areas of great need. Coris Bank’s Islamic Window Program in Burkina Faso offers a recent illustration of success. The program led 6,000 new clients to open accounts. Such successes play an instrumental role in reshaping the banking environment in the country. Moreover, such successes have the potential to encourage other central banks and banking conglomerates to adopt the Islamic banking model as a viable lever for economic development.

CASE STUDY

TAJIKISTAN

Transforming the First Islamic Bank in Tajikistan

Background

In 2018, ICD was approached by Sohibkorbank to provide technical guidance to transform the bank from a conventional bank into the first Islamic bank in Tajikistan. ICD has since begun to guide the bank through its journey of transformation, addressing issues that include: Shari'ah governance, product development, legal support, human resources, IT solutions, accounting, treasury, risk management, and marketing and communications support.

Outcomes

ICD demonstrated its dedication to furthering Islamic finance in markets with high need by facilitating the establishment of Tawhid Bank, the new Islamic bank. In a country where a large fraction of the population remains unbanked, Tawhid Bank set to increase financial inclusion and to mobilize capital for development by introducing new modes of finance, and by assisting the unbanked population. The success of the mandate reflects solid commitment by the bank's leadership, the support of the National Bank of Tajikistan, and ICD's strong backing.



CASE STUDY

INDONESIA

Transforming an Islamic Window to a Fully Fledged Islamic Bank

Background

In 2018, ICD paved the way for the transformation of PT Bank NTB from a conventional bank with one Islamic window into a fully-fledged Islamic bank (PT Bank NTB Syariah) in Indonesia, which has the world's largest Muslim population. Technical assistance of ICD addressed six key areas:

- structuring and developing new Islamic banking products
- developing a comprehensive Shari'ah compliance manual
- articulating the terms of reference for the Shari'ah board of the bank
- assisting with the implementation of IT solutions
- offering guidance on the design of a new organizational structure, mission and vision of the new Islamic Bank
- providing training for the staff of the bank on Islamic banking operations

Outcomes

PT Bank NTB Syariah successfully began offering full-fledged Islamic banking operations in September 2018. The bank is expected to positively impact people's lives, particularly in the wake of recent devastating earthquakes in the bank's region (Nusa Tenggara Barat). The entrance of PT Bank NTB Syariah is considered a major boost to the future outlook of the Islamic banking industry in Indonesia, and it represents a significant milestone in promoting Islamic finance and easing access to finance for SMEs in difficult environments.



CASE STUDY

MALI, SENEGAL, BENIN AND CÔTE D'IVOIRE Launching a Regional Bank's Four Islamic Windows

Background

In May 2017, following the signing of the second Strategic Collaboration Agreement, ICD agreed to provide technical advice to Coris Bank International subsidiaries in launching four dedicated Islamic windows in Côte d'Ivoire, Mali, Senegal and Benin.

Outcomes

In June 2018, after a one-year collaboration between ICD and Coris Bank International to initiate Islamic banking operations within the Group, Coris Bank successfully launched the Islamic windows in Mali, Senegal, Benin and Côte d'Ivoire. Through these Islamic windows, Coris Bank offers its customers alternative Shari'ah-compliant products and services. These are expected to ensure financial inclusion and economic prosperity for millions of people and for a large number of private-sector firms that are unbanked due to the lack of Shari'ah-compliant means.



CASE STUDY

YEMEN, NIGERIA AND MALI Female Business Support in Yemen, Nigeria, and Mali

In 2018, the IsDB-ICD partnership received a \$32.2 million allocation from the Women Entrepreneurship Finance Initiative (We-Fi) under the first round of applications for projects in Mali, Nigeria and Yemen. The projects focus on helping female-owned small- and medium-sized enterprises, by offering support to increase capacity building and resilience, to aid business recovery, and to facilitate business integration into value chains.

The BRAVE Women Program is an attempt to support female-owned/led businesses, and to address barriers to women entrepreneurship in selected value chains in Yemen, Mali and Nigeria, three of the most vulnerable countries in Africa and the Middle East. The program will complement ongoing initiatives in these countries. The emphasis of these initiatives is to enhance women's skills, and to provide training, and access to finance. The overall aim is boost entrepreneurship and job creation within fragile and conflict-ridden settings.



2.2. Supporting Business Environments in Fragile and Difficult Settings

There is a wide consensus among development practitioners and researchers that boosting entrepreneurship assists private-sector leaders and their government counterparts to revitalize economies, foster resilience, empower marginalized groups (i.e., women and youth), and enhance people's welfare. Through our context-sensitive advisory solutions, we aim to identify the critical challenges inhibiting the growth of businesses in the most challenging geographies. We work with public and private partners to identify and implement solutions by mobilizing strategic partnerships, expertise, and resources. Our IBES customized advisory program is instrumental in this regard. The program focuses on four themes:

- special economic zones – involvement at the spatial level
- business environment – involvement at the national level
- value chains – involvement at the sector level
- firm productivity and innovation – involvement at the company (SME) level

In 2018, we initiated two new mandates:

- Business Resilience and Assistance for Value-adding Enterprises (BRAVE) Women Program: This program promotes female-owned/ led micro, small, and medium enterprises (MSMEs) to increase opportunities for business growth by facilitating direct and indirect investments. In addition, the program facilitates matching grants, and offers support for capacity building, market development, and business coaching. The program aims to improve the entrepreneurial ecosystem, and to foster business formation, growth and resiliency.
- Agri-Chain Development: This project seeks to select a set of high-priority value-chain opportunities with export potential within the agribusiness sector in Suriname. The study is intended to provide baseline information to the government of Suriname, the Islamic Development Bank (IsDB), and other development partners, and to help them to create specific interventions with the greatest potential to spur economic and social returns.

In 2018, ICD carried out its work in some of our member countries' most fragile and needy areas, as evidenced by the implementation and closing of six mandates:

- BRAVE in Yemen: enhancing the resilience of the private sector as the engine of sustainable growth to address the negative impact of ongoing conflict.
- Grain terminal feasibility study in Azerbaijan: providing an economic assessment for establishing a large-scale grain terminal at the port of Alyat (Baku, Azerbaijan). The facility is intended to receive, handle and store grains, and to provide needed logistical operations. The facility is expected to increase national storage capacity.
- Fruit cluster in Tajikistan: conducting a feasibility study for the establishment of a fruit-processing cluster within the Sughd Province of Tajikistan.
- Djibouti Phase II: supporting the National Investment Promotion Agency (NIPA) in conceiving and piloting a 219-hectare industrial zone program.
- Halal Meat Park in Kyrgyzstan: conducting a feasibility study for an operation intended to bring together various components of the meat-processing value chain: feedlot operations, veterinary services, slaughtering, cleaning, processing, and packaging. The study intends to identify markets, required value-chain adaptations, market-entry strategies, and financing required to develop the park.
- Capacity building to establish a free zone authority in Mauritania: implementing the first phase of capacity development and institutional support to the Nouadhibou Free Zone Authority through a technical cooperation program in which the Aqabah Special Economic Zone serves as a benchmark model.



CASE STUDY

YEMEN

BRAVE: Boosting SME Resilience During Fragility

Throughout one of Yemen's toughest periods in modern history, ICD was able to continue SME support begun in 2016 via the "Business Resilience for Value-adding Enterprises"(BRAVE).

The program is designed to provide assistance during conflict-driven crises by combining value-chain design principles, grant-matching schemes for MSMEs, and banking services practices within an integrated framework.

As such, BRAVE went against conventional interventions that tend to depend upon a very strict sequence of events (conflict ending, peace negotiations and political dialogue, infrastructural [re-]building, and soft assistance) for aiding areas in conflict or in post-conflict conditions. Though such prescribed interventions also offer promise, they often fail to address the immediate needs that private-sector agents (and, in particular, SMEs) require to maintain their businesses, or to repair damaged capital goods.

Banks, acting as administrators in grants deployment, played a pivotal role in the project. As a result of the intervention, several banks have increased their level of engagement with beneficiaries and external participants. This led to improved trust, tighter linkages, and the "de-risking" of some beneficiaries' profiles.

The program was able to build successfully on earlier achievements by deploying 266 matching grants to SMEs (including 14 lead firms). The results demonstrate that the project is enhancing the resilience of the private sector against the impact of ongoing conflict.

In 2018, the BRAVE program built upon its 2017 results. SMEs and lead firms that had undergone training and had submitted business continuity plans the previous year received grants. The results can be summarized as follows:

- Sales increased for 66 percent of firms.
- An estimated 72 percent of firms reported an increase in profits.
- Nearly three-quarters of firms (74 percent) reported an increase in the number of customers.
- Among lead firms, 62 percent introduced a new product.
- Half of all participating firms established new market channels that reached new customers.
- Participating firms supported or maintained 15,272 jobs (including 10,572 permanent positions), and created 885 (571 permanent) new jobs. Health facilities that participated in the program were able to serve an additional 742 patients per day in Aden, Sana'a and Hadramout.

Moreover, the project expanded into a new phase intended to deepen and strengthen value chains. Following on key lessons and experiences from the original BRAVE project, BRAVE conducted value-chain workshops to educate firms about the lead firm concepts, and to provide information about adopting Action For Enterprise standards to achieve greater impact. After completing the continuity training and planning, the lead firms worked extensively with project experts and business advisors to design business plans.

The project currently works with 15 lead firms (identified under the project's first phase) in the cities of Sanaa, Aden and Mukalla. The aim is to expand nationally by adding 40 lead firms.

In its second phase, BRAVE seeks to protect vital value chains in certain sectors, and to upgrade their performance. Each lead firm will be supported with a matching grant of up to \$50,000, a portion of which will be utilized to directly support other chain participants. The new phase will also include 10 business associations/cooperatives, to be selected nationally based on their level of significance within their respective value chains. Each association will receive a matching grant of up to \$40,000, a portion of which will be utilized to directly support other chain participants.



CASE STUDY

YEMEN

Saving Lives Through Resilience Al-Salahi Center

The story of the Al-Salahi Center reflects the ability of ICD interventions to help firms overcome extreme challenges. Following the destruction of the hospital during the armed invasion of Aden, staff and patients were evacuated from the hospital. Damages were estimated to be around \$300,000. As a result, the hospital remained idle for a long time, and it was unable to offer care to the large number of severe casualties that occurred as the war increased.

As a participant in the BRAVE project, the director of the center attended a business continuity course that helped him to develop a recovery plan to restore health services. Afterwards, the Al-Salahi hospital received the funding grant.

The BRAVE project initially helped to rehabilitate the emergency care room with equipment. Since then, the company has invested more than \$200,000 in rehabilitating another building at a new site, and it has purchased medical equipment valued at \$65,000.



CASE STUDY

YEMEN

Upgrading the Healthcare Services The City Medical Center

The City Medical Center in Aden is considered one of the most important medical centers in the area. Many health providers and centers in the south of Yemen rely on the facility, which specializes in providing medical tests for patients.

The long-term power cuts and a lack of fuel experienced during the war greatly affected the center's performance. With the support of BRAVE, the management of center developed a business continuity plan to estimate its requirements for expansion. After preparing the plan, the medical center was able to expand its services, and to add new devices (such as diagnostic equipment for heritage and other diseases) to improve the patient diagnoses.

The medical center also adopted modern technologies to communicate with customers through online services and social media platforms, and to transmit test results electronically. These services allow customers to receive results without traveling to the center, a trip that is expensive and dangerous during times of conflict. The expansion cost \$140,000, which exceeded the amount of the grant.





CASE STUDY

YEMEN

Supporting Value Chains During Tough Periods

The Mawada food factory in Mukalla opened as a water purification operation, and then later expanded into yogurt production. However, periods of conflict in the region brought such challenges that the owner was on the verge of closing the factory at one point. Through business resilience training, ICD helped the factory owner to gain a better understanding of how to plan and mitigate risks during the conflict. With the assistance of the BRAVE program, the owner prepared a business continuity plan, which focused on adding two new products. Analysis of market demand identified hot sauce and lemon juice as two markets with the highest potential demand. Accordingly, the management of the company decided to continue operations, and to expand to produce these additional items. Though finding raw materials proved to be an initial challenge, the owner eventually arranged to buy lemons from two big farms, and to contract with a large regional agriculture cooperative that buys locally grown red peppers. Mawada's expansion led to increased income for farmers who are growing more produce to meet the factory's demand.

Six months after exploring its options, the factory started producing locally sourced, high-quality hot sauce and lemon juice for the Mukalla market. Currently, the Mawada factory is working to increase its market share and to expand coverage to other Yemeni cities.

Chapter 3

Learning from Past and Leveraging on Successes







Addressing the most urgent challenges of sustainable development in our countries of operation requires creativity and courage. Since its inception, ICD has been helping the private sector in member countries to create jobs by providing finance, equity investments, and advisory solutions to foster fast and sustainable growth. Our journey reveals chapters of both success stories and failures. Our continuous self-evaluations help us in understanding and learning from our experiences to identify what we need to do more of (and less of) to achieve our mission.

Learning from failures is a must for a better future, and in ICD, we firmly commit ourselves to learning from our past to improve future prospects. Drawing on the many lessons learned over 19 years, we are more confident about our prospects, and we are better able to leverage our strengths. In 2018, we decided to devote considerable time and effort to conducting *ex post* reviews. These self-assessment exercises are designed to pinpoint and highlight areas that should receive extensive attention.

Since our inception, ICD has made a practice of taking on difficult tasks. This characteristic has made ICD a pioneer in venturing into fraught and immature environments. Our equity investments, in both financial and corporate sectors, span 22 countries. We know that, regardless of a project's financial outcomes, the lessons we learn will aid us a great deal as we aim to steer the private sector to make larger contribution to growth and prosperity. During 2018, we added depth to our equity contributions in settings that have evidenced extremely high impact and potential on markets. We achieved impact largely through improvements in relevant asset bases and governance structures. In addition, in 2018, we objectively assessed any reasons for underperformance in our financing portfolio, and we put in place measures to safeguard ICD's interests.

One of our critical missions is to add depth to international and local capital markets. Our analysis and experience underscore that deep and efficient local capital markets in our member countries are a prerequisite for lasting prosperity. Such markets shield local economies against an array of financial hazards that can emerge from various sources. With this in mind, our syndication and resource mobilization activities produced a range of deals and structures designed to mobilize resources and to empower local capital markets.

In 2018, we continued to connect sovereign wealth funds, financial institutions, pension funds, insurance companies, endowments, foundations, family offices, and high net-worth individuals with investment opportunities across emerging markets. By the end of 2018, we had \$766 million worth of assets under management (AUM), and we had managed to mobilize more than twice the amount of ICD-committed capital.

ICD has always been proud to be the private-sector arm of the Islamic Development Bank Group. We consider this position as our greatest and primary strength. During 2018, we continued to harness our role in developing the private

sector within the context of the Group. THIOAH, the IsDB Group's Business Forum, has continued to act as enabler, and it has played facilitation and catalyst roles within the private sector of our member countries. Likewise, in collaboration with the IsDB Group, ICD has been extensively involved in formulating the Group's Member Country Partnership Strategies (MCPS).

