

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE
VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H
(14 November 2012)

with

INDEPENDENT AUDITORS' REPORT

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE
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(SPECIAL ASSISTANCE TRUST FUND 2)**

FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

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INDEPENDENT AUDITORS' REPORT

Your Excellency
The President
Islamic Development Bank
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying statement of financial position of Islamic Development Bank's Fael Khair Program for the Cyclone Victims in Bangladesh (Special Assistance Trust Fund 2) ("the Fund") as of 29 Dhul Hijjah 1433H (14 November 2012) and the related statements of activities and Fund balance and cash flows for the year then ended and attached notes 1 through 15 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 to these financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the accompanying financial statements of the Fund, taken as a whole present fairly, in all material respects, the financial position of the Fund as of 29 Dhul Hijjah 1433H (14 November 2012) and the results of its activities and Fund balance and its cash flows for the year then ended in conformity with the basis of accounting as described in Note 2 to the financial statements.

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Jumada Al Tani 21, 1434H
Corresponding to May 1, 2013

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

BALANCE SHEET

As at 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

	<u>Notes</u>	<u>1433H</u>	<u>1432H</u>
<u>ASSETS</u>			
Cash and cash equivalents	4	67,013	41,000
Commodity placements through banks	5	1,170	23,002
Investments in Sukuk	6	5,500	5,625
Asset under construction	7	10,499	5,490
Murabaha financing	8	75,613	48,687
Due from related parties	11	3,675	37,172
Amounts disbursed to Non-Government Organizations in Bangladesh	9	11,291	17,172
Accrued income and other receivables		368	218
Fixed assets, net		58	72
Total assets		175,187	178,438
<u>LIABILITIES</u>			
Due to related parties	11	31,324	37,406
Accrued expenses		64	58
Total liabilities		31,388	37,464
Net assets		143,799	140,974
<u>REPRESENTED BY:</u>			
Resources of Fael Khair Program for the Cyclone Victims in Bangladesh		110,075	110,075
Waqf Fund – Resources of Fael Khair Program for the Cyclone Victims in Bangladesh		20,000	20,000
Prior years' excess of income over expenditure		10,899	9,484
Excess of income over expenditure for the year		2,825	1,415
		143,799	140,974

The accompanying notes from 1 to 15 form an integral part of these financial statements.

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

STATEMENT OF ACTIVITIES AND FUND BALANCE

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

	<u>Note</u>	<u>1433H</u>	<u>1432H</u>
Income from:			
Commodity placements through banks		453	245
Investments in Sukuk		302	108
Murabaha financing		<u>5,487</u>	<u>3,884</u>
		6,242	4,237
Expenses:			
Consultation and professional fees		(25)	(193)
Administrative expenses	12	(1,763)	(1,234)
Exchange loss		<u>(1,629)</u>	<u>(1,395)</u>
Excess of income over expenditure for the year		2,825	1,415
Fund's balance as at 1 Muharram		<u>140,974</u>	<u>139,559</u>
Fund's balance as at 29 Dhul Hijjah		<u>143,799</u>	<u>140,974</u>

The accompanying notes from 1 to 15 form an integral part of these financial statements

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

STATEMENT OF CASH FLOWS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

	<u>1433H</u>	<u>1432H</u>
CASH FLOWS FROM OPERATIONS		
Excess of income over expenditure	2,825	1,415
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	23	21
(Reversal) / allowance for impairment	(83)	100
Exchange loss	1,629	1,395
<i>Changes in operating assets and liabilities:</i>		
Increase in accrued income and other receivables	(150)	(33)
Decrease / (increase) in due from related parties	33,497	(29,897)
(Decrease) / increase in due to related parties	(6,082)	27,082
Increase in accrued expenses	6	290
Asset under construction	(5,009)	(5,272)
Refund from Non-Government Organization in Bangladesh	4,334	-
Net cash provided by / (used in) operating activities	<u>30,990</u>	<u>(4,899)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Movement in commodity placements through banks	21,832	60,999
Movement in investments in Sukuk	125	319
Movement in Murabaha financing	(26,926)	(45,013)
Purchase of fixed assets	(8)	(9)
Net cash (used in)/ provided by investing activities	<u>(4,977)</u>	<u>16,296</u>
Net movement in cash and cash equivalents	26,013	11,397
Cash and cash equivalents at the beginning of year	<u>41,000</u>	<u>29,603</u>
Cash and cash equivalents at the end of year	<u><u>67,013</u></u>	<u><u>41,000</u></u>

The accompanying notes from 1 to 15 form an integral part of these financial statements

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

1. INCORPORATION AND ACTIVITIES

The Fael Khair Program for the Cyclone victims in Bangladesh (“the Fund or Program”) is a relief assistance program for the benefit of the November 15, 2007 Cyclone Sidr victims in the coastal belts of Bangladesh. A Philanthropist (the Fael Khair) has made a donation of US Dollar 130 million for the implementation of the Program, and entrusted the Islamic Development Bank (IDB) to implement the Program. Islamic Development Bank (“IDB”) has established a Management Committee to oversee the activities of the Program.

