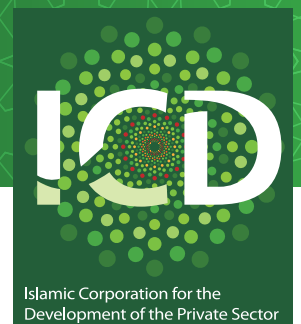




Annual Report

1436H - 2015

enabling enterprise, building prosperity



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Corporate profile of the Islamic Corporation for the Development of the Private Sector

About ICD

The Islamic Corporation for the Development of the Private Sector (“ICD”) is a multilateral development financial institution and is part of the Islamic Development Bank (“IDB”) Group.

Vision

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

Mission

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

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.

Membership

ICD fosters sustainable economic growth in its 52 member countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to business and governments. ICD financing projects are selected on the basis of their contribution to economic development considering factors such as job creation, Islamic finance development, contribution to exports etc. ICD also provides advisory services to governments and private sector groups on policies designed to encourage the establishment, expansion and modernization of private enterprises, development of capital markets, best management practices and to enhance the role of the market economy. ICD operates to complement the activities of the IDB in member countries and also that of national financial institutions.

Capital

ICD has an authorized capital of \$4 billion. Currently, the shareholders of ICD are the IDB, 52 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.

Head Office and Regional Offices

Headquartered in Jeddah, the Kingdom of Saudi Arabia, the ICD has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and in Dakar, Senegal.

Financial Year

The ICD’s financial year is the lunar Hijra Year (H).

Language

The official language of ICD is Arabic, but English and French are used additionally as working languages.



Annual Report

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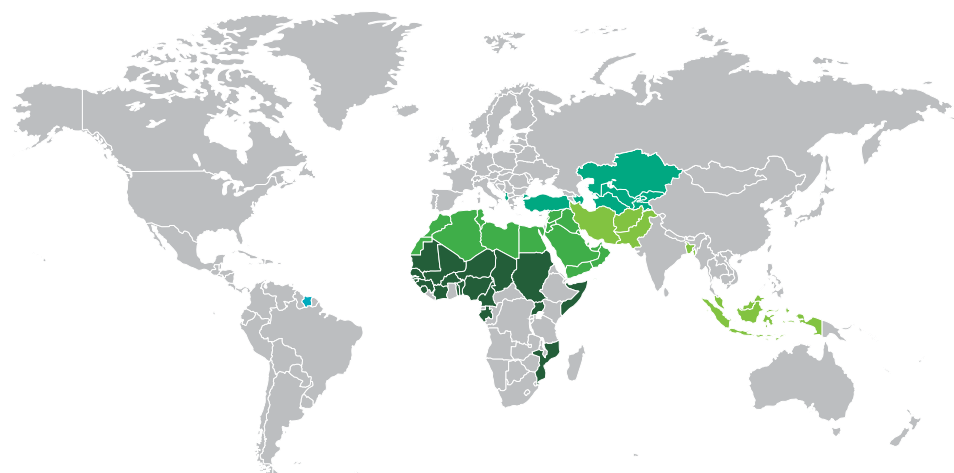
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Member Countries as of 30 Dhul Hijjah, 1436H

 Albania	 Egypt	 Libya	 Senegal
 Algeria	 Gabon	 Malaysia	 Sierra Leone
 Azerbaijan	 Gambia	 Maldives	 Sudan
 Bahrain	 Guinea	 Mali	 Suriname
 Bangladesh	 Guinea Bissau	 Mauritania	 Syria
 Benin	 Indonesia	 Morocco	 Tajikistan
 Brunei	 Iran	 Mozambique	 Tunisia
 Burkina Faso	 Iraq	 Niger	 Turkey
 Cameroon	 Jordan	 Nigeria	 Turkmenistan
 Chad	 Kazakhstan	 Pakistan	 UAE
 Comoros	 Kuwait	 Palestine	 Uganda
 Côte d'Ivoire	 Kyrgyzstan	 Qatar	 Uzbekistan
 Djibouti	 Lebanon	 Saudi Arabia	 Yemen



Letter of the Board of Directors to 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 Sixteenth Annual Report of ICD for the fiscal year covering the period 01/01/1436H - 30/12/1436H (25/10/2014 - 13/10/2015).

This Report contains an overview of ICD operations in the year 1436H, including its different interventions, development impact and financial analysis. ICD will, Insha Allah, pursue all efforts to meet the aspirations of its shareholders.

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

Dr. Ahmad Mohamed Ali
Chairman, Board of Directors

Message from the CEO



In the name of Allah, the Beneficent, the Merciful

I am very pleased to present the 1436H Annual Report that expresses yet another prosperous year for the ICD.

The global community recently embarked on a new set of collective actions – the Sustainable Development Goals – to address a wide spectrum of challenges that hinder growth and prosperity in the world. Needless to say, boosting the private sector and building vibrant partnerships are vital prerequisites for the successful accomplishment of these developmental goals in the post-2015 era. Our experience over the past sixteen years confirms that a dynamic private sector with fully utilized capacity can bring infinite opportunities pertaining to value creation for sustainable development.

ICD member countries developmental needs are immense, particularly through the prism of our very limited resources. Nevertheless, the ICD footprint has progressively gained ground in Member Countries, despite all our operational limitations and challenges. Today, gross cumulative ICD approvals stand at US\$ 4.04 billion, whilst gross cumulative disbursements total US\$ 1.96 billion.

Despite the challenging economic, social and political environment, ICD made remarkable progress in implementing its ambitious business plan in 1436H. During this year, ICD approved US\$ 686 million worth of financing; disbursed US\$ 288 million, with a disbursement/approval ratio of 42 percent.

The Corporation chalked up remarkable achievements in 1436H, creating financial channels in Member Countries, and thereby increasing its financial sector portfolio to over 50 percent of the total. More specifically, ICD Line of Financing (LOF) and institutional equity project approvals amounted to US\$ 379 million, exceeding the annual target. Additionally, disbursements to financial institutions rose to US\$ 163 million in 1436H.

US\$ 192.4 million worth of financing was approved in the real sector, and US\$ 46.4 million disbursed. Additionally, new project approvals were, in the main, allocated towards high-impact sectors: agribusiness, energy, industrial and infrastructure.

Asset Management continued to be an important tool for ICD in delivering its developmental mandate in 1436H. Within the framework of the ICD business plan and new strategy, these Asset Management activities gathered further momentum this year with US\$ 115 million approved and US\$ 79 million disbursed. Total asset volume under ICD manage-

“ Despite the challenging economic, social and political environment, ICD made remarkable progress in implementing its ambitious business plan in 1436H ”

ment surged to US\$ 736 million. In addition, last year, ICD restructured advisory services into a stand-alone department that, through the signing of 13 new mandates, offers a robust pipeline to support ICD's activities in the years ahead.

Sectoral as well as regional ICD project distribution was also in compliance with its new strategic direction. In 1436H, more than half (55 percent) of new ICD project approvals were allocated to the financial sector. Additionally, the majority of new ICD project approvals in the corporate sector were concentrated in high-impact sectors such as infrastructure, energy, and agriculture.

In terms of regional distribution, around 27 percent of ICD approvals during 1436H was allocated to the Middle East & North Africa, 22 percent to Sub-Saharan Africa, followed by Regional Projects (20 percent), Europe & Central Asia (18 percent), and Asia (13 percent).

Another major milestone for ICD in 1436H was the approval of its second general capital increase. It was at its 15th meeting that the ICD General Assembly approved the second increase in the Corporation's authorized capital from US\$ 2 billion to US\$ 4 billion, releasing capital available for subscription from US\$ 1 billion to US\$ 2 billion. The Corporation, through this capital increase, will be in a better position to respond to Member Country challenges in accessing finance in the aftermath of global financial uncertainties. In addition, Corporation resources will be directed toward achieving its strategic targets over the next three years, in consonance with its 1445H Vision.

Another remarkable ICD achievement in 1436H was a rating of Aa3/P-1 by Moody's. Ratings by the major international rating agencies are in-

strumental for ICD fund raising initiatives that, in turn, will underpin its strategy of accelerated growth.

These accomplishments would have not been possible without close supervision and guidance from the Chairman of the Board, the Board itself, and the devotion of ICD staff. Therefore, I thank all members of the Board and management, the professional team at ICD, as well as our partners and clients, for their incredible support and collaboration.

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.

Khaled Mohammed Al-Aboodi
CEO & General Manager

1436H Financial and Operational Highlights (US\$ 000's)

Statement of Income

Total Income	Total Operating Expenses	Net Income
97,741	77,230	20,511
1435H: 110,677 1434H: 87,063	1435H: 84,417 1434H: 62,813	1435H: 26,260 1434H: 24,250

Operational Highlights

Approvals	Disbursements
686,546	289,512
1435H: 503,419 1434H: 423,507	1435H: 360,096 1434H: 301,341

Balance Sheet

Liquid Assets	Net Operating Assets	Other Assets
436,495	1,121,765	152,032
1435H: 335,636 1434H: 207,105	1435H: 1,036,638 1434H: 873,588	1435H: 148,688 1434H: 136,755
Total Assets	Borrowing & Long Term Debt	Equity
1,710,292	683,553	1,015,857
1435H: 1,520,962 1434H: 1,217,448	1435H: 509,666 1434H: 208,207	1435H: 968,914 1434H: 893,462

Ratios

Return on Average Assets	Return on Average Equity	Debt to Equity
1.27%	2.07%	67.29%
1435H: 1.92% 1434H: 2.20%	1435H: 2.82% 1434H: 2.92%	1435H: 52.60% 1434H: 23.30%
Equity to Assets	Liquidity to Total Assets	
59.40%	25.52%	
1435H: 63.70% 1434H: 73.39%	1435H: 22.07% 1434H: 17.01%	

Chapter One

Operational Highlights



\$4.04B
accumulated gross approvals
since inception

From its inception, Member Country needs were key determinants for the ICD in formulating the corporation's priorities and business model. Over time, ICD embarked upon a series of transformations to make the institution more responsive and relevant in each Member Country.

Debuting with traditional Islamic finance products and services, ICD dramatically enhanced its range to promote this niche market in all member countries. The scope of product offerings was significantly expanded and the institution now stands in a unique position among other IFIs.

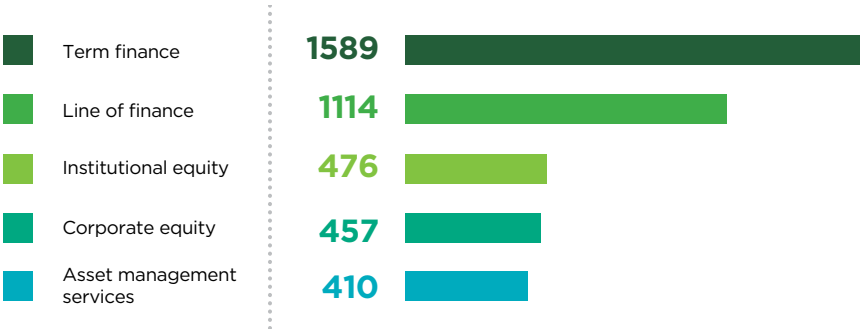
\$1.96B
disbursed since inception

\$686.5M
approved for 34 investing &
financing projects
in 1436H

1.1 Since Inception

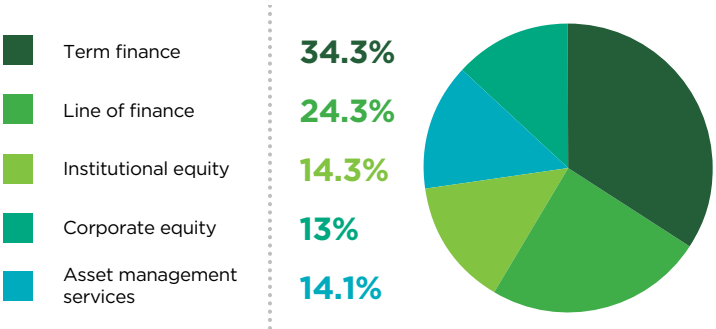
Since inception, accumulated gross ICD approvals have amounted to US\$ 4.04 billion, allocated to 311 projects. Cumulative gross ICD approvals by modes of finance include 176 projects in Term Finance - US\$ 1,588.8 million, 52 projects in Line of Finance (LOF) - US\$ 1,113.7 million, 42 projects in Institutional Equity (IE) - US\$ 475.6 million, 30 projects in Corporate Equity (CE) - US\$ 456.6 million, and 11 projects in Asset Management Services (AMS) - US\$ 409.6 million. By end 1436H, 66.8 percent of approvals were allocated to credit financing (Term Finance plus Line of Finance), followed by 23.1 percent in equity participation (Institutional Equity and Corporate Equity), and the remaining 10.1 percent being in Asset Management Services.

Figure 1: Breakdown of total approvals by product since inception (US\$ million)



In terms of disbursement, ICD totals US\$ 1.96 billion worth of investments. Disbursements vary according to modes of finance, with Term Finance and Line of Finance (LOF) projects taking the largest share: 58.6 percent. Institutional Equity operations accounted for 14.3 percent, followed by Asset Management Services and Corporate Equity at 14.1 and 13 percent, respectively.

Figure 2: Breakdown of total disbursement by products since inception



66.8%
of approvals were
allocated to credit
financing

176 projects
approvals in Term
Finance

52 projects
approvals in Line of
Finance

US\$1.96 billion
Gross ICD
disbursement

58.6%
of the disbursements
were taken by Term
Finance and Line
of Finance (LOF)
projects

US\$1.96 billion
cumulative approvals
for the Financial
sector

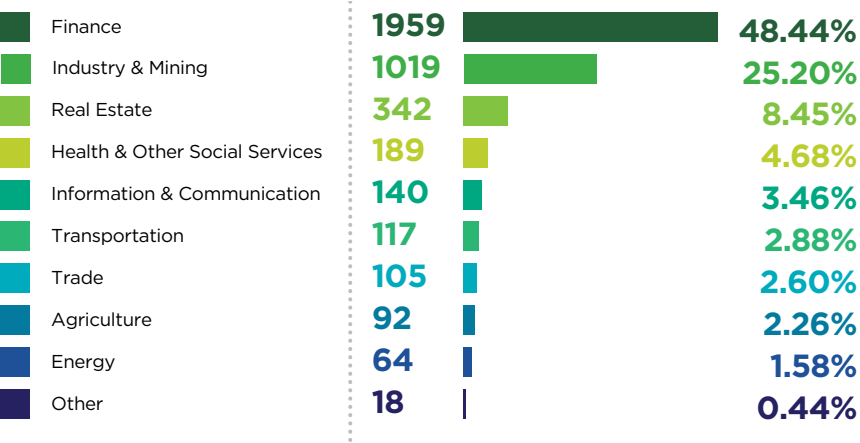
US\$1.02 billion
cumulative approvals
for the Industry &
mining sector

37%
gross approvals for
Middle East and
North Africa region

20%
gross approvals for
Eastern Europe and
Central Asia

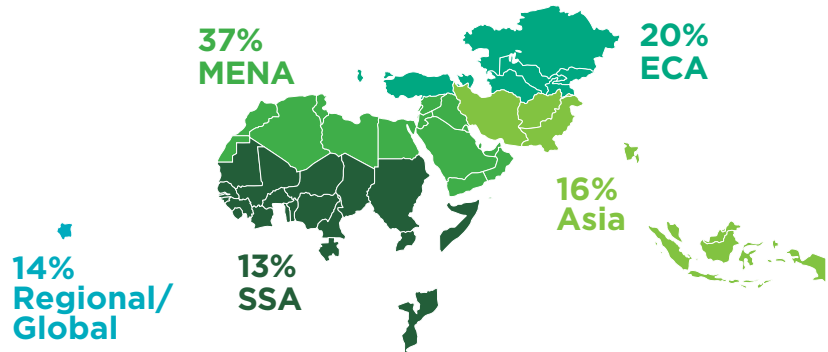
Sector-wise, cumulative ICD approvals spread over a number of industries, ranging inter alia from financial to infrastructure, agriculture, oil & gas, and manufacturing. As a priority sector, the financial industry accounted for the largest share, representing 48.4 percent of gross approvals since inception. The industrial and mining sector takes up the second largest share (25 percent), with a gross approved amount of US\$ 1,018.9 million. This is followed by real estate, health and other social services, information & communication, and transportation, accounting for 19.5 percent of total approvals. The remaining US\$ 278.4 million, representing 6.9 percent of cumulative approvals, is allocated to 5 different corporate sectors, as shown in Figure 3.

Figure 3: Breakdown of total approvals by sector since inception (US\$ million)



Regarding geographic distribution, ICD approvals also reflect an emphasis on diversity. Between 1421H and 1436H, ICD investment operations expanded to 42 Member Countries, in addition to a number of regional projects that cover several economies. The Middle East and North Africa (MENA) region accounts for the bulk of cumulative ICD approvals, representing 37 percent of gross approvals. Regions such as Eastern Europe and Central Asia (20 percent), Asia and Pacific (16 percent), and Sub-Saharan Africa (13 percent) follow accordingly. The share of regional/global projects covering several countries was 14 percent of gross approvals.

Figure 4: Breakdown of total approvals by region since inception



1.2 Shift of Strategic Focus

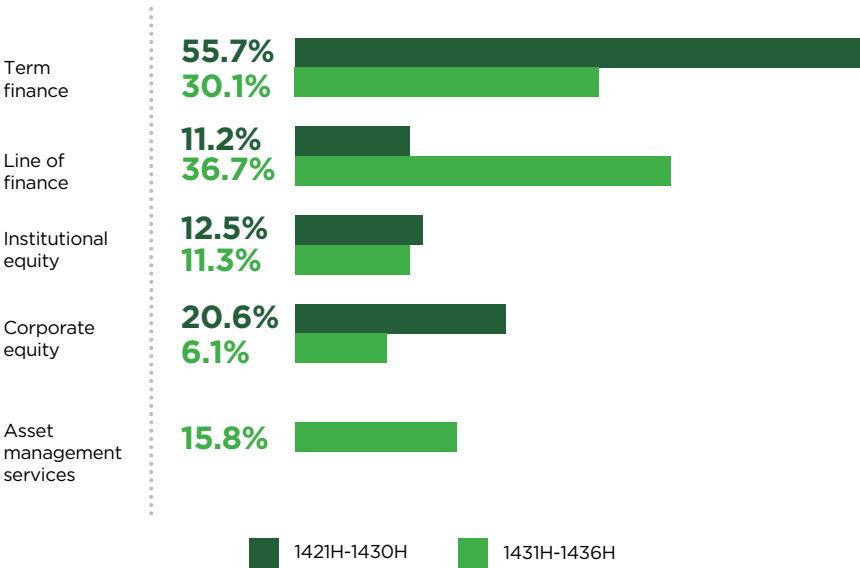
ICD has been on a transformational journey since its establishment 16 years ago. Starting with a limited number of products, services and countries of operation, ICD has gradually become the Islamic private sector development institution of reference. ICD operational evolution has taken on a very holistic trend whereby each and every part of its business has gone through significant transformation. The journey took on even greater visibility when ICD embarked on its strategic roadmap in 1431H. The ICD 10-year strategy approved and commenced in 1436H, further confirms the direction taken.

The ICD strategic framework centers on three transformational facets: i) Product and services, ii) Sector focus and iii) Regional diversification.

1. Products and services in focus

Since its establishment in 1421H, ICD significantly increased its product offering, from three (Term Finance, Corporate Equity, and Institutional Equity) to six products and services. Thus, in addition to Line of Finance product, asset management and advisory services were added to ICD offerings. As a result, ICD has shifted its focus more towards credit financing (Term Finance and LOF) and fee-based business (Asset Management and Advisory Services). In addition, and in line with the designed strategy, LOF has become a primary ICD product with almost zero default and has served its objectives of promoting Islamic finance while reaching to SMEs in Member Countries.

Figure 5: Comparison of total approvals breakdown by product



ICD has gradually become the Islamic private sector development institution of reference

ICD has shifted its focus more towards credit financing and fee-based business

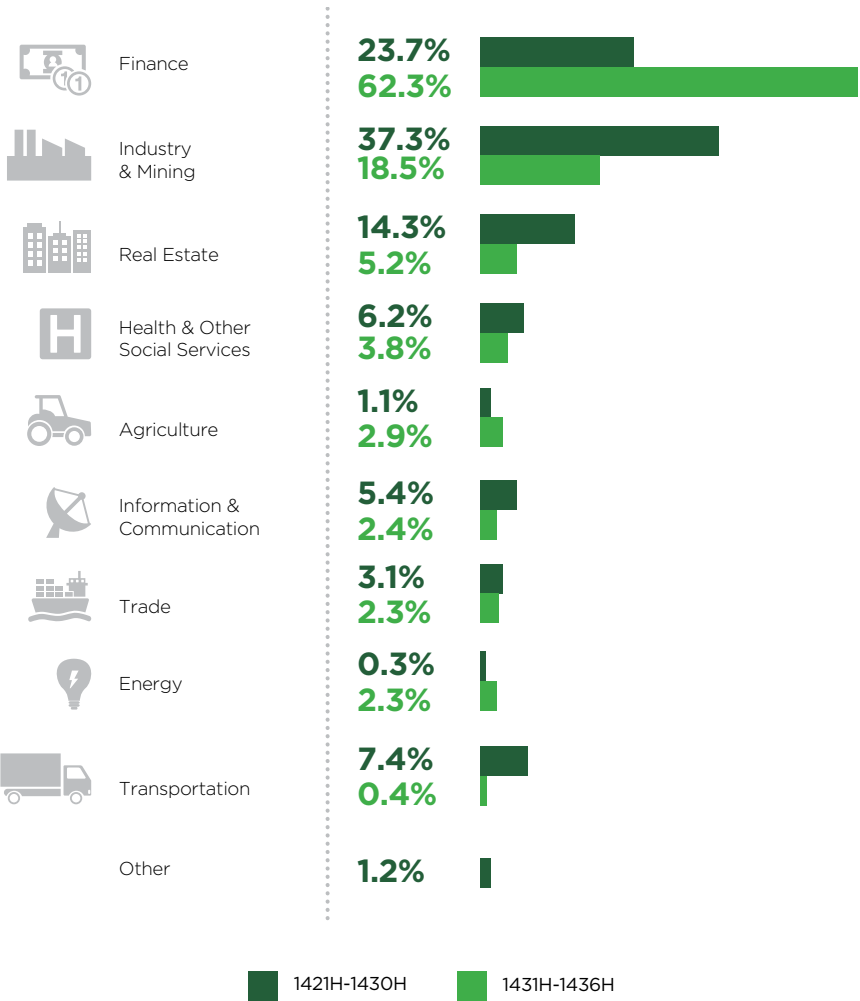
ICD products and services have been diversified from three to six

2. Sectors in focus

The financial industry has become both the leading and the focus sector since it offers the highest multiplier effect for economic development in Member Countries. In the first 10 years of ICD operations, 23.7 percent of total approvals were in the financial sector, increasing significantly to 62.3 percent of approvals between 1431H and 1436H (Figure 6). Total financial sector approvals during 1431H-1436H grew more than fourfold compared to the first decade of ICD operations. In the real sector, industry and mining was the major focus for ICD, with total approvals of USD 478.8 million during 1431H-1436H. Agriculture, another high-impact sector, has also remained a critical industry for ICD corporate sector operations.