Moreover, ICD entered into a number of partnerships with global and regional developers. These partnerships will enhance ICD's ability to achieve the goals of increasing shared and sustainable prosperity among its member countries.

3.1. Improving Asset Quality and Portfolio Management

Managing and monitoring the portfolio is a key component of ICD's internal drive to reinforce its risk management culture, and to improve the quality of assets by turning around poorly and non-performing projects. We strive to negotiate and implement strategies for non-performing financing projects. By employing global best practices and tapping world-class expertise, we strive to create value and to turn around equity investments.

Management of Financing Portfolio

Managing our financing portfolio takes on increased significance in light of uncertain global economic conditions. Many countries in which ICD operates are prone to fragility, instability, conflict, and volatility. They are also predominantly dependent on global commodity prices.

In light of this context, portfolio management at ICD is challenging due to the spread of the portfolio, as ICD is operating in multiple geographies and sectors facing specific market conditions and regulatory environments. Nevertheless, ICD is actively exercising strong vigilance regarding the quality of its asset portfolio. We follow an approach with dynamic mitigation or minimization of key risks and challenges. Hallmarks of our approach include the following:

- enhancing the assessment framework and mechanisms to become more dynamic and responsive to political and economic risk
- strengthening the legal framework
- ensuring that cost and time implications are well understood

- ensuring that the value of assets is maintained in fragile and instable contexts
- conducting thorough manpower analyses to ensure appropriate resources are in place for all projects

Equity Investment Management

Since our inception, we have made taking on difficult tasks a signature of our work. As a result, we have established a well-deserved reputation as a pioneer willing to venture into difficult and underdeveloped environments. Our equity investments, in both financial and corporate sectors, span 22 countries. The lessons we have learned aid us in a great deal in steering the private sector to make larger contributions to growth and prosperity. Key current objectives that drive our equity investment strategy are three-pronged:

- to create and execute optimal exits for our investments by identifying clear and viable exit options, and by establishing predetermined exit strategies for prospective investments
- to enhance value of investee companies by proactively managing the investment, and by providing strategic support and assistance
- to support the economic development of our member countries through equity investments in companies and projects in different stages of life cycles (e.g., greenfields, brownfields)

In 2018, ICD sought to concentrate efforts on working closely with our investee companies, and to offer solutions to their challenges. The rehabilitation and restructure of existing equity investments required focused efforts and dedicated resources for close follow-up and support to respective management teams. We supplemented regular follow-up by portfolio managers with more frequent visits to investee companies, temporary relocations to some investment locations, and involvement in extracurricular activities related to the rehabilitation. Major activities during 2018 also included: setting up management structures, filling positions, reviewing business plans, and developing organization charts and systems based on best operating practices.

CASE STUDY

BANKING SECTOR Promoting Islamic Finance

ICD has a Banking Equities portfolio composed of the following 13 investments: Zaman Bank (Kazakhstan), Maldives Islamic Bank (Maldives), Al-Baraka Pakistan (Pakistan), Saba Islamic Bank (Yemen), Wifak International Bank (Tunisia), Al-Akhdar Bank (Morocco), Byblos Bank Africa (Sudan), Ibdar Bank (Bahrain), and Tamweel Africa Holding (Senegal) - a banking holding company with investments in four Islamic banks across West Africa (Senegal, Niger, Guinea and Mauritania). In addition, ICD made an investment in Amana Bank (Sri Lanka) through its Islamic Bank Growth Fund. These institutions continue to play an essential role in boosting the socioeconomic development in some of those difficult and high-need markets.

Recent years have proved to be challenging for parts of our equity portfolio, which was impacted by political instabilities, falling commodity prices, and financial market volatilities, among other factors. These headwinds triggered us to take the opportunity to conduct thorough reviews of our existing banking portfolio. Despite this challenging international climate, ICD's channel strategy of extending our financial resources to SMEs via our partners continued to bear fruit: 2018 marked the first dividend payments from Maldives Islamic Bank (Maldives), IBDAR Bank (Bahrain), and Amanah Bank (Sri Lanka). In addition, ICD achieved important milestones, including:

- the continued capital increase in Al-Akhdar Bank after its successful launch of operations
- the ongoing Initial Public Offerings "IPO" process for Maldives Islamic Bank
- the restructuring efforts initiated at Tamweel Africa Holding to address key outstanding matters, align its governance framework with new local regulations, and ensure financial sustainability.



The International Development Finance Club

The International Development Finance Club (IDFC), created in 2011, is a network of 24 leading DFIs and IFIs from all over the world, of which 20 are based in developing countries. The ICD has become a member of the IDFC since 2015 and the CEO of ICD, is serving at the Steering Group of the Club. The IDFC members, working together to implement the SDGs and the Paris Climate Agreement agendas, join forces as a platform to promote and leverage Sustainable Development Investment worldwide. According to the recent IDFC Green Finance Mapping Report 2018, the club members committed US\$ 220 billion in green finance in 2017, a steady increase of 27% from 2016. Currently, the IDFC's Secretariat is headquartered in Paris, in the same building as the French Development Agency (AFD).

MDBs Taskforces

During 2018, ICD has been actively involved in two MDB Taskforces on blended financing and private sector resource mobilization, and represented the IsDB Group among the peer MDBs including IFC, European Investment Bank, EBRD, African Development Bank and Asian Development Bank. The MDB taskforce on blended financing has prepared a flagship report on blended finance for private sector projects, which included a set of projects and case studies from ICD. Similarly, for the MDB taskforce on private sector resource mobilization, in close collaboration with other IsDB Group Entities (IsDB, ITFC, ICIEC and ISFD), ICD has provided a set of reports on IsDB's private sector resource mobilization activities including selected case studies from the Group operations.



3.2. Harnessing IsDB Group Resources and Global Partners

We have been always proud to be the private-sector arm of the Islamic Development Bank Group, and we consider this to be our core identity and the prime source of our strength. Mobilizing internal and external financial resources and expertise is central to our business model of achieving SDGs. These partnerships create the foundation of long-term collaboration and assistance in our member countries. By working with IsDB Group entities and external development actors, we leverage our rich blend of investment, advisory and asset management tools, solid governance, and strong human capital. These are the backbone of our corporate strength.

Islamic Development Bank Group Business Forum (THIQAH)

The IsDB Group Business Forum (THIQAH) was established as a unique and innovative platform for effective dialogue, cooperation, and partnerships among business leaders committed to joining in promising investment opportunities. Through the THIQAH, the Islamic Development Bank Group seeks to reinforce the effectiveness and success of the partnerships that have been forged between the Group and business leaders and establishments in our member countries.

In 2018, ICD organized in collaboration with THIQAH 10 international and regional events, and established 15 conference websites and multimedia libraries. Moreover, THIQAH conducted 23 business meetings (B2B) and events at its Office for ICD where it received more than 750 visitors related to ICD in 2018. Furthermore, THIQAH successfully identified 1,500 appealing investment and trade opportunities across member countries. Through THIQAH arm, ICD and IsDB Group are updating and enhancing global mailing lists and integrated databases, which now include more than 50,000 business representatives, investors, and high-level partners worldwide.

The Member Country Partnership Strategy (MCPS)

The Member Country Partnership Strategy (MCPS) was launched in 2010 by the IsDB as an instrument for engaging with and formulating the IsDB Group's Medium-Term Development Assistance Strategy for member countries. It is also a process for enhancing a dialogue with key stakeholders in member countries, and other development partners. During 2018, ICD has embarked on contributing toward partnership strategies for four member countries: Gabon, Morocco, Tunisia and Turkey.

Memorandums of Understanding

At the ICD, we are dedicated to partnering with other global, regional, and local institutions to sustainably boost shared prosperity among our member countries. In 2018, we again demonstrated our commitment to provide long-term assistance by establishing strong foundations for new partnerships. We signed several memorandums of understanding (MoUs) to drive new development across different areas of our mandate, including boosting the Islamic finance industry, building capacity, and collaborating beyond our member countries.

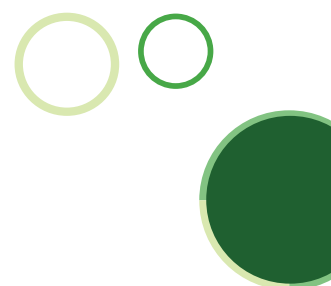
MoU with SBERBANK of Russia (SBR) Moscow to help SBR's clients access Islamic finance products.

MoUs with Caisse des Dépôts et Consignations (CDC), Wifak Bank, Zitouna Tamkeen, Intilaq Fund, Banque de Financement des Petites et Moyennes Entreprises (BFPME) and United Gulf Financial Services (UGFS) to help the Tunisian private sector in a number of ways, including providing crowdfunding, crowdsourcing, and innovation platforms, and offering public-private partnership services for SMEs and event management.

Bilateral Agreement with Sumitomo Mitsui Banking Corporation Europe Limited, a subsidiary of Sumitomo Mitsui Banking Corporation (SMBC) to work toward further developing the Islamic finance capabilities of its well-established financial institutions.

MoUs with Asia Alliance Bank, Hamkorbank, Kapitalbank, Turonbank, and Uzbek Industrial and Construction Bank to explore the possibility of financing private-sector enterprises in Uzbekistan under a proposed Shari'ah-compliant LOF facility.

MoU with I-FinTech Solutions (IFTS) in Tunisia to collaborate in developing FinTech solutions, and to implement these technologies in Islamic banks worldwide.



SYNDICATED TRANSACTIONS IN 2018

\$25
MILLION
CONTRIBUTION
FOR WARBA
BANK K.S.C.P

Syndication and funding activities

Our syndications and resource mobilization teams have been working on a range of deals and structures to effectively catalyze, mobilize, and channel non-ICD funding to the private sector in our member countries.

ICD contributed \$25 million as the Mandated Lead Arranger in a \$400 million, three-year Syndicated Murabaha Financing Facility for Warba Bank. Warba Bank, the fastest growing bank in the MENA region, was established in 2010 in the State of Kuwait, and was officially registered as an Islamic bank by the Kuwaiti Central Bank. Warba Bank aims to become a corporate and investment banking champion with an innovative, digitally enabled retail banking business in compliance with Islamic Shari'ah principles.

€20CONTRIBUTION
FOR VAKIF
KATILIM
BANKASI A.S

ICD contributed €20 million as the Mandated Lead Arranger in a \$145 million and €82 million 370 days Dual Currency Syndicated Murabaha Financing Facility, led by Bank ABC for Vakif Katilim Bankasi A.S. The Vakif Katilim Bankasi A.S, was established in 2015 in Turkey, and has been continuously expanding with over 720 employees, 63 branches in 31 cities, and alternative distribution channels. The Bank serves MSMEs in the real sector, with a plan to grow by maintaining its investments in technology and branch network to expand its customer base.

\$20MILLION
CONTRIBUTION
FOR MINISTRY
OF FINANCE,
PAKISTAN

ICD contributed \$20 million as the Lead Arranger in a \$200 million, one-year Syndicated Commodity Murabaha Financing Facility to the Government of Pakistan. The purpose of the facility was to meet various public expenditures by the government.

\$15MILLION
CONTRIBUTION
FOR UNITED
ARAB BANK

ICD contributed \$15 million as the Lead Arranger in a \$185 million, two-year Syndicated Term Financing Facility for United Arab Bank. The bank was incorporated in 1975 in the Emirate of Sharjah, UAE. Operating with 14 branches, the bank has established itself as a leading solutions provider for a growing commercial and industrial base across the country.

FUNDING ACTIVITIES IN 2018

To meet ICD's operational and liquidity requirements, in 2018, ICD successfully raised around \$340 million of financing mainly through bilateral facilities.

In 2018, ICD also successfully completed the update of the Trust Certificates Issuance Program, which was established in December 2015. The Program is a cost-effective debt issuance platform that will be used for both public and private Sukuk issuances in 2019. The program and individual public Sukuk issuances are listed on the London Stock Exchange and NASDAQ Dubai.

Empowering SMEs Through Local Capital Markets

Robust local capital markets are vital for a sustainable and vibrant private sector. Such markets help businesses obtain much-needed financing, promote creation of jobs, and accelerate economic growth. Most importantly, such markets can protect economies against volatility and fluctuations in international financial markets.

In 2019, ICD intends to explore and work in various jurisdictions for issuing local currency Sukuks to support the growth and economic development of its member countries.

Asset Management to Support the Private Sector

Our activities aim to connect sovereign wealth funds, financial institutions, pension funds, insurance companies, endowments, foundations, family offices, and high net-worth individuals with investment opportunities across emerging markets. By the end of 2018, ICD had \$766 million in assets under management, and had mobilized more than twice the level of ICD-committed capital. During the year, our asset management business had achieved approvals of \$333.5 million, with disbursements of \$343.4 million, allocated across a range of regions and sectors.



CASE STUDY

TUNISIA

Tunisian SMEs: Ecosystem Enablement, Integrated Structuring and Best Development Practices

Background

In the fourth quarter of 2012, United Gulf Financial Services (UGFS) in partnership with ICD launched Theemar, the first Islamic private equity fund in Tunisia targeting SMEs. The fund aims to help Tunisian SMEs improve their competitiveness, facilitate access to local and international markets, ensure company growth, and foster the acquisition of human capital. ICD intervened in 2018 to enable synergies between Al-Wifaq Bank (in Tunisia), United Gulf Financial Services (UGFS - Theemar Fund Manager), Baraka Bank Leasing (BEST), and Theemar Fund by creating a common board and platforms for engagement. Via the synergy framework, the investee companies can obtain capital directly from Al-Wifaq and BEST. Appropriate balancing initiatives and targeted leverage ratios for the SMEs were also put in place.

Outcomes

Since its inception, Theemar has had tremendous development impact, generating more than 1,100 jobs in Tunisia. The fund serves as a success story for the value of direct equity funding, and for ICD support in providing access to finance for SMEs via investee companies.

A highlight in the Theemar portfolio is the case of CityCars. The company, which has operated in Tunisia since December 2009, is the KIA MOTORS dealer, serving as the market's official distributor of the Korean brand's new vehicles and spare parts. With a rapid expansion of its network of 13 agencies, and management through ICD and the Theemar Fund, the company achieved profitable growth. CityCars realized 80 percent of its exit via an initial public offering in 2018, and, to date, has generated an initial rate of return of 16 percent for the fund.

CASE STUDY

DJIBOUTI

Financing Energy

Background

Crude oil and refined petroleum products are among the most traded commodities in our member countries. Through the Trade Premium Fund, we have entered a \$5 million Murabaha Finance facility for oil imports by the Government of Djibouti to address Djibouti's energy needs.