For the implementation of the Program, the Government of the People’s Republic of Bangladesh (the Government) and IDB have signed a Memorandum of Understanding on 12 May 2008, in order to outline the basis of cooperation between the two parties in implementing the Program.

An amount of US Dollar 110 million (“the Resource of Fael Khair Program for the Cyclone Victims in Bangladesh”) from the donation shall be extended in the form of grants for utilization in the construction of schools cum Cyclone shelters in the areas devastated by the Cyclone to be used as schools in normal times and as shelters in case of calamities.

The remaining balance of US Dollar 20 million (“the Waqf Fund - the Resource of Fael Khair Program for the Cyclone victims in Bangladesh”) from the donation is being extended either by grants or micro credits for the purpose of providing urgent relief to the victims of the Cyclone in the form of agricultural inputs and restoration of economic activities of the poor fishermen and small businesses affected by the Cyclone. The agricultural inputs is being implemented through Non-Government Organizations (NGOs) in coordination with the concerned authorities of the Government. This part of the Program shall be administered through the Fael Khair Waqf which has been established subsequent to the year end on 24 October 2010 (16 Dhul Hijja 1431H) registered under the laws and regulations of the People’s Republic of Bangladesh. During the year, amounts recovered as repayments of the micro credit loans have been recycled by the NGOs and from next year the recovered amounts will be recycled by Fael Khair Waqf. The initial US Dollar 20 million, any further amounts transferred directly from IDB, the recycled amounts from micro credit loans together with the income on the unutilized amounts, constitute the resources of the Fael Khair Waqf to be used in accordance with the Deed of Waqf. Until 29 Dhul Hijjah 1433H, the Program disbursed USD 20 million (1431H: USD 20 million) to NGOs in Bangladesh.

All dealings and activities of the Program shall be in conformity with Islamic Shariah.

The title of the assets recorded in these financial statements as Program’s assets is held with the IDB.

Being under the management of the IDB and due to its nature, the Program is not subject to an external regulatory authority.

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
(SPECIAL ASSISTANCE TRUST FUND 2)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

2. BASIS OF PREPARATION

a) Basis of accounting

The accompanying financial statements have been prepared in accordance with the significant accounting policies described in note 3.

b) Basis of measurement

These financial statements have been prepared on historical cost basis except for the measurement at fair value of investments in Sukuk, using the accrual basis of accounting and the going concern concept.

c) Functional and presentation currency

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

d) Judgments and estimates

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The Management Committee adopted the following significant accounting policies for the preparation of its financial statements which are consistent with prior years' unless otherwise stated. Certain prior year comparative figures have been restated and/or regrouped on a basis consistent with current year.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank, commodity placements through banks and Murabaha financing having maturities of three months or less at the date of placements.

b) Commodity placements with banks

Commodity placements are made through banks and are utilized in the purchase and sale of commodities at fixed profit. The buying and selling of commodities is limited by the terms of agreement between the Program and other financial institutions. Commodity placements are stated at cost including acquisition charges associated with the placements less provision for impairment.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investments in Sukuk

Investment in Sukuk is initially recognized at fair value at the date the contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period with the resulting gain or loss recognized in the statement of activities.

d) Asset under construction

Costs that are directly attributable to the construction of schools cum Cyclone shelters are accumulated and recorded as assets under construction. Upon completion, these schools cum Cyclone shelters will be transferred to the Government of Bangladesh.

e) Murabaha financing

Murabaha financing are agreements whereby the Program sells to a customer a commodity or an asset, which the Program 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 financing are stated at the cost of goods sold or disbursements made to the beneficiaries plus income recognized by the Program to the date of the balance sheet, less repayments received and any provision for impairment.

f) Fixed assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over their estimated useful lives. Maintenance and repair costs are expensed as incurred. Cost includes expenditures that are directly attributable to the acquisition/ construction of the asset. Subsequent expenditures are only capitalized when it increases the useful life of the asset.

The estimated rates of depreciation of the principal classes of assets are as follows:

Office equipment	25%
Computer equipment	25%
Vehicles	20%

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

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Income

Commodity placements through banks

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

Murabaha financing

Income from Murabaha financing is accrued on a time apportionment basis over the period from the date of actual disbursement of funds to the scheduled repayment dates of installments.