US\$ 1.61 billion
allocated to the
Financial sector
during 1431H-1436H

Figure 6: Comparison of total approvals breakdown by sectors



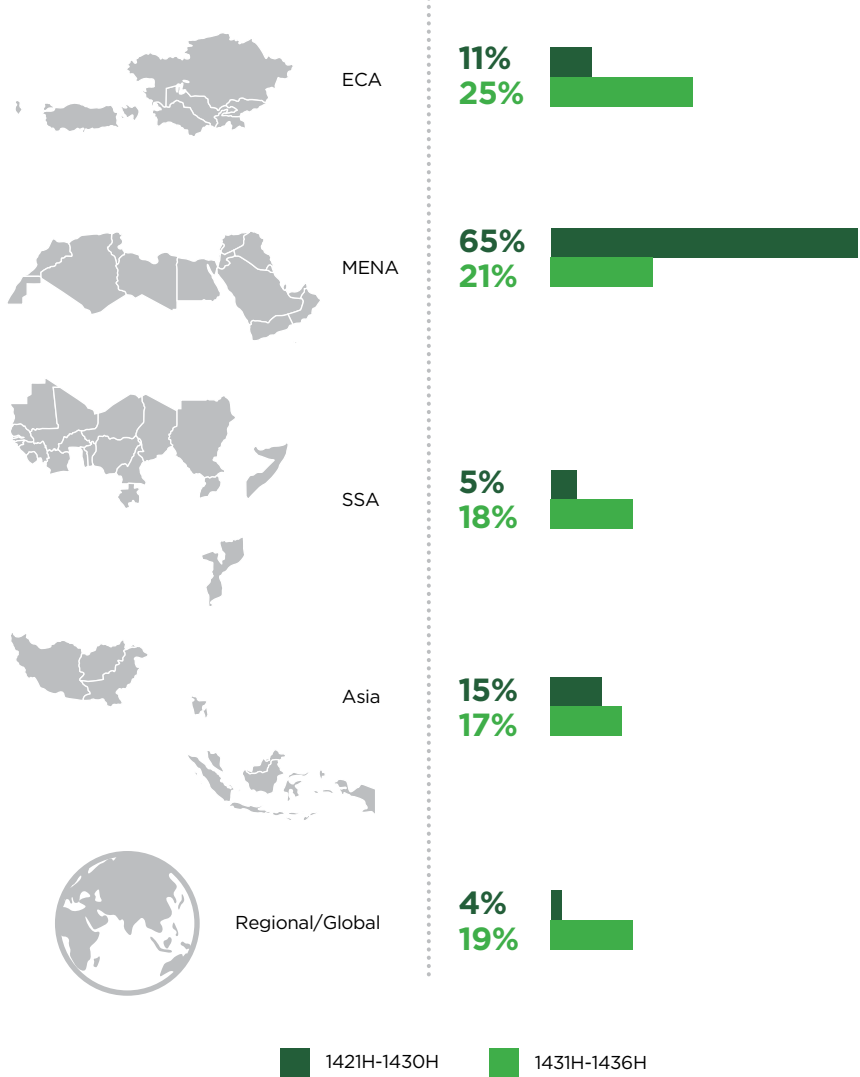
18.5% approvals
allocated to the
Industry & mining
sector during
1431H-1436H

3. Regional diversification

In line with the diversified developmental needs of its Member Countries, ICD expanded its products and services to all regions of its Member Countries, particularly those with higher development needs. From ICD's establishment until 1430H, 65 percent of total approvals went to the Middle East and North Africa (MENA) region, whilst other regions took less of a share. With the introduction of the new ICD strategy and the shift in focus to less developed regions, a more balanced regional distribution was achieved during 1431H-1436H. As shown in Figure 7, the share of the MENA region decreased from 65.4 percent to 21 percent, while the share of other regions increased substantially. For example, the SSA regional share increased from 5 percent to 18 percent.

Guided by higher development needs, ICD expanded its products and services to all regions of its operations

Figure 7: Comparison of total approvals breakdown by regions



A more balanced regional distribution of investments was achieved during 1431H-1436H

ICD's new strategy focused on less developed regions

25% approvals
were allocated to the
Eastern Europe &
Central Asia region
after 1430H

US\$686.5 million approvals for 34 new projects in 1436H

50% approvals were allocated to Line of Finance

US\$ 289.5 million disbursed in 1436H

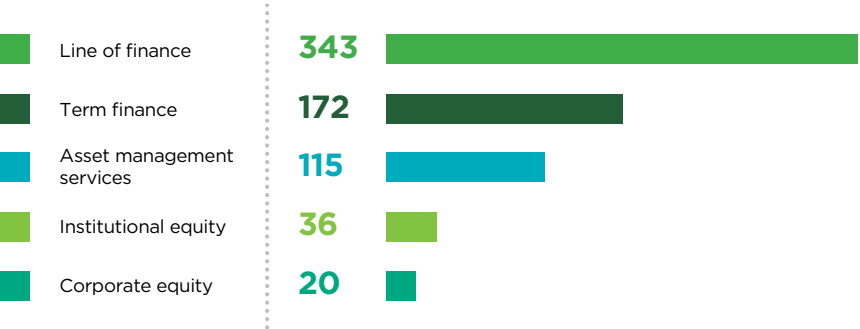
US\$ 134.1 million disbursement allocated to LOF

1.3 Operations in 1436H

Despite sluggish growth in the world economy, declining commodity prices, and persistence of uncertainties in 1436H, ICD approved 34 investment and financing projects totaling US\$ 686.5 million. These projects will add value to the economic and social development of Member Countries by creating new jobs, facilitating technology transfer and cross-border investments.

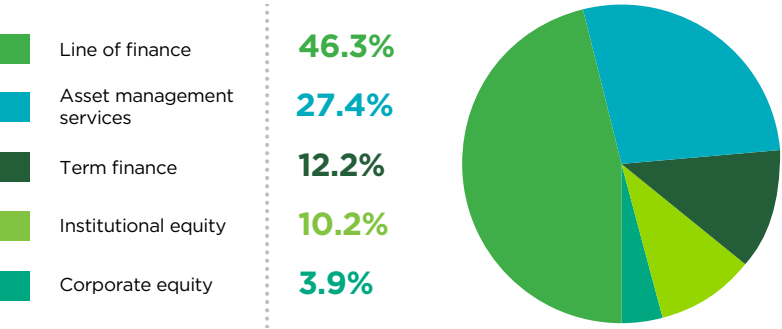
LOF made up the bulk of ICD approvals, representing 50 percent of the total. Term Finance was the second largest mode of finance, accounting for 25 percent of ICD 1436H approvals, followed by Asset Management products - 17 percent, Institutional Equity - 5 percent, and Corporate Equity - 3 percent. Apart from investment and financing projects, ICD also received 13 advisory mandates from various stakeholders in Member Countries.

Figure 8: Breakdown of total approvals by product in 1436H (US\$ million)



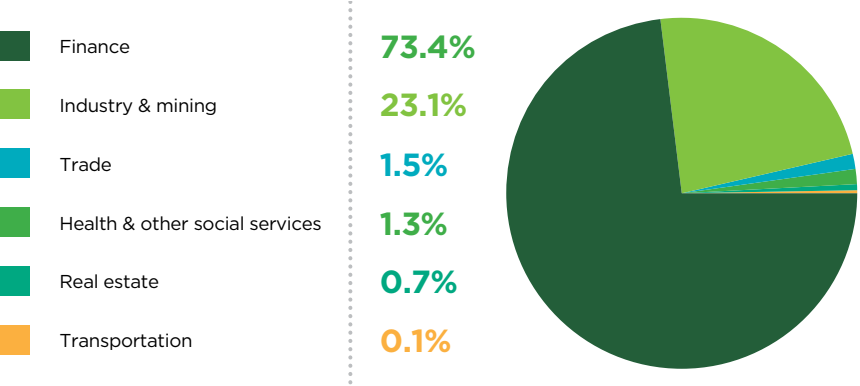
In terms of disbursements, ICD succeeded in disbursing US\$ 289.5 million. The largest disbursement allocation over the past year went to LOF, amounting to US\$ 134.1 million, or 46 percent of the total. Asset Management products accounted for 27.4 percent of total disbursements, followed by Term Finance - 12 percent, Institutional Equity - 10 percent, and Corporate Equity - 4 percent.

Figure 9: Breakdown of total disbursements by product in 1436H



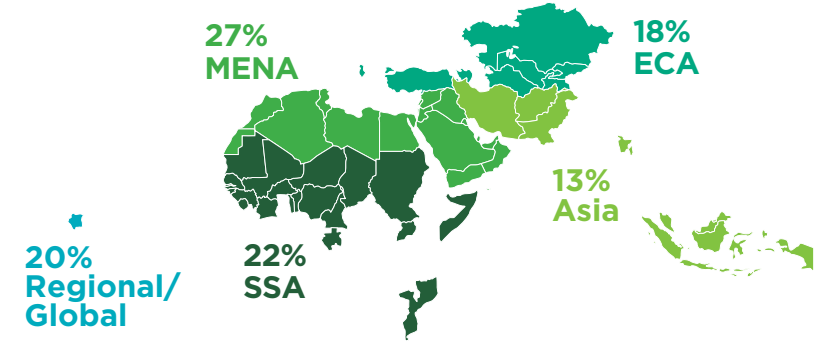
The distribution of ICD's 1436H approvals across various sectors reflected the Corporation's adherence to a policy focus on the financial sector. The latter sector accounted for the largest share, amounting to US\$ 504 million: 73 percent of total approvals. The industry and mining sector accounted for the second highest allocation, totaling US\$ 158.6 million and 23 percent of the year's approvals. This was followed by other sectors with a total of 4 percent.

Figure 10: Breakdown of total approvals by sectors in 1436H



In 1436H, ICD continued rebalancing the geographical allocation of its investment commitments. From this geographical perspective, distributive allocation of ICD resources was based on a number of factors including, Member Country developmental needs, creditworthiness and ICD strategic priorities. As a consequence, the highest amount of 1436H approvals was allocated to the MENA region, accounting for 27 percent of total approvals. The SSA region came next (22 percent), followed by global and regional projects (20 percent), the ECA region (18 percent) and the Asia region, at 13 percent.

Figure 11: Breakdown of total approvals by region in 1436H



US\$ 504 million of approvals or 73% were allocated to the Financial sector

ICD continued rebalancing the geographical allocation of its investment

Member Country developmental needs, creditworthiness and ICD strategic priorities were guiding principles of regional allocation

Middle East and North Africa & Sub-Saharan Africa regions represented the highest amount of 1436H approvals

Chapter Two

1436H Operations in Focus



In line with its strategic direction and to reinforce its growth potential, ICD focused on the financial sector and diversified regional exposure. As a result, total financial sector investments over the past five years of operations grew more than fourfold compared to the first decade of ICD operations, accompanied by more balanced regional distribution during the same period. The ICD 3-year business plan and 10-year strategy were imperative to maximise resource utilisation in terms of sectoral as well as regional diversification.

With a clear goal and innovative business approaches, ICD continued to provide new dimensions and customized mechanisms in its business operations last year. This allowed ICD to widen the scope of benefits accruing to a greater number of member countries and private sector actors.



\$343.2M

approved for 10 Line of Finance projects in 1436H



\$192M

approved for 17 Corporate sector projects in 1436H



\$114.5M

Approved for three funds in 1436H

2.1 Investing in Financial Institutions

In line with its corporate strategy, ICD has made it a priority to increase the availability and affordability of Islamic finance products for a wide range of financial institutions in Member Countries. Extending Line of Finance (LOF) to financial institutions, and investing in various types of financial institutional equity for the ultimate benefit of local real sector businesses, have proven to be critical tools for ICD in boosting the private sector and combating poverty in Member Countries.

In 1436H, total ICD approvals and disbursements were dominated by LOF, as a major Islamic financing tool with the objective of benefiting Small and Medium-size Enterprises (SMEs). Last year, the LOF contribution stood at 50 percent of total approvals and 46 percent of total disbursements of the Corporation. On annual basis, LOF approvals increased by 50 percent.

Last year, ICD approved 10 LOF projects, with a gross value exceeding US\$ 343.2 million, in total. These approvals include one regional project (Sub-Saharan Africa) and 9 country-level facilities, namely in Bangladesh, Mozambique, Uganda, Chad, Cameroon, Azerbaijan, Turkey, Kazakhstan, and Bahrain, with approval values averaging US\$ 34.3 million. The US\$ 70 Million Global Line of Financing (GLOF) to Turkey was one of the biggest LOF approvals in year 1436H.

To increase the availability and affordability of Islamic finance products were ICD's priority

LOF was dominated in ICD's approvals and disbursements in 1436H

50% increase in Line of Finance approvals in one year

Box 1: ICD extends a Global Line of Financing (GLOF) in Turkey



In 1436H, ICD approved a US\$ 70 million GLOF for financial institutions operating in Turkey. ICD selected the top two operational leasing companies - Intercity and Derindere - as beneficiaries of the Global Line.

Established in 1991, Intercity is the market leader and the largest operational leasing company in Turkey in terms of number of vehicles. Intercity represents 14 percent of market share and over 33,000 vehicles under management. ICD's Global Line is expected to increase the share of SMEs in Intercity's portfolio from 21 percent to 27 percent by financing more than 1,400 vehicles for close to 300 SMEs throughout Turkey.

Derindere is the second largest leasing company of the country in terms of operations. With an estimated 23,000 cars under management, Derindere represents some 9 percent market share. Derindere was established with only 18 cars back in 1981. Today, the company serves 3,750 corporate clients throughout Turkey, of which 40 percent are SMEs and the rest are top tier corporates and multinational companies. The company is

aiming to attain a fleet size of 50,000 vehicles and total assets of US\$ 1.25 billion in the next 5 years. The ICD Line is expected to finance more than 1,300 cars for an estimated 270 SMEs and increase the share of SMEs in Derindere's portfolio to 45 percent.

US\$ 50 million
approved GLOF
facility extended to
Bahrain

This year, ICD also approved a US\$ 50 million GLOF facility extended to selected financial institutions in Bahrain to support a wide range of private sector entities. This, in turn, will assist in diversifying the Bahraini economy and promoting Islamic Finance. ICD has also applied a similar approach to other Member Countries that require development finance assistance by approving GLOF. These projects include: Cameroon – US\$ 45 million; Uganda – US\$ 40 million; Mozambique – US\$ 30 million; Chad – US\$ 28 million; and, Bangladesh – US\$ 20 million.

In addition to GLOF, ICD also extended a number of lines of finance to selected banks and financial institutions in 1436H, including KazAgro Finance in Kazakhstan and Unibank in Azerbaijan. With the help of domestic financial institutions, these approved projects aim to fund capital equipment to fuel SME business growth.

Box 2: ICD approves an LOF facility for KazAgro Finance Company in Kazakhstan



Established in 1999 as a government-owned company, the primary objective of the KazAgro Finance Joint Stock Company (KAF) is to support national agricultural sector development.

Major company offerings were financial leasing, commercial loans and financial services to farmers and private enterprises for machinery and technological equipment. As the Kazakh government agent, KAF also participates in implementing the public budget and other government-run programs aimed at the agricultural sector development.

With 70 percent of its assets in leasing operations, the Company stepped up resource mobilization efforts towards meeting its operational objectives. Thus, in response to increasing demand for agricultural finance the Company organized a US\$ 100 million local currency bond issuance. The Company also approached ICD for its private sector operations and, last year, in order to assist the KAF in financing SME private sector projects through Murabaha and/or leasing, ICD approved a US\$ 25 million LOF facility with a 5-year tenure.

During 1436H, ICD also approved 4 new investments as equity participation in financial institutions in Brunei, Egypt, Saudi Arabia and Tunisia, for a total of US\$ 36.3 million.

In 1436H, together with the Arab Investment Bank (AIB) of Egypt, ICD established Enmaa Ijara Company to provide Shariah-compliant financial leasing to private companies, with a special focus on SMEs. The project is in line with the new ICD strategy of shifting its primary focus to developing Islamic Financial Channels in each of its Member Countries. The target is to establish a portfolio of 20 Ijarah companies by 1440H. ICD also approved equity investment in El Wifack Leasing Company in Tunisia, in 1436H. ICD is restructuring the company into a full-fledged Islamic bank.

Last year, ICD also successfully completed due diligence for its first investment operation in Brunei and obtained approval for a new Ijara company. Due to the dearth of national players in the leasing sector, ICD is partnering with Tabung Amanah Islam Brunei (TAIB) to establish TAIB Tijari Bhd. – to provide leasing solutions to private companies with a special focus on the MSME and retail sectors. With paid-in-capital of BN\$ 25 million (equivalent to US\$ 19 million), the leasing services to be offered by the company will extend to leasing facilities for passenger cars, production equipment and machinery for MSMEs in the country.

ICD is restructuring
a Tunisian company
into a full-fledged
Islamic bank

ICD successfully
completed due
diligence for its first
investment operation
in Brunei

Box 3: ICD establishes Wifack International Bank in Tunisia



Established in 2002 and headquartered in Médenine, Tunisia, El-Wifack Leasing Company (EWLC) currently operates out of 7 branches, and offers financing products for SMEs. It has been listed on the Tunisian Stock Exchange since 2005.

Due to high demand for Islamic products and perspectives for growth in Islamic banking in the different regions, ICD assigned a team of advisors to lead the conversion of El-Wifack Leasing into a full-fledged Islamic Bank.

Upon completing its advisory mandate, ICD also agreed to participate in the capital of a newly licensed Islamic bank in Tunisia: Wifack International Bank (WIB).

EWLC has received a license for conversion to Islamic principles prior to commissioning banking operations. The banking license was awarded by the Ministry of Finance and the Central Bank of Tunisia on 8 October 2014, with an initial paid-up capital of TND 150.0 million (equivalent to US\$ 81.5 million), making it the third biggest Islamic bank in Tunisia.

The proposed bank is going to extend financing that targets SMEs in Tunisia, with a special focus on serving the underdeveloped regions of the country. The Bank will also play a major role in national development financing and will be the first bank in Tunisia headquartered outside the capital city.

ICD adopts a very selective approach to financing the SMEs sector

2.2 Investing in the Corporate Sector

ICD adopts a very selective approach to financing and investing in high-impact real sector projects. Its real sector financing objective is to promote entrepreneurship with concrete developmental impact on a Shariah-compliant basis, as a stand-alone operation, or in partnership with other financial institutions.

Last year, new ICD project approvals in the corporate sector remained concentrated in high-impact sectors such as energy, manufacturing industry, healthcare and social services, and transportation. In 1436H, ICD kept up investment momentum with 14 Term Finance and 3 Corporate Equity projects, amounting to US\$ 192 million, for various companies in these sectors. Also last year, and for the first time, ICD partnered with the European Bank for Reconstruction and Development (EBRD) and the Arab International Bank (AIB) to provide a syndicated facility to Advanced Energy System (ADES) in Egypt.

New project approvals in the corporate sector remained concentrated in high-impact areas

US\$ 192 million approvals, ICD kept up investment momentum with 14 Term Finance and 3 Corporate Equity projects

Box 4: ICD invests in Egypt’s oil and gas sector



Established in 1997, ADES is an Egyptian oil and gas drilling service provider. By 2015, the company completed drilling over 2,000 wells for in excess of 50 clients. This makes ADES the first Egyptian offshore driller by number of rigs in the Gulf of Suez, with a market share of 46 percent owning 6 offshore units (4 jack-up rigs, 1 offshore barge and 1 mobile offshore production unit).

Currently, the country suffers from frequent shortages of the natural gas that supplies national power plants. The Company is expected to play a leading role in helping to address Egypt’s energy challenges. The introduction of offshore drilling equipment will help foster the development of domestic natural gas production, thereby reinforcing energy security. This will be done while improving the standards of local oil and gas exploration and production, leading to higher efficiency and a reduced impact on the environment.

The ICD has recently completed landmark US\$ 25 million participation, taking up part of a US\$ 170 million syndicated facility in favor of ADES. EBRD arranged a facility bringing conventional and Islamic tranches to re-finance current debt in order to acquire new assets and finance the needed working capital. The transaction with ADES is the first EBRD joint project with ICD and the Arab International Bank (AIB).

Given the specific needs and challenges of the corporate sector, ICD expanded its interventions and has carefully utilized its term financing tools to facilitate the real sector company development. To this end, ICD provided a Term Finance facility of US\$ 15 million to a company that also operates in the energy sector in Malaysia.