Outcomes

Key features of the arrangement:

- The deal improves and aids intra-OIC trade.
- The arrangement addresses economic and energy needs for Djibouti's growing population.
- The low-risk deal was signed directly by the Ministry of Economy and Finance, and is underpinned by a Sovereign Guarantee from the Government of Djibouti.
- The arrangement establishes a one- to three-month financing period, with a maximum duration of 12 months.
- The Central Bank of Djibouti provided a currency repatriation pledge.





Organization and Governance

The actions of the ICD are scrutinized and approved by highly experienced senior figures who are dedicated to the development of our member countries.

Every decision made by the ICD is informed by a wealth of experience. Our President and the members of our General Assembly, Board of Directors and other boards and committees all pride themselves on fairly and faithfully representing our member countries and institutions.

General Assembly

The General Assembly is the highest authority of ICD representing its members (countries and institutions). Its main functions are to set policies governing the work and general supervision of ICD.

At the commencement of the inaugural meeting, the General Assembly shall elect a Representative of a member country to act as Chairman and one representative of a member country to act as Vice-Chairman until the end of the first annual meeting of the General Assembly.

At the end of each annual meeting, the General Assembly shall again elect a representative of a member country to serve as a Chairman, and one other representative of a member country to serve as Vice-Chairman until the end of the next annual meeting.

Each member of the General Assembly shall have one vote for every share subscribed and paid for, and all matters shall be decided by a majority of the voting power represented at each meeting.

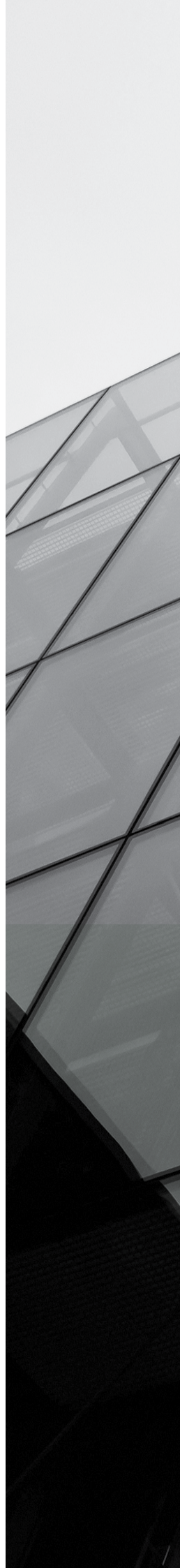
Board of Directors (BOD)

The BOD is mainly responsible for the adoption of policies, operations strategy, budget, and the general conduct of ICD operations within the powers delegated to it by the General Assembly. The Board consists of 11 members, and is chaired by the President of the IsDB Group. Other members include: the Chief Executive Officer of ICD; representatives of IsDB; representatives of member country groups from Africa, Asia, and Arab Asia; representatives of public financial institutions; and a permanent member from Saudi Arabia (representing the largest shareholder after IsDB).

In accordance with the Articles of Agreement, the BOD shall meet when the business of the Corporation requires it. A majority of the members of the Board shall constitute a quorum for any meeting, provided that such majority represents at least two-thirds of the total voting powers of the members. A special meeting may also be called at any time by the Chairman or at the request of any three members of the Board.

Members of the Board of Directors appointed by the IsDB shall have the votes of the IsDB divided equally among them. Each member of the Board of Directors is entitled to cast a number of votes, that is equivalent to the number of votes which were counted towards his or her election and which the electing members of the ICD were entitled to.

The BOD is authorized as per the corporation's by-laws to exercise all the powers of the corporation with the exception of the powers reserved to the General Assembly. The BOD may also establish conditions and procedures pursuant to which the Chairman of the Board may submit various types of matters under an expedited procedure.



Board of Directors*

1. Dr. Bandar Mohammed H. Hajjar
(Chairman of the Board)
2. Mr. Ayman Amin M. Sejiny
(CEO and General Manager)
3. Dr. Fahad M. Al-Turki
(Representing Kingdom of Saudi Arabia)
4. Dr. Ali Jannati (Representing Public
Financial Institutions Group)
5. Mr. Nabil S. Al-Abdul Jalil
(Representing Arab Group)
6. Mr. Justin Damo BARO
(Representing Africa Group)
7. Mr. Ulan Aiylchiev
(Representing Asia Group)
8. Ms. Zeina Toukan (Representing IsDB)
9. Dr. Rami M. S. Ahmad
(Representing IsDB)
10. Dr. Abdalnassr Mohamed Omar
Abouzkeh (Representing IsDB)
11. Mr. Fredrick Twesiime Tabura
(Representing IsDB)



1



2



3



4



5



6



7



8



9



10



11

* As of 31 December 2018

From its members, the BOD appoints an Executive Committee (EC) that serves as a fast-track decision-making body. It has the power to approve all financing and investment operations and all other powers delegated to it by the Board. The EC is composed of up to six members, of which three seats are allocated permanently to the Chairman of the Board, the CEO and General Manager, and the representative from Saudi Arabia. The EC members rotate on a yearly basis, enabling all Board members the opportunity to serve on the committee.

The CEO and General Manager

The CEO, who also serves as the general manager, under the general supervision of the Chairman of the Board of Directors, conducts the day-to-day business of ICD. The CEO is also responsible for the appointment of officers and staff of the Corporation. To the extent that he is authorized by the BOD, the CEO may approve financing and investment activities carried out by the ICD.

Appointment of the Chief Executive Officer (CEO)

Following the resignation of Mr. Khaled Mohammed Al—Aboodi as the CEO of the ICD, the Board of Directors elected Mr. Ayman Amin Sejiny as the CEO of ICD for a term of three years starting October 1, 2018.

Shari'ah Board

In 1433H, the ICD Shari'ah Board was subsumed with that of IsDB's, forming the IsDB Group Shari'ah Board. It is responsible for advising the IsDB Group on the Shari'a compliance of its products and transactions. The Committee consists of the following eminent scholars.

Audit Committee

The BOD appoints from among its members an Audit Committee, which is responsible for overseeing the financial and internal control aspects of ICD, compliance with its mandate, and reporting of its findings to the BOD.

Executive Committee Members of the Board*

1. Dr. Bandar M. H. Hajjar
(Chairman of ICD Board
of Directors)
2. Mr. Ayman Amin M. Sejiny
(CEO and General Manager)
3. Dr. Fahad M. Al-Turki
4. Dr. Rami M. S. Ahmad
5. Mr. Ulan Aiylichiev
6. Mr. Justin Damo BARO

IsDB Group Shari'ah Committee*

1. Dr. Hussein Hamed Sayed
Hassan (Chairman)
2. Dr. Abdulsattar Abughuddah
(Vice-Chairman)
3. Shaikh Abdulla Bin Sulaiman
Al Manea
4. Shaikh Muhammad Taqi
Usmani
5. Shaikh Mohammad Ali
Taskhiri
6. Dr. Mohamed Raougui
7. Dr. Muhammad Syafii
Antonio

Audit Committee*

1. Dr. Fahad M. Al-Turki
(Chairman)
2. Mr. Nabil S. Al-Abdul Jalil
3. Mr. Fredrick Twesiime
Tabura
4. Independent Expert
Member
(to be appointed)

* As of 31 December 2018



OUR PEOPLE



ICD employees come from a wide range of countries and cultural backgrounds. We carefully select people who are passionate about development and making a positive impact.

In 2018, ICD employed 215 people. Of these, 194 employees are based in our Jeddah headquarters, with the others based in our regional and country gateway offices. As part of the IsDB Group decentralization strategy, we continued to increase our regional and country representatives. In 2018, ICD recruited 15 new staff members representing 11 different nationalities to further diversify and enhance the representation of our member countries within our team.

Learning and development

Career development is an integral part of our approach towards employees' personal growth and career advancement. At ICD, we attempt to develop our people through a wide range of methods to ensure maximum efficiency and effectiveness. We have adopted online courses to complement traditional classroom training. At present, close to 10 percent of our professional staff in different business units have benefited from online technical certification programs.

We understand that our role in fostering career development should not be limited to training. Thus, we make an effort to assist staff in exploring career interests based on both ICD's business needs and the staff member's competencies. In line with this ongoing effort to develop staff capabilities and to promote internal efficiencies, we introduced the Staff Utilization Program in 2018. Through this program, around 5 percent of professional staff members rotated or were transferred to other departments to better support ICD needs in a dynamic environment.

Enriching the Islamic Finance Industry

During 2018, ICD continued to enrich the industry with talents through the MIRAS Program. The two-year program is designed to provide Islamic finance experience through on-the-job rotational assignments, classroom training, and coaching and mentoring sessions. Participants receive a Master's degree in Islamic Finance from the IE Business School upon successful completion of the program. Since its initiation, the program has provided training to more than more than 50 talented professionals.

In December 2018, ICD celebrated the graduation of its sixth cohort of 10 associates. We believe that these candidates are now well-equipped to become ambassadors for the Islamic finance industry worldwide.





Opportunities for the Next Generation of Potential Professionals

ICD's internship program gives junior candidates and college students opportunities to develop their skills within a workplace environment, and to meet academic requirements. We believe this program is bi-directionally beneficial: Our professional staff receive training to supervise interns, and to meet requirements of interns' learning plans. At the same time, interns receive supervisors' objective feedback and continuous coaching. Reviews by interns about the experience are positive.

MODERNIZING OUR INTERNAL CAPABILITIES

ICD strives to underpin management decisions with sound information. To a better informed decision making process, a key ICD priority in 2018 was the increasing use of People Analytics, a tool designed to help managers in making decisions about employees and the workforce. Our HR staff and IT professionals developed a new in-house system with modern dashboards and new metrics to capture more insights and to positively impact for future decision making.

ENHANCING OUR CULTURE

Improving our organization's culture is at the heart of the ICD's success and growth, and we believe that the quickest route to business success lies in investing in our team, and in fostering a positive workplace culture.

Workplace culture received special attention in 2018. To create and promote a culture of engagement and accountability, ICD formed work groups consisting of professionals from different departments and job levels. The "Torch" initiative contributed to creating a positive culture among individuals in the workplace. A series of sessions and activities brought people from all level together to participate. In addition, we continued to amend our internal policies, to adopt new practices to empower our female staff in the workplace, and to reduce the gender gap.





Annexes

- 1 Approvals and Disbursements since Inception
- 2 Abbreviations
- 3 Financial Highlights
- 4 Shari'ah Board Report
- 5 Audited Financial Statements
- 6 Financial Review Report (in USB)

ANNEX 1. APPROVALS AND DISBURSEMENTS SINCE INCEPTION

Country	Gross Approvals (\$ Million)	Disbursements (\$ Million)
Albania	4.3	3.3
Algeria	33.0	-
Azerbaijan	143.8	102.9
Bahrain	83.8	18.2
Bangladesh	323.4	230.9
Benin	13.2	-
Brunei	3.7	-
Burkina Faso	43.9	18.8
Cameroon	45.0	17.1
Chad	28.2	5.5
Côte d'Ivoire	147.4	-
Djibouti	4.0	4.0
Egypt	261.5	168.9
Gabon	46.7	-
Gambia	27.4	6.2
Guinea	2.8	3.0
Indonesia	170.8	60.8
Iran	164.9	36.3
Iraq	25.0	-
Jordan	109.1	37.1
Kazakhstan	242.8	34.0
Kuwait	14.1	14.1
Kyrgyzstan	49.9	22.1
Lebanon	7.0	-
Libya	76.0	10.0
Malaysia	109.7	75.5
Maldives	33.4	31.4
Mali	80.8	55.6
Mauritania	79.0	57.7
Morocco	8.2	4.7
Mozambique	40.0	20.1
Niger	21.4	13.2
Nigeria	342.6	130.4
Pakistan	224.9	66.8
Palestine	7.0	4.0
Qatar	46.2	-
Saudi Arabia	596.0	360.1
Senegal	158.4	64.5
Sierra Leone	6.0	6.0
Sudan	79.6	52.8
Suriname	2.0	-
Syria	152.5	56.3
Tajikistan	54.5	42.4
Tunisia	47.8	44.7
Turkey	555.9	249.6
Turkmenistan	2.5	-
UAE	93.9	50.9
Uganda	50.0	-
Uzbekistan	368.9	290.6
Yemen	177.3	99.7
Regional	975.8	618.5
Total	6,386	3,189



ANNEX 2. ABBREVIATIONS

AUM	Asset Under Management
BOD	Board of Directors
BOO	Build, Own, and Operate
BRAVE	Business Resilience and Assistance for Value-adding Enterprises
EC	Executive Committee
ECA	Europe and Central Asia
FI	Financial Institution
GLOF	Global Line of Finance
IBES	Industry and Business Environment Support
ICD	Islamic Corporation for the Development of the Private Sector
IsDB	Islamic Development Bank
IFIs	International financial institutions
IFIs (Program)	Islamic Finance Institutions Program
LDMCs	Least Developed Member Countries
LOF	Line of Finance
MCs	Member Countries
MCPS	Member Country Partnership Strategies
MDBs	Multilateral Development Banks
MENA	Middle East and North Africa
MMF	Money Market Fund
MoUs	Memorandum of Understandings
MSMEs	Micro, Small- and Medium-sized Enterprises
MTN	Medium Term Note Program
NBFIs	Non-Bank Financial Institutions
PPP	Public-Private Partnerships
SEZ	Special Economic Zones
SMEs	Small-and Medium-sized Enterprises
SSA	Sub-Saharan Africa
UIF	Unit Investment Fund

ANNEX 3. FINANCIAL HIGHLIGHTS

In USD 000's

	2018	2017	2016
Statement of Income:			
Total Income	(281,666)	(61,943)	70,359
Total Operating Expenses	43,921	45,077	50,269
Net Income	(325,587)	(107,020)	20,090
Balance Sheet:			
Liquid Assets	1,531,382	1,296,629	841,560
Net Operating Assets	1,450,485	1,572,531	1,551,396
Other Assets	88,961	131,500	183,102
Total Assets	3,070,828	3,000,660	2,576,058
Financing & Long Term Debt	2,019,553	1,877,475	1,491,335
Equity	1,003,990	1,062,508	1,023,558
Ratios:			
Return on Average Assets	-10.73%	-3.84%	0.94%
Return on Average Equity	-31.51%	-10.26%	1.97%
Debt to Equity	201.15%	176.70%	145.70%
Equity to Assets	32.69%	35.41%	39.73%
Liquidity to Total Assets	49.87%	43.21%	32.67%



ANNEX 4. SHARI'AH BOARD REPORT

In the name of Allah, the Beneficent, the Merciful

Report of the ICD Shariah Board 31 December 2018

To: Board of Directors

Islamic Corporation for the Development of the Private Sector

P.O. Box 54069 Jeddah 21514

Assalamu Alaikum Wa Rahmatullahi Wa Barakatuhu

The ICD **Shari'ah Board** was established as per the provisions of Article No. 29 of the ICD Articles of Agreement and considering the fact that ICD Shari'ah Board is the IsDB Group Shari'ah Board. In compliance with the Articles of Agreement and our mandate, the Board submits the following report:

It is also the responsibility of the Board to form an independent opinion on the operations of the ICD covering the period of our tenure on an annual basis, and submit a report containing that opinion to the ICD Board of Directors.

