MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Rate this Research

Islamic Development Bank – Ordinary Capital Resources

Overview and Outlook

The Islamic Development Bank's (IsDB) Ordinary Capital Resources' long-term rating of Aaa reflect the Bank's (1) strong shareholder support, including from several highly-rated sovereigns; 2) the institution's preferred creditor status, which ensures that debt it is owed is excluded from the imposition of capital account controls, as well as any restructuring of sovereign obligations; (3) a strong capital base and prudent financial and risk management policies; and (4) solid liquidity levels.

Like other MDBs, the IsDB is governed solely by international law and is not subject to any particular sovereign jurisdiction. The majority of the IsDB's operational assets, equivalent to development loans for other MDBs, benefit from sovereign guarantees and the remaining benefit from undertakings of government-owned entities or highly-rated bank and commercial guarantees.

The Bank's capital adequacy is strong. At the end of the Islamic year 1435H (24 October 2014), total operational assets and equity investments were only 34% higher than usable equity (paid-in capital plus total reserves), despite a ramp-up in sukuk issuance. Meanwhile, the Bank's risk asset coverage ratios continue to compare favorably with other MDBs.

The 56 member countries of the IsDB are strongly committed to the organization as one of the leading Islamic financial institutions, but the weighted average of its shareholders' sovereign rating is lower than other Aaa-rated MDBs – the IsDB has no Aaa-rated members. This support was illustrated by the board of governors' May 2013 decision to increase the authorized capital from 30 billion Islamic Dinars (US$45 billion) to ID 100 billion ($149 billion). The board also increased the Bank's subscribed capital, from ID 18 billion ($27 billion) to ID 50 billion ($74 billion). In addition, the board of governors called on member states to provide ID 3.6 billion ($5.4 billion) in paid-up capital over the next 20 years. As of end 1435H, 98.6% of the issued amount had been subscribed by member countries.

RATINGS

Islamic Development Bank

	Rating	Outlook
Long-term Issuer	Aaa	Stable
Short-term Issuer	P-1	--
Senior Unsecured	Aaa	--

Table of Contents:

OVERVIEW AND OUTLOOK 1
RATING RATIONALE 7
PROFITABILITY 15
APPENDICES 23
MOODY'S RELATED RESEARCH 28
RELATED WEBSITES 28

Analyst Contacts:

DIFC +9714.401.9536

Mathias Angonin +9714.237.9548
Analyst
mathias.angonin@moodys.com

Aurelien Mali +9714.237.9537
Vice President - Senior Analyst
aurelien.mali@moodys.com

NEW YORK +1.212.553.1653

Gabriel Torres +1.212.553.3769
Vice President - Senior Credit Officer
gabriel.torres@moodys.com

LONDON +44.20.7772.5454

Alastair Wilson +44.20.7772.1372
Managing Director - Global Sovereign Risk
alastair.wilson@moodys.com

This Credit Analysis provides an in-depth discussion of credit rating(s) for the Islamic Development Bank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

The IsDB has increased the use of sukuk to augment its lending capacity and develop the global Islamic financial markets. The Bank issued four series of Trust certificates in 1435H under the recently upsized $10 billion global MTN program, increasing its total liabilities to ID 7.4 billion in 1435H from ID6.2 billion in 1434H. In late 1436H the Bank decided to increase the ceiling on its sukuk program (IDB Trust Services Ltd., Aaa) to $25 billion from $10 billion, indicating a continued increase in leverage. Nonetheless, the IsDB has a large capital base, and the ratio of liquid assets to borrowings remains higher and the gearing ratio lower than several Aaa-rated MDBs. According to the bank, the debt-to-equity ratio will rise to 125% in the coming years, a level still well below that of other Aaa-rated MDBs such as the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD).

Despite having a risky operating environment that is inherent to its role as a development bank, the IsDB's operational assets continue to perform well, with a very low level of impairment. Moreover, the most risky portion of the bank's operational assets (those extended to the poorest member countries on a concessional basis) is gradually being transferred to a new poverty reduction fund (the Islamic Solidarity Fund for Development or ISFD), which is financially independent from the bank. The bank has committed to contribute $1 billion to the ISFD over a period of 10 years – of which 30% remain outstanding – and the ISFD has contributed to enhance the bank's risk profile.

Recent political unrest within the MENA region has not impacted the bank's creditworthiness. The IsDB's exposure to countries undergoing or having experienced political turmoil is low, with 2.6% and 0.8% of financed operations in Syria and Yemen, respectively. At the end of 1435H, non-performing operating assets represented around 1.1% of total operating assets, only a slight increase over the 1434H level.

The IsDB's rating outlook is stable, indicating that no rating changes are likely at this time. Although highly unlikely, downward rating pressure could result from a loss of shareholder support, perhaps arising from significant losses and sizeable defaulting assets, or liquidity stress arising from capital markets developments.

This Credit Analysis elaborates on the Islamic Development Bank's credit profile in terms of Capital Adequacy, Liquidity and Strength of Member Support, which are the three main analytic factors in Moody's Supranational Rating Methodology.

Organisational Structure and Strategy

The IsDB has a diversified shareholder base and proven track-record

The IsDB, based in Jeddah (Kingdom of Saudi Arabia), was established as an MDB in 1975. It was created by the Organisation of Islamic Cooperation (OIC) with the mission of providing financial and technical assistance to member countries and Muslim communities in non-member countries in accordance with the principles of Shari'ah or Islamic law. The conditions for membership of the IsDB include (1) being a member of the OIC; (2) paying the first installment of the minimum subscription to the capital of the IsDB; and (3) accepting the conditions decided upon by the bank's board of governors.

The IsDB Group comprises the bank, which is the institution we rate and which is financed through ordinary capital resources (OCR), as well as affiliated entities and trust funds that are not consolidated in the bank's accounts. The IsDB presents its financial statements in Islamic Dinars (ID), with one ID equivalent to one IMF special drawing right (SDR), and according to the Islamic or Hijri calendar, a lunar calendar with 12 months that is about 11 days shorter than the Gregorian year. This report mainly refers to 1435H, equivalent to the period between November 4, 2013 and October 24, 2014. While transactions of the bank may be denominated in Islamic Dinars, obligations under financing agreements are discharged in freely convertible currencies.

Member countries are represented on the board of governors, which delegates powers to the board of executive directors. The president of the bank, also the chairman of the board of executive directors, was appointed in 1395H (1975). As of end 1435H, the IsDB had 56 member countries with the following geographical distribution: Africa (26), the Middle East (16), Asia & Europe (13) and Latin America (1). In its 10-year strategy, it has outlined a gradual decentralization of its activities, and a new IsDB Group country gateway office was opened in Turkey in 1434H.

A leading Islamic financial institution

Firstly, the IsDB fulfils its developmental mission through Shari'ah-compliant methods of financing such as leasing, instalment sales, interest-free loans and equity investments. The fundamental underpinning of Islamic finance requires that a return be earned on tangible economic investment with an equitable risk-sharing profile. The concept of a bank deposit or a loan that earns interest, but of which the principal must be repaid in full, does not comply with Shari'ah. In practice, the application of Shari'ah means that Islamic finance operations must be asset-based. Moreover, the operations of the IsDB, because of its close relation with the OIC and its Fiqh Academy of Islamic Jurists, carry a high level of technical legitimacy in the world of Islamic finance, as the IsDB aims to promote the highest standards in the industry. A Shari'ah Committee is appointed for a period of three years renewable with the mission of assessing the bank's compliance with the principles of Shari'ah.

Secondly, the IsDB is an institution exclusively composed of member countries with emerging market and developing economies. Unlike other Aaa-rated MDBs, the IsDB does not have any Aaa-rated countries among its shareholders. Although some of the shareholders have high quality credit profiles subject to low or very low credit risk (including the largest shareholder, Saudi Arabia, and others such as the United Arab Emirates, Qatar, Kuwait, Oman and Malaysia, all rated Aa or A), the very strong commitment of shareholders to the IsDB is not directly reflective of their economic strength but rather of a binding community ethos.

Thirdly, the IsDB relied almost exclusively on shareholders' funds for its financing until 1424H (2003). This prudent approach to operations explains why leverage ratios are comparatively very low. The volume of sukuk borrowing has gradually increased over the past decade, supported by a stable investor base and growing demand for Islamic instruments in the MENA region.

The IsDB Group includes several institutions with a specific mandate

The IsDB has relationships with a number of affiliates and trust funds. Some of these are treated on the balance sheet as equity stakes, while others, although managed by the bank, are not owned by the bank and therefore carry limited risk for the IsDB.

Entities of the IsDB Group have strong inter-linkages. They benefit from a common risk management framework, with a monthly Group risk management committee meeting, and the IsDB Group President is Chairman of the various entities. After contributing its portion to their initial capital, the Bank's policy is to gradually reduce its shareholding through non-participation in subsequent capital increases and dilution of its shareholding to a minimum of 25% plus one share.

Although IsDB does not have any contingent liabilities or legal commitments with regard to its associates, in our view entities of the IsDB Group benefit from potential, voluntary support from the IsDB because of the equity and reputational risks that would arise from a Group entity running into financial difficulties. Group entities are recognized as associates rather than as subsidiaries because they are not controlled by the Bank.

Entities of the IsDB Group include:

» The Waqf fund ("Special Account Resources Waqf Fund"), established as an endowment fund and fully owned by IsDB, consists essentially of accumulated interest income earned on liquid funds placed with conventional banks. The non-Shari'ah nature of these operations explains the transfer of what constitutes a reserve of liquidity for the bank. In addition, a certain share of the Fund's total income and a portion of the returns from the IsDB's investments in the international market are allocated to the principal amount of the Fund every year until it reaches ID 1 billion. The Waqf had total assets of ID 0.90 billion at end-1435H, up from ID 0.84 billion in 1434H. The Bank can readily access these funds in case of need, although some of its resources are earmarked for special assistance programs.