US\$ 15 million Term Finance facility provided to the energy sector in Malaysia

Box 5: ICD provides direct financing to high growth companies in Malaysia



Established in 2002, Serba Dinamik International Ltd. (SDIL) is a private limited company that is a leading integrated engineering, maintenance and contracting service provider to the oil and gas, petrochemicals and power utility sectors. The Company commenced its operations by acting as a sub-contractor to major manufacturers and suppliers of equipment to install, operate and maintain equipment for oil and gas companies, as well as other service providers. As of now, the company operations span a number of countries such as Indonesia, Bahrain, Qatar, Oman, Saudi Arabia, Kuwait, United Arab Emirates, Turkmenistan, Lebanon, London and India.

At its 6 October 2015 meeting, the ICD Board of Directors approved a short-term working capital facility of up to US\$ 15 million in favor of the SDIL. The decision to provide a financing facility to the SDIL aimed primarily to contribute towards local and international market expansion of the company operations, particularly in the MENA region, Indonesia and Turkmenistan. Additional key reasons for extending the facility were job creation for the population and support to a strong local-grown Malaysian company.

ICD supports reverse-linkage and cross-border investments through financing of service oriented industries in member countries

ICD continued to create a conducive environment for the Islamic Finance Industry

US\$ 114.5 million was approved for three asset funds

Through efficient partnership ICD establishes a venture capital fund in Saudi Arabia

US\$ 230 million Money Market Fund helps to develop the Islamic Finance industry

2.3 Asset Management Activities

On the funds side, ICD continued to create an enabling environment for the growth of the Islamic Finance Industry and building up private sector partnerships to enhance resource mobilization. In 1436H, ICD approved 3 funds for a total fund size of US\$ 114.5 Million, bringing total assets under ICD management to US\$ 736 million. Two of the funds focus on SMEs in Algeria and Saudi Arabia, while the third one focuses on the global Islamic banking sector.

Box 6: ICD promotes SMEs development in Algeria through SMEs Fund

The Algeria Fund in partnership with Small Enterprise Assistance Fund (SEAF) targets growing SMEs in Algeria with ICD commitment of up to US\$ 10 million. The Fund target size is US\$ 80 – US\$ 100 million, with a target initial close of US\$ 50 million. The focus of the fund would be finance those SMEs with strong management teams and significant growth potential in value creation and regional expansion in the North African market. The Fund’s strategy will be to acquire minority stakes in companies, improve horizontal capacity, and achieve financial and operational growth.

The SEAF will lead the development and establishment of the Fund Management Company (FMC) and the Fund in partnership with ICD. SEAF has extensive experience in training and developing local fund management teams in diverse and complex environments around the world. The FMC, headquartered in Algeria, will be equipped highly selected experts to run the business and operations of the Fund.

In 1436H, ICD also partnered with Anfaal Capital and King Abdullah University of Science and Technology (KAUST) to establish the KAUST fund in Saudi Arabia. The Fund will scout for unique and innovative venture capital opportunities backed by committed entrepreneurs and dedicated management teams. The Fund will provide the “smart and hands-on capital” needed to get these businesses off to a successful start and ensure long-term sustainability. The targeted final close amount is US\$ 30 million and the initial close is US\$ 20 million. ICD’s commitment will amount to US\$ 3 million which may be increased to US\$ 4.5 million, to reach 15 percent of total commitments at final closing.

Understanding the challenges and obstacles to growth in the industry, particularly in countries where the Islamic Finance and Banking sector is at a nascent stage, has always been an issue to be addressed. To overcome observed constraints, ICD successfully garnered US\$ 100 million in its recently established Islamic Banking Growth Fund. This Fund targets the Islamic retail-banking sector in economies that require high traction in Islamic finance.

To further develop the Islamic Finance industry, ICD launched the Money Market Fund (MMF) to provide more choices for Islamic Financial Institutions to manage their liquidity. By the end of 1436H, the Fund grew to US\$ 230 million and outperformed treasury funds in its category.

2.4 Providing Advisory Services

ICD firmly believes that to facilitate high and sustainable growth, Islamic finance investments must be accompanied by broad advisory services and capacity building activities that support private sector development in Member Countries. In 1436H, ICD signed 13 new advisory mandates that come as a complement to an existing strong and solid pipeline for supporting its activities, going forward.

The Industry and Business Environmental Support Program (IBES) provides ICD with an instrument to support its Member Countries in fostering a conducive enabling environment for businesses, improved competitiveness amongst firms, enhanced value chains, and greater industrialization in productive sectors. The transformation from a Special Economic Zones (SEZ) Program to a fully-fledged IBES program in 1436H was a major milestone in setting up wide array of advisory services projects to Member Countries. Last year, under the IBES program, ICD reached an agreement with the Nouadhibou Free Zone Authority (NFZA) of Mauritania to establish a large-scale fishery development company specialized in developing and operating cold storage facilities, individually or in partnerships. Another example of an ICD contribution to developing private sector capability in SSA was when ICD provided advisory services to the Government of Djibouti in developing its industrial zone program.

13 new advisory mandates signed as a complement to and existing strong and solid pipeline for supporting ICD’s activities

ICD gave advisory services to the Government of Djibouti in developing its industrial zone program

Box 7: ICD develops capacities for an industrial zone program in Djibouti



The Government of Djibouti requested ICD to assist in the regulation of its industrial zone program development and to strengthen the National Investment Agency in institutional, regulatory and capacity aspects.

As initially recommended by ICD in a preceding engagement, these phases constitute the building blocks for developing 219 hectares of industrial space that will contribute to investments of US\$ 51 million in the most dynamic areas of Djibouti. Project activities will include support to the National Investment Promotion Agency (NIPA) in the conception, elaboration and commercial management of an industrial zone program, while simultaneously strengthening NIPA staff capacity in industrial land management and investment promotion.

This project will mark the second phase of a technical cooperation program between the ICD, the Government of Djibouti, and the Tunisian Industrial Land Agency.

ICD adopted a new advisory services strategy with the focus on converting commercial banks to Islamic Finance Institutions

In 1436H, the governments of Jordan and Niger signed with ICD advisory services agreements to issue Sukuk

ICD was mandated by the Republic of Côte d'Ivoire to structure a Sukuk Program and oversee the entire process of the Sukuk offering

In addition, ICD recently adopted an advisory services strategy that will focus on converting commercial banks to Islamic Finance Institutions. This particular activity is designed to widen the reach of Islamic financial products and services, with the objective of making a significant contribution to ICD Member Country developmental goals. In this regard, and in addition to signing the mandate of transforming El-Wifack Leasing in Tunisia, ICD also signed and commenced its advisory engagement with the following institutions through its Islamic Financial Institutions (IFI) Program in 1436H:

- **Afriland First Bank (Cameroon):** The IFI Program completed and closed the Advisory Services project by which ICD created an Islamic Window at Afriland. The window is the first Islamic Banking initiative in Cameroon.
- **Coris Bank (Burkina Faso):** The IFI Program completed and closed the Advisory Services project for setting up an Islamic Window. The project was successfully implemented, and Coris started Islamic Banking activities in July 2015.
- **Bonki Rushdi Tojikiston (Tajikistan):** ICD signed and started implementing an Advisory Services agreement through which the IFI Program was engaged in converting Bonki Rushdi Tojikiston into a full-fledged Islamic Bank. It is expected that Bonki Rushdi Tojikiston is going to be the first Islamic Bank in Tajikistan after the introduction of the Islamic Banking law in late 2014.
- **Trust Bank (Suriname):** The ICD signed and started implementing an Advisory Services agreement through which the IFI Program was engaged in converting Trust Bank into a full-services Islamic Bank. Trust Bank is going to be the first Islamic Bank in the country as well as in the Caribbean.

In 1436H, ICD continued to be a pioneer in a rapidly growing Islamic finance industry – Sukuk – by gaining new mandates to advise some Member Countries to issue their first-ever Sukuk. Last year, the governments of Côte d'Ivoire, Jordan, and Niger signed with ICD advisory services agreements to issue Sukuk in order to finance their developmental needs and enter into new capital markets. For example, in 1436H, ICD was mandated by the Republic of Côte d'Ivoire to structure a Sukuk Program and oversee the entire process of the Sukuk offering. The Program would result in Côte d'Ivoire's first sovereign Sukuk issuing in order to finance medium-to-long-term investment projects. The Program will be implemented in two equal phases of 150 billion CFA francs (equivalent to US\$ 245 million), extending from 2015 to 2020.

Box 8: ICD assists Jordan in issuing Sukuk



The Jordanian mandate came as a result of the Memorandum of Understanding (MoU) signed with Japan International Cooperation Agency (JICA) in 2014. Both institutions have finalized a Technical Assistance program on domestic Sukuk issuance for Jordan.

Having passed relevant legislation that regulates Sukuk issuances in the country last year, government has been gearing up to making its first offering. With the assistance of ICD technical support and advisory services, the Ministry of Finance of the Hashemite Kingdom of Jordan is in the process of building the necessary infrastructure for the dinar-denominated Sukuk and the medium-term papers. A delegation from Jordan was in Malaysia and Sudan to learn about end-to-end technical processes from national regulators and market players. This is also part of the reverse linkages initiative of the IDB Group, whereby member states share their successful developmental models with other states.

2.5 Resource Mobilization And Partnership

Partnership Activities

In strengthening ICD partnerships with various actors around the globe, several Memorandum of Understanding (MoUs) were signed in order to collaborate in areas of common interest. Key MoUs signed in 1436H included:

- **MoU with the African Union Commission (AUC):** The AUC, the Secretariat of the African Union, heads up a continental union consisting of 54 countries in Africa. The MoU is aimed to develop a platform for enhanced ties between the Islamic world and the African continent. It will facilitate the launch of a framework to encourage cooperation between the ICD and AUC to promote economic, financial, private sector and social development of member states, as well as to develop an advisory process to identify challenges and address impediments to this mutual collaboration. The first collaboration under this MoU was the co-organization of a 1-day Private Sector Forum together with the Thiqah during the 2015 Annual Meetings of the IDB Group in Mozambique.
- **MoU with the African Export-Import Bank (Afreximbank):** Afreximbank is a multilateral finance institution with its head office in Cairo, Egypt, that extends direct credit to eligible African exporter and importers in order to promote trade activities in Africa. The objective of the MoU is to expand joint operations and financial products and services offered to private sector investors in Member Countries in Africa of both ICD and Afreximbank.
- **MoU with Banco Nacional de Investimento (BNI) of Mozambique:** The MoU was signed during the General Assembly in June 2015 in Maputo, Mozambique. Under the terms of the MoU, the two institutions will collaborate in enhancing efficient interventions for private sector development in Mozambique. Among the areas of collaboration are information sharing on projects and business opportunities in Mozambique; participation in the arrangement of syndications or investment in funds; and co-investments in any potential establishment of Islamic financial institutions in Mozambique.
- In addition to the above, ICD also signed MoUs with non-traditional partners to promote the ICD mission, especially in the area of Islamic finance in non-Member Countries. In 1436H, ICD signed MoUs with China International Contractors Association (CHINCA) and ICBC Financial Leasing Co Ltd. CHINCA is a national industry association composed of Chinese international contractors, investors and associated service providers.

ICD is reaching African continent through partnership with AUC

ICD has attracted non-traditional partners for promoting Islamic finance in its member countries

Resource Mobilization Activities

The year 1436H witnessed the first ICD annual borrowings program when the Board of Directors approved ICD's first annual Global Resource Mobilization Program (Program) of up to US\$ 1.2 billion. The Program objective is to identify ICD resource requirements for the financial year and seek Board approval for the maximum amount of borrowing to be raised in order to achieve the operational and financial targets during the year, as well as to maintain the required liquidity level as per ICD's Liquidity Policy. ICD was authorized to mobilize resources from Islamic capital markets.

For 1436H, ICD successfully closed and completed a US\$ 400 million drawdown from financial institutions in the GCC, South East Asia and European loan market. Another key activity that ICD worked on in 1436H was the establishment of a Global Medium Term Notes (MTN) Program. The MTN Program will be the main platform for ICD's public Sukuk issuances as well as for Sukuks issued via future private placements. The MTN Program and subsequent public Sukuk issuances will be listed on the London Stock Exchange as well as NASDAQ Dubai.

US\$ 1.2 billion resource mobilization from the global financial markets

ICD MTN program has been launched and efforts are undertaken to issue its first Sukuk

2.6 ICD Key Events And Awards

2nd Capital Increase

One of the key milestones in ICD development was the approval of the Corporation's 2nd Capital Increase. On 11 June 2015, during the 15th meeting of the General Assembly of ICD held in Mozambique, the second increase in the authorized and subscribed capital of ICD was approved. As a result, ICD authorized capital rose from US\$ 2 billion to US\$ 4 billion, and capital available for subscription from US\$1 billion to US\$ 2 billion.

The capital increase will make the Corporation better able to respond to Member Country challenges in accessing finance, especially in the aftermath of global financial uncertainties and social turmoil affecting some Member Countries. In addition, it will provide the Corporation with the resources required to achieve its strategic targets over the next three years, in consonance with its 1445H Vision.

A milestone of ICD activities in 1436H was the approval of second capital increase

ICD Credit Rating

After achieving AA/F1+ ratings from Fitch Ratings in 1435H, ICD obtained an Aa3/P-1 rating by Moody's in 1436H. Both ratings were underpinned by both the sound ICD financial and risk management frameworks, including prudential policies for capital adequacy, liquidity, asset and liability management, credit risk, and market risk. This will greatly assist ICD in mobilizing long-term funds from Islamic capital markets in response to growing demand for assistance from its Member Countries.

ICD is proud to have a AA rating from all two major international rating agencies

ICD's efforts was recognized in number of international forums

ICD received a number of international awards recognizing its contribution to Islamic finance industry and private sector development

Seminars and Workshops

In 1436H, several events were organized and coordinated by the IDB Group Business Forum (Thiqah). Thiqah is a platform for maximizing cross-border investments among IDB Group Member Countries, with the support of the IDB Group's financial products and services.

In 1436H, Thiqah coordinated IDB Group participation in several international and regional conferences and fora, organized and/or assisted in the promotion of various events - including the Global Islamic Investment Gateway, 11th World Islamic Economic Forum, 8th Astana Economic Forum, Kazan Summit 2015, Maldives Investment Forum, the IDB Group-AUC Joint Private Sector Forum, Egypt Economic Development Conference, 2015 Annual Investment Meeting, Turkmenistan International Investment Forum, Sarajevo Business Forum, 15th Industrial Gulf Conference, for GCC, and Sarajevo Business Forum.

ICD Awards

In 1436H, ICD received several international awards and prizes owing to its outstanding efforts in the fields of Development and Islamic Finance. The awards included:

- “Excellence in Development of the Islamic Private Sector - MENA 2014” from the International Finance Magazine
- “Best Private Sector Developer - Middle East” from IAIR Awards
- “Best Development Bank” from CPI Financial
- “The Islamic Economy Award - The Money and Finance Category “ from Dubai Chamber of Commerce and Industry and Thomson Reuters
- “Africa Deal of the Year” and “Cross-border Deal of the Year” from IFN News
- “Best Islamic Finance Initiative Award” from the African Banker Magazine
- “The Award of Excellence for Outstanding Contribution to the Development of Islamic Finance in the Private Sector” from the Sukuk Summit.
- “The Islamic Finance Personality of the Year” from the Global Islamic Finance Award.



Chapter Three

ICD Corporate Effectiveness



Having laid a sound foundation and put in place the requisite infrastructure, ICD is positioned to advance towards new frontiers and deliver its mandate more efficiently, going forward. In addition, the business roadmap and new strategic directions serve as the compass for future ICD business operations.

Strengthening ICD resources, its culture, human capital and internal processes were some of the key corporate initiatives in 1436H. In addition, global and regional recognition, as well as favorable ratings by major rating institutions were also instrumental in contributing to the outstanding ICD business performance in 1436H.

50,000
direct jobs provided



13,000
jobs provided for women



1,095
SMEs supported as a result of ICD financing



3.1 ICD 10Y Strategy

In 1435H, the IDB Group developed a new 10-Year Strategy revolving around five strategic pillars. Accordingly, the IDB Group envisions higher quality economic and social infrastructure products and service delivery, stronger support for the private sector, more coordinated efforts for closer economic cooperation among OIC countries, and a broader role for social development and the promotion of the Islamic financial sector. Emerging from the new IDB Group Strategy, ICD's vision is set to develop the private sector in Member Countries and thereby make a difference in their socio-economic development. ICD aspires to achieve this vision by being a development catalyst in the context of a rapidly changing external environment, expanding its footprint two-fold over the next decade. The 1445H Vision of the Corporation consists of a number of quantitative as well as qualitative objectives, as summarized below:

- Creating more than 400,000 jobs across all Member Countries;
- Providing finance to more than 10,000 SMEs;
- Fostering a three-fourfold increase in development impact through a focus on developing financial channels;
- Establishing and supporting Islamic financial channels in each Member Country through capital provision, offering technical assistance in setting up the Islamic Window facility, as well as converting traditional financial entities into Islamic entities;
- Providing finance to at least one direct investment project in each Member Country, with a focus on high impact sectors and regional integration projects; and,
- Fostering an enabling environment in 10 countries through advisory services provision.

The development theory underpinning the ICD strategy is to help Member Countries to evolve from being factor-driven to efficiency-driven and, ultimately, to becoming innovation-driven economies. In this context, the strategy recommends contextually appropriate interventions in Member Countries – suited to each stage of their development. In relatively less developed Member Countries, interventions shall be focused on building the basics of competitiveness and creating an improved regulatory environment. In more developed Member Countries, ICD interventions shall focus on enhancing private sector markets through increased business sophistication.

The ICD 1445H Strategic Vision

Scaling-up operations

Achieve \$14 Billion Approvals and \$8.8 Billion Disbursement

Access to Finance

Provide access to finance to 10,000 SMEs

Financial Sustainability

Generate average ROE of 2%

Creating Employment Opportunities

Generate 400,000 new job opportunities

Financial Stability

Maintain and further improve AA rating

3.2 Project Cycle Of ICD Investment

The following figure shows the simplified seven-stage business process required for each investment proposal prior to becoming an ICD investment project.

Figure 12: Project Cycle Of ICD Investment



3.3 Development Effectiveness

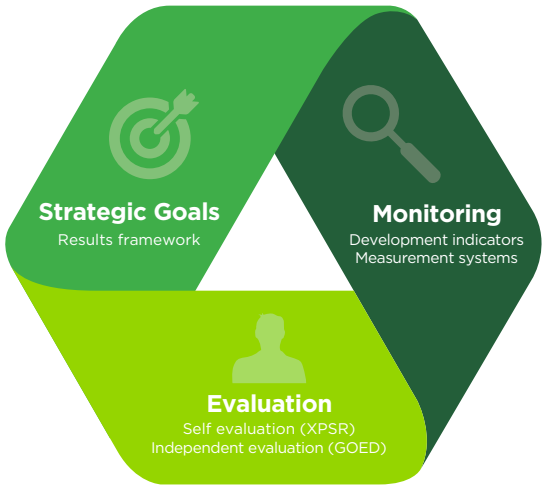
Development effectiveness tools and methodologies have evolved over the last decade with considerable contributions from IFIs. The Harmonized Indicators for Private Sector Operations were the main outputs of this partnership. These indicators come under four main domains, namely: (i) Financial Performance; (ii) Economic Performance; (iii) Private Sector Development; and, (iv) Environmental, Social, Health and Safety. ICD, as part of the global IFI movement, added one more dimension to the set of proposed indicators that are relevant for the Promotion of Islamic Finance, to encompass the uniqueness of its Islamic product offerings. This initiative has enabled IFIs and their clients to measure the actual impact of their interventions in a participatory and cooperative manner. ICD established its Development Effectiveness Framework in 1434H with two important objectives:

- Reporting on Development Results, which is an important aspect of ICD's accountability;
- Promoting learning: to influence the design of future projects, programs, or policies, improve development results and increase ICD's development effectiveness.

The Development Effectiveness Framework has three components:

- The Results Framework;
- The Development Indicators Measurement System (DIMS); and,
- The Evaluation System.

Figure 13: ICD's Development Effectiveness Framework



Reporting on development and promoting learning are two major objectives of ICD's Development Effectiveness Framework

The ICD Results Framework

The developmental goals of ICD are encapsulated in its Results Framework. This framework is based on ICD’s strategic contributions towards the overall IDB Group 1440H Vision. It follows a classic results-based management (RBM) approach in identifying the causal chain from input to output to outcome and impact.

Figure 14: ICD’s results framework

Inputs	Outputs	Outcomes	Impact
<ul style="list-style-type: none">• Building islamic finance channels (equity, LOF)• Selective direct investments (equity, term finance, corporate finance)• Advisory services to Governments and private sector actors• Developing business opportunities through partnerships• Asset management programs• Developing an enabling environment	<ul style="list-style-type: none">• Increase the financial stability of the clients• Build and develop islamic financial institutions• Increase the production capacity and the quality of services of the client• Mobilize the clients’ investment needs from the market	<ul style="list-style-type: none">• Create jobs• Improve access to finance for SMEs• Increase payments to Governments• Increase customers’ access to improved services and products	<ul style="list-style-type: none">• Poverty reduction• Inclusive growth• Better living standards• Improved envinroment for islamic finance busines

The ICD Results Framework serves as the basis for measuring development effectiveness. The framework is consistent with similar matrices adopted by other multilateral development banks and outlines results for private sector development initiatives. It allows for consistent monitoring and evaluation of projects.

Development Indicators Measurement System (DIMS)

The DIMS is the monitoring tool that tracks the development impact of ICD’s investments in Member Countries.

DIMS starts at the design phase of each project by informing baselines and targets of the core development indicators, tracking their status annually, and capturing ratings of the development outcomes as well ICD additionality at project completion.

ICD has an ongoing collaboration with a number of IFIs to construct harmonized indicators for private sector operations. 25 IFIs are involved in this partnership including the International Finance Corporation, the

Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.