In this regard, the Board has reviewed a selection of ICD contracts concluded during the year ended 31 December 2018, in order to form an opinion on their compliance with the Islamic rules and principles. The Board received all the necessary explanations from the ICD management and discussed them with officials.

Based on the Board's review and explanations received from the ICD management, the discussions with ICD, and our recommendations, we concluded that there are no violations of the Islamic rules and principles regarding the management of liquid funds, and ICD operations during the year starting 1st January 2018, and ending on 31st December 2018.

The Board seizes this opportunity to thank the ICD Management and staff for their efforts to comply with the Shari'ah requirements through their recourse to the Board.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Shari'ah Board

Signed by:

Dr. Hussien Hamid Hassan

Chairman, IsDBG Shari'ah Board

Aboubacar Salihou Kante

IsDB Group Internal Shari'ah Auditor

In the case of any inconsistency or discrepancy between the Arabic version of the document and the translated text, the Arabic version shall prevail.

ANNEX 5. FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE
YEAR ENDED
31 DECEMBER
2018

Index

73	Independent auditor's report
74	Statement of financial position
75	Statement of income
76	Statement of changes in members' equity
77	Statement of cash flows
78	Notes to the financial statements



INDEPENDENT AUDITOR'S REPORT

Your Excellencies the
Chairman and Members of
the General Assembly

Islamic Corporation for the
Development of the Private Sector
Jeddah
Kingdom of Saudi Arabia



Ernst & Young & Co.

(Certified Public Accountants)
General Partnership
King's Road Tower - 13th floor
King Abdulaziz Road (Malek Road)
PO Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

Registration Number: 45/11/323
C.R. 4030276644

Tel: +966 12 221 8400
Fax: +966 12 221 8575

Jeddah@sa.ey.com
www.ey.com/mena

Report on the financial statements

We have audited the accompanying statement of financial position of Islamic Corporation for the Development of the Private Sector (the "Corporation") as of 31 December 2018 and the related statements of income, changes in members' equity and cash flows for the year then ended. These financial statements and the Corporation's undertaking to operate in accordance with Shari'ah are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as of 31 December 2018, and of the results of its operations and its cash flows for the year then ended in accordance with the Shari'ah Rules and Principles as determined by the Shari'ah Board of the Islamic Development Bank Group (IsDBG) and the financial accounting standards issued by AAOIFI.

for Ernst & Young

Ahmed I. Reda

Certified Public Accountant
License No. 356

3 Rajab 1440H
10 March 2019

Jeddah
18/46/MNA



STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 USD	31 December 2017 USD
ASSETS			
Cash and cash equivalents	5	662,847,206	517,533,923
Commodity placements through financial institutions	6	115,287,311	145,659,653
Sukuk investments	7	753,247,701	633,435,553
Murabaha financing	8	293,594,682	307,148,873
Installment sales financing	9	509,563,471	410,135,601
Ijarah Muntahia Bittamleek (IMB), net	10	162,159,796	141,645,771
Istisna assets		22,882,095	18,570,233
Equity investments	11	462,284,924	695,030,382
Other assets	12	88,754,570	131,153,339
Property and equipment		206,834	346,397
TOTAL ASSETS		3,070,828,590	3,000,659,725
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Sukuk issued	13	980,000,000	1,178,807,157
Commodity Murabaha financing	14	1,039,552,869	698,667,929
Accrued and other liabilities	15	31,641,685	41,972,776
Employee pension liabilities	16	14,650,523	17,664,426
Amounts due to ICD Solidarity Fund	17	993,175	1,039,521
TOTAL LIABILITIES		2,066,838,252	1,938,151,809
MEMBERS' EQUITY			
Share capital	18	1,310,932,808	1,047,414,212
Accumulated losses	19	(297,046,695)	28,540,159
Actuarial losses	16	(9,895,775)	(13,446,455)
TOTAL MEMBERS' EQUITY		1,003,990,338	1,062,507,916
TOTAL LIABILITIES AND MEMBERS' EQUITY		3,070,828,590	3,000,659,725

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2018

	Note	31 December 2018 USD	31 December 2017 USD
INCOME			
<i>Treasury assets</i>			
Commodity placements through financial institutions		13,687,008	8,230,993
Sukuk investments		12,235,176	14,706,599
		25,922,184	22,937,592
<i>Equity investments loss, net</i>	11.4	(241,960,520)	(87,237,251)
<i>Financing assets</i>			
Murabaha financing		13,531,630	12,050,536
Installment sales financing		30,900,860	17,578,723
Ijarah Muntahia Bittamleek (IMB), net	21	8,622,865	10,171,659
Istisna assets		899,496	603,657
		53,954,851	40,404,575
Impairment allowance for financing assets	22	(79,332,297)	(17,740,165)
Financing cost		(58,194,136)	(36,536,951)
Fair value gain on islamic derivatives net of exchange loss	23	8,058,041	2,651,641
<i>Other income</i>			
Administrative fees		7,611,180	7,807,404
Management fees		1,587,529	3,454,625
Advisory fees		687,379	2,315,646
		9,886,088	13,577,675
TOTAL OPERATING LOSS		(281,665,789)	(61,942,884)
Staff costs		(34,908,363)	(36,239,791)
Other administrative expenses		(8,868,074)	(8,698,625)
Depreciation		(144,629)	(139,152)
TOTAL OPERATING EXPENSES		(43,921,066)	(45,077,568)
NET LOSS		(325,586,855)	(107,020,452)
Income from non-Shari'ah compliant placements	17	63,107	385,047
Transferred to ICD Solidarity Fund	17	(63,107)	(385,047)
TOTAL SHARI'AH COMPLIANT LOSS		(325,586,855)	(107,020,452)

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2018

	Note	Share capital USD	Accumulated losses USD	Net loss USD	Actuarial losses USD	Total USD
Balance at 31 December 2016		882,368,110	153,207,968	-	(12,018,510)	1,023,557,568
Contributions during the year		148,962,745	-	-	-	148,962,745
Net loss for the year		-	-	(107,020,452)	-	(107,020,452)
Transfer to reserve		-	(107,020,452)	107,020,452	-	-
Actuarial loss for the year from the pension schemes	16.3	-	-	-	(1,427,945)	(1,427,945)
Dividend in the form of:						
- Shares	19	16,083,357	(16,083,357)	-	-	-
- Cash	19	-	(1,564,000)	-	-	(1,564,000)
Balance at 31 December 2017		1,047,414,212	28,540,159	-	(13,446,455)	1,062,507,916
Contributions during the year		263,518,596	-	-	-	263,518,596
Net loss for the year		-	-	(325,586,854)	-	(325,586,854)
Transfer to reserve		-	(325,586,854)	325,586,854	-	-
Actuarial loss for the year from the pension schemes	16.3	-	-	-	3,550,680	3,550,680
Balance at 31 December 2018		1,310,932,808	(297,046,695)	-	(9,895,775)	1,003,990,338

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 USD	2017 USD
OPERATING ACTIVITIES			
Net loss for the year		(325,586,855)	(107,020,452)
Adjustments for:			
Fair value loss on equity investments, net	11	242,177,673	88,104,549
Financing cost		58,194,136	36,536,951
Depreciation		24,760,827	31,878,688
Impairment allowance	22	79,332,297	17,740,165
Provision for employee pension liabilities	16.3	3,503,716	4,970,247
Unrealized fair value (gain) / loss on Sukuk investments		13,392,946	2,923,750
Gain on Islamic derivatives net of currency losses	23	(8,058,041)	(2,651,641)
		87,716,699	72,482,257
Changes in operating assets and liabilities:			
Commodity placements through financial institutions		30,372,342	(119,354,485)
Sukuk investments, net of fair value loss		(153,215,341)	(254,114,907)
Murabaha financing, net of impairment		399,228	(39,538,262)
Installment sales financing, net of impairment		(103,971,562)	(1,490,367)
Ijarah Muntahia Bittamleek, net of impairment		(45,130,223)	(25,393,442)
Istisna assets		(4,311,862)	(18,570,233)
Equity investments, net		(9,432,215)	(27,651,058)
Other assets, net of impairment		(658,379)	8,058,205
Accrued and other liabilities		(8,601,083)	(9,257,558)
Amounts due to ICD Solidarity Fund		(46,346)	169,495
Cash used in operations		(206,878,742)	(414,660,355)
Financing cost paid		(49,506,445)	(32,523,051)
Employee pension liabilities paid	16	(2,700,000)	(2,776,245)
Net cash used in operating activities		(259,085,187)	(449,959,651)
INVESTING ACTIVITIES			
Purchase of property and equipment		(5,066)	(19,394)
Net cash used in investing activities		(5,066)	(19,394)
FINANCING ACTIVITIES			
Proceeds from Sukuk issued		-	82,472,078
Repayment of Sukuk Issued		(200,000,000)	-
Proceeds from Commodity Murabaha financing		340,884,940	728,667,929
Repayments of Commodity Murabaha financing		-	(425,000,000)
Share capital contribution		263,518,596	148,962,745
Dividend paid in cash		-	(600,000)
Net cash from financing activities		404,403,536	534,502,752
NET INCREASE IN CASH AND CASH EQUIVALENT		145,313,283	84,523,707
Cash and cash equivalent at the beginning of the year		517,533,923	433,010,216
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	5	662,847,206	517,533,923

The attached notes 1 to 34 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1 ACTIVITIES

Islamic Corporation for the Development of the Private Sector (the "Corporation") is an international specialized institution established pursuant to the Articles of Agreement (the Agreement) signed and ratified by its members'. The Corporation commenced its operations following the inaugural meeting of the General Assembly held on 6 Rabi Thani, 1421H, corresponding to July 8, 2000.

According to the Agreement, the objective of the Corporation is to promote, in accordance with the principles of Shari'ah, the economic development of its member countries by encouraging the establishment, expansion, and modernization of private enterprises producing goods and services in such a way as to supplement the activities of Islamic Development Bank ("IsDB").

The Corporation, as a multilateral financial institution, is not subject to any external regulatory authority. It operates in accordance with the Agreement and the approved internal rules and regulations.

The Corporation carries out its business activities through its headquarters in Jeddah, Saudi Arabia.

2 BASIS OF PRESENTATION

These financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Shari'ah rules and principles as determined by the Shari'ah Board of the IsDBG. For matters, which are not covered by AAOIFI standards, the Corporation seeks guidance from the relevant International Financial Reporting Standards (IFRSs) issued or adopted by the International Accounting Standards Board (IASB) and the relevant interpretation issued by the International Financial Reporting Interpretations Committee of IASB.

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

During the year ended 20 Dhul Hijjah, 1434H (Corresponding to 3 November 2013), the Corporation used the available guidance for the "Investment Entities" amendments to IFRS 10 'Consolidated financial statements' and resultant changes in IFRS 12 'Disclosure of interest in other entities' and IAS 27 'Separate financial statements' (the "Amendments") which are effective from the period beginning 1 January 2015. Accordingly, the Corporation discontinued issuing consolidated financial statements and used the transition guidance of the amendments to IFRSs 10 and 12, in so far it relates to the adoption of amendments related to investment entities.

Investment entity

An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Corporation meets the definition and typical characteristics of an "investment entity" as described in the amendments. In accordance with the amendments, an investment entity is required to account for its investments in subsidiaries and associates at fair value through statement of income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Corporation's significant accounting policies:

Accounting convention

The financial statements are prepared under the historical cost convention, except for the measurement at fair value of certain of its financial assets in accordance with the accounting policies adopted.

Transactions in foreign currencies

i) Functional and presentation currency

These financial statements are presented in United States Dollars ("USD") which is the functional and presentation currency of the Corporation.

ii) Transactions and balances

Transactions in foreign currencies are recorded in United States Dollars ("USD") at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the statement of financial position. All differences are taken to the statement of income.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate ruling at the date of initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Cash and cash equivalents

For the purposes of statement of cash flow, cash and cash equivalents consist of bank balances and commodity placements through financial institutions having an original maturity of three months or less at the date of acquisition.

Commodity placements through financial institutions

Commodity placements are made through financial institutions and are utilized in the purchase and sale of commodities at a fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Corporation and other Islamic and conventional financial institutions. Commodity placements are initially recorded at cost including acquisition charges associated with the placements and subsequently measured at amortized cost less any impairment.

Murabaha

Murabaha financing receivables are agreements whereby the Corporation sells to a customer a commodity or an asset, which the Corporation has purchased and acquired based on a promise received from the customer to buy.

Installment sales financing

Installment sale financing is a sale agreement where repayments are made on an instalment basis over a pre-agreed period. The selling price comprises the cost plus an agreed profit margin.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ijarah Muntahia Bittamleek (IMB)

These consist of assets purchased by the Corporation either individually or as part of syndication with other entities and leased to beneficiaries for their use in Ijarah Muntahia Bittamleek agreements whereby the ownership of the leased assets is transferred to the beneficiaries at the end of the lease term after the completion of all payments under the agreement.

Istisna'a assets

Istisna'a is an agreement between the Corporation and a customer whereby the Corporation sells to the customer an asset which is either manufactured or acquired by the purchaser on behalf of the Corporation according to agreed-upon specifications, for an agreed-upon price.

After completion of the project, the Istisna'a asset is transferred to the Istisna'a receivable account.

Investments

The Corporation's investments are categorised as follows:

i) Subsidiaries

An entity is classified as a subsidiary if the Corporation can exercise control over the entity. Control is power to govern the financial and operating policies of an entity with the objective of earning benefits from its operation. Control is presumed to exist if the Corporation holds, directly or indirectly through its subsidiaries, 50 per cent or more of the voting rights in the entity, unless it can be clearly demonstrated otherwise. Conversely, control may also exist through agreement with the entity's other members or the entity itself regardless of the level of shareholding that the Corporation has in the entity.

The adoption of the IFRS 10 amendments exempted the Corporation from the consolidation of the subsidiaries. The Corporation measures and evaluates the performance of substantially all its subsidiaries on a fair value basis because using fair values results in more relevant information. As per the Amendments, investments in subsidiaries are measured at fair value through statement of income. Any unrealized gains or losses arising from the measurement of subsidiaries at fair value are recognized directly in the statement of income.

ii) Associates

An entity is classified as an associate of the Corporation if the Corporation can exercise significant influence on the entity. Significant influence is presumed to exist if the Corporation holds, directly or indirectly through its subsidiaries, 20 per cent or more of the voting rights in the entity, unless it can be clearly demonstrated otherwise. Conversely, significant influence may also exist through agreement with the entity's other members or the entity itself regardless of the level of shareholding that the Corporation has in the entity.