» The Islamic Corporation for the Development of the Private Sector, or ICD. As private-sector arm of the IsDB Group, ICD was created in 1421H to "encourage the establishment, expansion and modernization of private enterprises producing goods and services in such way as to supplement the activities of the bank" through the provision of equity investment and terms finance. Until 1433H, the IsDB held a majority stake in ICD and considered it a subsidiary. The ICD is now an associate of the IsDB; the Bank has reduced its stake in ICD to 46.7% as of 1435H from 50.0% the year before as it did not participate in continued general capital increases. 45.9% of the shareholding structure is composed of IsDB member countries, with Saudi Arabia being the second-largest shareholder, with 17.9% of the ICD's capital. In April 2015 we issued a first-time issuer rating of Aa3 with a stable outlook.[1]

» The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the insurance arm of the IsDB Group. Established in 1415H (1994), it provides export credit insurance and reinsurance for exports emanating from its member countries, in order to cover the non-payment of receivables resulting from commercial and non-commercial risks. It also provides investment insurance for foreign investment flows within its member countries. The Waqf Fund owns around 52% of the ICIEC's equity, with the remainder in the hands of a set of shareholders similar to that of the bank itself. We rated the ICIEC for the first time in April 2008 and assigned it an insurance financial strength rating of Aa3 with a stable outlook.[2]

» The International Islamic Trade Finance Corporation (ITFC), the trade finance arm of the IsDB Group, established in 1427H. ITFC has consolidated all the trade finance businesses that was previously handled by various windows within the IsDB Group. As of end-1435H, ITFC was 37.9% owned by the Bank, while 28.5% of ITFC is owned by Saudi Arabia's government and public entities, the rest being shared by member countries and private sector entities. ITFC is not rated by Moody's.

1 Islamic Corporation for the Development of the Private Sector, Credit Analysis, April 2015

2 ICIEC, Credit Opinion, April 2015

» The Islamic Solidarity Fund for Development (ISFD). This fund was formalized in May 2006 and launched as an endowment in May 2007 with a targeted capital of $10 billion. The ISFD's main purpose is to help alleviate poverty, enhance capacity building, eliminate illiteracy, and eradicate diseases and epidemics predominant in its least-developed member countries. It was established within the IsDB on the basis of voluntary contributions by all member countries, regardless of their development status. As at the end of 1435H, IsDB and 44 member countries had pledged capital contributions of $1 billion and $1.68 billion respectively. The paid-in capital was $700 million by IsDB and $1.56 billion by member countries.

» The Islamic Research and Training Institute (IRTI) and the World WAQF Foundation (WWF) were established in 1401H and 1422H and have noncommercial activities. The IRTI undertakes research and provides training and information services in member countries, while the WWF promotes and activates four Awqaf projects.

In addition, the IsDB Group manages two specialized funds:

» The Awqaf Properties Investment Fund (APIF), trust fund managed by the Bank in accordance with the Islamic concept of Mudarabah and which specializes in real-estate investments, established in 1421H. As of 1435H, the IsDB held 38.6% in the APIF, the remainder being held by Islamic banks.

» The Unit Investment Fund (UIF). This trust fund aims to promote foreign direct investment in member countries in accordance with the principles of Shariah. In order to consolidate private sector activities under a single entity within IsDB Group, the resources and activities of the UIF were transferred to the ICD with effect of 1429H.

The IsDB also has investments in associates, consisting mainly of participations in Islamic banks and Takaful companies, including, among others, large minority stakes in Bank Muamalat Indonesia (unrated), Bosnia Bank International (unrated) and Islamic Bank of Senegal (unrated).

The Islamic Development Bank leads efforts to develop Islamic instruments

As a supranational entity, the IsDB has an influential role in promoting and setting standards for Islamic finance. It has helped many of its 56 members to introduce the necessary legislation for the issuance of sovereign sukuk, including most recently Oman (A1 negative) and Senegal (B1 positive) and to develop the regulatory and legal framework for Islamic banking, including in Morocco (Ba1 stable) and Azerbaijan (Baa3 stable). The bank has earmarked at least $4 million from its annual net income to finance technical assistance operations (through grants) in the field of Islamic Finance over the period 1434H-1436H.

The IsDB is one of the largest issuers of sukuk, along with the governments of Malaysia (A3 positive), Indonesia (Baa3 stable) and Qatar (Aa2 stable) (see Exhibit 1). The bank's two sukuk programs, IDB Trust Services Limited (Aaa stable) and Tadamun Services Berhad (Aaa stable) are among few Aaa-rated sukuk outstanding, along with a sukuk issued in 2009 by the International Finance Corporation (Aaa stable) and a more recent issuance by the government of Luxembourg (Aaa stable). The public offerings have enabled the bank to develop a sukuk yield curve, with a target of at least one benchmark dollar-denominated issuance every year.

In 1435H, the IsDB conducted four transactions: (1) two benchmark issuances of $1.5 billion each under the updated Medium Term Note (MTN) program and maturing in March and September 2019, respectively; (2) two private placements of $100 million with a three-year maturity and €300 with a four-year maturity for its first Euro-denominated sukuk privately placed with investors. As a result, as of end-1435H sukuk instruments accounted for 41% of the IsDB's funding position, up from 31% in 1434H.

EXHIBIT 1

Largest sukuk obligors, based on outstanding sukuk as of March 2015

Obligor	USD Billion
Government of Malaysia (A3 positive)	56.2
Government of Indonesia (Baa3 stable)	16.0
Government of Qatar (Aa2 stable)	10.6
Khazanah Nasional Bhd (A3 positive)	9.7
Projek Lebuhraya Utara-Selatan Bhd (unrated)	9.7
Islamic Development Bank (Aaa stable)	9.7
Saudi Electricity Company (A1 stable)	9.4
Government of Turkey (Baa3 negative)	5.3
Malakoff Corporation Berhad (MCB, unrated)	4.6
Government of Bahrain (Baa3 negative)	4.5

Source: IFIS, Moody's

Rating Rationale

Our determination of a supranational's rating is based on three rating factors: Capital Adequacy, Liquidity and Strength of Member Support. For Multilateral Development Banks (MDBs), the first two factors combine to form the assessment of Intrinsic Financial Strength, which provides a preliminary rating range. The Strength of Member Support can provide uplift to the preliminary rating range. For more information please see our Supranational Rating Methodology.

Capital Adequacy: Very High

Sound capital position supported by low leverage and NPLs

Factor 1

Scale		Very High	High	Medium	Low	Very Low	
	+	■					-

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

Operational asset growth has been high but is slowing down, while equity investments are stable

The IsDB's operations can be divided into two main segments: operational assets and equity investments – now called project assets and investment assets. Gross 'operational assets' – which other MDBs classify as loans outstanding – represented ID 9,223 million, or 62.3% of total assets at end-1435H. Gross equity investments amounted to ID 1,479 million or 10% of gross assets, divided almost equally between investment in equity capital and investment in associates, while 26% of assets were liquid assets. Equity investments have been relatively stable since 1426H, while the lending activity has rapidly increased (+70% since 1430H).

Gross operational assets are divided into four categories, from the oldest to the newest activity:

» Loan contracts: Introduced in 1396H, the IsDB uses this mode of financing for projects in its least developed member countries, which are mostly in agriculture, the social sector and infrastructure. They are interest-free and carry only a nominal service fee meant to cover the actual costs of administering the portfolio. The repayment period ranges from 15 to 25 years, including a grace period of 3-7 years. They amounted to ID 1,825 million or 20% of gross operational assets at end-1435H.

» Leasing through Ijara Muntahia Bitamleek: Under this scheme (introduced in 1397H), the lease concludes with legal title of the leased asset passing to the lessee. The IsDB retains ownership of the goods (mainly machinery and equipment) throughout the lease period, but transfers the usufruct to the beneficiary. This form of finance totaled ID 2,264 million or 24% of gross operational assets at end-1435H.

» Istisna'a: A mode of financing (introduced in 1416H) whereby IsDB enters into a contract to sell specific goods or services to a buyer, produced according to agreed-upon specifications, within a pre-determined time-frame and price. It amounted to ID 3,654 million or 40% of gross operational assets in 1435H.

» Installment sales: a mode of financing whereby IsDB purchases machinery and equipment, then sells them to the beneficiary at a higher price with repayment in installments. The ownership of the asset is transferred to the purchaser on sale. This reached ID 1,176 million or 12.7% of gross operational assets at end-1435H.

- Murabaha: A contract of sale in which IsDB purchases the goods needed by a buyer and sells the goods to the buyer on a 'cost-plus' basis. Both the profit (mark-up) and the timing of repayment are specified in an initial contract. At end-1435H, it stood at ID 304 million or 3% of gross operational assets. Murabaha contracts are now classified as treasury assets rather than project assets.[3]

However, growth in the operational assets segment is expected to be slower going forward. According to the group's 10 Year Strategic Framework adopted in 1435H, the Bank is set to moderate its growth path, with a target growth for OCR approvals at 1% annually over 3 years. This compares with a 20.7% year-on-year growth in approvals in 1435H.

Capital adequacy is solid, both in absolute terms and relative to other MDBs

The IsDB has a strong capital base. As with many other MDBs, there is a rule (article 21 of the Articles of Agreement) stipulating that the total amount of equity investment, loans outstanding and other ordinary operations cannot, at any time, exceed the total amount of unimpaired subscribed capital, reserves, deposits, other funds raised and surplus included in the OCRs. This prudential rule is well-observed: the ratio stood approximately at 38% at end-1435H, comfortably below the 100% ceiling. In fact, the sum of paid-in capital and total reserves (usable equity) was ID 7.4 billion at end-1435H. This compares with ID 9.2 billion of operational assets and ID 0.8 billion of equity investments.