Evaluation

The M&E Department conducts the XPSR-Expanded Project Supervision Report (self-evaluation) for projects that reach early maturity (around 3-5 years after approval). Moreover, ICD is following the MDB Evaluation Corporation Group Good Practice Standards (GPS) for Private Sector Operations Evaluation, focusing on four criteria: i) financial performance; ii) economic performance; iii) private sector development; and, iv) environmental, social, health and safety. ICD has an additional indicator: v) Islamic finance.

ICD’s own efforts are supplemented by ex post-project (independent) evaluations undertaken by the IDBG Operations Evaluation Department (GOED). They serve as useful sources of development results achieved by the ICD and also as important learning tools offering recommendations to improve the designs of future projects with similar objectives.

3.4 Development Impact Results

In early 1437H, ICD surveyed development impact on 70 percent of its active portfolio projects. The survey was a collective effort carried out with local governments, MDBs, IFIs, the local financial sector, and other players. The assessment encompass employment, women’s empowerment, new SMEs, impacts on local government revenue and investment, business improvement and corporate social responsibility. Outputs were:

- 50,000 Direct Jobs provided by ICD clients;
- Women empowerment with 13,000 jobs provided;
- 1,095 SMEs supported as a result of ICD financing;
- Local Governments able to generate a total of US\$ 165.5 million in tax revenue and inject an additional US\$ 76 million in foreign currency into their financial systems;
- Domestic Trade promoted by approximately US\$ 205.7 million through the purchase of domestic goods by the clients;
- 3,929 New Businesses created by ICD clients; and
- US\$ 11.8 million Community Development contributions made by ICD clients.

ICD is partnering with 25 IFIs to construct harmonized indicators for private sector operations

ICD’s development results are multidimensional, including but not limited to 50,000 direct jobs creation, over 13,000 women empowerment and over 1,000 SMEs creation etc

ICD employs more than 130 regular professionals from 34 countries across the globe

ICD offers unique opportunities for learning and professional development

3.5 ICD Management And Staff

ICD employees come from 34 different countries and cultural back-grounds. Our 131 Regular Staff are mostly based in our KSA headquar-ters, with only 8 percent located in our regional and country gateway offices. Last year, ICD recruited 16 new staff from 11 different nationalities to further diversify and enhance Member Country representation within the ICD team.

The success of any institution in expanding its business solely relies on its human capital. At ICD, our people are provided with different learning and developmental opportunities that go beyond traditional offerings from other IFIs. Two programs stand out; the ICD Corporate MBA and the Masters in Islamic Finance and Leadership Development Program. Both programs are degree-awarding programs from IE Business School, one of the highest ranked Business Schools in Europe and the World. The programs are designed so that they have a clear practical bias, enabling attendees to readily transfer what they are learning to the work place. Those programs are not limited to ICD staff but they have been offered to private sector employees in order to make it even more diverse. At the same time, they attest to the fact that the development of human capital is a high priority in our institution.

ICD has also embarked on a talent management program that satisfies both ICD internal needs as well as the needs of the Islamic Finance In-dustry at large. In this program, there is a pool of 12 mid-career talents who are being hired for training in Islamic finance for two years. Upon graduating, they will be equipped with enough skills to pursue a career in Islamic finance.

Annex 1

Country Approvals & Disbursements since inception in US\$ (million)

4,043.89
Total Approvals

1,959.59
Total Disbursements

Country	Approvals	Disbursements
Albania	2.15	1.86
Algeria	33.00	
Azerbaijan	143.82	102.86
Bahrain	73.00	22.44
Bangladesh	192.80	45.21
Brunei	4.00	
Burkina Faso	3.50	
Cameroon	45.04	
Chad	28.15	
Côte d'Ivoire	27.40	
Djibouti	4.00	4.00
Egypt	113.12	45.14
Gabon	21.50	
Gambia	22.35	1.15
Guinea		2.99
Indonesia	155.80	100.77
Jordan	79.10	29.36
Kazakhstan	138.80	31.28
Kuwait	14.13	14.13
Kyrgyzstan	29.90	9.98
Lebanon	7.00	
Libya	73.00	10.00
Malaysia	44.66	5.53
Maldives	33.40	31.44
Mauritania	39.30	59.32
Mozambique	40.00	0.09
Niger		2.48
Nigeria	227.60	97.22
Pakistan	119.93	66.84
Palestine	4.00	3.00
Qatar	16.15	
Saudi Arabia	542.57	290.39
Senegal	23.58	28.64
Sudan	69.49	51.58
Syria	152.50	56.30
Tajikistan	43.50	33.39
Tunisia	47.75	43.21
Turkey	222.20	86.42
Turkmenistan	5.00	
UAE	83.90	40.90
Uganda	50.00	
Uzbekistan	207.33	177.71
Yemen	177.31	99.73
Global/Regional	567.31	327.92
Grand Total	4,043.89	1,959.59

Annex 2

Financial Review Report

I. Client Services

Business Overview

ICD fosters sustainable economic growth in its member countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to business and governments.

ICD’s activities are centered on four strategic focus areas:

- Developing Islamic financial channels in order to create multiplier impact.
- Providing advisory services for establishing Islamic finance windows and converting conventional financial institutes into Islamic organizations.
- Providing finance for investments in high impact sectors and helping governments by providing advisory services in privatization, Sukuk issuance, and structuring project finance deals.
- Improving its partnership with IDB Group and other MDBs and heavily leverage internal and external partners to go beyond its own resources.

ICD has a unique position in that it offers three sets of Shari’a-compliant business products and services to its private sector clients in member countries. These global business products are mutually reinforcing and interrelated, and include Financing & Investment Products, Advisory Services, and Asset Management.

Financing and Investment Products

ICD’s mandate is to serve the private sector of member countries through a variety of different investment products. It provides both term financing and equity contribution to private sector Greenfield projects or those that are undergoing expansion or modernization. ICD also extends short-term financing to cover working capital or procure raw materials with a tenor of up to 24 months. Furthermore, it extends lines of financing to commercial banks and local development financing institutions in member countries in order to indirectly finance their small and medium enterprises (SMEs). At the same time, it structures, arranges and manages syndication, securitization. ICD’s financing and investment products include:

Musharakah (joint venture) – In the context of business and trade, Musharakah refers to a partnership or a joint business venture with a view to making profits. Considered by some to be the purest form of Islamic financing, all the investors contribute capital towards a business venture and agree to share profits on a pre-agreed ratio, while losses are borne by each investor in proportion to their respective capital contributions.

Mudarabah (profit sharing) – It is a form of partnership where one party provides the funds, while the other provides the expertise and management. The former (Capital provider) is known as the rab-al-maal, while the latter is referred to as the mudarib. Profits made in the business are shared between the parties according to a pre-agreed ratio. If losses occur, the rabb-ul-mal will lose his capital, and the mudarib will lose the time an effort he invested in running the business.

Murabahah (cost plus mark up) – This concept refers to the sale of goods at a price, which includes a profit margin agreed by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement.

Wakalah (Agency) – This is a contract whereby a person (as the principal) asks another party to act on his behalf (as his agent) to undertake a specific task, who will be paid a fee for his services. This contract is usually used in conjunction with another Shari’a compliant product.

Bai Salam – It means a contract in which advance payment is made for goods to be delivered at a future date. Under this arrangement, the seller is obligated to supply some specific goods to the buyer at a future date in exchange for an immediate advance payment fully made at the time of contract. It is imperative that the quality of the commodity intended to be purchased is fully specified, leaving no ambiguity, which could lead to a potential dispute between the parties. This type of financing is most often used when a farmer needs capital to cultivate and harvest his crops.

Istisna – It means Manufacturing Finance. Istisna is a contract where a party agrees to manufacture/construct an asset based on the order and specifications of a buyer where payments are made in stages to facilitate step-by-step progress in the manufacturing /construction works.

Ijarah – It means lease, rent or wage. Generally, the Ijarah concept refers to selling the benefit of use (usu-fruct) or service for an agreed rental or wage. Under this concept, ICD makes available to the client the use of assets/equipment such as plant, office automation, motor vehicle for an agreed period and rental. During the lease period, ICD retains ownership of the asset.

Bai’ muajjal (credit sale) – It is a sale contract in which ICD sells an asset/commodity with a profit margin to the buyer where payment of the sale price is made on a future date either in the form of a lump sum or in installments. The contract has to expressly mention that the cost of the asset/commodity and the margin of profit are mutually agreed upon. Bai’ muajjal is also called a deferred-payment sale.

Advisory Services

ICD provides a wide variety of advisory services to governments, and public and private sector entities of member countries. The services include assessing the business environment of member countries along with any required reform actions. It also provides advisory services for project financing, restructuring/rehabilitation of companies, privatization, securitization, Islamic finance and the development of Islamic capital markets, particularly Sukuk.

ICD Advisory Services strategic goals and objectives is to continue to grow and build scale across its advisory programs across the breadth of services it can provide and by the geographical distribution of its work load. Details of the strategic direction and goals by program is given below:

Islamic Financial Institutions Development Program works on advising financial institutions on creating Islamic independent subsidiary/windows, converting conventional financial institutions into Islamic entities, and creating new Islamic banks/vehicles focused on the local markets especially small and medium enterprises. The program helps in developing Islamic Finance products and capabilities in private sector institutions in its member countries.

Sukuk and Capital Markets Program seeks to help member countries develop Islamic Capital Markets and Islamic Yield Curves, by advising member governments on issuing short-term and long-term Sukuks which aim to provide banking sector with the needed liquid instruments to invest surplus capital. This adds to the flow of Sukuk issuance in member countries, which helps to develop their debt capital markets and diversify the funding options. The program also works with the private sector to structure and distribute tradable Islamic instruments.

Industry and Business Environment Support Program (formerly the Special Economic Zones Program) strives to help member countries to develop and execute policy reform initiatives in order spur industrial growth with a key focus to developing special economic zones (SEZ) in countries. These initiatives directly or indirectly contribute to the development of the private sector and ultimately job creation within the countries.

Infrastructure and Privatization Advisory Program is positioned to advise on the development and financing (finding the “right” capital) of small and medium scale infrastructure projects (private sector or public private partnership projects) such as Independent Power Projects, Utilities, Telecommunication and Industry (Cement, Fertilizer, Steel). In addition, ICD has also developed the capabilities to advise Governments on both privatization strategy and specific privatization transactions in order to attract private sector investment into key sectors.

Asset Management

ICD sponsors, manages (as Mudarib) and participates in private equity funds and other special purpose investment vehicles designed to invest in or finance projects in accordance with its mandate. The vision and philosophy of ICD’s asset management business is derived directly from these core pillars of ICD’s strategy and generally cover the following aspects:

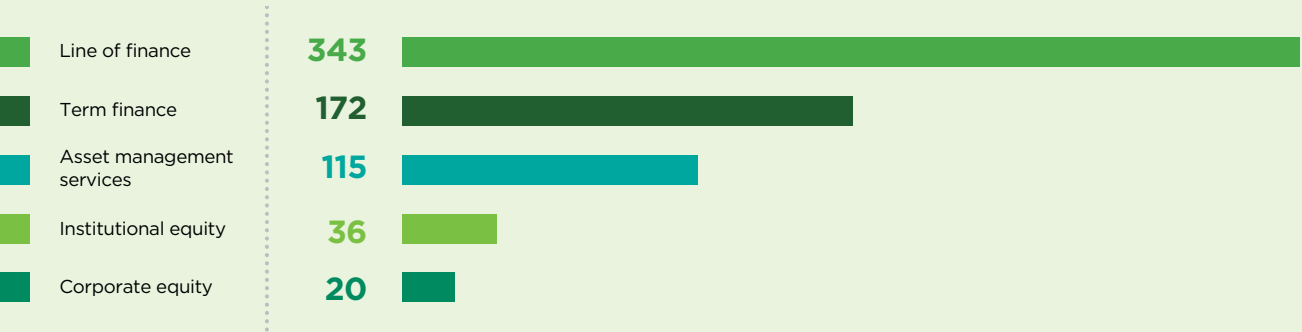
- Ensuring superior performance of the existing, and in-progress funds. Where relevant, leading and successfully completing the fundraising exercise for specific funds that are currently undertaking or planning to undertake initial or subsequent rounds of fundraising.
- Continuing to develop, raise and launch new funds designed to amplify ICD’s role and impact in the development of the private sector in key economic sectors in the member countries.
- Implementing sound governance structures for each of the existing and future funds in line with best international industry practice. This also includes, where applicable, that these funds are established and managed under sound external regulatory framework, which is the key requirement for the asset management industry.
- Optimizing the multiplier effect by reducing ICD’s direct contribution into these funds and raising growingly higher additional third party funds.
- Further strengthening of ICD’s in-house asset management capabilities and expertise through developing partnerships with experienced fund managers and transfer of technology and knowledge sharing.
- Transforming each of the Fund Platforms into well-integrated and well-operated diversified operations, augmenting operational efficiencies and capabilities, and optimizing cross fund synergies and further increasing the potential of raising additional third party funding at the Fund Platform level.
- Generating attractive returns on capital deployed and additional fee income from each of existing and future funds. This further ensures that ICD’s asset management business remains self-sustainable and makes a growingly material contribution to ICD’s profitability.

Operation Overview

Approvals in 1436H

In 1436H, total approvals were US\$ 686.5 million, compared with US\$ 503.4 million in 1435H, an increase of 36 percent. In total, ICD approved 34 projects in the last year. Line of Financing accounted for the bulk of ICD’s 1436H approvals, representing 50 percent of the total, followed by the Term Finance (25 percent), Asset Management (17 percent), Institutional Equity (5 percent) and Corporate Equity Investment (3 percent).

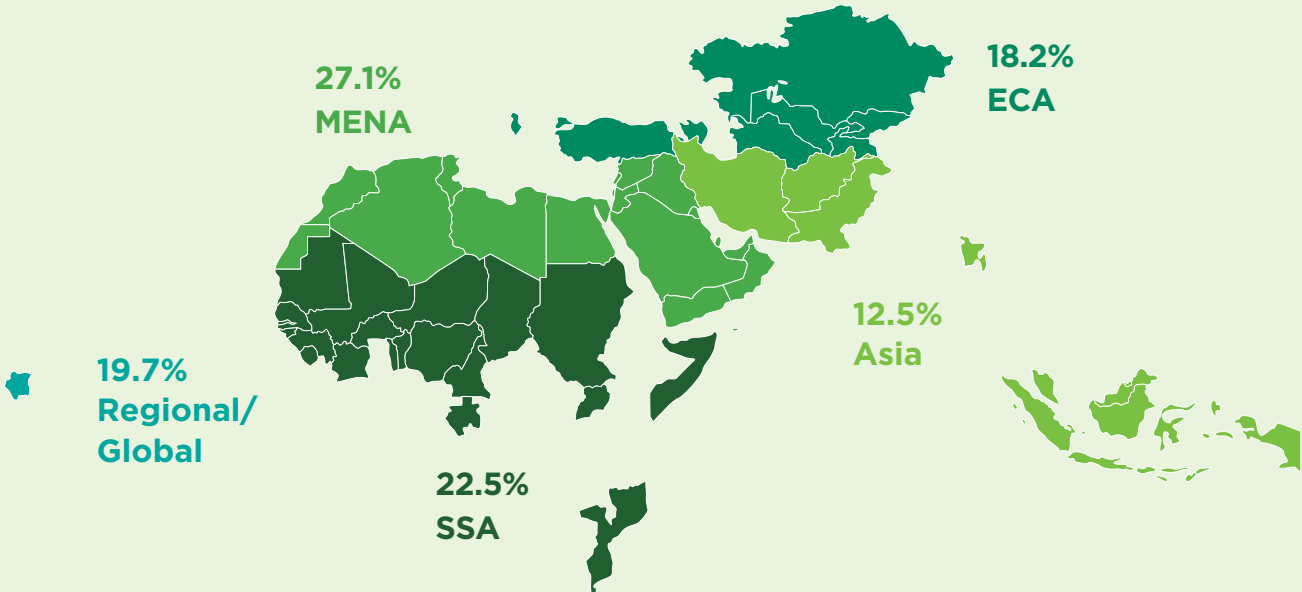
1436H Approvals by Products (US\$ million)



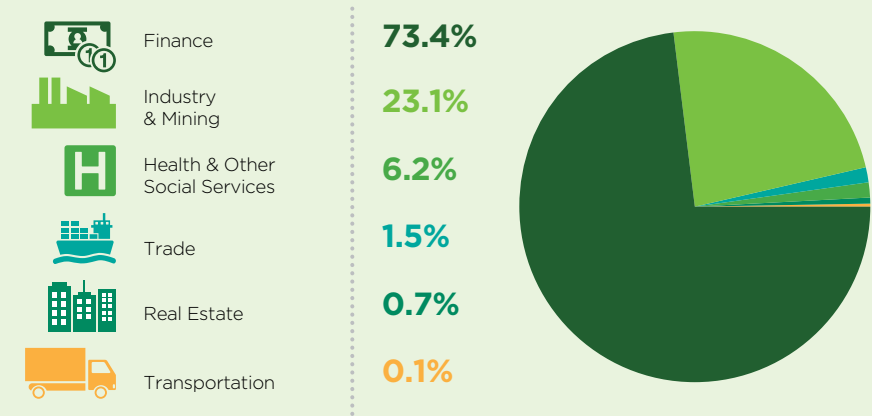
ICD’s approved investments portfolio in 1436H is diversified by sector and geographic region with a focus on strategic high development impacts sectors such as financial markets, industry and social sectors.

Distribution of Approvals by Regions

1436H Approvals by Regions



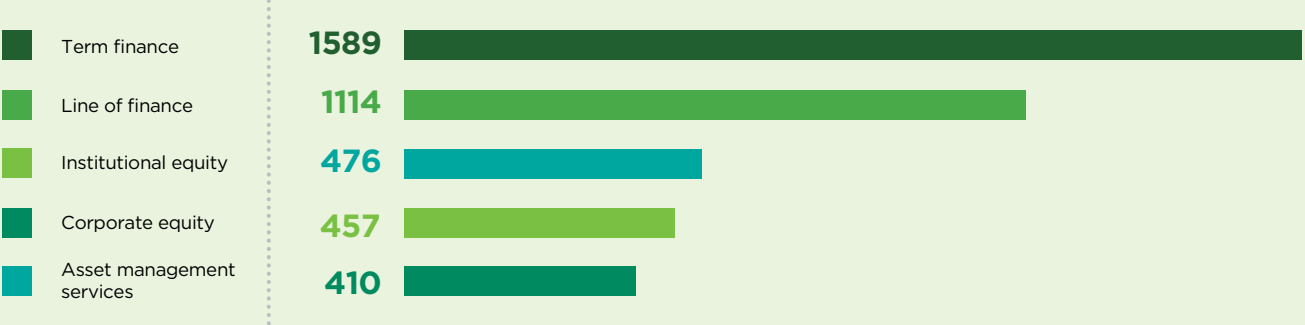
1436H Approvals by Sectors



Approvals Since Inception

By the end of 1436H, ICD’s accumulated approvals had reached US\$ 4.04 billion with allocations to over 310 projects. ICD approved about 67 percent of its investments through two main modes of finance: Term Finance and Line of Finance. The cumulative gross approvals of ICD by type of finance include: US\$ 1,589 million of Term Finance, US\$ 1,114 million of Line of Finance, US\$ 476 million of Institutional Equity, US\$ 457 million of Corporate Equity, and US\$ 410 million of Asset Management.

Approvals since Inception by Products (US\$ million)



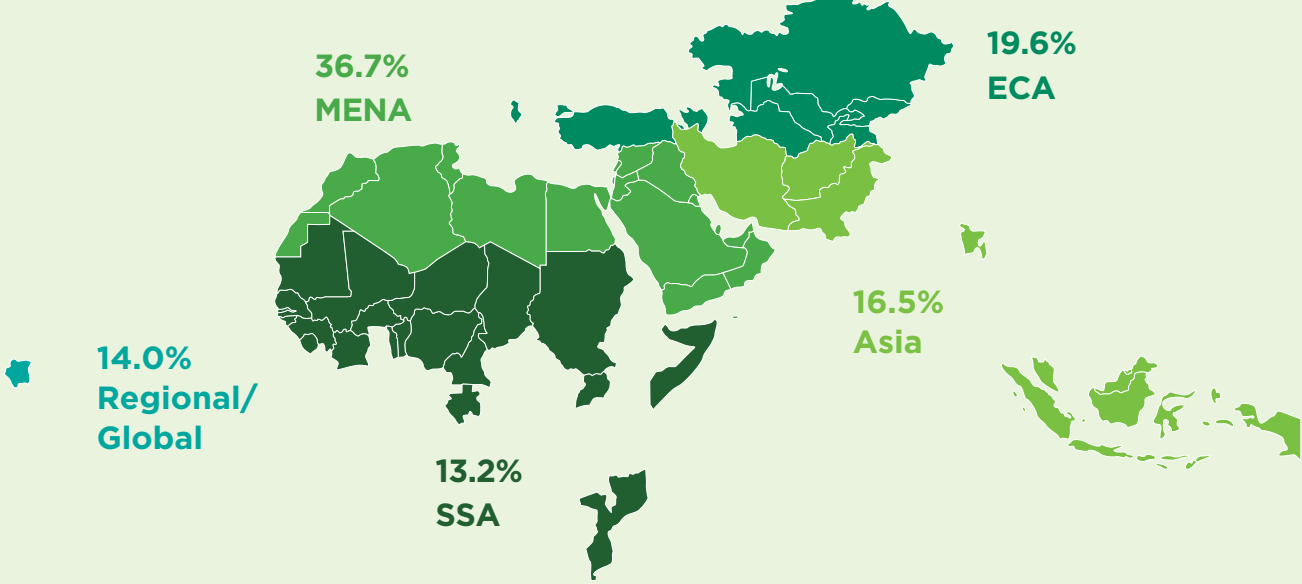
The sectoral composition of ICD’s accumulated approvals underscores diversity and is spread over 10 sectors. The financial sector accounted for the largest share amounting to US\$ 1.96 billion, or 48 percent of the accumulated gross approvals since its inception. The industrial & mining sectors had the second largest share, with a total approved amount of US\$ 1.02 billion, representing 25 percent of gross approvals. This was followed by real estate at 9 percent and other sectors represented 18 percent.