The adoption of the Amendments requires investments in associates to be measured at fair value through statement of income. These investments are initially and subsequently measured at fair value. Any unrealized gains or losses arising from the measurement of associates at fair value are recognized directly in the statement of income.

iii) Other investments

Entities where the Corporation does not have significant influence or control are categorised as other investments.

iv) 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, measured at fair value through statement of income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

v) Initial measurement

All investments are initially recorded in the statement of financial position at fair value. All transaction costs are recognised directly in statement of income.

vi) Subsequent measurement

After the initial recognition, all investments are measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

Impairment and uncollectibility of financing assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financing asset or a group of financing assets is impaired. There are several steps required to determine the appropriate level of impairment. A financing assets or a group of financing assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the financed entity or issuer, default or delinquency by a financed entity, restructuring of receivables by the Corporation on terms that the Corporation would not otherwise consider, indications that a financed entity or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of financed entity or issuers in the group, or economic conditions that correlate with defaults in the group.

The Corporation considers evidence of impairment at both specific asset and collective level. All individually significant financing assets are assessed for specific impairment. The collective allowance for impairment could be based on deterioration in internal grading, external credit ratings, allocated to the financed entity or group of financed entities, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the financing assets.

Impairment losses on financing assets are measured as the difference between the carrying amount of the financing assets and the present value of estimated future cash flows discounted at the asset's original effective yield rate.

Impairment losses are recognised in the statement of income and reflected in impairment allowance. Adjustments to the impairment allowance are recorded as a charge or credit in the Corporation's statement of income. Impairment is deducted from the relevant financing asset category in the statement of financial position.

When the financing assets is deemed uncollectible, it is written-off against the related impairment allowance and any excess loss is recognised in the statement of income. 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 Corporation's statement of income.

Islamic derivative financial instruments

Islamic derivatives financial instruments represent foreign currency forward contracts and profit rate swaps. They are based on International Islamic Financial Market (IIFM) and International Swaps Derivatives Association, Inc. (ISDA) templates. These are used by the Corporation to mitigate the risk of fluctuation in foreign currency and financing cost for placements with financial institutions, Sukuk investments, financing assets and Sukuk issued. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting date. The resulting gains or losses on re-measurement are recognised in the statement of income. Derivatives with positive fair values or negative fair values are reported under the 'other assets' or 'accrued and other liabilities', respectively, in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Corporation, and accordingly, are not included in the financial statements.

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

- | | |
|--------------------------|-----|
| • Furniture and fixtures | 15% |
| • Computers | 33% |
| • Motor vehicles | 25% |
| • Other equipment | 20% |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repairs and maintenance are charged to the statement of income. Enhancements that increase the value or materially extend the life of the related assets are capitalized.

Financial liabilities

All Sukuk issued, Commodity Murabaha financing and other liabilities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all yield bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to "financing cost" in the statement of income.

Derecognition of financial assets and financial liabilities

Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Corporation has transferred its rights to receive cash flows from an asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Corporation's continuing involvement in the asset.

Financial liabilities:

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

Offsetting

Financial assets and financial liabilities are offset and reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Corporation intends to 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 applicable accounting and reporting framework, or for gains and losses arising from a group of similar transactions.

Sukuk issued

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

Provisions

Provisions are recognised when the Corporation has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Employee pension liabilities

The Corporation has two defined post-employment benefit plans, shared with all IsDB group entities pension fund, which consists of the Staff Retirement Pension Plan and the Post-Employment Medical Scheme, both of which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and percentage of final gross salary. Independent actuaries calculate the defined benefit obligation on an annual basis by using the projected unit credit method to determine the present value of the defined benefit plan and the related service costs. The underlying actuarial assumptions are used to determine the projected benefit obligations. The present value of the defined benefit obligation due till 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. 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. 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 Corporation's defined benefit obligations, net of the fair value of plan assets. The Corporation's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the IsDB's actuaries, and the contributions are transferred to the scheme's independent custodians pension and medical obligation.

The pension and medical obligation and the related charge for the period are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, etc. Due to the long term nature of such obligations, these estimates are subject to significant uncertainty.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

(i) Commodity placements through financial institutions

Income from commodity placements through financial institutions is recognized on a time apportionment basis over the period from the actual disbursement of funds to the date of maturity.

(ii) Non-Shari'ah compliant placements

Any income from cash and cash equivalents, commodity placements through financial institutions and other investments, which is considered by the Shari'ah Board of IsDBG as forbidden by Shari'ah principles, is not included in the Corporation's statement of income but is recorded as a liability to be utilized for charitable purposes.

(iii) Murabaha and Installment sales financing

Income from Murabaha and Installment financing receivables are accrued on a time apportionment basis over the period from the date of the actual disbursement of funds to the scheduled repayment date of installments.

(iv) Istisna'a

The Corporation uses the deferred profits method for recognizing Istisna'a income on Istisna'a assets whereby there is a proportionate allocation of deferred profits over the future financial period of the financing.

(v) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is allocated proportionately to the financial periods over the Ijarah contract.

(vi) Dividends

Dividends are recognized when the right to receive the dividends is established.

(vii) Management fee

Management fee is recognized on accrual basis when the services have been performed.

(viii) Administrative fee and advisory fee

Income from administrative and advisory services is recognized based on the rendering of services as per contractual arrangements.

(ix) Investment in Sukuk

Income from Sukuk investment is accrued on time apportionment basis at coupon rate in accordance with the terms of the Sukuk investment.

Zakat and tax

The Corporation, being a multilateral financial institution, is not subject to Zakat or taxation in the member countries. The Corporation's equity is part of Baitul Mal, which is not subject to Zakat and tax.

Segment reporting

Management has determined the chief operating decision maker to be the Board of Directors as this body is responsible for overall decisions about resource allocation to development initiatives within its member countries. 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 centrally through the Corporation's equity capital and financing. Management has not identified separate operating segments within the definition of FAS 22 "Segment Reporting" since the Board of Directors monitor the performance and financial position of the Corporation as a whole.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4 ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including professional advices and expectation of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i) Investment entity

In determining an investment entity status, the Corporation considered the following:

- a) The Corporation provides investment management services to a number of investors with respect to investment in managed funds;
- b) The Corporation generate capital and income from its investments which will, in turn, be distributed to the current and potential investors; and
- c) The Corporation evaluates its investments' performance on a fair value basis, in accordance with the policies set out in these financial statements. Management believes that had the Corporation carried these financing assets at their fair values, the amounts would have not been materially different from their carrying amounts.

The Board of Directors concluded that the Corporation meets the definition of an investment entity. Their conclusion is reassessed on an annual basis.

ii) Impairment allowance for financing assets

The Corporation exercises judgment in the estimation of impairment allowance for financial assets. The methodology for the estimation of impairment of financing assets is set out in note 2 under "impairment and uncollectibility of financing assets".

iii) Fair value determination

The Corporation determines the fair value of substantially all of its financial assets at each financial year end. Majority of the Corporation's financial assets are unquoted. The fair value of the financial assets that are not quoted in an active market is determined by using valuation techniques, primarily, discounted cash flow techniques (DCF), comparable price/book (P/B) multiples, recent transactions and, where relevant, net asset value (NAV). Where required, the Corporation engages third party valuation experts. For certain investments which are start-up entities or in capital disbursement stage, management believe cost is an approximation of fair value.

The models used to determine fair values are validated and periodically reviewed by management. The inputs in the DCF and comparable P/B multiples models include observable data, such as discount rates, terminal growth rate, P/B multiples of comparable entities to the relevant portfolio of the entity, and unobservable data, such as the discount for marketability. The Corporation also considered the geopolitical situation of the countries where the investee entities operate and taken appropriate discount on their values.

(iv) Employee pension liabilities

The pension and medical obligation and the related charge for the period are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty.

(v) Going concern

The Corporation's management has made an assessment of the Corporation's ability to continue as a going concern and is satisfied that the Corporation 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 on the Corporation's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

5 CASH AND CASH EQUIVALENTS

	31 December 2018 USD	31 December 2017 USD
Cash at banks	108,852,233	214,479,945
Commodity placements through financial institutions (note 6)	553,000,000	302,000,000
	661,852,233	516,479,945
Bank balance relating to ICD Solidarity Fund	994,973	1,053,978
	662,847,206	517,533,923

Certain bank accounts with balance of USD 4,709,427 (31 December 2017: USD 1,581,508) are in the name of Islamic Development Bank (IsDB). However, these bank accounts are beneficially owned and managed / operated by the Corporation.

Commodity placements included within cash and cash equivalents are those placements which have original maturity of less than three months. Commodity placements with original maturity of above three months are disclosed in note 6.

6 COMMODITY PLACEMENTS THROUGH FINANCIAL INSTITUTIONS

	31 December 2018 USD	31 December 2017 USD
Commodity placements through financial institutions	668,287,311	447,659,653
Less: commodity placements through financial institutions with an original maturity of three months or less (note 5)	(553,000,000)	(302,000,000)
	115,287,311	145,659,653

Commodity placements through financial institutions include an amount of USD 1,498,865 (2017: USD 1,871,210) provided to a related party of the Corporation, over which the Corporation earned profit of USD 34,534 (31 December 2017: USD 149,899).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

7 SUKUK INVESTMENTS

	31 December 2018 USD	31 December 2017 USD
Opening balance	633,435,553	382,244,396
Additions	270,594,991	311,518,723
Redemption	(126,545,292)	(60,824,976)
Exchange losses / (gains)	(326,153)	3,421,160
Unrealised fair value losses	(13,392,946)	(2,923,750)
Impairment allowance (note 22)	(10,518,452)	-
	753,247,701	633,435,553

	31 December 2018 USD	31 December 2017 USD
Financial institutions	517,394,466	534,484,119
Governments	235,853,235	98,951,434
	753,247,701	633,435,553

	31 December 2018 USD	31 December 2017 USD
AAA	82,896,850	33,348,675
AA+ to AA-	-	49,723,400
A+ to A-	385,570,032	286,704,026
BBB+ or lower	255,650,190	234,444,917
Unrated	29,130,629	29,214,535
	753,247,701	633,435,553

	Sukuk investments measured at fair value			
	Level 1	Level 2	Level 3	Total
2018 (USD)	724,117,072	-	29,130,629	753,247,701
2017 (USD)	604,215,018	-	29,220,535	633,435,553

Sukuk investments included an amount of USD 82,896,850 (31 December 2017: USD 33,348,675) invested in Sukuk issued by IsDB, over which the Corporation earned profit of USD 1,228,626 (31 December 2017: USD 519,000).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8 MURABAHA FINANCING

	31 December 2018 USD	31 December 2017 USD
Murabaha financing	316,539,255	316,938,483
Less: impairment allowance (note 22)	(22,944,573)	(9,789,610)
	293,594,682	307,148,873

All goods purchased for resale under Murabaha financing are made on the basis of specific purchase for subsequent resale to the customer. The promise of the customer is considered to be binding. Consequently, any loss suffered by the Corporation as a result of default by the customer prior to the sale of goods is charged to the customer.

Murabaha financing included financing of USD 100,914,418 (31 December 2017: USD 103,409,545) provided to related parties of the Corporation, over which the Corporation earned profit of USD 2,612,831 (31 December 2017: USD 2,211,175).

9 INSTALLMENT SALES FINANCING

	31 December 2018 USD	31 December 2017 USD
Installment sales financing	524,792,926	420,821,363
Less: impairment allowance (note 22)	(15,229,455)	(10,685,762)
	509,563,471	410,135,601

All goods purchased for resale under installment sales financing are made on the basis of specific purchase for subsequent resale to the customers. The promise of the customer is considered to be binding. Consequently, any loss suffered by the Corporation as a result of default by the customer prior to the sale of goods is charged to the customer.

Installment sales financing included financing of USD 6,068,164 (31 December 2017: USD 6,138,039) provided to related parties of the Corporation, over which the Corporation earned profit of USD 302,526 (31 December 2017: USD 402,147).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

10 IJARAH MUNTAHIA BITTAMLEEK (IMB), NET

	31 December 2018 USD	31 December 2017 USD
Cost:		
<i>Assets not yet in use:</i>		
Additions and transferred to assets in use	45,130,223	25,393,442
<i>Assets in use:</i>		
At the beginning of the year	314,947,558	289,554,116
Transferred from assets not in use	45,130,223	25,393,442
At the end of the Year	360,077,781	314,947,558
Total Cost	360,077,781	314,947,558
Accumulated depreciation:		
At the beginning of the year	173,301,787	141,562,251
Charge for the period	24,616,198	31,739,536
At the end of the year	197,917,985	173,301,787
Ijarah Muntahia Bittamleek, net	162,159,796	141,645,771

Ijarah Muntahia Bittamleek included financing of USD 6,607,279 (31 December 2017: USD 8,321,037) provided to related parties of the Corporation, over which the Corporation earned profit of USD 1,009,991 (31 December 2017: USD 854,108).

Certain of the assets referred above represent the Corporation's share in joint Ijarah Muntahia Bittamleek agreements.

During the year, impairment allowances of USD 75,519,480 (31 December 2017: USD 34,655,843) have been reclassified from "Ijarah Muntahia Bittamleek" to "Other assets".