In addition to the bank's operations being asset-based by nature, there are three additional sources of financial strength:

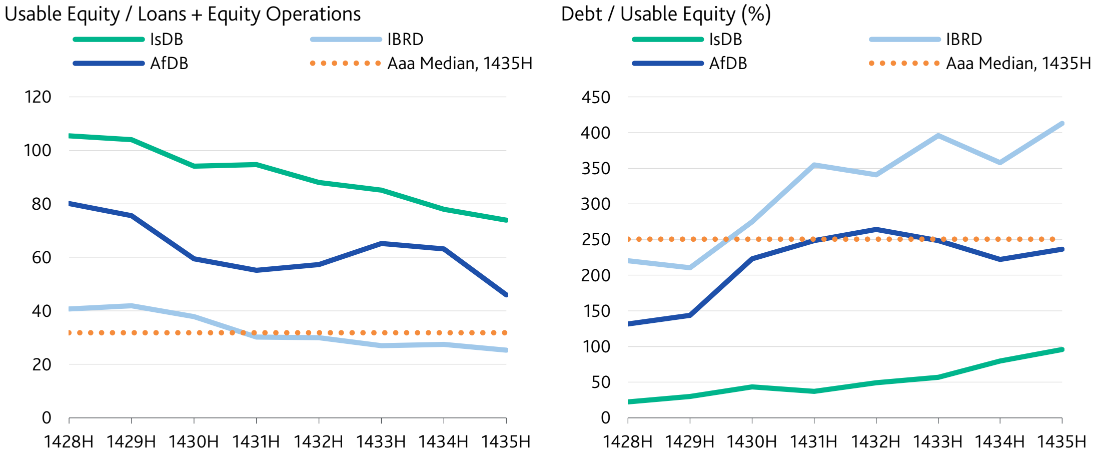
- Because of the recent decision made by shareholders to expand the Bank's capital base, callable capital rose substantially to ID 40.5 billion at end-1435H from ID 8.9 billion at end-1434H, of which ID 19.3 billion, or about half, is from A- or higher-rated member countries.
- The Articles of Agreement prohibit profit distribution until the general reserve reaches 25% of subscribed capital. As subscribed capital increases, the minimum required general reserve (ID 2.1 billion at end-1435H) rises too.
- The assets held in the Waqf Fund, which serves as an additional layer of protection against potential credit losses. The Waqf Fund, of which total assets reached ID 0.9 billion at end-1435H, utilizes income from its liquid investments to provide grants to a variety of projects.

This strong capital base places the IsDB in a generally favorable position in terms of capital adequacy when compared with other Aaa-rated MDBs (see Exhibit 2). At 73.9%, the asset coverage ratio (defined as usable equity divided by operational assets and equity investment) is higher than the median for Aaa-rated MDBs, around 31.8% as of 1434H. The leverage ratio (debt to usable equity), at 95.6% remains much lower than the median for Aaa-rated MDBs, about 250.6% as of 1435H.

[3] In this report, we include Murabaha financing in our calculation of operational assets

EXHIBIT 2

Asset coverage and leverage ratios converge with those of other Aaa-rated MDBs



Source: Islamic Development Bank, African Development Bank, International Bank of Reconstruction and Development, Moody's Investors Service

We also use two variants of the risk asset coverage ratio to measure the true risk carried by an MDB. In the first variant, usable equity (paid-in capital plus total reserves) is divided by the portion of operating assets and equity investments in sub-investment grade countries. According to this measure, the IsDB has a strong ratio among MDBs, at 102% in 1435H, although down from almost 170% ten years ago.

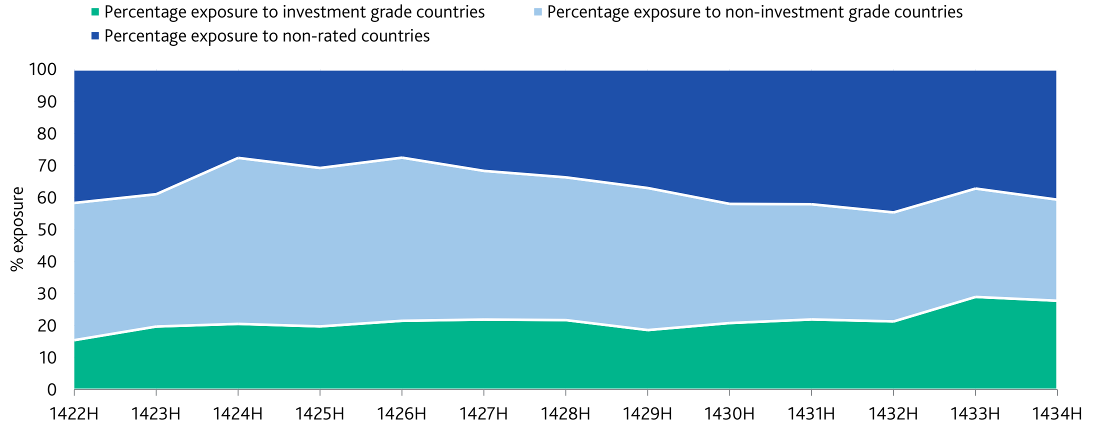
The second, more dynamic variant adds to the numerator the callable capital of Aaa/Aa-rated member countries, which are presumed to be able and willing to support the institution in case of difficulty. The IsDB's ratio of 355% in 1435H – up from 156% in 1434H due to additional callable capital – is now significantly higher than that of other Aaa-rated MDBs. Moreover, this ratio does not take into account the very strong commitment of the IsDB's members, including those rated below Aa and unrated, and the portion of capital that is called-up but not yet paid.

The growth in operations is financed by a combination of sukuk issuance and additional capital

While gross operational assets have been steadily rising since 1427H and rose 8% year-on-year in 1435H, IsDB's exposures to non-investment grade countries as a percentage of total exposures has decreased to 72.4%, including non-rated countries (see Exhibit 3), from 78.7% in 1432H. However, a large part of the decrease is related to Indonesia's and Azerbaijan's upgrades to Baa3 in 1432H, followed by Turkey in 1433H (it is partially offset by Tunisia's downgrade the same year). Operational assets, which consist of receivables from Murabaha financing, Istisna'a assets, installment sales financing, loan contracts and Ijarah Muntahia Bittamleek, ended at ID 9.2 billion in 1435H from ID 8.5 billion in 1434H.

EXHIBIT 3

Exposure to investment-grade countries has recently picked up (% of total exposure)



	1431H	1432H	1433H	1434H	1435H
Above A-rated country	16.0	10.8	9.7	13.6	8.4
Investment grade countries	22.0	21.3	29.0	27.8	27.6
Non-rated countries	35.9	34.0	33.8	31.5	28.6
Non-investment-grade countries (including non-rated countries)	78.0	78.7	71.0	72.2	72.4

Source: Islamic Development Bank, Moody's Investors Service

The IsDB's impaired operational assets remained stable in 1435H at a very low level (around 1.1% of problem loans to total loans), close to their five-year average. This phenomenon is largely explained by the fact that the bulk of the IsDB's exposures are sovereign-guaranteed. In addition, the IsDB enjoys strong support from its member countries underlined by its preferred-creditor status (see section below on asset quality).

The board of governors' major decisions in 1434H included the increase in authorised capital from ID 30 billion to ID 100 billion, as well as a similar increase in subscribed capital from ID 18 billion to ID 50 billion, of which ID 3.6 billion was called and will be paid up in straight-line instalments over 20 years. In 1435H paid-up capital increased 1.0% to ID 4.85 billion.

We expect paid-in capital to rise further in the coming next years as the new subscribed capital is progressively paid. These developments illustrate the continued commitment of the bank's shareholders and are key to maintaining the bank's strong capital structure, as the amount of subscribed capital has been growing more slowly over the past five years, with sukuk financing preferred to equity in order to finance operational growth.

Leverage: Increased borrowing, but gearing ratio remains in check

Although the IsDB's gearing ratios have increased over the last few years due to sukuk issuances, they remain low in absolute and comparative terms. The ratio of total borrowing to usable equity rose sharply to 95.6% at end-1435H from 79.5% at end-1434H, coming very close to IsDB's leverage ceiling of 125%. This ceiling was increased form 100% during the 40th Annual Meetings (1436H).

Nonetheless, compared to other similar rated MDBs, IsDB's leverage profile remains conservative. For example, the gearing ratios of the International Bank for Reconstruction and Development (Aaa stable) and the Asian Development Bank (Aaa stable) both exceed 350%.

The IsDB intends to continue tapping the market in years to come. Given the favorable maturity structures to finance longer term infrastructure projects and lower pricing, IsDB has increased the ceiling of its MTN program to $25 billion in 1436H from $10 billion, and plans to issue at least one public sukuk of $1 billion every year. The issuances will more than offset the agreed increase in subscribed and paid-in capital, leading to a gradual leveraging of its activities. According to the bank, the debt-to-equity ratio will rise to 125% in the next five years, which would still be well below the median for Aaa-rated MDBs of around 250% (1435H, see Exhibit 2).

Leverage is relatively new to the IsDB. Prior to 1424H, the bank had no borrowings whatsoever, a unique position among MDBs. In 1424H, the bank launched a $400 million five-year sukuk, tapping international capital markets for the first time. A sukuk is an asset-based Islamic bond which is designed or structured in accordance with shari'ah and may be traded in the market. In 1426H, the bank established a Medium Term Notes (MTN) program with an initial size of US$1.5 billion, and issued a $500 million five-year sukuk and established a commodity purchase liability arrangement for the mobilization of short-term resources to facilitate the management of its liquidity. It also launched a MYR1 billion Tadamun Services Berhad sukuk program geared at the Malaysian market in 1429H. To date, the IsDB has tapped the international capital market via public and private issuances in five different currencies and maturities ranging from 3 to 10 years. At end-1435H, total outstanding borrowings of the IsDB amounted to ID 7.1 billion. This covers ID 6.1 billion of outstanding sukuks and ID 1.0 billion of short-term reverse Murabaha arrangements with banks.

Asset quality robust, due to the IsDB's particular status among MDBs

Although the IsDB operates in many countries where financial and economic strength is sub-investment grade, the overall credit quality of its portfolio has been relatively solid, with sustained low levels of impaired assets. The large share of sovereign exposure in the IsDB's operations reinforces the bank's asset quality. As of 1435H, 88% of the bank's lending activities were to governments. IsDB expects the proportion of non-sovereign to sovereign exposure to remain stable around 12-15% given the internal cap on allocation to non-sovereigns. Exposure to non-sovereign entities is limited to strategic projects where a Member country's government is a key stakeholder.

The non-performing assets to total operating assets ratio (called the non-performing loans ratio for other MDBs) averaged 1% between 1432H-1435H. This ratio deteriorated slightly to 1.1% in 1435H, with impaired assets rising to ID 100 million in 1435H from ID 83.6 million in 1434H. As expected, sovereign exposure performs better than non-sovereign exposure: while sovereign obligors represent 88% of project assets, they only account for 40% of impairments. The Syrian government (unrated) is the largest sovereign impairment, at ID 16.7 million, followed by the governments of Guinea Bissau (unrated) and Somalia (unrated). However, Syria's membership to the IsDB was suspended in 1434H and all disbursements to existing projects have stopped. The largest non-sovereign impairments are related to private-sector entities in Saudi Arabia (Aa3 stable), Turkey (Baa3 negative) and Jordan (B1 stable), which together made up 59% of total non-performing operating assets (see Exhibit 4).