Approvals since Inception by Sectors



In terms of geographical distribution, ICD’s approvals also exhibited a mixed picture. By the end of 1436H, its approvals had reached to 42 countries, in addition to the regional and global projects that incorporate several member countries. The geographic mix of these countries shows that 36.7 percent of ICD’s approvals have been allocated to projects in the Middle East and North Africa (MENA) region, followed by 19.6 percent in Europe and Central Asia, 16.5 percent in Sub-Saharan Africa, and 13.2 percent in Asia. The share of the Global and regional projects was 14 percent of the gross approval.

Approvals since Inception by Regions



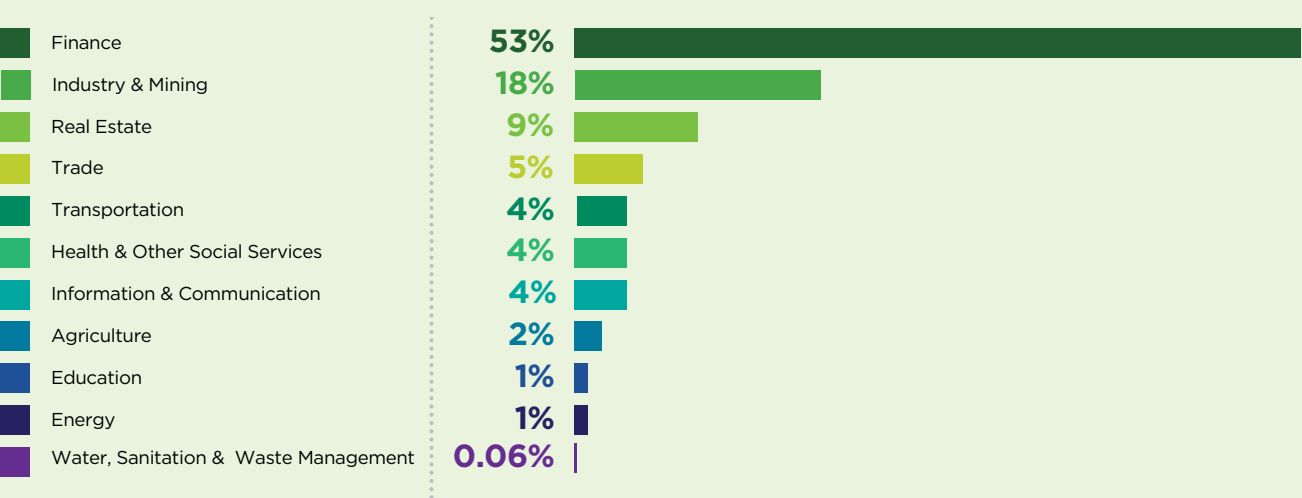
Disbursements in 1436H

ICD’s disbursement reached US\$ 289.9 million in 1436H. This is a clear indicator of ICD’s ongoing and serious efforts in terms of speeding the disbursement process internally in order to meet the needs of clients on a timely basis. The largest allocation of the past year’s disbursement was made through Line of Finance followed by Asset Management.

Disbursements Portfolio

ICD’s total disbursed investment portfolio was US\$ 1,959.6 million by the end of 1436H. The disbursement portfolio is diversified by industry sector with a focus on strategic high development impact sectors such as financial markets, industry and mining, real estate and trade.

Disbursements by Sector



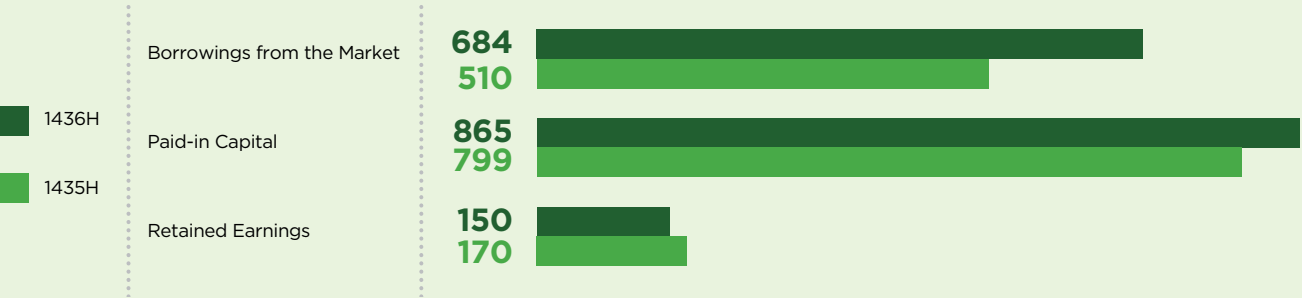
II. Liquid Assets and Funding Resources

Liquid Assets

ICD invests its liquid assets portfolio in balanced and diversified fixed and floating rate placements in Sharia’h compliant short term money market instruments, participation in syndicated loans, and investment in Sukuk issued by governments and/or government agencies and high quality corporate issuers etc. Diversification in multiple dimensions ensures a favorable risk adjusted return profile for ICD.

ICD manages the market risk associated with these investments through appropriate Sharia’h compliant hedging techniques, either by employing derivatives, or achieving natural hedging by aligning assets and liabilities in a manner to neutralize market risk factors.

Funding Resources (US\$ million)



Borrowings

The major source of ICD’s borrowings is the banks operating in different geographical locations. ICD borrowed US\$ 680 million as of the end of FY1436H (US\$ 500 million in FY 1435H, and US\$ 200 billion in FY1434H). ICD chiefly borrows in its functional currency – U.S. Dollar, and in Saudi Riyals and swaps Saudi Riyal for US\$ if the proceeds is used for US\$. However, ICD always diversify its sources to effectively mitigate concentration risk and with varying maturities to balance Asset-Liability book. Short term borrowing rates are usually generally fixed and long term borrowings are generally floating-rate.

III. Risk Management

In carrying out its development mandate, ICD seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

ICD’s investments are exposed to the full range of commercial, political, and potential reputational risks and managing these risks is therefore a priority. The primary objective of ICD’s risk management framework is to identify, measure, monitor, and control these risks. The framework comprises risk governance, policies, methodologies, and processes.

Risk Governance

The Board of Directors and Board Committees provide the highest level of oversight on the major risks in ICD’s operations. ICD’s Management Committee, under the Chairman of the CEO and GM, oversees corporate wide risk issues and endorses all risk policies and guidelines for approval by the CEO and Board of Directors. The Investment Committee is highest decision-making body for all investment decisions within the ICD, covering new and existing transactions as well as workouts. The Asset and Liability Committee oversees the risks in ICD’s balance sheet as well as in liquid asset management and funding operations. The Risk Management Department has the overall responsibility for managing ICD’s integrity, financial, and operational risks.

Risk Policies and Guidelines

The Risk Management Department is responsible for developing and maintaining ICD’s risk policies and guidelines. The Board of Directors approves all risk policies following endorsement by various board and management committees, including the Audit Committee of the Board, Management Committee, Group Risk Management Committee, and ALCO. The key risk policies and guidelines are summarized as follows:

- **Capital Adequacy Policy:** Prudential minimum level of capital is required to cover all risk assets in ICD’s operations. ICD’s capital adequacy ratio is defined as total members equity (paid-in capital plus reserves) divided by risk-weighted assets. The policy requires ICD to maintain this ratio at 35% or higher at all times. The table below provides the breakdown of ICD’s risk-weighted assets and capital adequacy ratio (36%) at year-end 1436H.

ICD’s Risk-Weighted Assets and Capital Adequacy Ratio At Year-End 1436H (US\$ million)		
Asset Class	Exposure (US\$,m)	Risk Weighted Assets
Equity Investment	831.3	1,812.9
Term financing	486.5	913.3
Liquid Funds	348.6	115.0
Total Risk Weighted Assets (TRWA)		2,841.2
ICD’s Members Equity (E)		1,015.9
Capital Adequacy Ratio (E/ TRWA)		36%

- **Liquidity Policy:** A prudential minimum liquidity equivalent to a 1-year net cash requirement is to be maintained at all times to ensure that ICD can meet all its financial obligations without additional funding over the next 12 months. The net cash requirement is defined as cash inflows (repayments, capital payments, and net income) minus cash outflows (disbursements and redemption). Under the borrowing program for 1437H, the size of the prudential minimum liquidity was estimated at US\$ 790 million at YE-1437H.
- **Treasury Risk Management Policy:** All new treasury investments are to be undertaken in accordance with the provisions of this policy. ICD manages its liquidity portfolios in accordance with Board approved limits on market risk, credit risk, concentration risk, and liquidity risk. The key metric for market risk is duration, which is capped at 3 years. ICD is required to maintain the average credit rating of the liquidity portfolio at A-/A3.
- **Asset and Liability Management Policy:** The policy’s matched funding principle requires ICD to match the currency and profit rate of its assets and liabilities. Accordingly, ICD funds its floating rate assets with floating rate liabilities and vice versa for fixed rate assets. ICD funds its equity investments strictly using equity capital. To ensure flexibility in its funding operations, ICD uses derivatives on a fully hedged basis to convert the currency and mark up basis of its liabilities to match those of its assets. According to ALM policy, ICD’s equity capital shall be prioritized to fund (i) equity investments; and (ii) liquid assets in the core liquidity portfolio.
- **Credit Risk Exposure Management Policy:** Concentration Risk in the operations portfolio is managed through a variety of prudential limits, including on asset class, country, sector, single obligor, and Group Company.
- **Anti-Money Laundering and Countering Terrorist Financing Policy:** ICD manages the risk of being used as a conduit for money laundering and terrorist financing activities by establishing the essential stand-ards and implementing safeguards designed to prevent such activities. The policy is implemented across all business operations of ICD. A number of processes has been implemented in this regard including obtaining a detail KYC information from the counterparty, verifying the names of through a software (World-Check) and assessing the issues related to sanctions, money laundering, etc., against the counterparty. ICD also seek assistance, consults and coordinates with the IDB Group Compliance Office for resolution of any issues related AML, KYC and integrity.

Credit and Equity Risk

Credit risk is the risk of loss if a borrower or counterparty fails to fulfill its financial obligations to ICD. Equity risk is the risk of loss arising from changes in market price or fair valuation of ICD’s equity investments. Such valuation is sensitive to a variety of factors, including macroeconomic developments, management performance, demand/supply dynamic, political risk, and exchange rate movements. ICD is required to assign an internal credit rating to each financing transaction as well as to each treasury counterparty when a public rating from one of the major international rating agencies is not available. ICD uses an internally developed credit rating methodology that is broadly aligned with that of the major international rating agencies. The methodology comprises four templates for rating exposures to sovereign, corporate, financial institution, and project finance. ICD’s internal credit rating scale comprises 21 categories that are mapped to those of international rating agencies. This rating system is optimized to provide: (i) increased granularity; (ii) better differentiation between obligors; (iii) smoother grade distribution to alleviate the current grade concentration; and finally, (iv) to create a common framework when communicating credit risks to risks takers. The level of granularity helps in measuring probabilities of default in order to better differentiate between obligors.

ICD manages three principal sources of credit risk: (i) Line of Finance; (ii) Term Finance; (iii) Financial Institution transactions used for asset and liability management purposes. These risks are managed within an integrated framework of Risk Assessment Guidelines encompassing Project Finance, Corporate Finance, Financial Institutions, and the Investment Guidelines. The table below provides the major credit and equity risks in ICD’s operations.

ICD’s Credit & Equity Risk Exposures At Year-End 1436H (US\$ million)		
Transaction Type	Transaction Type	% Total Exposure
Line of Financing to Banks	259.0	15.54%
Term Financing	227.5	13.65%
Treasury	348.6	20.92%
Sub-total: Credit Risk Exposure	835.1	50.11%
Equity Investments	560.8	33.65%
Funds	270.5	16.23%
Sub-total: Equity Risk Exposure	831.3	49.89%
Total		100%

Credit and Equity Risks in the Operations Portfolio

All new financing and equity investment transactions are subject to ICD’s Credit Approval Process, which entails two rounds of review involving the risk management department and investment committee (IC): Concept Review and Final Review. At the Concept Review stage, the primary objective of the assessment is to ensure that the transaction generally complies with ICD’s developmental, operational, financial, integrity, and risk management strategies and principles. Following IC’s concept review clearance, detailed due diligence is undertaken and the results are presented to the investment committee for final review. All transactions exceeding US\$10 million are submitted to the Executive Committee of the Board for approval.

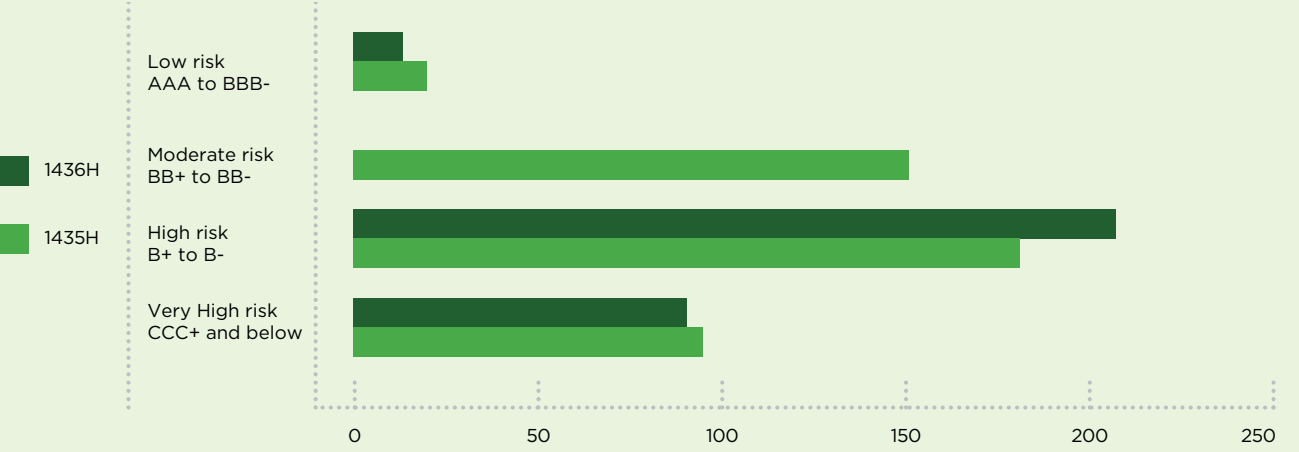
Following approval, monitoring of exposures is undertaken in accordance with ICD’s Credit Administration and Monitoring Process. All transactions are reviewed annually or in the case of watch list and impaired transactions quarterly or monthly. The responsibility for monitoring transactions rests with the operations department with oversight by the risk department and IC. In this review, ICD assesses the implementation progress, development impact, and key risk factors as well as updates the credit rating, equity valuation, and provisions as appropriate.

The tables below provide detailed information on credit risk in the operations portfolio by country, sector, and risk rating category (Bar Chart).

Credit Risk in Operations Portfolio by Country As of Year-End 1436H (US\$ million)		
Country	Exposure	% of Total Exposure
Saudi Arabia	177.3	13.5%
Bahrain	157.6	12.0%
Mauritania	144.7	11.0%
Uzbekistan	103.2	7.8%
Malaysia	101.6	7.7%
Nigeria	84.7	6.4%
Senegal	68.1	5.2%
Tunisia	53.0	4.0%
Pakistan	51.3	3.9%
Egypt	39.5	3.0%
Azerbaijan	34.7	2.6%
Indonesia	34.5	2.6%
Togo	32.9	2.5%
Maldives	29.6	2.2%
Sudan	27.7	2.1%
Yemen	27.1	2.1%
UAE	26.9	2.0%
Turkey	25.6	1.9%
Bangladesh	23.4	1.8%
Tajikistan	23.1	1.7%
Kazakhstan	13.1	1.0%
Others	38.4	2.9%
Total	1,317.8	100.0%

Equity Investments by Sector As of Year-End 1436H (US\$ million)		
Sector	Exposure	% Total
Funds	270.5	32.5%
Financial Institutions	257.4	31.0%
Real Estate	232.2	27.9%
Pharmaceuticals	16.0	1.9%
Agriculture	22.2	2.7%
Industrial	8.6	1.0%
Building Materials	10.0	1.2%
Others	14.4	1.7%
Total	831.3	100%

Credit Risk in Financing Portfolio by Rating Category



Financing portfolio: ICD’s financing portfolio totaled US\$ 486.5 million at year-end 1436H comprising line of finance (53%) and term finance (47%). The WARR of the financing portfolio stood at B+ at year-end 1436H.

Direct equity investment portfolio: The direct equity investment portfolio totaled US\$ 560.8 million at year-end 1436H comprising 44 transactions in various sectors including financial institutions (46%), real estate (41.4%), Agriculture (4%), Pharmaceuticals (2.8%) and others (5.9%).

Fund investment portfolio: The fund investment portfolio totaled US\$270.5 million at year-end 1436H comprising Unit Investment Fund (US\$ 146.11 million), Money Market Fund (US\$ 50.65 million), IB Growth Fund (US\$ 46m), Saudi SME Fund (US\$ 25.2 million) and Theemar Investment Fund (US\$ 2.5 million).

Credit Risk in Treasury Operations: ICD invests funds held in its liquidity portfolio in accordance with the primary objective of safety and liquidity. The size of the liquidity portfolio was US\$ 374.4 million at year-end 1436H comprising bank placements with an average maturity of 10 months (94%) and Sukuk bonds with an average maturity of 3.2 years (6%). The weighted average risk rating of the liquidity portfolio was BBB- at year-end 1436H. In line with the treasury risk management policy, which was approved by the Board in July 2014, such risk rating needs to be improved to A-/A3 or better by July 2016. The tables below provide detailed information on ICD’s liquidity portfolio at year-end 1436H by country as well as liquidity portfolio at year-end 1436H by portfolio type.

ICD’s Liquidity Portfolio by Country As of Year-End 1436H (US\$ million)			
Country	Sovereign Rating	Exposure	% of Total Exposure
UAE	AA	116.0	31.0%
UK	AAA	72.2	19.3%
Bahrain	BBB-	61.2	16.4%
Turkey	BBB-	58.0	15.5%
Kazakhstan	BBB	18.0	4.8%
Azerbaijan	BBB-	14.0	3.7%
Saudi Arabia	AA-	13.2	3.5%
Sudan	NR	11.6	3.1%
Senegal	B+	10.2	2.7%
Total		374.4	100%

ICD’s Projected Liquidity Portfolio by Portfolio Type As of Year-End 1436H (US\$ million)		
Liquidity Portfolios (in US\$, m)	Funding Source	Amount
Core Liquidity Portfolio	Equity & Debt	58.0
Discretionary Liquidity Portfolio	Debt	192.0
Operational Portfolio	Debt	78.6
Ad-Hoc Portfolio	Debt	45.8
Total		374.4

Single country exposure is restricted at 25% of ICD’s total liquidity portfolio, while single counterparty exposure limits set at 10% of ICD’s total liquidity portfolio.

Derivatives: ICD currently does not have any exposure to derivatives counterparties as its funding sources comprise mainly equity capital and short-term borrowings. However, ICD plans to increase its market borrowings over the medium term to fund both its operations assets and liquidity portfolio. As such borrowings entail medium to long term maturities, exposures to derivatives counterparties are expected to increase over the medium term. To manage such exposures, all eligible derivative counterparties shall have a minimum credit rating of A-/A3.

Market Risk: Market risk relates to the potential loss on ICD’s risk exposures arising from movements in market prices or changes in fair valuation. The major sources of market risk in ICD’s operations include mark-up rate risk, exchange rate risk, and equity risk.

Market risk in operations portfolio: The Board approved Asset and Liability Management policy requires that ICD follow the matched-funding principle in managing its assets and liabilities. Thus, ICD ensures that the market rate basis and currencies of all debt-funded assets match those of the underlying liabilities. Such approach ensures that ICD’s market income spread remains largely constant regardless of market rate and exchange rate movements. The entire term finance portfolio and debt-funded liquidity portfolios are currently in compliance with the matched-funding principle.

Market risk in treasury portfolio: The major source of market risk in ICD’s treasury portfolio relates to those liquid assets funded by equity funds. Such assets are primarily exposed to market rate risk as open currency positions are not allowed under the ALM policy. ICD manages such market rate risk by establishing conservative duration limit of 2 years. Aside from monitoring the duration of the treasury portfolio, ICD also calculates the market rate value-at-risk (VaR) as well as undertake scenario analysis.

IV. Overview of Financial Results

Basis of the Preparation of ICD’s Consolidated Financial Statements

The accounting and reporting policies of ICD are based on the standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). However, for transactions for which no AAOIFI standard is issued, standards issued by the International Accounting Standards Board, International Financial Reporting Standards (IFRS) are used. ICD’s accounting policies are discussed in more detail in Note 2 to ICD’s Financial Statements as of and for the year ended 30th Dhul Hijjah,1436H (1436H Financial Statements). The basis for the preparation of the financial statements is the Investment Entity concept of IFRS 10. This standard allows an Investment Entity to account for subsidiaries and associates at fair value through profit and loss.

Financial Performance Summary

From year to year, the financial performance of ICD is affected by a number of factors that can result in volatile financial results . During the 1436H global equity markets in the member countries have been volatile and in general declined. The impact of the depreciation of the currencies have resulted in increased economic challenges.