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11 EQUITY INVESTMENTS

The Corporation directly or through intermediaries, owns equity investments. Based on the effective holding of the Corporation, the investments in equity capital as at the end of the year comprised of the following:

	31 December 2018 USD	31 December 2017 USD
Subsidiaries (note 11.1)	260,192,879	400,546,229
Associates (note 11.2)	115,595,141	161,794,239
Other investments	86,496,904	132,689,914
	462,284,924	695,030,382

The movement in investments for the year is as follows:

	31 December 2018 USD	31 December 2017 USD
At the beginning of the year	695,030,382	755,483,873
Additions	23,440,288	32,210,567
Disposals	(14,008,073)	(4,559,509)
Fair value losses , net	(242,177,673)	(88,104,549)
At the end of the year	462,284,924	695,030,382

11.1 Investments in subsidiaries

Effective ownership percentage in subsidiaries and their countries of incorporation at the end of the year and nature of business are as follows:

Name of the entity	Country of incorporation	Nature of business	Effective ownership %	
			2018	2017
Azerbaijan Leasing	Azerbaijan	Leasing	100	100
ICD Asset Management Limited	Malaysia	Asset management	100	100
Islamic Banking Growth Fund	Malaysia	Private equity fund	100	100
Ijarah Management Company	Saudi Arabia	Leasing	100	100
Sante Alexandra Company	Egypt	Manufacturing	100	100
Taiba Leasing	Uzbekistan	Leasing	100	100
Tamweel Africa Holding	Senegal	Banking	100	100
Maldives Islamic Bank	Maldives	Banking	70	70
ASR Leasing LLC	Tajikistan	Leasing	67	67
Al Majmoua Al Mauritania	Mauritania	Real estate	53	53
Tahfeez United Company (formerly Catalyst International)	Saudi Arabia	Advisory service	100	100
Taha Alam Sdn Bhd	Malaysia	Advisory services	50	50
Ewaan Al Fareeda Residential Co.	Saudi Arabia	Real estate	50	50

- (a) In addition to the above investments, there are certain subsidiaries carried at nil value where the Corporation had invested in earlier years and were fully impaired.
- (b) There are no regulatory or contractual arrangements that restrict the subsidiaries ability to transfer funds in the form of cash dividend or repay financing or advances made to them by the Corporation. The Corporation sometimes extends financial assistance in the form of advances to its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11.2 Investments in associates

Effective ownership percentage in associates and their countries of incorporation at the end of the year and nature of business are as follows:

Name of the entity	Country of incorporation	Nature of business	Effective ownership %	
			2018	2017
Al-Akhthar Bank	Morocco	Banking	49	49
Enmaa Ijara Company	Egypt	Leasing	47	47
Theemar Investment Fund	Tunisia	Fund	41	41
Anfaal Capital Company	Saudi Arabia	Investment Advisory	38	38
Kyrgyzstan Ijara Company	Kyrgyzstan	Leasing	37	37
Kazakhstan Ijara Company	Kazakhstan	Leasing	36	36
Albania Leasing	Albania	Leasing	36	36
Al Fareeda Residential Fund	Saudi Arabia	Real Estate	33	33
Palestine Ijarah Company	Palestine	Leasing	33	33
Halic Finansal Kiralama A.S.	Turkey	Leasing	33	33
Wifack International Bank	Tunisia	Leasing	30	30
Royal Atlantic Residence	Gambia	Real Estate	25	25
Adritech Group International	Jordan	Agriculture	25	25
Saudi SME Fund (Afaq)	Saudi Arabia	Fund	25	25
Al Sharkeya Sugar	Egypt	Manufacturing	22	22
Jordan Pharmaceutical Manufacturing Co.	Jordan	Manufacturing	22	22
Saba Islamic Bank	Yemen	Banking	20	20
Arab Leasing Company	Sudan	Leasing	20	20
PMB Tijari Berhad	Malaysia	Leasing	20	20
Turkish Asset Management (K.A.M.P)	Turkey	Fund	20	20

In addition to the above investments, there are certain associates carried at nil value where the Corporation had invested in earlier years and were fully impaired.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11.3 Fair value of investments

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible.

	Equity investments measured at fair value			
	Level 1	Level 2	Level 3	Total
2018 (USD)	16,590,903	-	445,694,021	462,284,924
2017 (USD)	29,853,351	-	665,177,031	695,030,382

Equity investments which are not quoted in an active market, were reported at their fair values estimated using a single or a combination of valuation techniques which are applied keeping in view the industry segment and business environment of the investee entity. These techniques, predominantly, included market multiple, adjusted net asset value, discounted cash flows, recent comparable transactions, excess earnings, discounted cash flows and residual approach. The assumptions and inputs to these fair valuation techniques are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values and are based on assumptions. Changes in assumptions alone or other market factors could significantly affect the reported fair value of the investments. These models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, management performs sensitivity analysis or stress testing techniques.

Historically and for the current year, management had taken into account investee specific as well as the macro economic environment of the investee. The investee specific inputs primarily included market multiples, actual business performance than expected and revisions to the business plans. The macroeconomic inputs included country or regional specific information as well as the foreign currency rates. In addition, management has implemented certain refinements to the valuation techniques to reflect appropriately the ever-changing circumstances and economic environment. The valuation techniques along with significant inputs used to measure the fair value of equity investments classified in level for each significant sector as at 31 December 2018 and 31 December 2017 are as follows:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

Sector	Valuation technique	Significant input	Range	31 December 2018 USD
Financial Services	Adjusted Net asset value	-	-	145,169,849
	Relative valuations	-	-	136,529,112
	Excess earnings	Cost of equity	14.5% - 15.8%	28,701,246
		Growth rate	4.0%	
		Persistence factor	85.0%	
	Discounted cash flows	Cost of equity	18.9%	5,591,983
		Growth rate	5.8%	
	Other techniques	-	-	4,700,083
Industry and Mining	Adjusted Net asset value	-	-	47,799,561
	Discounted cash flows	Discount rate	24.6%	12,909,647
		EV/EBIDA	9.53%	
	Other techniques	-	-	2,761,815
Social Services	Discounted cash flows	Discount rate	11.4%	6,568,449
		Growth rate	2.5%	
Others	Discounted cash flows	Cost of equity	15.0%	45,721,129
	Adjusted net asset value	-	-	8,091,147
	Other techniques	-	-	1,150,000
Total				445,694,021

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11.3 Fair value of investments (continued)

In addition to the above, in certain instances ICD applied control premium up to 25% considering, for example, shareholding level, board representation and influence on decision-making. Similarly, in certain instances discount for lack of marketability ranging up to 25% was applied.

Sector	Valuation technique	Significant input	Range	31 December 2017 USD
Financial Services	Adjusted Net asset value	-	-	162,623,557
	Relative valuations	-	-	154,192,238
	Discounted cash flows	Discount rate	6.13% - 21.5%	129,873,769
		Cost of equity	9.1% - 21.5%	
		Growth rate	3% - 8.7%	
	Distributable dividend model	Cost of equity	20.1%	3,393,191
		Growth rate	4.4%	
	Other techniques	-	-	7,055,354
Industry and Mining	Adjusted Net asset value	-	-	69,867,574
Social Services	Discounted cash flows	Discount rate	15.1%	9,821,280
		Cost of equity	14.9%	
		Growth rate	2%	
Others	Adjusted net asset value	-	-	122,193,870
	Other techniques	-	-	1,202,811
	Discounted cash flows	Discount rate	9.9%	4,953,387
		Cost of equity	15.1%	
		Growth rate	1.5%	
Total				665,177,031

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

Reconciliation of level 3 items

	31 December 2018 USD	31 December 2017 USD
At the beginning of the year	665,177,031	720,787,158
Additions	23,440,288	32,210,567
Disposals	(5,201,858)	(4,559,509)
Unrealized fair value losses, net	(237,721,440)	(83,261,185)
At the end of the year	445,694,021	665,177,031

	31 December 2018 USD	31 December 2017 USD
Fair value losses, net	(242,177,673)	(88,104,549)
Dividend	217,153	867,298
	(241,960,520)	(87,237,251)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

12 OTHER ASSETS

	31 December 2018 USD	31 December 2017 USD
Ijarah Muntahia Bittamleek (IMB), net installments receivable	96,028,770	97,114,751
Due from related parties (note 20.2)	28,940,492	30,273,917
Positive fair value of Islamic derivative financial instrument (note c)	18,482,180	7,002,211
Proceeds receivable from sale of shares (note a)	16,844,093	16,844,093
Accrued income	12,566,515	9,944,615
Advances to employees	8,691,835	10,825,369
Proceeds receivable on maturity of government certificates/ Sukuk (note b)	8,077,352	8,077,352
Unamortised portion of Sukuk issuance cost	6,294,180	6,529,790
Other receivables	8,704,822	9,301,720
	204,630,239	195,913,818
Less: impairment allowance (note d) and (note 22)	(115,875,669)	(64,760,479)
	88,754,570	131,153,339

- (a) This represents proceeds receivable on sale of shares. The transaction was subject to arbitration proceedings with relevant regulatory authorities in a member country. The Corporation believes that the balance is fully impaired. Accordingly, an impairment allowance of the book value loss have been provided.
- (b) On July 23, 2008 (Rajab 20, 1429H), the Corporation entered into an agreement with a counterparty to invest in Sukuk with an option to convert it to equity shares of the investee at the time of initial public offering (IPO). The Sukuk matured during 1431H. However, IPO formalities were not completed and the amount is outstanding since then. Management is in discussion with the investee's management and is reviewing various options. Keeping in view the prolonged overdue nature of this account, management impaired the entire amount.
- (c) The Islamic derivative financial instruments represent foreign currency forwards and swaps' contracts. The forward and cross currency profit rate swaps are held to mitigate the risk of currency fluctuation for placements with financial institutions, Sukuk investments, financing assets and Sukuk issued. Profit rate swaps are held to mitigate the effects of the fluctuation in the changes in the cost of financing by matching the floating rate financing with floating rate income. Included in the table below is the positive and negative fair values of Islamic derivative financial instruments, together with their notional amounts:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

12 OTHER ASSETS (continued)

Islamic derivative financial instrument	Notional amount USD	Positive fair value USD	Negative fair value USD
Cross currency swaps	302,305,661	2,266,006	3,579,188
Profit rate swaps	472,650,000	7,253,788	2,091,520
Forward contracts	233,483,343	8,962,386	255,726
31 December 2018	1,008,439,003	18,482,180	5,926,434

Islamic derivative financial instrument	Notional amount USD	Positive fair value USD	Negative fair value USD
Cross currency swaps	490,378,170	-	14,241,736
Profit rate swaps	464,355,000	6,461,271	102,499
Forward contracts	45,284,049	540,940	2,860,292
31 December 2017	1,000,017,219	7,002,211	17,204,527

- (d) During the year, impairment allowances of USD 75,519,480 (31 December 2017: USD 34,655,843) have been reclassified from "Ijarah Muntahia Bittamleek" to "Other assets".

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

13 SUKUK ISSUED

Issue date	Maturity date	Issue currency	Issued amount	Rate	31 December 2018 USD	31 December 2017 USD
Listed (note a)						
13-04-2017	13-04-2021	USD	300,000,000	2.468% Fixed	300,000,000	300,000,000
Not listed (note b)						
28-12-2018	30-12-2019	USD	80,000,000	3M LIBOR + 0.80%	80,000,000	80,000,000
22-02-2017	22-02-2018	KWD	200,000,000	3.4% Fixed	-	198,807,157
24-02-2017	24-02-2024	USD	350,000,000	3M LIBOR + 0.55%	350,000,000	350,000,000
19-07-2017	19-07-2024	USD	250,000,000	3M LIBOR + 0.75%	250,000,000	250,000,000
			1,180,000,000		980,000,000	1,178,807,157

- (a) During the year ended 31 December 2016, the Corporation through a special purpose vehicle (SPV), an entity registered in Cayman Islands, issued Sukuk amounting to USD 300 million which are listed on London Stock Exchange and Nasdaq Dubai. The Sukuk are secured against Corporation's certain assets including Murabaha, Ijarah assets, Sukuk investments, Shari'ah compliant authorised investments and any replaced assets. These assets are under the control of the Corporation.
- (b) The trust certificates (Sukuk) confer on certificate holders the right to receive at agreed intervals, payments (periodic distributions) out of the profit elements of Corporation's Installment Sale, Istisna'a and Ijarah assets sold at each issue by the Corporation to Trustees. The Corporation, as a third party, guarantees to the Trustees punctual performance of the assets.

14 COMMODITY MURABAHA FINANCING

Commodity Murabaha financing is received from financial institutions under commodity murabaha agreements. The financing have original maturities ranging from 2 to 4 years (31 December 2017: 2 to 4 years.)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

15 ACCRUED AND OTHER LIABILITIES

	31 December 2018 USD	31 December 2017 USD
Negative fair value of Islamic derivative (note 12 (d))	5,926,434	17,204,527
Due to related parties (note 20.3)	441,553	7,108,236
Accrued profit on Sukuk issued	4,425,079	4,834,485
Accrued profit payable on Commodity Murabaha financing	11,747,750	4,726,995
Dividend payable (note 19)	4,108,563	4,108,563
Other payables	4,992,306	3,989,970
	31,641,685	41,972,776

16 EMPLOYEE PENSION LIABILITIES

Staff Pension Plan (SPP)

The SPP is a defined benefit pension plan and became effective on 1 Rajab 1399H. Every person employed by the Corporation on a full-time basis except for fixed term employees, as defined in the Corporation employment policies, is eligible to participate in the SPP, upon completion of the probationary period of service, generally 1 year.

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

The main features of the SPP are:

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

Under the SPP, the employee contributes 9% of the basic annual salary while IsDB and its Affiliates contribute 21%.

Staff Retirement Medical Plan (SRMP)

Effective 1 Muharram 1421H, the IsDB Group established the medical benefit scheme for retired employee via the Board of Executive Directors resolution dated 18 Shawwal 1418H. This was extended to eligible staff members of the Group's Affiliates. IsDB and its Affiliates fund the SRMP at 1% and the staff at 0.5% of the basic salaries, respectively.

The purpose of the SRMP is to pay a monthly amount to eligible retired employee towards their medical expenses. The administration of the SRMP is independent of the SPP and contributions are invested in a similar manner to that of the SPP under the management of the Pension Committee.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

The monthly entitlements payable for each retired employee is computed according to the following formula:

$\{\text{Highest average remuneration} \times \text{contributory period} \times 0.18\% \} / 12$

The breakdown of net employee pension liabilities as of 31 December 2018 was as follows:

2018	SPP	SRMP	Total
31 December 2018 (USD)			
Plan assets (note 16.1)	37,465,191	1,821,114	39,286,305
Defined benefit obligations (note 16.2)	(50,175,375)	(3,761,453)	(53,936,828)
Net employee pension liabilities	(12,710,184)	(1,940,339)	(14,650,523)

2017	SPP	SRMP	Total
31 December 2017 (USD)			
Plan assets (note 16.1)	35,598,339	1,701,561	37,299,900
Defined benefit obligations (note 16.2)	(50,622,358)	(4,341,968)	(54,964,326)
Net employee pension liabilities	(15,024,019)	(2,640,407)	(17,664,426)

16.1 The movement in the present value of the plan assets is as follows:

	SPP		SRMP	
	31 December 2018 USD	31 December 2017 USD	31 December 2018 USD	31 December 2017 USD
Balance as at 1 January	35,598,339	31,842,820	1,701,561	1,501,482
Income on plan assets	1,472,322	1,450,266	75,299	64,304
Return on plan assets greater than discount rate	-	616,734	-	2,964
Plan participants contributions	1,100,000	1,138,073	61,000	60,370
Employer contribution	2,577,000	2,655,505	123,000	120,740
Disbursements from plan assets	(2,192,159)	(2,105,059)	(84,449)	(48,299)
Others	(1,090,311)	-	(55,297)	-
	37,465,191	35,598,339	1,821,114	1,701,561

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

16.2 The movement in the present value of defined benefit obligation is as follows:

	SPP		SRMP	
	31 December 2018 USD	31 December 2017 USD	31 December 2018 USD	31 December 2017 USD
Balance as at 1 January	50,622,358	43,934,811	4,341,968	3,451,970
Current service costs	2,547,024	4,070,599	260,400	370,286
Cost on defined benefit obligation	2,061,591	1,891,472	182,322	152,460
Plan participants contributions	1,100,000	1,138,073	61,000	60,370
Net actuarial deficit / (gain)	(3,524,451)	1,692,462	(982,968)	355,181
Disbursements from plan assets	(2,192,158)	(2,105,059)	(84,449)	(48,299)
Others	(438,989)	-	(16,820)	-
	50,175,375	50,622,358	3,761,453	4,341,968