EXHIBIT 4

Top 10 gross impaired assets

(in thousands ID) - 1435H

Member Countries	Sovereign	Non-Sovereign
Saudi Arabia	-	27,909
Turkey	-	20,438
Syria	16,748	-
Jordan	-	10,653

EXHIBIT 4

Top 10 gross impaired assets

(in thousands ID) - 1435H

Member Countries	Sovereign	Non-Sovereign
Guinea Bissau	10,045	
Somalia	9,427	-
Sudan	743	-
Palestine	580	
Djibouti	560	-
Qatar	-	534
Total	**40,633**	**60,060**

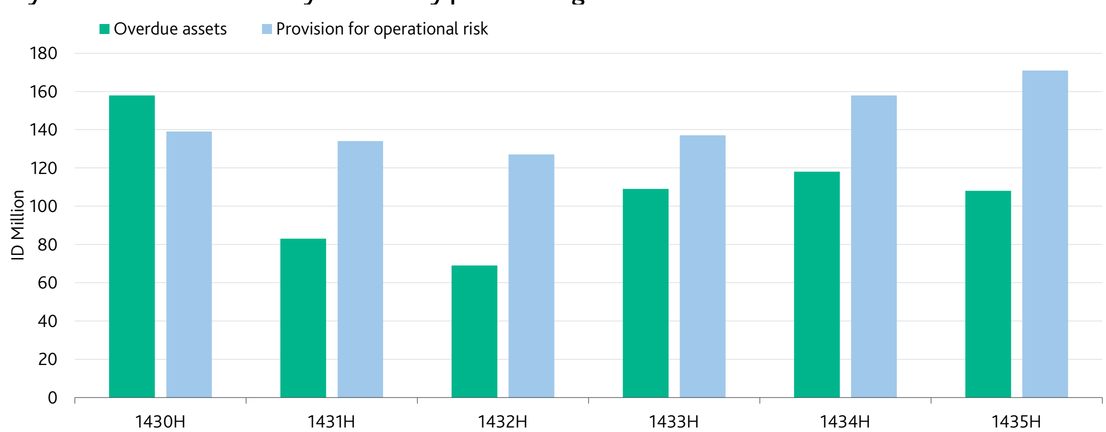
Apart from Syria, the IsDB has not been negatively impacted by the wave of political unrest in some member countries, due to limited exposure and a strong risk framework. While exposure to Syria (including equity investments) was 2.6% of operating assets at end-1435H, Yemen was 0.8% and Libya was less than 0.01%. According to the Bank, disbursements to Yemen were temporarily suspended until the situation in the country stabilizes (with the exception of humanitarian support). In sub-Saharan Africa, the IsDB has some exposure (1.6% of assets) to Burkina Faso (unrated), a country undergoing severe political stress as of September 2015.

The IsDB portfolio, when weighted by the sovereign rating of the government in which operations take place, would point to considerably lower asset quality than other MDBs. In 1435H, 28.6% of the total exposure was located within non-rated countries. Some 72.4% of the total exposure was located in sub-investment grade countries (including non-rated countries) and only 27.6% in investment-grade countries (per our ratings at end-1435H). At Ba3, IsDB's weighted average borrower rating is slightly weaker than that of many Aaa-rated MDBs, including the IBRD and the Asian Development Bank (ADB), both at Ba1, and the African Development Bank (AfDB), at Ba2.

The size of assets overdue (which includes impaired loans) has increased, to ID 108 million in 1435H from ID 69 million in 1432H. Nonetheless, these are more than covered by provisions (see Exhibit 5). The ratio of total provisions / operational assets has been stable for the past five years at 1.9%, reflecting the relatively stable level of non-performing assets.

EXHIBIT 5

Payments overdue are easily covered by provisioning

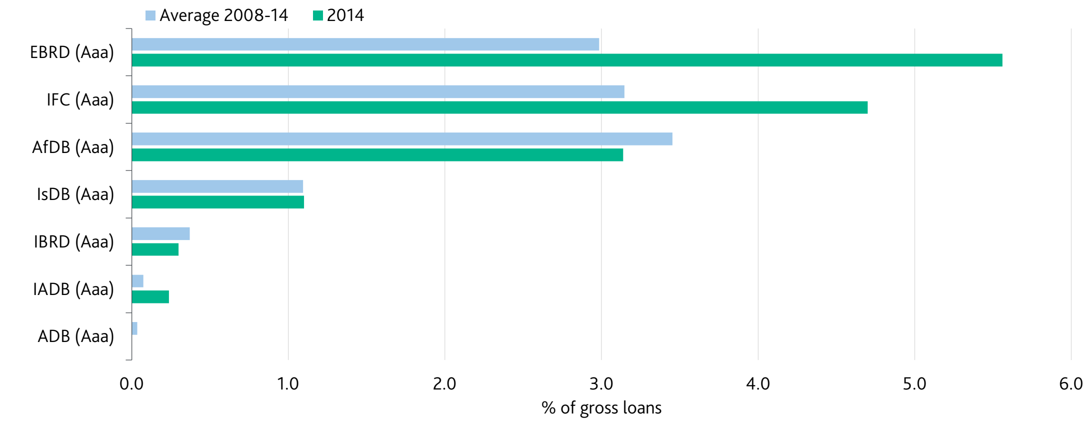


Source: Islamic Development Bank

Moreover, IsDB's average NPL ratio between 2008-2014 compares favorably to peers (see Exhibit 6). Although it had a higher NPL ratio compared to IBRD, it has managed to maintain consistently lower levels of NPLs relative to EBRD and AfDB.

EXHIBIT 6

Impaired assets remain low compared to peers



Source: Moody's Investors Service

Despite the Bank's relatively high exposure to low-rated countries, its portfolio's credit quality is comparable to the highest-rated MDBs because:

» The IsDB benefits from preferred creditor status under article 56 of its Articles of Agreement. This status has been tested on several occasions. In the case of Pakistan in 1999 (1420H), the IsDB was repaid in full. In the case of Iraq, in which the previous government had accumulated significant payment arrears against the IsDB, these have now been fully repaid.

» The asset-based nature of Islamic finance limits expected loss, all things being equal. Indeed, the legal risk embedded in Islamic finance operations – i.e. the difficulty of claiming the assets back – may also be lower for an institution that sets the standards in Islamic finance.

» Sovereign, government-owned bank or highly rated commercial bank guarantees cover most of the bank's operational assets. It follows that, in a joint default analysis framework, the probability of losing money on an asset-based operation multiplied by the probability of default by the government or highly-rated bank reduces the expected loss of operational financing.

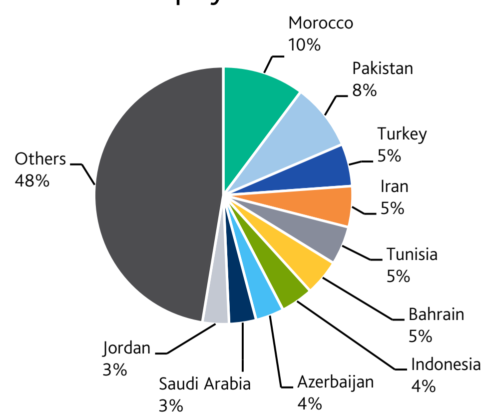
» An additional factor is that the nature of the operations encourages timely repayment. Indeed, borrowers receive financial incentives to repay ahead of schedule. Conversely, disbursements are suspended when the overdue of a country exceeds ID 1 million. The bank suspends further approvals or disbursements on approved projects for a country if amounts between ID 0.5 million to ID 1 million remain overdue for six months or more or if amounts between ID 0.1 million to ID 0.5 million remain overdue for 12 months or more. In addition, the management of the bank and its other members, informed by the members of the board of executive directors, exert moral persuasion on borrowers.

The IsDB's asset portfolio is well diversified geographically and by sector

The bank has a culture – supported by explicit rules – of prudent risk management. Among the key rules, beyond the statutory limit outlined in article 21 of the Articles of Agreement, are scoring systems and counterparty limits and provisioning, as well as binding limits on geographical concentration. As per the IsDB Group policy, a single country exposure is limited to 15% of total exposure. The largest country exposure (Morocco) is well below that threshold as it represents 10.2% of total exposure (including equity investment and profit sharing), followed by Pakistan (8.3%) and Turkey (5.3%). In fact, the 10 largest sovereign exposures accounted for 53% of total operational assets at end-1435H (slightly lower than in previous years), a lower level of geographic concentration than most Aaa-rated MDBs. The IsDB's country Herfindahl-Hirschman Index comes out at 4%, the second-lowest level of concentration among rated MDBs after IFC (3%) – IBRD is at 6% and AfDB at 12%, for instance. Assets are also diversified by region, with the North Africa and the Middle East regions accounting each for about 25% of exposure, while the Sub-Saharan Africa, South-East Asia and Commonwealth of Independent States regions, account each for about 10% of exposure.

EXHIBIT 7

Exposure by country: operational assets and equity investments

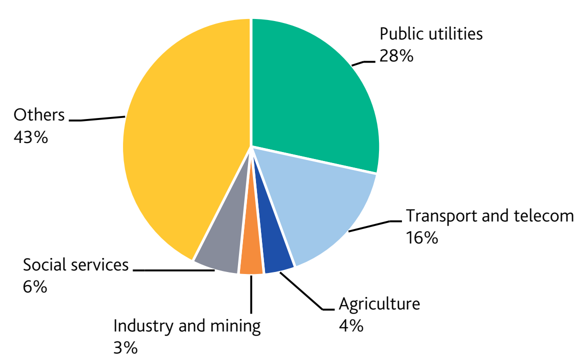


Source: Islamic Development Bank

The banks' assets are also diversified by sector, with about 28% of assets related to the public utilities sector and 16% related to the transport and telecom sectors, see Exhibit 6.