The combined effects of the challenging economic environment of the member countries and project specific factors have resulted in a reduced operating revenue and high impairment charges for the 1436H financial year. ICD reported net income of \$20.51million in 1436H, as compared to \$26.26million in the year ended 30th Dhul Hijja, 1435H. This represents a 22% drop in net income in 1436H compared to 1435H. The decrease in revenue in 1436H when compared to 1435H was principally as a result of the following (US\$ millions):

	Movement	
Income	\$ (million)	%
Investment Income		
Complacements with banks & other	(3.37)	-31%
Murabaha Financing	(0.55)	-14%
Installment Sales Financing	1.47	13%
Investment in Equity Investments	1.67	3%
Income from Sukuk	(0.07)	-4%
Ijarah Muntahia Bittamleek (Net)	1.05	16%
Other		
Total Investment Income	0.2	0.24%
Other income		
Advisory Fee	(4.46)	-89%
Administrative Fee	(2.39)	-52%
Exchange difference	0.37	-62%
Mudarib Fee/Others	(1.01)	-76%
Total other Income	(7.49)	-73%
Total	(7.29)	-8%

The tables below highlights the 5 year financial statements and the balance sheets from 1432H to 1436H respectively.

Islamic Corporation for The Development of the Private Sector Statement of Income For the Year Ended 30 Dhul Hijja 1436H					
Income	1432	1433	1434	1435	1436
Investment income					
Com.placements with banks & others	6.19	6.90	10.02	10.72	7.35
Murabaha financing	0.20	0.71	1.70	3.93	3.38
Installment sales financing	4.24	8.35	11.06	11.70	13.16
Istisna’s	0.12	0.14	0.02	-	-
Invest. in equity Investments	2.97	22.95	26.21	47.94	48.83
Income from Sukuk	-	-	-	1.65	1.58
Gain/(Loss) on manged investments	-	-	-	-	-
Ijarah Muntahia Bittamleek	29.45	36.61	32.69	24.45	19.85
Other					
Total Sharia’ah compliant income	43.17	75.66	81.70	100.37	94.15
Other income					
Advisory fee	0.32	1.11	0.86	5.03	0.57
Income from Syndication	0.15	0.18	-	-	-
Administrative fee	2.58	4.44	4.28	4.55	2.16
Exchange difference	0.00	(3.08)	(0.26)	(0.59)	(0.22)
Mudarib fee/Others	0.65	1.06	0.48	1.32	1.09
Total other income	3.70	3.72	5.36	10.31	3.60
Total income	46.87	79.38	87.06	110.68	97.74
Expenses:					
Staff cost	(15.59)	(16.78)	(18.84)	(23.18)	(26.51)
Other administrative expenses	(5.90)	(8.74)	(7.85)	(10.97)	(9.85)
Depreciation	(21.45)	(30.27)	(26.86)	(18.71)	(13.05)
Funding Costs	(2.95)	(2.88)	(3.02)	(6.43)	(7.74)
Provision	(33.62)	(8.46)	(6.24)	(25.14)	(20.09)
Net income	(32.64)	12.25	24.25	26.26	20.51

Islamic Corporation for The Development of the Private Sector Statement of Financial Position As at 30 Dhul Hijja 1436H					
	1432	1433	1434	1435	1436
Assets					
Cash at bank	50.41	49.99	97.49	31.63	42.26
Commodity placements with banks	135.92	230.58	109.61	304.01	394.23
Mudaraba investments	-	-	-	-	-
Managed investments	-	-	-	-	-
Murabaha financing	8.14	17.88	56.56	65.26	60.76
Instalment sales & Line financing	75.61	95.67	117.51	154.88	147.96
Istisna’s assets	5.00	1.67	-	-	-
Investment in Sukuk/Marketable Sect.	5.00	-	-	17.66	13.55
Investment in equity capital	343.76	382.20	635.48	724.04	831.28
Ijarah Muntahia Bittamleek	70.17	77.55	64.04	74.80	68.21
Accrued income and other assets	147.75	131.29	134.99	147.16	151.04
Furniture, vehicles and equipments	2.97	2.28	1.77	1.53	0.99
Total Assets	844.75	989.11	1,217.45	1,520.96	1,710.29
Liabilities and Member’s Equity					
Liabilities:					
Accruals and other liabilities	54.67	30.01	115.38	41.49	9.96
ICD Solidarity Fund	0.77	0.66	0.40	0.89	0.93
Total Liabilities	55.44	30.68	115.78	42.38	10.88
Long Term Loan					
Long/Wakala Borrowing	100.00	188.20	208.21	509.67	683.55
Member’s Equity					
Paid-up Capital	565.82	650.83	749.81	799.00	865.43
Reserves	79.24	119.41	143.66	169.92	150.43
Fair value reserves	44.25				
Total member’s equity	689.31	770.23	893.46	968.91	1,015.86
Total liabilities and member’s equity	844.75	989.11	1,217.45	1,520.96	1,710.29

Reserve Against Losses on Loans

ICD considers a loan as impaired when, based on current information and events, it is probable that ICD will be unable to collect all amounts due according to the loan’s contractual terms. The reserve against losses for impaired loans reflects management’s judgment of the present value of expected future cash flows discounted at the loan’s effective profit rate.

The assessment of the adequacy of reserves against losses for loans is highly dependent on management’s judgment about factors such as its assessment of the financial capacity of borrowers, geographical concentration, industry, regional and macroeconomic conditions, and historical trends.

Other-Than-Temporary Impairments on Equity Investments and Debt Securities

ICD assesses all equity investments accounted for at fair value through profit and loss and all equity investments accounted for at cost less impairment for impairment each quarter. When impairment is identified and is deemed to be other-than-temporary, the equity investment is written down to its impaired value, which becomes the new cost basis in the equity investment. ICD generally presumes that all equity impairments are deemed to be other-than-temporary. Impairment losses on equity investments accounted for at cost less impairment are not reversed for subsequent recoveries in value of the equity investment until it is sold. Recoveries in value on equity investments accounted for at fair value through profit and loss as per the investment entity requirement of IFRS10.

ICD assesses all debt security investments accounted for at fair value through profit and loss for impairment each quarter. When impairment is identified, the entire impairment is recognized in net income if certain conditions are met (as detailed in Notes to ICD’s 1436H Consolidated Financial Statements). However, if ICD does not intend to sell the debt security and it is not more likely than not that ICD will be required to sell the security, but the security has suffered a credit loss, the credit-related impairment loss is recognized in net income and the non-credit related loss is recognized in OCI.

Valuation of Financial Instruments with No Quoted Market Prices

ICD reports at fair value all of its derivative instruments and substantial part of its equity investments. Many of ICD’s financial instruments accounted for at fair value are valued by external consultants based on unadjusted quoted market prices or using models where the significant assumptions and inputs are market- observable. The fair values of financial instruments valued using models where the significant assumptions and inputs are not market-observable are generally estimated using complex pricing models of the net present value of estimated future cash flows.

Valuators make numerous assumptions in developing pricing models, including an assessment about the counterparty’s financial position and prospects, the appropriate discount rates, profit rates, and related volatility and expected movement in foreign currency exchange rates. Changes in assumptions could have a significant impact on the amounts reported as assets and liabilities and the related unrealized gains and losses reported in the profit and loss.

1436H Versus 1435H

Income

ICD reported revenue (net of Ijara depreciation of \$12.39 million) of \$85.35 million in 1436H, as compared to 1435H revenue (net of Ijara Depreciations of (\$18.04 million) \$92.64 million, representing a 8% drop in total revenue. The decrease in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value in 1436H when compared to 1435H was principally as a result of the following (US\$ millions):

	1435H	1436H	Movement	
Income	\$ (million)	\$ (million)	\$ (million)	%
Investment Income				
Complacements with banks & others	10.72	7.35	(3.37)	-31%
Murabaha financing	3.93	3.38	(0.55)	-14%
Instalment sales financing	11.70	13.16	1.47	13%
Investment in equity Investments	47.94	49.61	1.67	3%
Income from Sukuk	1.65	1.58	(0.07)	-4%
Ijarah Muntahia Bittamleek (Net)	6.41	7.45	1.05	16%
Other				
Total Investment Income	82.33	82.53	0.2	0.24%
Other income				
Advisory fee	5.03	0.57	(4.46)	-89%
Administrative fee	4.55	2.16	(2.39)	-52%
Exchange difference	(0.59)	(0.22)	0.37	-62%
Mudarib fee/Others	1.32	0.31	(1.01)	-76%
Total other income	10.31	2.82	(7.49)	-73%
Total income	92.64	85.35	(7.29)	-8%

A more detailed analysis of the components of ICD’s net income follows.

Commodity Placements with Banks & Other Institutions

Commodity placements made up 8% of ICD’s total income in 1436H, which is a slight drop as compared to 10% in 1435H.

In absolute term, ICD earned \$7.35Millions in commodity placement in 1436H as compared to \$10.72Millions in 1435H representing a decrease of over 31%. The credit quality of the counterparty banks have increased substantially during the year in the light of the implementation of the risk management policy. These banks offered lower returns on liquid funds placed with them.

Income from Equity Investments

Income from the equity investment portfolio, increased by \$1.67 million from \$47.94 million in 1435H to \$49.6 million in 1436H. This represents a 3% movement in this line of income. The increase is modest in the light of the increased equity portfolio in 1436H (\$831.28Million) compared to \$724.04 million in 1435H. This was due to the adverse impact of challenges in the equity markets of some of the member countries .ICD accounts for equity using IFRS 10, which emphasizes fair value and the revaluation accounts for the highest percentage change/movement in income from investment entity, although there is some dividend that was received from some investments.

Equity contributed 58% in 1436H of total income compared to 52% in 1435H. It contributed the highest amount in 1436H followed by Ijara Muntahia Bitamleek, which was the highest contributor to total income in 1435H. The contribution of the equity to the total revenue is in line with the asset allocation. The share of equity to total assets in 1436H is 48.6% compared with 47.6% in 1435H.

Income from Ijarah Muntahia Bittamleek

Gross Income from Ijara decreased from \$24.45Millions in 1435H to \$19.85 Millions in 1436H representing a drop of over \$4.59Million (19%) and \$1.05 Million (16%) on gross and net revenue respectively.

This was mainly a result of the low markup rates in the industry, which saw all the rates on the Ijara assets going down in 1436H in comparison to 1435H. This combined with the reduction in Ijara portfolio resulted to a drop in income. An additional contribution to the decline in Ijara revenue is the impact of some of Ijara projects which are impaired.

Despite the decline, Ijara continues to be the second highest source of income bringing over 20% of total income in 1436H; however, this is a reduction since in 1435H it was contributing over 22%.

Income from Murabaha and Installment Sales Financing

Income from Murabaha financing declined from \$3.93Millions in 1435H to \$3.38Millions in 1436H; decline of \$0.55Millions (14%). The decline was mainly because of decrease in Murabaha based line of finance transactions that are being categorized under Murabaha. However, Murabaha financing still represents a small percentage of total revenue; 3% in 1436H and 4% in 1435H.

Installment sales increased by 13% from \$11.70Millions in 1435H to \$13.16Millions in 1436H. This was also because of increase in line of finance business transactions and the higher markup charged to small and medium term businesses, which is financed through Line of finance. Instalment sales make up over 13% in 1436H and 11% in 1435H of total income.

Income from Advisory Services

Income from advisory services decreased by more than 8 times in 1436H compared to 1435H from \$5.03Millions to \$0.57Millions in 1435H and 1436H respectively representing a decrease of over \$4.46Millions. Advisory services income is transaction driven by the completion of the advisory service mandate. During 1436H fewer advisory services transactions were concluded.

Income from advisory represent 1% of total income of ICD in 1436H, this is a drop in total contribution when compared to 5% contribution to total income in 1435H.

Income from Administrative Fees

The drop in number of business transactions led to a decrease in administrative fee income by over 52% from \$4.55Millions in 1435H to \$2.16Millions in 1436H. However, the net contribution to total income from administrative fees decreased from 4.9% in 1435H to 2.5% in 1436H.

Provision for Losses on Term Finance, Other Receivables and Equity

The quality of ICD’s loan portfolio, as measured by average country risk rating and average credit risk rating was substantially unchanged during 1436H. By another measure, non-performing term finance, receivables and equity provisions increased from \$25.14 million of the disbursed loan portfolio at 30th Dhul Hijja, 1435H to \$18.59 million at 30th Dhul Hijja, 1436H.

ICD recorded provision of \$20.09million in 1436H (\$3.19million of specific provisions for losses on term finance, \$2.03 million specific provisions for losses on other receivables, and \$14.87 million of provision for losses Equity). Compared to provisions for losses of \$25.14 million in 1435H (\$11.5million of specific provisions for losses on term finance, \$4.60 million specific provisions for losses on other receivables, and \$9.04 million of provision for losses equity).

Charges on Borrowings

ICD’s charges on borrowings increased by \$1.31 million, from \$6.43 million in 1435H to \$7.74 million in 1436H, this was mainly due to increased borrowings, which led to a 20% increase, when comparing 1436H and 1435H. The weighted average rate of ICD’s borrowings outstanding from market sources, dropped from 1.61% at 30th Dhul Hijja, 1435H, to 1.00% as at 30th Dhul Hijja, 1436H. This was due to overall drop in USD markup rates on the global market.

The size of the borrowings portfolio (excluding the short-term borrowings), increased from \$509.67 Million at 30th Dhul Hijja, 1435H to \$683.55 Million at 30th Dhul Hijja, 1436H.

Other Expenses

There was a 14.36% increase in staff costs mainly due to increase in head count coupled with the annual salary increment. Staff costs increased from \$23.18 Millions in 1435H to \$26.51 Millions in 1436H.

Administrative expenses (the principal component of other expenses) decreased by \$1.12 million from \$10.96 million in 1435H to \$9.85 million in 1436H, driven largely by decrease in consultancy services and business travel expenses included in Administrative expenses. This decrease was all due to results of the cost rationalization efforts that was embarked upon during the year.

V. Governance and Control

Senior Management Changes

The following changes took place in the ICD Senior and Middle Management in the course of 1436H:

- Br. Sulaiman Ali Al-Sultan was appointed as the Human Resources Division Head effective the 7th of Rajab 1436H.
- Sis. Nida Fatima Raza was appointed as the Advisory Services Department Director effective the 14th of Ramadan 1436H.
- Br. Ibrahim Shoukry resigned as the Financial Institutions Development and Financing Department effective the 1st of Rabi-I 1436H.

General Governance

ICD’s decision-making structure consists of the General Assembly, the Board of Directors, an Executive Committee, an Advisory Board, a Shari’a Committee, Chairman of the Board of Directors, a CEO & General Manager and other officers and staff. The General Assembly is the highest decision-making authority. Each member is represented at the General Assembly by an appointed representative. The General Assembly may delegate authority to the Board of Directors to exercise any of its powers, except those reserved to the General Assembly under the Articles of Agreement.

Board Membership

In accordance with its Articles of Agreement, members of the Board of Directors are appointed or elected for a period of three years and may be re-appointed. Currently, the Board of Directors is composed of 10 Directors. The Board of Directors under delegated authority from the General Assembly has established several Committees/Boards including;

- Executive Committee
- Shari’a Committee
- Advisory Board

The Board of Directors is responsible for the general conduct of the operations of ICD. The Board of Directors, on the recommendation of the Chairman of the Board of Directors, is also responsible for adopting policies of ICD and its general rules and regulations; adopting the operational strategy of ICD; adopting the annual administrative budget; submitting the final accounts for each financial year for approval of the General Assembly and interpreting provisions of its Articles of Agreement including proposing amendments.

Board of Directors as of end 1436H

1. Dr. Ahmad Mohamed Ali (Chairman of the Board)
2. Mr. Khaled Mohamed Al-Aboodi (CEO & General Manager)
3. Mr. Bader Abdullah Abuaziza (Representing IDB)
4. Dr. Abdulhamid Alkhalifa (Representing Saudi Arabia)
5. Mr. Omar Ahmed Al-Somali (Representing Financial Institutions)
6. Mr. Abdullah Mohammed Abdullah Al Zaabi (Representing Arab Group)
7. Mr. Abdourahmane Cissé (Representing Africa Group)
8. Mr. Mohammad Nizam bin Haji Ismi (Representing Asia Group)
9. Mr. Mohammad Parizi (Representing IDB)
10. Mr. Abdirahman Sharif (Representing IDB)

Executive Committee

Membership

The Executive Committee consists of five Directors appointed by the Board of Directors. The Executive Committee is composed of up to six members, of which three seats are allocated permanently to the Chairman of the Board of Directors, the CEO & General Manager and the representative from Saudi Arabia respectively. The Executive Committee members are rotated on a yearly basis, enabling all Board members the opportunity to serve on the committee.

Key Responsibilities

The Executive Committee has the power to approve all financing and investments by the Corporation in enterprises in the member countries and has the power to exercise other powers delegated to it by the Board of Directors. Under the Executive Committee’s terms of reference, members of the Executive Committee may convene in executive session at any time. Throughout the year, the Executive Committee receives a large volume of information, which support the execution of its duties. The Executive Committee meets throughout the year to discuss relevant matters.

Executive Committee Members of the Board as of end 1436H

1. Dr. Ahmad Mohamed Ali (Chairman of the Board)
2. Mr. Khaled Mohamed Al-Aboodi (CEO & General Manager)
3. Mr. Bader Abdullah Abuaziza
4. Dr. Abdulhamid Alkhalifa
5. Mr. Mohammad Nizam bin Haji Ismi

CEO & 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 and is responsible for the appointment of officers and staff of the Corporation. To the extent that he is authorized by the Board of Directors, the CEO approves ICD financing and investments.

Shari’a Committee

The ICD Shari’a Committee was subsumed with that of IDB’s, forming the IDB Group Shari’a Committee. The Shari’a Committee is responsible for advising the IDB Group on Shari’a compliance of its products and trans- actions. The Shari’a Committee receives a large volume of information. The Shari’a Committee meets formally and informally to discuss relevant matters.

IDB Group Shari’a Committee as of End 1436H

- 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. Shaikh Mohamed Mokhtar Sellami

Advisory Board

Membership

The Advisory board consists of five international renowned personalities of different nationalities who are ex- perts in the fields of ICD’s activities. Members of the Advisory Board are appointed by the General Assembly for a renewable three-year term.

Key Responsibilities

The Advisory Board is responsible for exchanging views and submitting reports on any matter submitted to it by the General Assembly, the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the General Manager.

Advisory Board as of End 1436H

- 1. Mr. Hamad Saud Al Sayari
- 2. Mr. Alhaji Aliko Dangote, GCON
- 3. Mr. Tan Sri Abdul Rashid Hussain
- 4. Mr. Assaad J. Jabre
- 5. Dr. Abdul Hafeez Shaikh

Audit Committee

The Audit Committee is appointed by the Board of Directors from among its members. The Audit Committee is responsible for overseeing the financial and internal control aspects of ICD, compliance with its mandate and reporting its findings to the Board of Directors. Under the Audit Committee’s terms of reference, member of the Audit Committee may convene in executive session at any time. Throughout the year, the Audit Com- mittee receives a large volume of information, which supports the execution of its duties. The Audit Commit- tee has complete access to management and reviews and discusses with management topics contemplated in their Terms of Reference.

Audit Committee as of End 1436H

- 1. Dr. Abdulhamid Alkhalifa (Chairman)
- 2. Mr. Abdourahmane Cissé
- 3. Mr. Mohammad Parizi

Annex 3
Sharia’h Committe Report

In the name of Allah the Beneficent, the Merciful
REPORT OF ICD SHARI’AH COMMITTEE (1436H)

To: Committee of Directors
Islamic Corporation for the Development of the Private Sector
P.O. Box: 54069 Jeddah 21514
Kingdom of Saudi Arabia

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

The ICD Shari’ah Committee was established as per the provisions of Article 29 of the ICD Articles of Agreement. In compliance with the Articles of Agreement and our mandate, the Committee assumes the responsibility to submit the following report.

It is also the responsibility of the Committee to form an Independent opinion on the ICD operations 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 Committee reviewed a selection of ICD contracts concluded during the year 1436H, in order to form an opinion on their compliance with the principles of Islamic rules and principles. The Committee received all the necessary explanations from the ICD Management and discussed them with officials. Besides, we provided the ICD management with some necessary recommendations to improve the Shari’ah aspects of the approved contracts.


Based on the committee’s review and the explanations received from the ICD management, the discussions with ICD, and our recommendations, we have concluded that there are no violations of the principles of Islamic rules and principles regarding the management of liquid funds and ICD operations during the year starting on 1st Muharram 1436H and ending on 29th Dhou Al Hijja 1436H.

The Committee 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 committee whenever necessary.

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

Wassalamu Alaikum wa Rahmatullahi wa Barakatuh


Chairman of the Committee
Dr. Hussain Hamid Hassan

Shari’ah Committee

IDB Group Internal Shari’ah Auditor
Aboubacar Salihou KANTE

Jeddah, 17 Rabi Thani 1437H (27 January 2016)

Annex 4

Independent Auditor’s Report

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

FINANCIAL STATEMENTS

Dhul Hijjah 30, 1436H (October 13, 2015)

With

INDEPENDENT AUDITOR’S REPORT

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE
SECTOR FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT
Dhul Hijjah 30, 1436H (October 13, 2015)

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Statement of changes in members’ equity	70
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INDEPENDENT AUDITOR’S REPORT

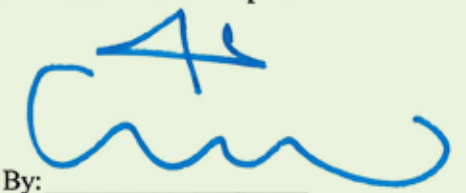
The Members
Islamic Corporation for the Development of the Private Sector

We have audited the accompanying statement of financial position of Islamic Corporation for the Development of the Private Sector (the “Corporation”) as of Dhul Hijjah 30, 1436H (October 13, 2015) and the related statements of income, cash flows and changes in members' equity for the year then ended. These financial statements and the Corporation’s undertaking to operate in accordance with Islamic 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of Dhul Hijjah 30, 1436H (October 13, 2015), and the results of its operations and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Shari’ah rules and principles as determined by the Shari’ah Committee of the Corporation.