16.3 Based on the actuarial valuations, the pension and medical benefit expenses for the year comprised the following:

	SPP		SRMP	
	31 December 2018 USD	31 December 2017 USD	31 December 2018 USD	31 December 2017 USD
Gross current service costs	2,547,024	4,070,599	260,400	370,286
Cost of defined benefit obligation	2,061,591	1,891,472	182,322	152,460
Income from plan assets	(1,472,322)	(1,450,266)	(75,299)	(64,304)
Cost recognized in statement of income	3,136,293	4,511,805	367,423	458,442
Actuarial loss / (gain) due to assumptions	(3,524,449)	1,692,462	(982,969)	355,181
Return on plan assets (less) / greater than discount rate	(1,163,720)	(616,734)	(2,086)	(2,964)
Actuarial loss recognized in statement of changes in members' equity	(4,688,169)	1,075,728	(985,055)	352,217

16.4 The following table presents the plan assets by major category:

	SPP		SRMP	
	31 December 2018 USD	31 December 2017 USD	31 December 2018 USD	31 December 2017 USD
Investments in Sukuk	14,296,060	18,555,664	1,008,025	1,348,119
Managed funds and Installment sales	6,427,652	7,977,500	-	-
Cash and cash equivalent and commodity placements	12,539,365	5,034,106	803,992	224,918
Land	4,396,985	4,001,502	-	-
Others	(194,871)	29,567	9,097	128,524
	37,465,191	35,598,339	1,821,114	1,701,561

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

16.5 The assumptions used to calculate the pension plans liabilities are as follows:

	SPP		SRMP	
	31 December 2018 USD	31 December 2017 USD	31 December 2018 USD	31 December 2017 USD
Managed funds and installment sales	4.50%	4.15%	4.50%	4.15%
Investments in Sukuk	4.50%	4.50%	4.50%	4.50%

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

17 ICD SOLIDARITY FUND

This represents net accumulated income up to 31 December 2018 generated from liquid fund placements with certain conventional banks and financial institutions which was discontinued by ICD and other income which were not considered in compliance with the Shari'ah principles. As per the recommendation of the Shari'ah Board of IsDB, this income needs to be utilized for charitable purposes and, therefore, has been classified as a liability. The disposition of this liability is the responsibility of the Charity Committee formed within the Corporation. The sources and uses of ICD Solidarity Fund during the year ended are as follows:

	31 December 2018 USD	31 December 2017 USD
Sources		
At the beginning of the year (from conventional placements and others)	1,039,521	870,026
Income transferred during the year (late payment charges only)	63,107	385,047
Income earned	16,798	6,845
	1,119,426	1,261,918
Users		
Charitable disbursements	(126,251)	(222,397)
At the end of the year	993,175	1,039,521

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

18 SHARE CAPITAL

The share capital of the Corporation at year / period end comprises of the following;

	31 December 2018 USD	31 December 2017 USD
Authorized share capital: 400,000 shares of USD 10,000 each	4,000,000,000	4,000,000,000
Subscribed capital share:		
Available for subscription: 200,000 shares of USD 10,000 each	2,000,000,000	2,000,000,000
Share capital not yet subscribed	(279,790,000)	(242,765,336)
	1,720,210,000	1,757,234,664
Installments due not yet paid	(409,277,192)	(709,820,452)
Paid-up capital	1,310,932,808	1,047,414,212

The paid-up capital of the Corporation represents amounts received from the following members':

	31 December 2018 USD	31 December 2017 USD
Islamic Development Bank (IsDB)	534,681,958	472,181,958
Member countries	626,845,850	473,297,254
Iran Foreign Investment Company	40,000,000	40,000,000
Saudi Public Investment Fund	101,205,000	53,735,000
Bank Keshavarzi	6,000,000	6,000,000
Bank Melli	2,000,000	2,000,000
Bank Nationale D'Algerie	200,000	200,000
Paid-up capital	1,310,932,808	1,047,414,212

19 RESERVE AND DIVIDEND

In accordance with Section 1 of Article No. 33 of the Articles of Agreement of the Corporation, the General Assembly shall determine the part of the Corporation's net income and surplus after making provision for reserves to be distributed as dividend. In any event, no dividend shall be distributed before reserve reach 12.5% of the subscribed capital.

No Dividend was paid during 2018.

For 2017, The General Assembly at its Plenary Sitting held on 18 May 2017 (corresponding to 22 Shaaban 1438H) in Jeddah, Kingdom of Saudi Arabia, through resolution GA17/1/438, approved a dividend of USD 17,647,357 in proportion to the paid-up capital held by each member as follows:

- For the IsDB, an equivalent of USD 8,032,979 to be allocated in the form of shares.
- For the public financial institutions, cash dividend of USD 1,564,000.
- For the member countries, the dividend of USD 8,050,378 to be distributed in the form of shares.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent subsidiaries, associated companies, members, directors and key management personnel of the Corporation, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Corporation's management.

20.1 The following are the details of major related party transactions entered during the year:

Related parties	Nature of Transactions	31 December 2018 USD	31 December 2017 USD
Islamic Development Bank Group	Rent & pension actuarial deficit (note a)	2,087,890	2,088,900
Islamic Banking Growth Fund	Management fee	-	448,630
Sante Alexandra	Advance	190,553	-
ICD Fixed Income Limited	Management fee	-	3,294,060
Tamweel Africa Holding	Advance	217,222	270,564
Catalyst Group International	Advance	540,453	645,523
Ijarah Management Company	Advance	184,811	234,160
Wifack International Bank	Advance	44,255	-
Members / Directors / Shareholders	Allowances and fee	-	338,396
Maldives Islamic Bank	Recharges	-	137,804
Taiba Leasing	Advance	222,517	-
Taiba Titrisation	Advance	197,433	-

(a) Certain related party transactions and balances have been disclosed in notes 7 to 10.

20.2 Due from related parties comprised the following:

	31 December 2018 USD	31 December 2017 USD
Sante Alexandra	6,754,151	6,563,598
Tamweel Africa Holding	4,826,209	5,043,431
Catalyst Group International	4,803,102	4,262,649
ICD Fixed Income Limited	1,433,045	3,035,596
Bidaya Home Financing Company	2,863,024	2,863,024
Caspian Leasing	2,144,660	2,144,660
Taiba Titrisation	1,724,127	1,526,694
Ijarah Management Company	604,254	789,065
International Islamic Trade Finance Corporation (ITFC)	590,011	578,163
Wifack International Bank	500,968	545,223
Taiba Leasing	254,633	477,150
Islamic Banking Growth Fund	448,630	448,630
Al Majmoua Mouritania (MMI)	330,005	330,007
Islamic Development Bank	515,569	-
Others	1,148,104	1,666,027
	28,940,492	30,273,917

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

20.3 Due to related parties comprised the following:

	31 December 2018 USD	31 December 2017 USD
Islamic Development Bank (IsDB)	-	2,758,644
Waqf Fund	-	4,317,666
ICD Money Market Fund	115,742	-
Pension Fund	147,339	-
Royal Atlantic	145,878	-
Others	32,594	31,926
	441,553	7,108,236

20.4 The compensation paid or payable to key management personnel is as follows:

	31 December 2018 USD	31 December 2017 USD
Salaries and other short-term benefits	3,222,907	2,959,293
Post-employment benefits	348,067	322,694
	3,570,974	3,281,987

21 IJARAH MUNTAHIA BITTAMLEEK, NET

	31 December 2018 USD	31 December 2017 USD
Income from Ijarah Muntahia Bittamleek,	33,239,063	41,911,195
Depreciation	(24,616,198)	(31,739,536)
At the end of the year	8,622,865	10,171,659

22 IMPAIRMENT ALLOWANCE

	31 December 2018 USD	31 December 2017 USD
At the beginning of the year	85,235,851	67,495,686
Charge for the year, net	79,332,297	17,740,165
At the end of the year	164,568,148	85,235,851

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

22 IMPAIRMENT ALLOWANCE (continued)

The breakdown of cumulative allowance for impairment is as follows:

	31 December 2018 USD	31 December 2017 USD
Murabaha financing (note 8)	22,944,573	9,789,610
Installment sales financing (note 9)	15,229,454	10,685,762
Ijarah Muntahia Bittamleek Receivables (note 12)	75,519,480	34,655,843
Sukuk Investments (note 7)	10,518,452	-
Other assets (note 12)	40,356,189	30,104,636
	164,568,148	85,235,851

23 FAIR VALUE GAIN / (LOSS) ON ISLAMIC DERIVATIVES NET OF EXCHANGE (LOSS) / GAIN

	31 December 2018 USD	31 December 2017 USD
Gain / (loss) on Islamic derivatives	23,312,566	(24,949,601)
Foreign exchange (loss) / gain	(15,254,525)	27,601,242
	8,058,041	2,651,641

24 FIDUCIARY ASSETS

24.1 Unit Investment Fund

The ICD Unit Investment Fund (Labuan) LLP (formerly Islamic Development Bank – Unit Investment Fund) (the “Fund”) was established under Article 22 of the Articles of Agreement of Islamic Development Bank (“the Bank” or “IDB”) based in Jeddah, Saudi Arabia. The Fund commenced its operations on 1 January 1990. Pursuant to Islamic Limited Liability Partnership Agreement (the “Partnership” or the “Agreement”) dated 3 November 2015, the Fund was also registered under the Labuan Companies Act, 1990 and is domiciled in the Federal territory of Labuan, Malaysia. Accordingly, the name of the Fund was changed from Islamic Development Bank – Unit Investment Fund to ICD Unit Investment Fund (Labuan) LLP. The registration number of the Fund is LLP00181.

The purpose of UIF is to participate in the economic development of the member countries through the pooling of the saving of institutions and individual investors, and to invest these savings in producing projects in the said member countries. Pursuant to Islamic Limited Liability Partnership Agreement (the “Partnership” or the “Agreement”) dated 3 November 2015.

At the end of 31 December 2018, the net assets of UIF amounting to USD 151.96 million (2017: USD 189.8 million) were under the management of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

24.2 Money Market Fund

The ICD Money Market Fund (Labuan) LLP ("MMF") is a Labuan Islamic Limited Liability Partnership (LLP) registered under the Labuan Limited Partnerships and Limited Partnerships Act 2010 on July 22, 2014. The objective of the partnership is to earn periodic income by investing in Shari'ah compliant placement, investment and financing products.

At the end of 31 December 2018, the net assets of MMF amounting to USD 198.56 million (2017: USD 229.8 million) were under the management of the Corporation.

24.3 Corporate Premium Fund

ICD Corporate Premium Fund (Labuan) LLP ("CPF") is an open ended investment fund constituted pursuant to Islamic Limited Liability Partnership Agreement (the "Partnership" or the "Agreement") dated 17 November 2015 and is domiciled in the Federal territory of Labuan, Malaysia. The objective of the partnership is to achieve competitive, periodic returns by investing in viable, corporate finance investments in conformity with the principles of Shari'ah and the approved investment policies.

At the end of 31 December 2018, the net assets of CPF amounting to USD 56.66 million (2017: USD 65.4 million) were under the management of the Corporation.

24.4 Trade Premium Fund

ICD Trade Premium Fund (Labuan) LLP ("TPF") is an open ended investment fund constituted pursuant to Islamic Limited Liability Partnership Agreement (the "Partnership" or the "Agreement") dated 17 November 2015 and is domiciled in the Federal territory of Labuan, Malaysia. The objective of the partnership is to achieve competitive, periodic returns by investing in viable, short-term and comparatively low-risk trade finance investments in conformity with the principles of Shari'ah and the approved investment policies.

At the end of 31 December 2018, the net assets of TPF amounting to USD 38.34 million (2017: USD 37.1 million) were under the management of the Corporation.

The Corporation manages UIF, MMF, CPF and TPF as Management and charges a Management fee, which is included in the statement of income under Management fees. These funds are co-managed under special purpose vehicle namely "ICD Fixed Income Limited".

24.5 Others

Certain commodity placements, financing assets, equity investments and Sukuk investments are in the name of the Corporation which are beneficially owned by IsDB group entities and are managed and operated by the respective entities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

25 NET ASSETS IN FOREIGN CURRENCIES

The currency wise breakdown of net assets in foreign currencies at the end of the year is as follows:

	31 December 2018 USD	31 December 2017 USD
Euro	230,728,209	233,997,130
Pakistani Rupee	8,087,136	15,923,216
Kazakhstani Tenge	7,925,326	7,831,299
Moroccan Dirham	4,479,652	4,024,118
Jordanian Dinar	5,350,995	3,434,705
Emirati Dirham	3,648	993,045
Sterling Pound	104,443	146,546
Malaysian Ringgit	(53,027)	25,427
Islamic Dinar	556	220
CFA Franc (XOF)	(62,288)	(12,037)
Turkish Lira	(82,101)	(72,693)
Indonesian Rupee	(58,364)	(78,443)
Saudi Riyal	(217,519,925)	(162,237,579)
	38,904,260	103,974,954

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 CONCENTRATION OF ASSETS

26.1 Concentration of assets by geographical areas at the end of the year is as follows:

31 December 2018	Africa USD	Asia USD	Australia USD	Total USD
Cash and cash equivalents	8,039,932	531,807,274	123,000,000	662,847,206
Commodity placements through financial institutions	23,788,443	91,498,868	-	115,287,311
Sukuk investments	29,649,080	723,598,621	-	753,247,701
Murabaha financing	42,061,999	251,532,683	-	293,594,682
Installment sales financing	357,925,715	151,637,756	-	509,563,471
Ijarah Muntahia Bittamleek (IMB), net	76,815,610	85,344,186	-	162,159,796
Istisna assets	-	22,882,095	-	22,882,095
Equity investments	228,582,686	233,702,239	-	462,284,925
Other assets	20,465,777	68,288,792	-	88,754,569
Property and equipment	-	206,834	-	206,834
	787,329,242	2,160,499,348	123,000,000	3,070,828,590

31 December 2017	Africa USD	Asia USD	Australia USD	Total USD
Cash and cash equivalents	621,278	516,912,645	-	517,533,923
Commodity placements through financial institutions	23,788,443	121,871,210	-	145,659,653
Sukuk investments	19,220,535	614,215,018	-	633,435,553
Murabaha financing	25,838,096	281,310,777	-	307,148,873
Installment sales financing	264,904,523	145,231,078	-	410,135,601
Ijarah Muntahia Bittamleek (IMB), net	40,839,944	100,805,826	-	141,645,770
Istisna Assets	-	18,570,233	-	18,570,233
Equity investments	365,766,809	329,263,573	-	695,030,382
Other assets	12,699,255	118,454,085	-	131,153,340
Property and equipment	-	346,397	-	346,397
	753,678,883	2,246,980,842	-	3,000,659,725

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 CONCENTRATION OF ASSETS (continued)