EXHIBIT 8

Concentration of assets by economic sector

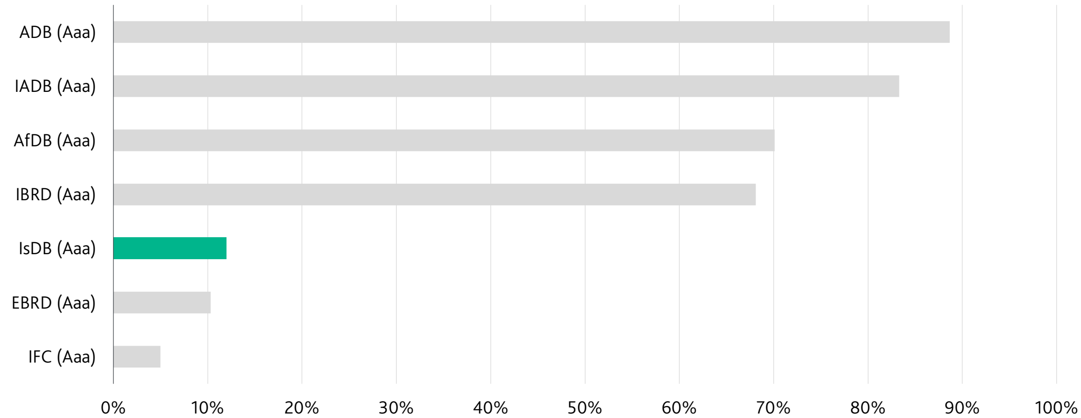


Source: Islamic Development Bank

Looking at the investments' concentration, the largest ten development-related assets (loans and equity) made up 12.0% of the bank's gross exposure as of end-1435H, with the largest 50 making up 39.4% of gross exposure.

EXHIBIT 9

Share of top 10 exposure in operating assets



Source: Islamic Development Bank

Profitability

The IsDB, like other MDBs, has a developmental mandate and is therefore not a profit-maximizing institution. In addition, compliance with Shari'ah dictates that any income earned from non-Shari'ah investments in cash, cash equivalents, and other investments, should be excluded from the Bank's statement of income and transferred to the Waqf Fund. Despite this, the IsDB's net income averaged ID 147 million per year (1.3% of earning assets) over the past three years. This compares favorably with other Aaa-rated MDBs, with ADB, AfDB and IBRD below 0.5%. Nonetheless, the IsDB's return on usable equity, which has averaged 2.1% over the past three years, is less favorable than other MDBs owing to the bank's low leverage position.

Profitability has come down in 1435H. Net income dropped to ID 142 million from ID 170 million due to a combination of factors including negative yields affecting income, swap losses and foreign exchange losses from Euro depreciation.

The IsDB does not distribute dividends to its shareholders. Over the past few years, it has prioritized the transfer of income to reserves in order to reinforce the capital buffer. Article 42 of the Articles of Agreement prohibits dividend payments if General Reserves are less than 25% of subscribed capital. As of end-1435H, this ratio was 4.2%.

Liquidity: Very High

Solid liquidity, underpinned by low funding costs and reinforced by the Waqf fund

Factor 2

Scale	Very High	High	Medium	Low	Very Low	
+	■					-

A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

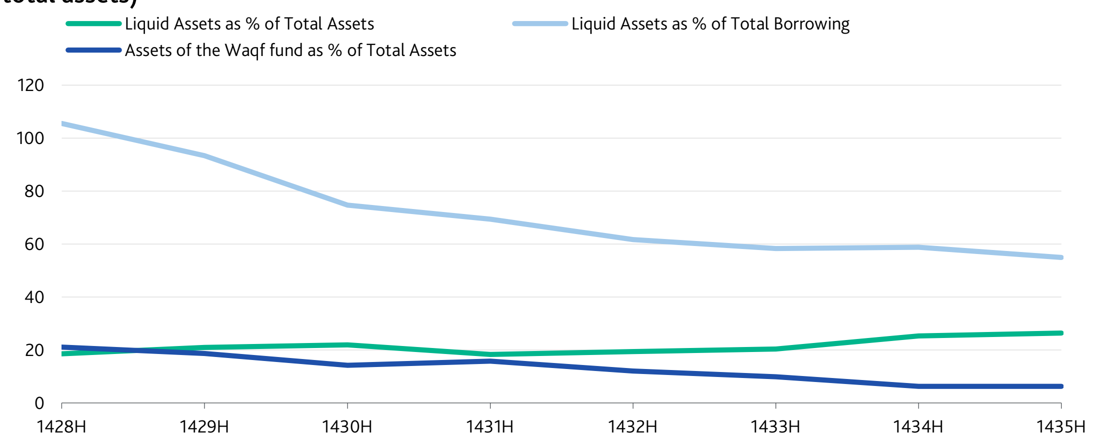
Position

The IsDB is a liquid institution, with liquid assets making up 26% of total assets. The liquid assets to total borrowings ratio was 54.9% at end-1435H, down from 58.8% at end 1434H (see Exhibit 10), but still higher than most Aaa-rated MDBs. In 1435H the Bank introduced a new liquidity policy that groups treasury assets in three portfolios. The main treasury portfolio ("Stable Portfolio") is composed of sukuk investments, which are held to maturity, and is destined to maintain a prudential minimum liquidity, set at ID 2.7 billion for 1435H, compared to ID 3.8 billion in treasury assets.

Liquidity is enhanced when adding the Waqf fund to the balance sheet resources. The fund, which had gross assets of ID 0.9 billion at end-1435H, or 6.1% of IsDB's total assets, may be at the disposal of the Bank in case of an emergency. The non-shari'ah source of its funds is the only reason that it is excluded from the IsDB's income statement. The effective availability of the assets is reinforced by rules that require they be deposited in reputable regional and international banks. Even excluding this last source of emergency liquidity, liquidity ratios are solid.

EXHIBIT 10

Despite increased borrowing, liquid assets are stable, while Waqf assets continue to decline (as % of total assets)



Source: Islamic Development Bank

The issuance of sukuk with long tenures has improved the bank's asset/liability profile: as of 1435H, assets with a maturity of less than six months amounted to 2.9 times the liabilities with a maturity of less than six months, albeit lower than its 1434H level of 4.6 times. Similarly, assets with a maturity of less than a year amounted to 3.2 times the liabilities with a maturity of less than a year, compared to 3.6 times in 1434H, see exhibit 11. The combination of short-term and currently-maturing long-term debt represents about 40% of the amount of treasury assets.

EXHIBIT 11

Asset due within 6 months have increased relative to liabilities

Assets	1435H	1434H
Less than 3 months	2,316,471	1,531,311
3 to 6 months	1,025,838	617,691
6 months to 1 year	773,696	1,631,400
1 to 5 years	3,205,353	2,101,074
Over 5 years	5,979,604	6,119,825
Maturity Not Determined	1,497,963	1,428,116
Total	**14,798,925**	**13,429,417**
Liabilities	**1435H**	**1434H**
Less than 3 months	955,496	420,129
3 to 6 months	213,647	45,786
6 months to 1 year	108,608	585,625
1 to 5 years	5,643,781	4,703,187
Over 5 years	437,365	430,040
Total	**7,358,897**	**6,184,767**

Source: Islamic Development Bank

Because of the limited availability of highly-rated Shari'ah-compliant liquid instruments, the credit quality of the IsDB's treasury portfolio is weaker than Aaa peers. The median rating of treasury assets, according to the Bank, is A2, see Exhibit 12. That compares with a median of Aaa for the AfDB and Aa1 for the IBRD, the ADB and the IFC.

EXHIBIT 12

The treasury portfolio has a moderate credit quality

Distribution of assets by rating

Rating[4]	% of Total Treasury Assets
Aaa	2.6
Aa1	--
Aa2	2.6
Aa3	2.3
A1	21.2
A2	16.8
A3	11.5
Baa1	2.1
Baa2	8.4
Baa3	7.3
Ba1	1.8
Ba2	0.4
Ba3-C	--
Non Rated	22.9
Total	**100**

Source: Islamic Development Bank

[4] Ratings are

Funding

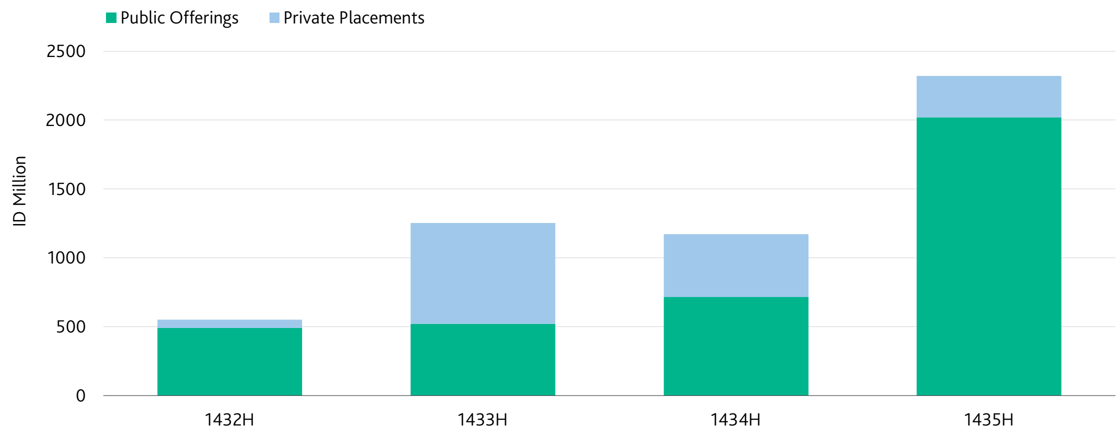
In terms of funding, the IsDB benefits from a combination of factors: (1) a critical balance sheet size to issue long-term sukuk under its two sukuk programs; (2) its existing position on the GCC market, with liquid banking systems keen to provide short- and medium-term, shariah-compliant financing. This translates into a rising volume of private placements (see Exhibit 13). As a result, the Bank has been able to fund itself at a low rate, with the weighted average cost of borrowing at 1.3% and the five-year average at 1.5%. Frequent issuance has also enabled the IsDB to develop a yield curve and improve the granularity of its funding profile.