PricewaterhouseCoopers

By: 
Ali A. Alotaibi
License Number 379

April 20, 2016
(Rajab 13, 1437H)



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ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

STATEMENT OF FINANCIAL POSITION

As of Dhul Hijjah 30, 1436H (October 13, 2015)

(All amounts in United States Dollars unless otherwise stated)

	Notes	Dhul Hijjah 30, 1436H	Dhul Hijjah 29, 1435H
ASSETS:			
Cash and cash equivalents	4	216,263,052	147,625,799
Commodity placements through financial institutions	5	220,231,984	188,009,961
Murabaha financing	6	60,763,402	65,262,314
Accrued income and other assets	7	151,042,521	147,161,390
Installment sales financing	8	147,960,283	154,875,526
Investments	9	844,826,302	741,696,887
Ijarah Muntahia Bittamleek	10	68,214,860	74,803,373
Property and equipment	11	989,898	1,527,205
TOTAL ASSETS		1,710,292,302	1,520,962,455
LIABILITIES AND MEMBERS' EQUITY:			
Liabilities:			
Wakala borrowings	12	683,552,515	509,665,780
Accruals and other liabilities	13	9,955,407	41,492,477
Amounts due to ICD Solidarity Fund	14	927,513	890,486
Total liabilities		694,435,435	552,048,743
Members' equity:			
Share capital	15	865,430,770	798,998,280
Reserve	16	150,426,097	169,915,432
Total members' equity		1,015,856,867	968,913,712
TOTAL LIABILITIES AND MEMBERS' EQUITY		1,710,292,302	1,520,962,455

The attached notes from 1 through 29 form an integral part of these financial statements

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

STATEMENT OF INCOME

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)

(All amounts in United States Dollars unless otherwise stated)

	Notes	1436H	1435H
Income:			
Commodity placements through financial institutions		7,348,634	10,719,645
Murabaha financing		3,379,226	3,926,692
Installment sales financing		13,160,322	11,695,281
Investments	9.6	50,405,997	48,411,687
Ijarah Muntahia Bittamleek		19,853,857	24,446,776
Administrative fees		2,164,401	4,550,885
Advisory fees		566,667	5,031,208
Mudarib fees	20	309,034	1,317,702
Total Shari'ah compliant income		97,188,138	110,099,876
Depreciation on assets under Ijarah Muntahia Bittmaleek	10	(12,399,336)	(18,040,229)
		84,788,802	92,059,647
Income from non-Shari'ah compliant placements	14	203,419	584,614
Transferred to ICD Solidarity Fund	14	(203,419)	(584,614)
Total operating income		84,788,802	92,059,647
Expenses:			
Staff cost		(26,508,002)	(23,180,204)
Other administrative expenses		(9,849,415)	(10,965,420)
Depreciation on property and equipment	11	(641,742)	(667,317)
Financing costs	12	(7,740,882)	(6,428,295)
Total expenses		(44,740,041)	(41,241,236)
Foreign exchange loss		(223,261)	(593,851)
Fair value gains on derivatives	7	776,374	1,171,182
Income before provision for impairment of financial assets		40,601,874	51,395,742
Provision for impairment of financial assets, net	19	(20,091,209)	(25,135,922)
Net income for the year		20,510,665	26,259,820

The attached notes from 1 through 29 form an integral part of these financial statements

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

STATEMENT OF CASH FLOWS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

	Notes	1436H	1435H
Cash flows from operating activities			
Net income for the year		20,510,665	26,259,820
<u>Adjustments to reconcile net income to net cash utilized in operating activities:</u>			
Depreciation	17	13,041,078	18,707,546
Provision for impairment of financial assets, net	19	20,091,209	25,135,922
Unrealized fair value gain	9	(38,185,598)	(43,751,424)
Profit on disposal of vehicles		-	(19,449)
Fair value gains on derivatives		(776,374)	(1,171,182)
<u>Changes in operating assets and liabilities:</u>			
Commodity placements through financial institutions		(32,222,023)	(103,396,460)
Murabaha financing		4,498,912	(7,867,122)
Accrued income and other assets		(5,140,922)	(15,598,024)
Installment sales financing		6,915,243	(39,658,923)
Investments		(79,810,750)	(71,509,670)
Ijarah Muntahia Bittamleek		(8,998,934)	(38,845,792)
Accruals and other liabilities		(35,220,135)	(73,883,775)
ICD Solidarity Fund		37,027	488,032
Net cash utilized in operating activities		(135,260,602)	(325,110,501)
Cash flows from investing activities			
Purchase of property and equipment	11	(104,435)	(439,015)
Proceed from disposal of motor vehicles		-	32,974
Net cash utilized in investing activities		(104,435)	(406,041)
Cash flows from financing activities			
Share capital contribution		30,115,555	49,192,170
Repayments against Wakala borrowings		(494,665,772)	(635,321,135)
Proceeds from Wakala borrowings		668,552,507	936,779,647
Net cash generated from financing activities		204,002,290	350,650,682
Net change in cash and cash equivalents		68,637,253	25,134,140
Cash and cash equivalents at beginning of the year		147,625,799	122,491,659
Cash and cash equivalent at end of the year	4	216,263,052	147,625,799

The attached notes from 1 through 29 form an integral part of these financial statements

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

	Note	Share capital	Reserve	Net income	Total
Balance as at Dhul Hijjah 29, 1434H		749,806,110	143,655,612	-	893,461,722
Contributions during the year		49,192,170	-	-	49,192,170
Net income for the year		-	-	26,259,820	26,259,820
Transfer to reserve		-	26,259,820	(26,259,820)	-
Balance at Dhul Hijjah 29, 1435H		798,998,280	169,915,432	-	968,913,712
Contributions during the year		30,115,555	-	-	30,115,555
Net income for the year		-	-	20,510,665	20,510,665
Transfer to reserve		-	20,510,665	(20,510,665)	-
Dividends in form of :	16				
- Shares		36,316,935	(36,316,935)	-	-
- Cash		-	(3,683,065)	-	(3,683,065)
Balance at Dhul Hijjah 30, 1436H		865,430,770	150,426,097	-	1,015,856,867

The attached notes from 1 through 29 form an integral part of these financial statements

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

1. INCORPORATION AND ACTIVITIES

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

According to the Articles of Agreement establishing the Corporation, the objective of the Corporation is to promote, in accordance with 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 (“IDB”).

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

The Corporation carries out its business activities through its headquarters in Jeddah, Saudi Arabia. The Corporation’s financial year is the lunar Hijra year.

The financial statements were authorized for issue in accordance with the resolution of the Board of Directors dated Jumada II 19, 1437H (March 28, 2016).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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 Committee of the Corporation. For matters, which are not covered by AAOIFI standards, the Corporation uses the relevant standard 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 3.

During the year ended Dhul Hijjah 29, 1434H (Corresponding to November 3, 2013), the Corporation early adopted the Investment Entities amendments to IFRS 10 ‘Consolidated financial statements’, 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 did not prepare the consolidated financial statements and applied the transition guidance on amendments to IFRSs 10 and 12, all effective from the period beginning 1 January 2015, in so far it relates to the adoption of amendments related to investment entities.

IFRS 10 ‘Consolidated financial statements’ and amendments to IFRS 10: the objective of IFRS 10 is to establish the principles for the presentation and preparation of consolidated financial statements. The amendments to IFRS 10 define an investment entity and introduce an exception from consolidation requirements for investment entities.

IFRS 12 ‘Disclosure of interest in other entities’ and amendments to IFRS 12: The standard requires entities to disclose significant judgments and assumptions made in determining whether the entity controls, jointly controls and significantly influences or has some other interests in other entities. The amendments also introduced new disclosures requirements related to investment entities. Adoption of the standard has affected ICD’s level of disclosure in certain of the above noted areas but has not affected the Corporation’s financial position or results of operations.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27 (Revised), ‘Separate financial statements’ and amendment to IAS 27: The objective of the standard is to prescribe the accounting and disclosure requirements when an entity prepares financial statements. The Amendment requires an investment entity as defined in IFRS 10 to present the separate financial statements as its only financial statements where it measures all of its subsidiaries at fair value through statement of income and to disclose that fact.

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 which are effective from 1 January 2015.

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.

b) Accounting convention

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of investments.

c) Foreign currency translations

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 currencies other than USD (“foreign currencies”) are recorded at the exchange rates prevailing at the dates of the respective transactions. Assets and liabilities denominated in foreign currencies are translated to USD at the date of the statement of financial position. Foreign currency exchange gains and losses are credited or charged 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. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

d) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and commodity placements through financial institutions having a maturity of three months or less at the date of acquisition.

e) 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 cost less any provision for impairment.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) **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. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Murabaha receivables are stated at the cost of the commodity or assets plus accrued profits less repayments received and provision for impairment.

g) **Installment sales financing**

Installment sales 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. The selling price comprises the cost plus an agreed profit margin.

Amounts receivable from Installment sales are stated at the selling price of the commodity or asset less unearned income to the date of the statement of financial position, less repayments received and provision for impairment.

h) **Investments**

Equity-type investments

(i) Subsidiaries

An entity is classified as a subsidiary of the Corporation 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 shareholders or the entity itself regardless of the level of shareholding that the Corporation has in the entity.

The adoption of the Amendments exempted ICD 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. These investments are initially and subsequently measured at fair value. 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 but upto 50% 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 shareholders 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.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Other investments

The Corporation has investments in entities where the Corporation does not have significant influence or control. These investments are classified as investments at fair value through statement of income. Such investments are initially measured at fair value plus transaction costs and subsequently re-measured at fair value. Any unrealized gains and losses arising from the re-measurement in their fair value are recognized directly in the statement of income.

Equity investments whose fair value cannot be reliably measured are carried at cost, less provision for impairment, if any, in the value of these investments.

Debt-type investments

(iv) Investments in Sukuk

Investments in Sukuk are debt instruments and have determinable payments and fixed maturity dates and bear a coupon yield. Sukuk are acquired with the positive intent and ability to hold them to contractual maturity and are classified as investments carried at amortized cost. Investments in Sukuk are initially recognised at fair value plus transaction costs, if any, and subsequently measured at amortised cost less any impairment provision.

i) **Ijarah Muntahia Bittamleek**

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 and the completion of all payments under the agreement. The assets are stated at their acquisition cost less accumulated depreciation up to the date of the statement of financial position. The assets are depreciated using the straight-line method over the related lease period. No depreciation is recorded in respect of assets not yet put to use.

j) **Impairment of financial assets**

(i) Investments

An assessment is made at each statement of financial position date to determine whether there is objective evidence that an investment carried at cost may be impaired. If any evidence exists of impairment for the investment carried at cost, the cumulative loss, measured as the difference between the acquisition cost and the current recoverable amount or fair value, less any impairment loss on the investment in equity previously recognised in the statement of income is recognised in the statement of income. Impairment losses on equity investments previously recognised in the statement of income are not subsequently reversed through the statement of income.

(ii) Other financial assets

The Corporation determines the provision for impairment losses based on an assessment of incurred losses. An assessment is made at each financial position date to determine whether there is an objective evidence that a financial asset or a group of financial assets may be impaired. The impairment loss results from the difference between the carrying amount of the asset and the net present value of the expected future cash flows discounted at the implicit rate of return from the financial asset. The impairment provision is periodically adjusted based on a review of the prevailing circumstances. Impairment losses are adjusted through the use of an allowance account. When a financial asset is not considered recoverable, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the statement of income.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) **Property and equipment**

Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives as follows:

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

Maintenance and repair costs, if any, are expensed as incurred. When the carrying amount of an item of property and equipment is higher than its recoverable amount, it is written down immediately to its recoverable amount.

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

l) **Post-employment benefits plan**

The Corporation subscribes to the group pension plan of IDB. Under the plan, the staff members contribute a fixed percentage of their remuneration monthly and the Corporation contributes the proportionate balance of the cost of funding the plan based on regular actuarial valuations. The contributions accumulated to date are managed and invested by IDB.

m) **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 management as forbidden by Shari’ah, 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 credit.

(v) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek and operating Ijarah are allocated proportionately to the financial periods over the Ijarah contract.

(vi) Dividends

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

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) Mudarib fee

Mudarib 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 in accordance with the terms of the Sukuk investment with respect to the rate of return.

n) **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.

o) **Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Corporation intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

p) **Derivative financial instruments**

Derivatives financial instruments represent foreign currency forward contracts and are used by the Corporation to mitigate the risk of foreign currency exposure related to its investments in Sukuk. 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 ‘accrued income and other assets’ or ‘accruals and other liabilities’, respectively, in the statement of financial position.

q) **Reclassification**

The following reclassifications have been made for better presentation in the comparative 1435H financial statements to conform to 1436H presentation:

- (i) “Ijara Muntahia Bittamleek” balance amounting to USD 0.15 million and related accrued income classified in “Accrued income and other assets” amounting to USD 1.9 million have been reclassified to “Installment Sales Financing”.
- (ii) Balance of a related party amounting to USD 1.1 million has been reclassified to ‘Accrued income and other assets’ from ‘Accounts payable and other liabilities’.

3. CRITICAL 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) Provision for impairment of financial assets

The Corporation exercises judgment in the estimation of provision for impairment of financial assets. The methodology for the estimation of provision for impairment of financial assets is set out in Note 2 (j).

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

ii) Fair value determination

The Corporation determines the fair value of substantially all of its investments at each financial year end. The fair value of investment that are not quoted in an active market is determined by using valuation techniques, primarily discounted cash flow techniques (DCF) and comparable price/book (P/B) multiples. In case of certain investments the fair value is determined on net asset value basis. In case of real estate companies, the valuations are performed on market based, cost based and income based approaches, as appropriate. Where relevant, the Corporation engages third party valuation experts. In the case of start-up companies and companies which are still in capital disbursement stage, management consider the cost of such investments (translated at the exchange rate ruling at the acquisition date) as an approximation of fair value at the statement of financial position date. The cost of investments in equity-type instruments made close to the reporting period date is considered by management to be equivalent to 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 companies/banks to the relevant portfolio of company/bank, and unobservable data, such as the discount for marketability. The Corporation has also considered the geopolitical situation of the countries where the investee companies are situated and has taken appropriate discount on their values. In certain cases the Corporation has applied marketability and liquidity discounts of 10%.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of Dhul Hijjah comprised of the following:

	1436H	1435H
Cash at banks	41,312,674	30,717,834
Commodity placements through financial institutions (Note 5)	174,000,000	116,000,000
Cash and cash equivalent	215,312,674	146,717,834
Bank balance relating to ICD Solidarity Fund	950,378	907,965
	216,263,052	147,625,799

Certain bank accounts which are in the name of Islamic Development Bank are for the beneficial interest of the Corporation and such accounts are managed and operated by the Corporation.

5. COMMODITY PLACEMENTS THROUGH FINANCIAL INTITUTIONS

Commodity placements through financial institutions at end of Dhul Hijjah comprised of the following:

	1436H	1435H
Commodity placements through financial institutions	394,231,984	304,009,961
Less: Commodity placements through financial institutions with an original maturity for a period of three months or less (Note 4)	(174,000,000)	(116,000,000)
	220,231,984	188,009,961

6. MURABAHA FINANCING

Murabaha financing at end of Dhul Hijjah comprised of the following:

	1436H	1435H
Murabaha financing	66,010,549	70,509,461
Less: Provision for impairment (Note 19)	(5,247,147)	(5,247,147)
	60,763,402	65,262,314

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.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

7. ACCRUED INCOME AND OTHER ASSETS

Accrued income and other assets at end of Dhul Hijjah comprised of the following:

	1436H	1435H
Ijarah Muntahia Bittamleek installments receivable	97,464,185	92,278,550
Accrued income	10,036,979	17,961,540
Due from related parties (Note 18)	19,878,470	15,326,513
Proceeds receivable from sale of shares	9,561,338	9,561,338
Proceeds receivable on maturity of government certificates/ Sukuk (Note 7 (a))	8,077,352	8,751,340
Housing advance and prepaid expenses	10,276,427	6,748,869
Arrangement fee receivable	2,144,660	2,144,660
Advances	1,182,937	1,648,625
Derivative financial instrument (Note 7 (b))	1,947,556	1,171,182
Other receivables	6,522,801	7,461,980
	167,092,705	163,054,597
Less: Provision for impairment (Note 19)	(16,050,184)	(15,893,207)
	151,042,521	147,161,390

(a) The amount of USD 8.1 million for which a provisioning of USD 4.3 million was provided represents receivable on maturity of Sukuk. On July 23, 2008 (Rajab 20, 1429H), the Corporation entered into an agreement with the counterparty to invest in Sukuk with an option of conversion of it into shares of the latter at the time of its going for an IPO. These Sukuk matured during 1431H and as at the end of 1436H, the amount is receivable from the counterparty as the IPO formalities has not yet commenced. During 1436H, the sponsor of the project has initiated the process with the Corporation to finalise the settlement of the receivable balance.

(b) The derivative financial instrument represents the foreign currency forward contract which is used to mitigate the risk of currency fluctuation for investments in Sukuk. The contractual amount of these derivatives is Euro 8.32 million (USD 11.59 million). The positive fair value of the derivative at the end of Dhul Hijjah 1436H is USD 1.95 million (1435: USD 1.17 million).

8. INSTALLMENT SALES FINANCING

Installment sales financing receivable at end of Dhul Hijjah comprised of the following:

	1436H	1435H
Gross amounts receivable	170,323,308	170,587,554
Less: Unearned income	(11,676,854)	(5,025,857)
	158,646,454	165,561,697
Less: Provision for impairment (Note 19)	(10,686,171)	(10,686,171)
	147,960,283	154,875,526

All goods purchased for resale under installment sales 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.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

9. INVESTMENTS

Investments in equity capital and debt instruments as at the end of Dhul Hijjah comprised of the following:

	1436H	1435H
Equity investments	831,276,107	724,035,737
Sukuk investments (Note 9.5)	13,550,195	17,661,150
	844,826,302	741,696,887
Equity investments	1436H	1435H
Subsidiaries (Note 9.1)	350,407,871	307,560,612
Associates (Note 9.2)	407,032,106	330,658,206
Other	105,368,834	102,482,690
	862,808,811	740,701,508
Less: Provision for impairment (Note 9.4)	(31,532,704)	(16,665,771)
	831,276,107	724,035,737

The movement in investments for the year ended Dhul Hijjah is as follows:

	1436H	1435H
Balance at Muharram 1	724,035,737	635,476,848
Additions during the year	86,735,735	56,292,668
Disposals during the year	(2,814,030)	(2,444,148)
Provision for impairment (Note 9.4)	(14,866,933)	(9,041,055)
Unrealized fair value gains, net (Note 9.6)	38,185,598	43,751,424
Balance at end of Dhul Hijjah	831,276,107	724,035,737

9.1 Investments in subsidiaries

There are no regulatory or contractual arrangements that restrict the subsidiaries ability to transfer funds in the form of cash dividend or repay loans or advances made to them. The Corporation sometimes extends financial assistance in the form of advances to subsidiaries. However, it is not committed to provide financial or other support including commitments or intentions to assist the subsidiary in obtaining financial support.

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

	Country of incorporation	Nature of Business	Effective ownership %	
			1436H	1435H
Azerbaijan Leasing	Azerbaijan	Leasing	100	100
Ijarah Management Company	Saudi Arabia	Leasing	99	99
Taiba Leasing	Uzbekistan	Leasing	100	100
Alarabea Syrian Company	Syria	Manufacturing	100	100
Maldives Islamic Bank	Maldives	Banking	85	85
Tamweel Africa Holding	Senegal	Banking	60	60
Ewaan Al Fareeda Residential Co.	Saudi Arabia	Real estate	52	52
Capitas International	Saudi Arabia	Advisory service	51	51
Unit Investment Fund (UIF)	Saudi Arabia	Mutual Fund	56	56
ICD Asset Management	Malaysia	Asset Management	100	100
ASR Leasing LLC	Tajikistan	Leasing	67	67
Enmaa Ijarah Company	Egypt	Leasing	60	-
IB Growth Fund	Malaysia	Private Equity Fund	100	-

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NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
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9. INVESTMENTS (continued)**9.2 Investments in associates**

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

	Country of incorporation	Effective ownership %	
		1436H	1435H
Al Majmoua Al Mauritania	Mauritania	50	50
Felix Airways	Yemen	47	47
Anfaal Capital Company	Saudi Arabia	38	38
Sante Alexandra Company	Egypt	35	35
Burj Bank	Pakistan	34	34
Injazat Technology Fund	Bahrain	30	30
Jordan Pharmaceutical Manufacturing Company	Jordan	22	28
Royal Atlantic Residence	Gambia	25	25
Adritech Group International	Jordan	25	25
Saba Islamic Bank	Yemen	20	20
Arab Leasing Company	Sudan	20	20
Kazakhstan Ijara Company	Kazakhstan	36	36
Theemar Investment Fund	Tunisia	43	43
Albania Leasing	Albania	36	36
Saudi SME Fund	Saudi Arabi	25	25
Al Fareeda Residential Fund	Saudi Arabia	33	33
Al Sharkeya Sugar	Egypt	25	25
Bidaya Home Finance Company	Saudi Arabia	20	20
Palestine Ijarah Company	Palestine	33	33
PMB Tijari Berhad	Malaysia	20	20
Taha Alam Sdn Bhd	Malaysia	50	50
Kyrgyzstan Ijara Company	Kyrgyzstan	33	33
El Wifack Leasing	Tunisia	30	-

9.3 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.