26.2 Concentration of assets by economic sector at the end of the year is analysed as under:

31 December 2018	Financial services USD	Industry and mining USD	Social service USD	Others USD	Total USD
Cash and cash equivalents	662,847,206	-	-	-	662,847,206
Commodity placements through financial institutions	115,287,311	-	-	-	115,287,311
Sukuk investments	468,358,467	-	284,889,234	-	753,247,701
Murabaha financing	119,441,594	99,179,948	56,732,063	18,241,076	293,594,681
Installment sales financing	504,785,128	4,778,344	-	-	509,563,472
Ijarah Muntahia Bittamleek (IMB), net	-	110,848,684	4,637,926	46,673,186	162,159,796
Istisna assets	-	-	22,882,095	-	22,882,095
Equity investments	333,407,136	63,471,023	8,723,262	56,683,503	462,284,924
Other assets	55,049,088	15,567,559	10,492,662	7,645,261	88,754,570
Property and equipment	206,834	-	-	-	206,834
	2,259,382,764	293,845,558	388,357,242	129,243,026	3,070,828,590

31 December 2017	Financial services USD	Industry and mining USD	Social service USD	Others USD	Total USD
Cash and cash equivalents	517,533,923	-	-	-	517,533,923
Commodity placements through financial institutions	145,659,653	-	-	-	145,659,653
Sukuk investments	534,484,118	-	-	98,951,435	633,435,553
Murabaha financing	138,442,617	112,696,289	33,809,559	22,200,408	307,148,873
Installment sales financing	410,135,601	-	-	-	410,135,601
Ijarah Muntahia Bittamleek (IMB), net	-	119,936,304	6,819,553	14,889,913	141,645,770
Istisna assets	-	-	18,570,233	-	18,570,233
Equity investments	483,556,756	69,867,574	13,255,985	128,350,067	695,030,382
Other assets	42,840,035	66,452,816	5,042,018	16,818,471	131,153,340
Property and equipment	346,397	-	-	-	346,397
	2,272,999,100	368,952,983	77,497,348	281,210,294	3,000,659,725

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES

The contractual maturities of the Corporation's assets and liabilities according to their respective periods to maturity or expected period to cash conversion at the end of the year are as follows:

31 December 2018	Less than 3 months USD	3 to 12 months USD	1 to 5 years USD	Over 5 years USD	No fixed maturity USD	Total USD
Assets						
Cash and cash equivalents	662,847,206	-	-	-	-	662,847,206
Commodity placements	90,287,311	-	25,000,000	-	-	115,287,311
Sukuk investments	162,685,140	145,769,089	444,793,472	-	-	753,247,701
Murabaha financing	69,211,203	40,176,233	110,748,087	73,459,159	-	293,594,682
Installment sales financing	91,631,130	197,602,601	220,329,740	-	-	509,563,471
Ijarah Muntahia Bittamleek, net	64,350,491	548,329	37,128,481	60,132,495	-	162,159,796
Istinaa assets	-	808,239	4,451,025	17,622,831	-	22,882,095
Equity investments	-	-	-	-	462,284,924	462,284,924
Other assets	7,193,844	68,395,869	10,672,525	2,492,332	-	88,754,570
Property and equipment	-	206,834	-	-	-	206,834
	1,148,206,325	453,507,194	853,123,330	153,706,817	462,284,924	3,070,828,590
Liabilities						
Sukuk issued	-	80,000,000	900,000,000	-	-	980,000,000
Commodity Murabaha financing	-	-	1,039,552,869	-	-	1,039,552,869
Accrued and other liabilities	-	31,641,685	-	-	-	31,641,685
Employee pension liabilities	-	-	-	-	14,650,523	14,650,523
Amounts due to ICD Solidarity Fund	993,175	-	-	-	-	993,175
	993,175	111,641,685	1,939,552,869	-	14,650,523	2,066,838,252

31 December 2017	Less than 3 months USD	3 to 12 months USD	1 to 5 years USD	Over 5 years USD	No fixed maturity USD	Total USD
Assets						
Cash and cash equivalents	517,533,923	-	-	-	-	517,533,923
Commodity placements	91,788,443	51,871,210	2,000,000	-	-	145,659,653
Sukuk investments	30,023,100	19,614,000	583,798,453	-	-	633,435,553
Murabaha financing	48,231,509	56,149,016	134,724,994	68,043,354	-	307,148,873
Installment sales financing	58,644,945	132,909,429	218,581,227	-	-	410,135,601
Ijarah Muntahia Bittamleek, net	6,757,418	20,641,619	98,344,847	15,901,886	-	141,645,770
Istinaa assets	-	-	3,032,011	15,538,222	-	18,570,233
Equity investments	-	-	-	-	695,030,382	695,030,382
Other assets	15,854,175	-	115,299,165	-	-	131,153,340
Property and equipment	-	-	-	-	346,397	346,397
	768,833,513	281,185,274	1,155,780,697	99,483,462	695,376,779	3,000,659,725
Liabilities						
Sukuk issued	198,807,157	-	980,000,000	-	-	1,178,807,157
Commodity Murabaha financing	-	-	698,667,929	-	-	698,667,929
Accrued and other liabilities	41,972,776	-	-	-	-	41,972,776
Employee pension liabilities	-	-	-	-	17,664,426	17,664,426
Amounts due to ICD Solidarity Fund	1,039,521	-	-	-	-	1,039,521
	241,819,454	-	1,678,667,929	-	17,664,426	1,938,151,809

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

28 SHARI'AH SUPERVISION

According to Article 29 (1) of the Articles of Agreement of the Corporation, the Corporation shall have a Shari'ah Board. As a member of the IsDB group, the Corporation utilizes the IsDB Group Shari'ah Board. The Board rules on whether all transactions are Shari'ah compliant and considers any questions referred to it by the Board of Directors, the Executive Committee or Management of the Corporation.

29 RISK MANAGEMENT

The Corporation's activities expose it to various risks (credit risk, market risk and liquidity risk) associated with the use of financial instruments. Senior management, under the supervision of the Board, oversees and manages the risks associated with the financial instruments.

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 Corporation is exposed to credit risk in both its financing operations and its treasury activities. Credit risk arises because beneficiaries and treasury counterparties could default on their contractual obligations or the Corporation's financial assets could decline in value.

For all classes of financial assets held by the Corporation, the maximum credit risk exposure is their carrying value as disclosed in the statement of financial position. The assets which subject the Corporation to credit risk principally consist of bank balances, commodity placements through financial institutions, Sukuk investments, Murabaha financing, Installment sales financing, Ijarah Muntahia Bittamleek, Istisna assets and other assets. This risk is mitigated as follows:

Commodity placements through financial institutions and Sukuk investments are managed by the Corporation's treasury department. The Corporation has made placements with financial institutions under the arrangement of Murabaha financing. Adequate due diligence is exercised prior to investments and as at the period end, management considers that there are no material credit risks posed to these investments.

The Corporation evaluates Murabaha financing, installment sales, Ijarah Muntahia Bittamleek and Istisna financing (financing assets). Credit evaluation is performed internally and external expertise is used where required. The Executive Committee of the Board of Directors of the Corporation approves all the financing. Such financing is generally secured against adequate security for financing. Under Ijarah Muntahia Bittamleek contracts, the Corporation is the owner of the related asset which is only transferred to the beneficiary upon payment of all the installments due at the end of the lease term. The net book value of Ijarah Muntahia Bittamleek assets after taking allowance for impairment as disclosed in the statement of financial position was considered fully recoverable by the management of the Corporation.

As of the reporting date, the ageing of the Corporation's financing assets which were overdue and considered for impairment was as follows:

	Murabaha financing USD	Installment sales financing USD	Ijarah Muntahia Bittamleek Receivables USD
0-90 days	1,179,485	610,458	1,583,219
91-180 days	747,946	200,296	637,159
181 days and above	18,796,015	2,472,694	81,631,606
31 December 2018	20,723,446	3,283,448	83,851,984
0-90 days	2,023,333	-	4,766,072
91-180 days	240,000	-	676,148
181 days and above	14,234,525	10,685,763	59,065,357
31 December 2017	16,497,858	10,685,763	64,507,577

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

The following is the aging of the Corporation's financial assets which were past due but were not considered impaired by the management since there was no change in the credit quality of these financial assets:

	Murabaha financing USD	Installment sales financing USD	Ijarah Muntahia Bittamleek Receivables USD
0-90 days	1,162,868	3,442,353	2,275,386
91-180 days	-	85,746	453,535
181 days and above	2,731,643	284,310	2,475,810
31 December 2018	3,894,511	3,812,409	5,204,731
0-90 days	2,974,502	-	1,633,163
91-180 days	5,454,964	-	993,970
181 days and above	890,590	-	28,331,757
31 December 2017	9,320,056	-	30,958,890

The not yet due portion of above overdue receivables as at 31 December 2018 amounts to USD 93.2 million (31 December 2017: USD 39.3 million).

In addition to above financing assets, certain other assets included overdue balances and an appropriate allowance has been recorded against them.

The Corporation obtains adequate guarantees and employs other methods of credit enhancements that will protect the value of its investments. Guarantees and securities obtained by the Corporation include bank guarantees, corporate guarantees, pledge of assets, possession of title to the property being financed, etc. In general, the value of guarantees or other credit enhancements held by the Corporation against these assets as of the reporting date were considered adequate to cover the outstanding exposures. Where the Corporation's management and its provisioning committee assessed that value of the receivable may not be fully recovered, an appropriate impairment is recorded. The policy of the Corporation in respect of securities and guarantees for term finance operations is that the sum of the securities package will be equal to or greater than 125% of the value of the assets financed.

Market Risk

The Corporation is exposed to market risk through its use of financial instruments and specifically to currency risks, mark up rate risk and equity price 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 entity does not hedge its currency exposure by means of hedging instruments.

The Corporation is exposed to currency risk as a portion of its liquid fund portfolio and some of the equity investments are in currencies other than US Dollars; the reporting currency of the Corporation. The Corporation has minimized its exposure to currency risk on liquid funds by ensuring that all liquid funds transactions are in US Dollars or currencies pegged to US Dollar. For monetary assets and liabilities foreign currency risk is managed through the alignment of the foreign currency denominated assets and liabilities.

The Corporation is exposed to market risks arising from adverse changes in foreign exchange for Sukuk transaction that is denominated in foreign currency. The Corporation manages these risks through a variety of strategies, including foreign currency forward contract.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

29 RISK MANAGEMENT (continued)

Mark-up rate risk

Mark-up rate risk arises from the possibility that changes in mark-up rates will affect the value of the financial instruments (fair value mark-up rate risk) or the future cash flows (cash flow mark-up rate risk) and the resultant reported incomes or losses. The Corporation is exposed to changes in mark-up rates mainly on its placements, Sukuk investments, Murabaha, Installment Sales, Ijarah Muntahia Bittamleek, Istasnaa financing, Sukuk issued and Commodity Murabaha financing due to changes in the mark-up rates prevailing in the markets.

In order to manage cash flow mark-up rate risk, the Board approved Asset and Liability Management policy which requires that the Corporation follow the matched-funding principle in managing its assets and liabilities as well as profit rate swaps. Thus, the Corporation ensures that the mark-up rate basis and currencies of all debt-funded assets match those of the underlying liabilities. Such approach ensures that the Corporation's investment income spread remains largely constant regardless of mark-up rate and exchange rate movements.

Majority of the Corporation's financial assets and liabilities are of short-term nature. However, certain financing products, Sukuk investments and Sukuk issued are with fixed rate and of long term nature and exposes the Corporation to fair value mark-up rate risk. Management, periodically, assess the applicable market rates and assess the carrying value of these financing products.

As of the statement of financial position date, management believe that an estimated shift of 25 basis points in the market mark-up rates would not materially exposed the Corporation to cash flow or fair value mark-up rate risk.

Price risk

The Corporation is exposed to equity price risk on its investments held at fair value. The Corporation has only two investments which are listed and, accordingly, the Corporation is not materially exposed to significant price risk.

Liquidity risk

Liquidity risk is the non-availability of sufficient funds to meet disbursements and other financial commitments as they fall due.

To guard against this risk, the Corporation follows a conservative approach by maintaining high liquidity levels invested in cash and cash equivalents, commodity placements through financial institutions and Murabaha financing with short-term maturity of three to twelve months. Please see note 27 for the maturity schedule of the assets.

30 FAIR VALUE

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Fair valuation with respect to investments, is disclosed in note 11.

All of the Corporations' Islamic derivatives are unquoted. Their fair values are estimated using a valuation technique and, accordingly, are level 3.

The carrying value of the Corporation's all other financial assets and liabilities approximate their fair values.

31 COMMITMENTS

At December 31, 2018, the un-disbursed commitments for investing in operations and other investments amounted to USD 248.36 million (2017: USD 253.6 million).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

32 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Financial Accounting Standard – 30 “Impairment and credit losses”

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

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

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

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

This standard shall be effective from the financial periods beginning on or after 1 January 2019. Early adoption is permitted.

Financial Accounting Standard – 29 “Sukuk Issuances”

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

This standard shall be effective from the financial periods beginning on or after 1 January 2019.

Financial Accounting Standard – 31 “Investment Agency (Al-Wakala Bi Al-Istithmar)”

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

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

Financial Accounting Standard – 33 “Investment in Sukuk, shares and similar instruments”

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

32 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Financial Accounting Standard – 34 “Financial reporting for Sukuk-holders”

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

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

Financial Accounting Standard – 35 “Risk Reserves”

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

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

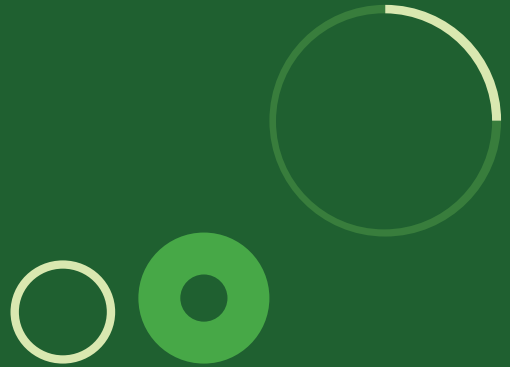
This standard shall be applicable on the financial statements of the Bank for the periods beginning on or after 1 January 2021. Early adoption is permitted, only if the IFI decided to early adopt FAS 30 “Impairment, Credit Losses and Onerous Commitments”.

33 COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period. These reclassifications are disclosed in the respective notes.

34 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 25 February 2019 (corresponding to 20 Jumada II 1440H).



ICD ANNUAL REPORT

© Islamic Corporation for the Development of the Private Sector

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the ICD (the copyright holder). Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature. Applications for such permission should be addressed to icd@isdb.org

Designed and produced by Phoenix Design Aid A/S (phoenixdesignaid.com) and the ICD.



**Islamic Corporation for
the Development of
the Private Sector**

PO Box 54069,
Jeddah 21514
Kingdom of Saudi Arabia

Tel: +966 12 644 1644
Fax: +966 12 644 4427
Email: icd@isdb.org



www.icd-ps.org

[in](#) [t](#) [f](#) [ig](#) [yt](#) [icd_ps](#)