Because of its relatively low gearing ratios, the IsDB's debt service ratios also remain favorable. In 1435H, the IsDB's financing cost coverage ratio (net income divided by financing cost, equivalent to the interest coverage ratio for other MDBs) stood at 2.7 times, a higher ratio than most other MDBs. Due to higher borrowing levels, overall financing costs increased to ID 84 million at end-1435H from ID 64 million at end-1434H. However, IsDB's sukuk spreads have steadily dropped from 40 bps in 1433H to 30 bps in 1434H, 23 bps in 1435H and expected to be 8 bps in 1436H. The lower pricing reflects a decrease in global interest rates and strong liquidity among regional investors. However, IsDB's financing costs may rise slightly in the coming years along with the increase in Fed interest rates.

The granularity of sukuk maturities does not pose liquidity risks, with major principal repayments spread over 1437H-1442H (2015-2020). Nevertheless, we note that the IsDB has now ID 2.7 billion in principal repayments due between March and September 2019 (1440H), or about 40% of total sukuk liabilities.

EXHIBIT 13

Sukuk issuance continues to increase



Source: Islamic Development Bank

Strength of Member Support: Very High

Strong shareholder base and propensity for support, illustrated by repeated capital increases

Factor 3

Scale		Very High	High	Medium	Low	Very Low	
	+	■					-

Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Shareholders have been forthcoming in addressing the bank's capital needs

The IsDB's paid-up capital is roughly evenly distributed between investment grade and sub-investment grade countries, with a weighted average shareholder rating of Baa3. However, the IsDB has a lower proportion of capital held by Aaa or Aa rated countries than other Aaa-rated MDBs. At end-1435H, the proportion of the IsDB's subscribed capital held by Aaa, Aa and A rated countries was around 47.7%.

EXHIBIT 14

Capital by rating category

	1435H				1434H			
	Subscribed Capital (ID Million)	Callable Capital (ID Million)	% of Subscribed Capital	% of Callable Capital	Subscribed Capital (ID Million)	Callable Capital (ID Million)	% of Subscribed Capital	% of Callable Capital
IsDB Members	49,865.72	40,510.00	100.0%	100.0%	17,803.8	8,852.5	100.0%	100.0%
Above A rating countries	23,794	19,268	47.7%	47.7%	8,235	4,094	46.3%	46.3%
Investment grade countries	28,327	22,980	56.8%	56.8%	9,871	4,909	55.4%	55.4%
Non rated countries	11,532	9,353	23.1%	23.1%	4,349	2,160	24.4%	24.4%
Non-investment grade countries	21,539	17,530	43.2%	43.3%	7,933	3,944	44.6%	44.6%

Source: Islamic Development Bank, Moody's Investors Service

Shareholder support demonstrated through multiple capital increases

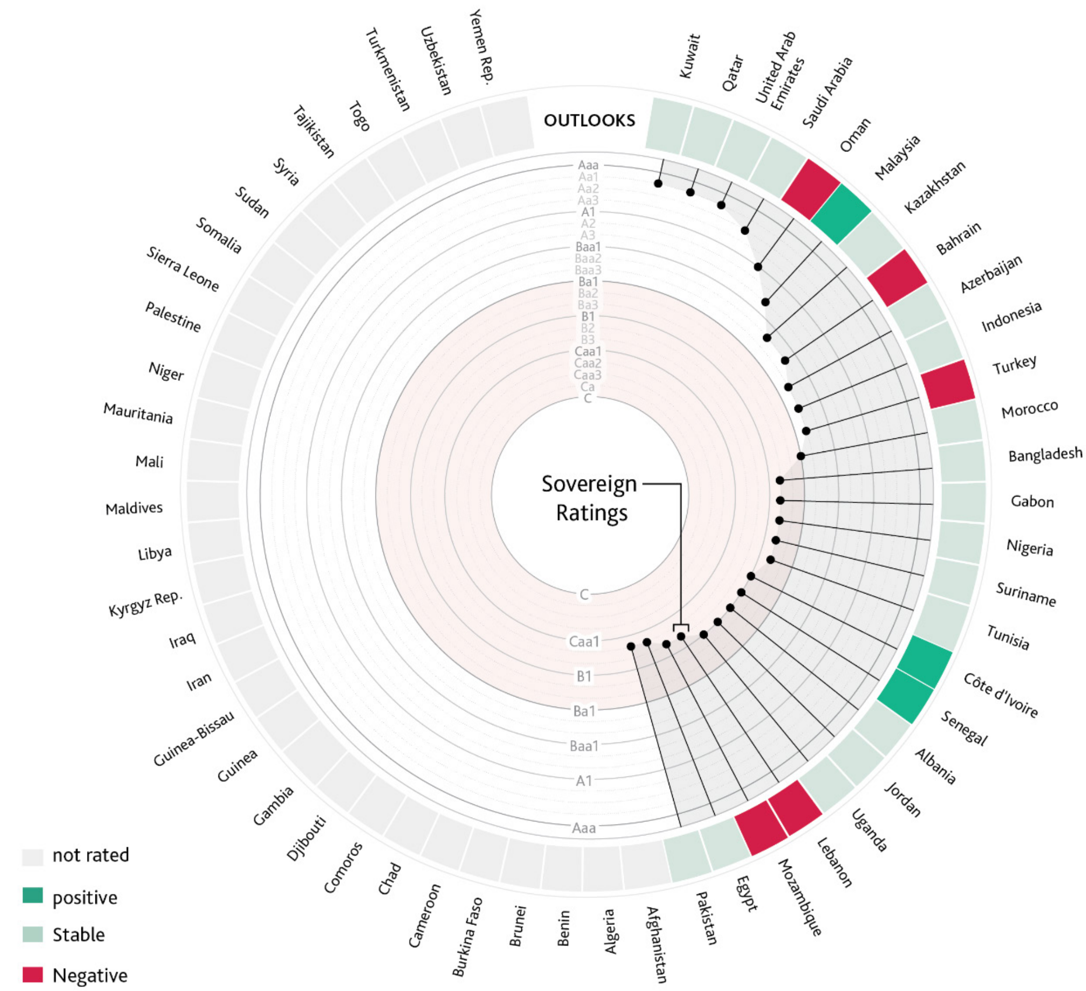
Member states have been forthcoming in increasing the capital they make available to the IsDB, even though many of them are developing economies and the Bank's capital adequacy has been robust. Two decisions were made in May 2006 (1427H) and May 2013 (1434H) to increase capital levels, approving an increase in authorised capital to ID 100 billion from ID 15 billion and in subscribed capital to ID 50 billion from ID 8 billion. The bank's paid-in capital rose to ID 4.8 billion at end-1435H, from ID 2.7 billion at end-1426H, and an additional ID 3.6 billion is expected over the next 20 years. These developments illustrate the continued commitment of the bank's shareholders and are key to maintaining the bank's strong capital structure in view of the expected increase in leverage.

Another indication of its members' commitment is the very low level of arrears on capital subscriptions. By end-1435H, 98.6% of the ID 50 billion issued capital was subscribed by member countries, a high level compared to capital increases at other MDBs. Although the amount of capital installments due but not yet paid increased from ID 75 million at end-1434H to ID 108 million at end-1435H, this reflects timing differences for payment approvals in the member countries and not structural or financial challenges. The low level of overdue instalments demonstrates the shareholders' commitment to the institution, given the fiscal challenges that many of the IsDB's shareholders face. Therefore, the willingness to provide support continues to be very strong.

Paid-up and callable capital does not include capital called up but not yet due, which increased to ID 4.4 billion from ID 4.1 billion in 1434H and which reflects the decision made in 1434H to call capital. The Bank's callable capital is sizeable and has trebled following the recent increase. As of 1435H, the callable capital from above A- and higher- rated countries alone (almost half of the total callable capital) was more than double the Bank's total liabilities.

EXHIBIT 15

Sovereign ratings of IsDB member countries, as of September 2015 (end-1436H)

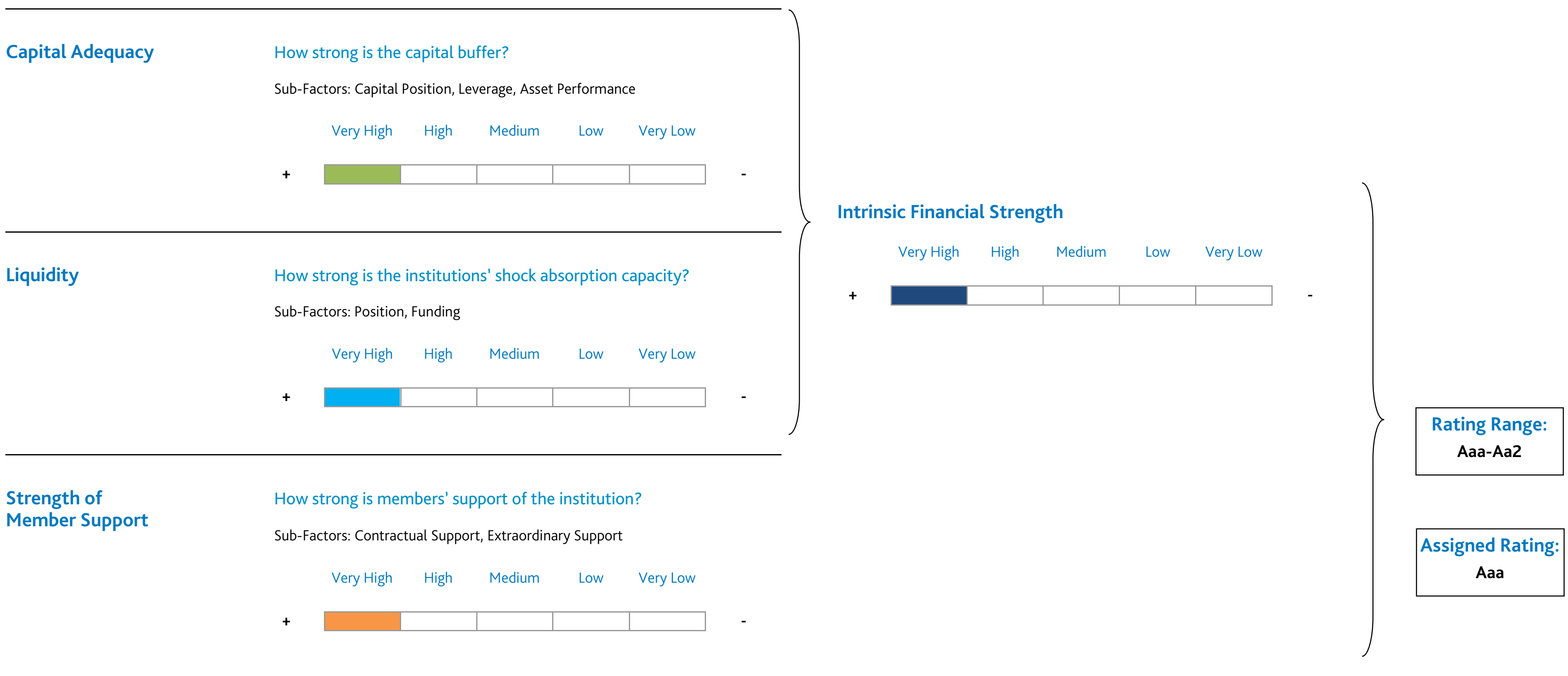


Source: Moody's Investors Service

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Supranational Rating Methodology.