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9. INVESTMENTS (continued)

Investments measured at fair value				
	Level 1	Level 2	Level 3	Total
1436H				
Investments	38,734,499	-	762,745,694	801,480,193
1435H				
Investments	5,584,292	-	656,469,733	662,054,025
Reconciliation of Level 3 items				
		1436H	1435H	
At Muharram 1		656,469,733	534,388,100	
Unrealized fair value gains, net		28,122,969	44,882,472	
Additions		62,512,665	43,658,051	
Transfers from investment held at cost		27,247,128	35,205,116	
Disposals		(2,814,030)	(1,664,006)	
Transfer to investments held at cost		(8,792,771)	-	
At end of Dhul Hijjah		762,745,694	656,469,733	
Included in investments as at Dhul Hijjah 30, 1436H are investments net of impairment provision amounting to USD 29.79 million (1435H: USD 61.98 million) where the fair value cannot be measured reliably because of non-availability of sufficiently reliable information for such determination. These investments are held net of provision for impairment of USD 31.53 million (1435H: USD 16.67 million).				
9.4 Movement in provision for impairment on investments		1436H	1435H	
At Muharram 1		16,665,771	7,624,716	
Impairment charges booked during the year		14,866,933	9,041,055	
At end of Dhul Hijjah (Note 19)		31,532,704	16,665,771	
9.5 Sukuk investments				
Investments in Sukuk are in unrated Sukuk.				
9.6 Investment income		1436H	1435H	
Unrealized fair value gains, net		38,185,598	43,751,424	
Dividend		11,420,762	4,185,762	
Income from Sukuk		799,637	474,501	
		50,405,997	48,411,687	

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10. IJARAH MUNTAHIA BITTAMLEEK

Ijarah Muntahia Bittamleek at the end of Dhul Hijjah comprised of the following:	1436H	1435H
Cost:		
Assets not yet in use:		
At Muharram 1	-	-
Additions	8,998,934	38,991,174
Transferred to assets in use	(8,998,934)	(38,991,174)
At the end of Dhul Hijjah	-	-
Assets in use:		
At Muharram 1	186,600,576	200,239,831
Transferred from assets acquired	8,998,934	38,991,174
Assets transferred to beneficiaries	-	(52,630,429)
At the end of Dhul Hijjah	195,599,510	186,600,576
Total costs	195,599,510	186,600,576
Accumulated depreciation:		
At Muharram 1	99,051,451	133,641,651
Charge for the year	12,399,336	18,040,229
Assets transferred to beneficiaries	-	(52,630,429)
At the end of Dhul Hijjah	111,450,787	99,051,451
Balance at the end of Dhul Hijjah	84,148,723	87,549,125
Less: Provision for impairment (Note 19)	(15,933,863)	(12,745,752)
Ijarah Muntahia Bittamleek, net	68,214,860	74,803,373

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

11. PROPERTY AND EQUIPMENT

Property and equipment at the end of Dhul Hijjah 1436H comprised of the following:

	Furniture and fixtures	Computers	Motor vehicles	Other equipment	1436H Total
Cost:					
At Muharram 1	742,437	3,244,899	288,207	205,262	4,480,805
Additions during the year	55,485	-	48,950	-	104,435
Disposal	-	-	-	-	-
At Dhul Hijjah 30	797,922	3,244,899	337,157	205,262	4,585,240
Accumulated depreciation:					
At Muharram 1	591,323	2,178,974	80,923	102,380	2,953,600
Charge for the year	26,264	511,659	77,483	26,336	641,742
Disposal	-	-	-	-	-
At Dhul Hijjah 30	617,587	2,690,633	158,406	128,716	3,595,342
Net Book Value:					
At Dhul Hijjah 30, 1436H	180,335	554,266	178,751	76,546	989,898

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11. PROPERTY AND EQUIPMENT (continued)

Property and equipment at the end of Dhul Hijjah 1435H comprised of the following:

	Furniture and fixtures	Computers	Motor vehicles	Other equipment	1435H Total
Cost:					
At Muharram 1	590,430	3,169,651	342,176	205,262	4,307,519
Additions during the year	152,007	75,248	211,760	-	439,015
Disposal	-	-	(265,729)	-	(265,729)
At Dhul Hijjah 29	<u>742,437</u>	<u>3,244,899</u>	<u>288,207</u>	<u>205,262</u>	<u>4,480,805</u>
Accumulated depreciation:					
At Muharram 1	589,986	1,600,547	271,909	76,045	2,538,487
Charge for the year	1,337	578,427	61,217	26,336	667,317
Disposal	-	-	(252,204)	-	(252,204)
At Dhul Hijjah 29	<u>591,323</u>	<u>2,178,974</u>	<u>80,922</u>	<u>102,381</u>	<u>2,953,600</u>
Net Book Value:					
At Dhul Hijjah 29, 1435H	<u>151,114</u>	<u>1,065,925</u>	<u>207,285</u>	<u>102,881</u>	<u>1,527,205</u>

12. WAKALA BORROWINGS

The Wakala borrowings are received from other financial institutions on which the Corporation pays periodic Muwakkil profit ranging from 0.4% to 1.6% per annum. The borrowings have original maturities ranging from 1 week to 3 years.

13. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities at end of Dhul Hijjah comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Due to related parties (Note 18)	741,942	33,642,453
Accrued profit payable on Wakala borrowing	1,063,022	2,537,115
Accrued expenses	1,151,194	445,267
Dividend payable (Note 16)	3,683,065	-
Other payables	3,316,184	4,867,642
	<u>9,955,407</u>	<u>41,492,477</u>

14. ICD SOLIDARITY FUND

This represents net accumulated income up to Dhul Hijjah 30, 1436H generated from liquid fund placements with certain conventional banks and financial institutions and donation which were not considered in compliance with the Shari'ah principles. As per the recommendation of the Shari'ah Committee of the Corporation, 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 years ended are as follows:

	<u>1436H</u>	<u>1435H</u>
Sources		
Balance at Muharram 1	890,486	402,454
Amount transferred from income during the year	203,419	584,614
Income earned	1,131	980
	<u>1,095,036</u>	<u>988,048</u>
Uses		
Charitable disbursements	(167,523)	(97,562)
Balance at end of Dhul Hijjah	<u>927,513</u>	<u>890,486</u>

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15. SHARE CAPITAL

The share capital of the Corporation at end of Dhul Hijjah comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Authorized: 400,000 (1435H: 200,000) shares of US\$ 10,000 each	4,000,000,000	2,000,000,000
Subscribed capital:		
Available for subscription: 200,000 (1435H: 100,000) shares of US\$ 10,000 each	2,000,000,000	1,000,000,000
Share capital not yet subscribed	(1,124,723,065)	(161,040,000)
Subscribed capital	875,276,935	838,960,000
Installments due not yet paid	(9,846,165)	(39,961,720)
Paid-up capital	<u>865,430,770</u>	<u>798,998,280</u>

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

	<u>1436H</u>	<u>1435H</u>
Islamic Development Bank	393,773,507	375,000,000
Member countries	393,488,239	350,429,256
Iran Foreign Investment Company	39,969,024	35,969,024
Saudi Public Investment Fund	30,000,000	30,000,000
Bank Keshavarzi	6,000,000	5,400,000
Bank Melli	2,000,000	2,000,000
Bank Nationale D'Algerie	200,000	200,000
	<u>865,430,770</u>	<u>798,998,280</u>

The increase in authorized share capital of the Corporation was approved by the shareholders in the General Assembly held on Shaaban 24, 1436H (corresponding to June 11, 2015).

16. RESERVE AND DIVIDENDSReserve

In accordance with Section 1 of Article No. 33 of the Articles of Agreement of the Corporation, the General Assembly shall determine what part of the Corporation's net income and surplus, after making provision for reserves, shall be distributed as dividends only after the reserves level reach 12.5% of the subscribed capital.

Dividends

The General Assembly at its Plenary Sitting held on Shaaban 24, 1436H (corresponding to June 11, 2015) in Maputo, Mozambique, through resolution GA15/6/436, approved a dividend of USD 40 million in proportion to the paid-up capital held by each member as follows:

- (a) For the IDB, an equivalent of USD 18,773,505 to be allocated in the form of shares.
- (b) For the public financial institutions, cash dividend of USD 3,683,065.
- (c) For the member countries, the dividend of USD 17,543,430 to be distributed in the form of shares.

17. DEPRECIATION

Depreciation charge for the year ended Dhul Hijjah comprised of the following:

	<u>1436H</u>	<u>1435H</u>
Ijarah Muntahia Bittamleek (Note 10)	12,399,336	18,040,229
Property and equipment (Note 11)	641,742	667,317
	<u>13,041,078</u>	<u>18,707,546</u>

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18. RELATED PARTY TRANSACTIONS AND BALANCESa) **Transactions with related parties**

Significant related party transactions for the year ended Dhul Hijjah are as follows:

	Nature of Transactions	Amount of transactions 1436H	1435H
IDB	Rent	951,120	747,963
Members of General Assembly, Board of Directors, Advisory Board, Shari’ah Committee & Executive Committee	Allowances and fee	631,004	1,017,556
UIF and Money Market Fund	Mudarib fee	309,034	1,317,702
Bidaya Home Financing Company	Set-up costs	241,389	542,015
Capitas Group International	Consultancy Fee	-	1,108,267
Anfaal Capital	Fees	56,864	-

All related party transactions are conducted at mutually agreed terms and approved by the Board of Directors.

b) **Due from related parties:**

	1436H	1435H
IDB	-	1,701,797
International Islamic Trade Finance Corporation (ITFC)	470,211	200,490
Islamic Corporation for Investments and Insurance of Export Credit (ICIEC)	305,806	105,960
Money Market Fund	535,552	238,619
Anfaal Capital Company	56,863	495,489
Al Fareeda Residential Fund	1,320,268	1,320,268
Tamweel Africa Holding	5,396,586	1,934,355
Bidaya Home Financing Company	7,037,908	6,796,519
Capitas International Group	4,222,730	2,533,016
UIF	532,546	-
	19,878,470	15,326,513

c) **Due to related parties**

	1436H	1435H
Waqf Fund	-	33,414,874
UIF	-	227,579
IDB	741,942	-
	741,942	33,642,453

The balances due to and from related parties are mark-up free with no fixed repayment terms.

d) **Key management compensation**

The compensation paid or payable to key management personnel is shown below:

	1436H	1435H
Salaries and other short-term benefits	700,319	732,000
Post-employment benefits	51,125	39,873
	751,444	771,873

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19. PROVISION FOR IMPAIRMENT OF ASSETS

The movements in the specific provision for impairment during the years ended at end of Dhul Hijjah are as follows:

	1436H	1435H
Balance at Muharram 1	61,238,048	36,102,126
Charge for the year	20,091,209	27,168,915
Write off	(1,879,188)	-
Reversal for the year	-	(2,032,993)
Balance at end of Dhul Hijjah	79,450,069	61,238,048

The breakup of provision for impairment of financial assets is as follows:

	1436H	1435H
Murabaha financing (Note 6)	5,247,147	5,247,147
Accrued income and other assets (Note 7)	16,050,184	15,893,207
Installment sales (Note 8)	10,686,171	10,686,171
Investments (Note 9)	31,532,704	16,665,771
Ijarah Muntahia Bittamleek (Note 10)	15,933,863	12,745,752
	79,450,069	61,238,048

20. ASSETS UNDER MANAGEMENTa) **Unit investment fund**

The Unit Investment Fund (“UIF”) of IDB is a trust fund established under Article 23 of the Articles of Agreement of IDB. 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.

UIF’s management is supervised by an Executive Committee, which is headed by the President of IDB. The Corporation manages UIF as a Mudarib and charges a Mudarib fee of 15% of UIF’s net income, which is included in the statement of income under Mudarib fees.

At the end of Dhul Hijjah 1436H the total assets of UIF under the management of the Corporation amounted to USD 270.99 million (1435H: USD 282.43 million).

b) **Money Market Fund**

The ICD Money Market Fund (Labuan) LP (“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 Sharia compliant placement, investment and financing products. The Corporation acts as the Mudarib (Investment Manager), custodian and administrator of the fund and charges a Mudarib fee ranging from 0.001% to 30% of the return depending on the return percentage, which is included in the statement of income under Mudarib fees.

At the end of Dhul Hijjah 1436H the total assets of MMF under the management of the Corporation amounted to USD 270.78 million (1435H: USD 85.45 million).

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21. NET ASSETS IN FOREIGN CURRENCIES

The net assets denominated in foreign currencies as at Dhul Hijjah 30, 1436H were USD 160.4 million (1435H: USD 109.1 million).

The currency wise break-up of net assets in foreign currencies at the end of the years in USD equivalents are as follows:

	1436H	1435H
Saudi Riyals	81,701,197	66,442,509
Pakistani Rupees	18,620,226	18,323,483
Kazakhstani Tenge	11,649,000	8,334,485
Indonesian Rupee	3,803,136	5,907,154
Jordanian Dinar	5,350,995	8,297,468
Euro	39,804,753	1,838,796
Sterling Pounds	68,720	1,542
Malaysian Ringgit	57,602	-
Emirati Dirham	(626,191)	-
CFA Franc (XOF)	(2,532)	-
	160,426,906	109,145,437

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22. CONCENTRATION OF ASSETS

(a) Concentration of assets by geographical areas at end of Dhul Hijjah is as follows:

	Cash at banks	Commodity placements and Murabaha financing	Installment sales financing	Investments	Ijarah Muntahia Bittamleek	Accrued income and other assets and property and equipment	1436H		1435H	
							Total	Total	Total	Total
Member Countries:										
Africa	-	140,076,429	72,741	307,905,215	33,622,706	36,224,055	517,901,146	365,065,492		
Asia	42,263,052	314,918,957	147,887,542	536,921,087	34,592,154	115,808,364	1,192,391,156	1,155,896,963		
Total assets	42,263,052	454,995,386	147,960,283	844,826,302	68,214,860	152,032,419	1,710,292,302	1,520,962,455		

(b) Concentration of assets by economic sector at year end Dhul Hijjah is analyzed as under:

	Cash at banks	Commodity placements and Murabaha Financing	Installment sales financing	Investments	Ijarah Muntahia Bittamleek	Accrued income and other assets and property and equipment	1436H		1435H	
							Total	Total	Total	Total
Public utilities	-	-	-	-	-	-	-	-	850,000	
Financial services	42,263,052	398,653,500	147,960,283	516,627,459	-	31,125,010	1,136,629,304	986,414,210		
Industry and mining	-	32,069,690	-	53,337,944	65,023,862	96,820,858	247,252,354	364,363,147		
Social services	-	24,272,196	-	274,860,899	3,190,998	722,611	303,046,704	161,228,265		
Others	-	-	-	-	-	23,363,940	23,363,940	8,106,833		
Total	42,263,052	454,995,386	147,960,283	844,826,302	68,214,860	152,032,419	1,710,292,302	1,520,962,455		

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23. 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 end of Dhul Hijjah are as follows:

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity period not determined	Total
Assets						
Cash at banks	42,263,052	-	-	-	-	42,263,052
Commodity placements and Murabaha financing	262,298,724	133,851,414	55,648,304	3,196,944	-	454,995,386
Installment sales financing	18,875,431	59,435,463	69,649,389	-	-	147,960,283
Investments	-	3,132,250	10,417,945	-	831,276,107	844,826,302
Ijarah Muntahia Bittamleek	4,800,623	14,815,145	48,599,092	-	-	68,214,860
Accrued income and other assets and property and equipment	43,215,805	107,357,510	1,459,104	-	-	152,032,419
Total 1436H	371,453,635	318,591,782	185,773,834	3,196,944	831,276,107	1,710,292,302
Total 1435H	252,077,930	328,160,360	216,688,428	-	724,035,737	1,520,962,455
Liabilities						
Wakala borrowings	81,651,742	501,900,773	100,000,000	-	-	683,552,515
Accruals and other liabilities	9,955,407	-	-	-	-	9,955,407
ICD Solidarity Fund	927,513	-	-	-	-	927,513
Total 1436H	92,534,662	501,900,773	100,000,000	-	-	694,435,435
Total 1435H	159,049,630	232,999,113	160,000,000	-	-	552,048,743

24. SHARI’AH SUPERVISION

According to Article 29 (1) of the Articles of Agreement of the Corporation, the Corporation shall have a Shari’ah Committee. As a member of the IDB group, the Corporation utilizes the IDB Group Shari’ah Committee. The Committee rules on whether a certain category of investment is Shari’ah compliant and considers any questions referred to it by the Board of Directors, the Executive Committee or Management of the Corporation.

25. RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The 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.

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25. RISK MANAGEMENT (continued)

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, Murabaha financing, Installment sales financing, Ijarah Muntahia Bittamleek financing and accrued income and other assets. This risk is mitigated as follows:

Liquid fund investments i.e. commodity placements through financial institutions are managed by the Corporation’s Treasury department. The Corporation has made placements with financial institutions under the arrangement of Wakala Bil Istismar. Adequate due diligence is exercised prior to placement and as at the year end, management considers that there are no major credit risks posed to these investments.

The Corporation evaluates Murabaha financing, installment sales and Ijarah Muntahia Bittamleek financing (Term financing). 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 exceeding USD 10 million. Such financing is generally secured against adequate security for term financing projects. 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 impairment provision as disclosed in the statement of financial position was considered fully recoverable by the management of the Corporation. The Corporation’s credit risk concentration is disclosed in Note 22.

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

	Murabaha financing	Installment sales financing	Ijarah Muntahia Bittamleek Receivables	Other receivables
1436H				
0-90 days	-	-	676,148	-
91-180 days	-	-	4,643,642	-
181 days and above	5,247,147	10,686,171	28,634,810	19,783,350
Total	5,247,147	10,686,171	33,954,600	19,783,350
1435H				
0-90 days	-	-	3,985,848	-
91-180 days	-	-	3,137,974	-
181 days and above	5,247,147	10,686,171	16,325,058	22,336,526
Total	5,247,147	10,686,171	23,448,880	22,336,526

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	Installment sales financing	Ijarah Muntahia Bittamleek Receivables	Other receivables
1436H				
0-90 days	-	-	16,343,152	-
91-180 days	318,872	-	5,622,876	-
181 days and above	4,967,065	-	34,937,111	-
Total	5,285,937	-	56,903,139	-

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25. RISK MANAGEMENT (continued)

	Murabaha financing	Installment sales financing	Ijarah Muntahia Bittamleek Receivables	Other receivables
1435H				
0-90 days	13,063,062	220,606	8,939,585	-
91-180 days	588,620	58,108	5,636,953	-
181 days and above	1,464,784	-	24,381,796	2,187,943
Total	15,116,466	278,714	38,958,334	2,187,943

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 provision 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.

b) 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 certain other price risks.

i) 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 a Sukuk transaction that is denominated in foreign currency. The Corporation manages these risks through a variety of strategies, including foreign currency forward contract.

ii) 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. The Corporation is exposed to changes in mark-up rates mainly on its Murabaha, Installment Sales and Ijara Muntahia Bittamleek financing through changes in the benchmark of the market mark-up rate; LIBOR. Other financing arrangements are normally based on fixed rates. The Board approved Asset and Liability Management policy requires that ICD follow the matched-funding principle in managing its assets and liabilities. Thus, ICD ensures that the mark-up rate basis and currencies of all debt-funded assets match those of the underlying liabilities. Such approach ensures that ICD’s investment income spread remains largely constant regardless of mark-up rate and exchange rate movements.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

NOTES TO THE FINANCIAL STATMENTS

For the year ended Dhul Hijjah 30, 1436H (October 13, 2015)
(All amounts in United States Dollars unless otherwise stated)

25. RISK MANAGEMENT (continued)

iii) Price risk

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

c) 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 and equivalents, commodity placements through financial institutions and Murabaha financing with short-term maturity of three to twelve months. Please see Note 23 for the maturity schedule of the assets.

26. FAIR VALUES

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 9.

27. COMMITMENTS

At Dhul Hijjah 30, 1436H, the un-disbursed commitments for investing in operations and other investments amounted to USD 336.9 million (1435H: USD 298.1 million).

28. SUBSEQUENT EVENTS

Subsequent to the year end on Rajab 6, 1437H (April 13, 2016), the Corporation issued Sukuk amounting to USD 300 million with the maturity date of April 13, 2021.

29. SEGMENT INFORMATION

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 borrowings. 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. Further, the internal reports furnished to the Board of Directors do not present discrete financial information with respect to the Corporation’s performance to the extent envisaged in FAS 22; geographical and economic sector distribution of the Corporation’s assets is set out in Note 22.

Board of Directors

As of 30 Dhul Hijjah, 1436H



Dr. Ahmad Mohamed Ali
Chairman of the Board



Mr. Khaled Al Aboodi
CEO & General Manager



Dr. Abdulhamid Alkhalifa
Representing
Saudi Arabia



Mr. Abdullah M.A. Al Zaabi
Representing
Arab Group



Mr. Abdourahmane Cissé
Representing
Africa Group



Mr. Mohammad Nizam bin Haji Ismi
Representing
Asia Group



Mr. Omar Ahmed Al-Somali
Representing
Financial Institution Group



Mr. Bader Abdullah Abuaziza
Representing IDB



Mr. Mohammad Parizi
Representing IDB



Mr. Abdirahman Sharif
Representing IDB

ICD Directors

As of 30 Dhul Hijjah, 1436H



Mr. Khaled Al Aboodi
CEO & General Manager



Dr. Abdelaziz Mustafa
Director of
Corporate Support



Dr. Majid Sabbagh Kermani
Director of Strategy
& Policy Department



Mr. Najmul Al Hassan
Director of Financial
Institutions Development
Department



Mr. Farid Masood
Director of Asset
Management
Department



Ms. Nida Fatima Raza
Director of
Advisory Services
Department



Mr. Juan Limandibhratha
Director of Risk
Management
Department



Dr. Ghassan Al- Baba
Executive
Director - Thiqa



Mr. Mohammed Alamari
Director of Internal
Audit Office

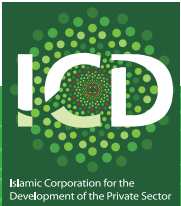


Mr. Farid Masmoudi
Director of Business
Development &
Partnership Department



Mr. Rudolph Wael
Director of Direct
Investment &
Financing Department

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