Supranational Rating Metrics: Islamic Development Bank



Comparatives

This section compares credit relevant information regarding the Islamic Development Bank with other supranationals rated by Moody's Investors Service. It focuses on a comparison with supranationals within the same rating range and shows selected credit metrics and factor scores.

The IsDB has a strong capital base among Aaa-rated MDBs, with a lower leverage level, a key support to its Aaa standing. Asset quality is somewhat weaker than the Aaa-median, but does not stand out materially. IsDB's liquidity indicators are broadly in line with other Aaa-rated MDBs, although the AfDB is considered more liquid than peers. Finally, the IsDB has slightly sound indicators of shareholder support. Although its weighted median shareholder rating is slightly weaker, the IsDB has lower debt relative to callable capital than peers.

EXHIBIT 16

The IsDB vs. key peers

	Year	IsDB	IBRD	ADB	AfDB	EBRD	IADB	Aaa Median
Rating/Outlook		Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	--
Total Assets (US$ million)	2014	21,992	358,883	115,660	33,251	63,724	106,299	63,724
Factor 1		Very High	Very High	Very High	High	Very High	Very High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2014	73.9	25.3	29.8	45.9	54.8	31.8	31.8
Debt/Usable Equity (%)[1]	2014	95.6	413.0	370.2	236.4	250.6	326.2	250.6
Gross NPLs/Gross Loans Outstanding (%)[2]	2014	1.1	0.3	0.0	3.1	5.6	0.2	0.4
Factor 2		Very High	Very High	Very High	Very High	Very High	Very High	--
ST Debt + CMLTD/Liquid Assets (%)[3]	2014	29.1	78.7	57.9	16.6	43.7	53.0	43.7
Bond-Implied Ratings (Average)	2014	Aa2	Aaa	Aaa	Aaa	Aa1	Aa1	Aaa
Intrinsic Financial Strength (F1+F2)		Very High	Very High	Very High	Very High	Very High	Very High	--
Factor 3		Very High	Very High	Very High	Very High	High	Very High	--
Total Debt/Discounted Callable Capital (%)[4]	2014	35.9	92.8	48.5	52.1	165.3	73.6	62.9
Weighted Median Shareholder Rating (Year-End)	2014	Baa3	Aa3	Aa3	Ba2	Aa1	A3	Aa1
Rating Range (F1+F2+F3)		Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	--

Notes:

[1] Usable equity is total shareholder's equity and excludes callable capital

[2] Non-performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Source: Moody's, Islamic Development Bank, World Bank, Asian Development Bank, African Development Bank, European Bank of Reconstruction and Development, North American Development Bank

Appendices

Rating History

Islamic Development Bank

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Rating Assigned	Aaa	P-1	--	Stable	30-June-2006

Annual Statistics

Islamic Development Bank

	1426H	1427H	1428H	1429H	1430H	1431H	1432H	1433H	1434H	1435H
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Balance Sheet ('000 Islamic Dinars or SDRs)										
Assets										
Total assets	5,890,650	6,107,393	6,718,442	7,290,394	8,725,363	9,067,585	10,351,157	11,446,662	13,429,417	14,798,925
Liquid assets	1,349,905	1,450,762	1,249,353	1,523,743	1,917,066	1,658,882	2,011,390	2,331,109	3,391,260	3,907,483
Cash at bank	94,770	61,098	99,590	74,370	1,195,018	487,008	50,587	32,717	55,585	93,703
Commodity placements with banks, net	1,187,182	1,293,291	1,000,036	1,270,561	444,367	893,583	1,563,314	1,798,928	2,627,351	2,680,393
Other investments, net	67,953	96,373	149,727	178,812	277,681	278,291	397,489	499,464	708,324	1,133,387
Gross operational assets	3,439,145	3,438,446	4,142,773	4,530,575	5,459,076	5,928,318	6,826,345	7,440,194	8,526,515	9,223,140
Murabaha financing	780,502	496,516	681,232	542,143	603,039	354,658	267,681	261,484	279,801	303,665
Istisna'a assets	485,669	586,629	774,553	913,304	1,327,292	1,633,775	2,078,166	2,540,701	3,186,521	3,653,838
Installment sales financing	488,088	495,067	546,536	678,743	750,039	876,855	1,009,549	1,029,872	1,179,097	1,175,789
Loan contracts	907,996	1,052,522	1,145,593	1,249,776	1,399,841	1,543,054	1,682,867	1,716,353	1,775,035	1,825,402
Ijarah Muntahia Bittamleek	776,890	807,712	994,859	1,146,609	1,378,865	1,519,976	1,788,082	1,891,784	2,106,061	2,264,446
Investment in equity capital, net	676,145	692,559	844,376	659,952	742,219	803,976	649,835	717,065	713,064	777,641
Investment in equity capital	727,900	745,202	897,019	718,972	802,712	862,685	708,544	795,269	780,754	846,216
Less provision for equity investment	-51,755	-52,643	-52,643	-59,020	-60,493	-58,709	-58,709	-78,204	-67,690	-68,575
Investment in subsidiaries and trust funds	321,268	330,500	321,268	375,304	375,304	391,206	--	--	--	--
Export financing scheme	75,000	75,000	75,000	--	--	--	--	--	--	--
Islamic bank's portfolio for investment and development (IBP)	39,699	39,699	39,699	--	--	--	--	--	--	--
Islamic Corporation for the Development of the Private Sector	191,940	201,172	191,940	191,940	191,940	207,842	--	--	--	--
Awqaf Properties Investment Fund	14,629	14,629	14,629	14,629	14,629	14,629	--	--	--	--
International Islamic Trade Finance Corporation (ITFC)	--	--	--	168,735	168,735	168,735	--	--	--	--
Investment in associates, net	--	--	--	--	--	51,587	503,160	560,680	602,178	633,150
Investment in associates	--	--	--	--	--	71,504	523,189	582,283	602,178	633,150
Less provision for impairment	--	--	--	--	--	-19,917	-20,029	-21,603	0	0
Accrued income and other assets	163,425	256,366	221,591	267,188	313,769	309,670	431,353	480,775	301,129	379,327
Property and operating equipment, net	55,579	53,577	53,899	55,382	57,172	61,657	59,978	58,102	57,262	52,939
Less provision for operations risk	-114,817	-114,817	-114,818	-121,750	-139,243	-137,711	-130,904	-141,263	-161,991	-174,755
Liabilities										
Total liabilities and capital	5,890,650	6,107,393	6,718,442	7,290,394	8,725,363	9,067,585	10,351,157	11,446,662	13,429,417	14,798,925
Liabilities	1,271,848	1,294,725	1,405,062	1,832,471	2,835,158	2,638,698	3,721,471	4,433,846	6,184,767	7,358,897
Accruals and other liabilities	644,430	687,362	831,622	1,452,796	1,813,448	1,264,107	1,820,101	1,332,524	1,979,763	1,272,829
Sukuk liability	627,418	607,363	573,440	379,675	1,021,710	1,374,591	1,901,370	3,101,322	4,205,004	6,086,068
Total capital and reserves	4,618,802	4,812,668	5,313,380	5,457,923	5,890,205	6,428,887	6,629,686	7,012,816	7,244,650	7,440,028

Islamic Development Bank

	1426H	1427H	1428H	1429H	1430H	1431H	1432H	1433H	1434H	1435H
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Paid-in capital	2,735,940	2,809,959	3,065,182	3,299,009	3,639,867	4,031,071	4,373,804	4,590,239	4,799,791	4,853,867
Total reserve	1,882,862	2,002,709	2,248,198	2,158,914	2,250,338	2,397,816	2,255,882	2,422,577	2,444,859	2,586,161
Capital reserve	26,267	26,267	22,672	22,672	22,672	--	--	--	--	--
General reserve	1,308,367	1,443,239	1,523,897	1,590,120	1,677,938	1,702,308	1,769,766	1,925,974	1,987,975	2,079,487
Fair value reserve	403,080	409,733	538,121	351,932	424,965	525,886	377,116	433,822	377,651	457,880
Net income for the period	145,148	123,470	163,508	194,190	124,763	169,622	109,000	130,247	170,413	141,710
Income (in '000 Islamic Dinars or SDRs)										
Commodity placements with banks	26,354	53,840	56,521	28,658	17,507	10,720	12,131	19,562	19,725	26,517
Lease participation pools	630	--	--	--	--	--	--	--	--	--
Murabaha financing	30,256	24,493	30,404	28,375	18,066	10,889	6,103	8,311	9,384	7,319
Istisna'a assets	15,862	24,547	30,402	42,430	49,842	51,688	72,061	102,164	122,813	130,400
Installment sales financing	21,828	34,391	24,934	28,100	32,063	38,822	39,868	41,212	44,657	51,461
Loan service fees	17,847	18,638	24,546	23,305	18,976	13,070	8,260	8,820	10,843	14,004
Ijarah Muntahia Bittamleek	137,232	133,886	143,226	143,702	165,247	164,549	183,654	189,789	201,714	203,109
Investments in equity capital	17,091	19,577	35,382	36,450	31,488	33,561	27,396	41,953	33,234	36,293
Investment in Sukuk	1,284	5,901	9,605	8,501	6,865	14,370	13,677	21,914	517	38,978
Mudarib fees & others	4,095	2,023	14,220	8,361	23,695	19,239	12,676	19,776	12,435	5,982
Foreign exchange gain/(loss), net	987	-398	6,403	6,243	-10,621	-8,445	1,276	4,456	6,780	-14,444
Financing cost	-28,218	-49,398	-55,372	-43,023	-31,572	-33,029	-48,314	-57,358	-64,197	-84,367
Administrative expenses:	-50,960	-55,766	-62,266	-62,952	-66,480	-72,295	-84,211	-90,792	-101,221	-110,146
Staff costs	-39,965	-41,956	-46,765	-47,922	-49,638	-55,995	-66,078	-68,225	-81,327	-80,187
Other	-10,995	-13,810	-15,501	-15,030	-16,842	-16,300	-18,133	-22,567	-19,894	-29,959
Depreciation:	-86,279	-87,483	-94,667	-94,619	-111,924	-93,590	-124,227	-154,693	-141,552	-158,430
Ijarah Muntahia Bittamleek	-83,954	-84,704	-91,892	-93,019	-110,064	-91,639	-118,304	-147,254	-133,949	-150,744
Property and operating equipment	-2,325	-2,779	-2,775	-1,600	-1,860	-1,951	-5,923	-7,439	-7,603	-7,686
Recovery of (provision for) impairment of assets	37,139	-781	170	-13,377	-18,389	-13,227	-10,163	-34,767	-20,728	-12,946
Net Income	145,148	123,470	163,508	194,190	124,763	169,622	109,000	130,247	170,413	141,710
Capital Structure (in '000 Islamic Dinars or SDRs)										
Authorized capital	15,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	100,000,000	100,000,000
Subscribed capital	7,989,400	13,217,680	13,870,010	15,076,200	15,863,490	17,475,630	17,782,600	17,782,600	17,803,761	49,865,720
Less: callable capital (CC)	5,224,270	9,146,850	9,799,180	10,699,990	11,157,094	12,275,000	12,469,121	12,470,380	8,852,530	40,511,080
of which investment grade (IG) countries	2,574,549	4,282,790	4,282,800	5,177,190	5,505,170	5,505,170	5,705,450	6,000,940	4,908,680	22,980,000
of which countries rated Aaa and Aa	--	1,300,670	1,300,670	2,195,060	2,195,060	5,211,000	5,411,280	5,411,280	3,922,530	18,476,000
Less: Installments not yet due	20,895	1,190,088	921,698	907,269	898,079	1,002,973	770,902	579,851	4,075,840	4,392,588
Plus: Subscriptions paid in advance	--	--	--	--	--	--	--	--	--	--
Less: Subscriptions due from members	8,295	70,783	83,950	169,932	168,450	166,586	168,773	142,130	75,600	108,185
Paid-in capital	2,735,940	2,809,959	3,065,182	3,299,009	3,639,867	4,031,071	4,373,804	4,590,239	4,799,791	4,853,867

Islamic Development Bank

	1426H	1427H	1428H	1429H	1430H	1431H	1432H	1433H	1434H	1435H
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Plus: Total reserves	1,882,862	2,002,709	2,248,198	2,158,914	2,250,338	2,397,816	2,255,882	2,422,577	2,444,859	2,586,161
Usable equity	4,618,802	4,812,668	5,313,380	5,457,923	5,890,205	6,428,887	6,629,686	7,012,816	7,244,650	7,440,028
Performance Statistics (%)										
Return on Total Assets	2.7	2.1	2.5	2.8	1.6	1.9	1.1	1.2	1.3	1.0
Return on Earning Assets	3.1	2.3	2.9	3.1	1.7	2.1	1.3	1.3	1.4	1.1
Return on Usable Equity	3.3	2.6	3.2	3.6	2.2	2.8	1.7	1.9	2.4	1.9
Income from Operational Assets/Operational Assets	6.4	6.9	6.7	6.1	5.7	4.9	4.9	4.9	4.6	4.6
Capital Adequacy Ratios (%)										
Usable Equity as % Risk Assets	171.2	147.4	134.8	127.8	118.8	119.4	110.2	118.8	101.3	102.0
Usable Equity + CC of at least Aa-rated countries as % Operational Assets	134.3	177.8	159.7	168.9	148.1	196.3	176.4	167	131	281.0
Usable Equity + CC of at least Aa-rated countries as % Risk Assets	171.2	187.2	167.7	179.2	163.1	216.2	200.1	210.5	156.1	355.4
Usable Equity + CC of IG Members/Risk Assets	266.6	278.5	243.4	249	229.9	221.7	205	220.5	169.9	417.2
Usable Equity as % Operational Assets	134.3	140	128.3	120.5	107.9	108.4	88	85.2	77.8	73.9
Risk Assets/Operational Assets + Equity Investments (%) [5]	64.8	78.1	78.2	81.3	79.2	79.3	79.8	71.7	76.9	53.5
Total Provisions/Operational Assets + Equity Investments (%)	4	4	3.3	3.4	3.2	2.9	2.5	2.7	2.5	72.4
Total Provisions + Reserves/Operational Assets + Equity Investments (%)	49.2	51.9	47.9	44.6	39.1	38.2	32.5	32.1	28.7	2.4
Total Provisions as % Operational Assets	3.3	3.3	2.8	2.7	2.6	2.3	1.9	1.9	1.9	28.1
Gross Operational Assets as % Total Assets	58.4	56.3	61.7	62.1	62.6	65.4	65.9	65	63.5	1.9
Capital Paid-in as % of Subscribed Capital	34.2	21.3	22.1	21.9	22.9	23.1	24.6	25.8	27	62.3
Total Reserves/Operational Assets (%)	54.7	58.2	54.3	47.7	41.2	40.4	33	32.6	28.7	9.7
Total Borrowing as % Usable Equity	24.4	24.3	22.3	29.9	43.6	37.2	49.2	57	79.6	28.0
Liquidity Ratios (%)										
Liquid Assets as % Total Assets	22.9	23.8	18.6	20.9	22	18.3	19.4	20.4	25.3	26.4
Liquid Assets as % Total Borrowings	119.7	124	105.5	93.4	74.7	69.4	61.7	58.4	58.8	54.9
Coverage of Debt Service										
Liquid Assets as % Amortization + Financing Cost	4,784	2,937	2,256	3,542	6,072	453	4,163	1,593	2,639	592
Liquid Assets + Net Income + Financing Cost as % Amortization + Financing Cost	5,398	3,287	2,652	4,093	6,567	509	4,489	1,721	2,822	626
Liquid Assets + Net Income + Financing Cost as % Financing Cost (x)	54	32.9	26.5	40.9	65.7	56.4	44.9	43.9	56.5	49.0
Financing Cost Coverage Ratio (x)	3.8	2.5	2.9	4.8	4.5	5.5	2.5	2.9	3.0	1.8

Notes:

[1] Usable equity is total shareholder's equity and excludes callable capital

[2] Non-performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledged by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings

[5] Risk Assets is defined as gross exposure to non-investment grade and non-rated countries

Source: Moody's Investors Service, Islamic Development Bank

Position of subscribed and callable capital (As on 29.12.1434H / 24.10.2014)

Member Countries (10 largest shareholders)	% of Subscribed Capital	% of Callable Capital
Saudi Arabia	23.9%	24.1%
Libya	9.6%	9.7%
Iran	8.4%	8.5%
Nigeria	7.8%	7.8%
UAE	7.6%	7.7%
Qatar	7.3%	7.4%
Egypt	7.2%	7.3%
Kuwait	7.0%	6.5%
Turkey	6.5%	6.6%
Algeria	2.6%	2.6%

Gross Loans outstanding and equity investments, by country

(% of total)	1432H	1433H	1434H	1435H
Country Detail				
Morocco	12.40%	11.20%	9.80%	10.21%
Pakistan	5.20%	6.00%	7.00%	8.32%
Turkey	3.50%	3.30%	4.50%	5.31%
Iran	7.10%	6.70%	5.50%	5.15%
Tunisia	4.30%	4.20%	4.30%	4.81%
Bahrain	4.40%	4.30%	4.30%	4.49%
Indonesia	4.60%	4.70%	4.20%	4.07%
Azerbaijan	4.00%	4.10%	3.70%	3.54%
Saudi Arabia	4.70%	4.00%	8.20%	3.40%
Jordan	4.90%	5.00%	3.70%	3.29%
Sudan	3.00%	3.10%	2.90%	3.10%
Bangladesh	2.28%	2.46%	1.82%	2.93%
Syria	3.10%	3.00%	2.60%	2.61%
Uzbekistan	1.30%	1.30%	2.40%	2.45%
Egypt	1.30%	2.40%	2.20%	2.42%
Mauritania	1.80%	2.00%	2.10%	2.42%
Senegal	2.40%	2.30%	2.30%	2.33%
Albania	1.20%	1.90%	2.10%	2.21%
Lebanon	2.50%	2.40%	2.20%	2.03%
Others	23.80%	23.60%	21.80%	24.90%
Total	100.00%	100.00%	100.00%	100.00%

Source: Islamic Development Bank

Moody's Related Research

Credit Opinion:

» Islamic Development Bank

Rating Methodologies:

» Multilateral Development Banks and Other Supranational Entities, December 2013 (161372)

» Sovereign Bond Ratings, September 2013 (157547)

Moody's Website Links:

» Sovereign Risk Group Webpage

» Supranational Ratings List

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites

For additional information, please see:

» The Islamic Development Bank's website: http://www.isdb.org/

MOODY'S has provided links or references to third party World Wide Websites or URLs ("Links or References") solely for your convenience in locating related information and services. The websites reached through these Links or References have not necessarily been reviewed by MOODY'S, and are maintained by a third party over which MOODY'S exercises no control. Accordingly, MOODY'S expressly disclaims any responsibility or liability for the content, the accuracy of the information, and/or quality of products or services provided by or advertised on any third party web site accessed via a Link or Reference. Moreover, a Link or Reference does not imply an endorsement of any third party, any website, or the products or services provided by any third party.

Rate this Research »

Report Number: 184904

Authors
Mathias Angonin
Zahabia Saleem Gupta

Production Specialist
Wing Chan

MOODY'S
INVESTORS SERVICE