Investments in Sukuk

Income from investments in Sukuk is accrued on a time apportionment basis using the rate of return advised by the issuing entities.

h) Foreign currency translation

Transactions in currencies other than the US Dollar are recorded at the exchange rates prevailing at the date of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the US Dollar on the basis of the rate prevailing in the market at that date. Foreign currency exchange gains and losses are included in the statement of activities.

i) Impairment

The carrying amounts of assets are reviewed for impairment at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of activities.

j) Zakat and tax

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

k) Provisions

Provisions are recognized when a reliable estimate can be made by the Fund for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

**ISLAMIC DEVELOPMENT BANK
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

4. CASH AND CASH EQUIVALENTS

	<u>1433H</u>	<u>1432H</u>
Cash in hand	1	--
Cash at bank	8,555	358
Short-term placements with banks	3,867	35,000
Short-term Murabaha financing	<u>54,590</u>	<u>5,642</u>
	<u><u>67,013</u></u>	<u><u>41,000</u></u>

Short term placements with banks and Murabaha financing comprises those deals with original maturities of three months or less.

5. COMMODITY PLACEMENTS WITH BANKS

Commodity placements with banks at the end of the years are comprised of the following:

	<u>1433H</u>	<u>1432H</u>
Placements with banks	5,037	58,002
Less: maturity of three months or less at the date of placement	<u>(3,867)</u>	<u>(35,000)</u>
	<u><u>1,170</u></u>	<u><u>23,002</u></u>

6. INVESTMENTS IN SUKUK

Investment in Sukuk certificates represents a share in the Sukuk issued by the governments. The movement in Sukuk investments is summarized as follows:

	<u>1433H</u>	<u>1432H</u>
Balance at the beginning of the year	5,625	5,944
Fair value (loss)	<u>(125)</u>	<u>(319)</u>
Balance at the end of the year	<u><u>5,500</u></u>	<u><u>5,625</u></u>

**ISLAMIC DEVELOPMENT BANK
FAEL KHAIR PROGRAM FOR THE CYCLONE VICTIMS IN BANGLADESH
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)
(In Thousands of United States Dollars)

7. ASSET UNDER CONSTRUCTION – THIS NOTE IS STILL OUTSTANDING

a) The movement in asset under construction during the year ended 29 Dhul Hijjah 1433H is analyzed as under:

<u>Item</u>	<u>Asset code</u>	<u>Description of asset</u>	<u>District</u>	<u>Contract value (BDT)</u>	<u>Contract value (USD)</u>	<u>Balance at 1 Muharram 1433H</u>	<u>Additions</u>	<u>Balance at 29 Dhul Hijjah 1433H</u>
A	Package 1 of zone 1	Construction of 26 Schools/ shelters	Bagerhat, khulna, Satkhira	910,113	12,403	2,287	3,085	5,372
B	Package 2 of zone 1	Construction of 11 Schools/ shelters	Barisal & Patuakhali	453,959	5,628	3,203	1,924	5,127
						5,490	5,009	10,499

b) Assets under construction includes the cost related to project design, project supervision and construction management.

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NOTES TO THE FINANCIAL STATEMENTS

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(In Thousands of United States Dollars)

8. MURABAHA FINANCING

Murabaha financing at the end of the year are comprised of the following:

	<u>1433H</u>	<u>1432H</u>
Investment in Murabaha	130,203	54,329
Less: maturity of three months or less at the date of placement (note 4)	<u>(54,590)</u>	<u>(5,642)</u>
	<u>75,613</u>	<u>48,687</u>

9. AMOUNTS DISBURSED TO NON GOVERNMENT ORGANIZATIONS (“NGOs”) IN BANGLADESH

Outstanding balance of amounts disbursed to NGOs in Bangladesh (note 1) as of the reporting date are as follows:

	<u>1433H</u>	<u>1432H</u>
Islamic Bank Foundation	9,000	9,000
Muslim Aid	3,000	3,000
Voluntary Organization for Social Development	3,000	3,000
BRAC	-	5,000
	<u>15,000</u>	<u>20,000</u>
Impairment	<u>(317)</u>	<u>(400)</u>
	14,683	19,600
Exchange loss	(2,598)	(1,825)
Operating expenses provision	<u>(794)</u>	<u>(603)</u>
	<u>11,291</u>	<u>17,172</u>

10. UNDISBURSED COMMITMENTS

Undisbursed commitments as of the reporting date are as follows:

	<u>1433H</u>	<u>1432H</u>
Resources of Fael Khair Program for the Cyclone Victims in Bangladesh	<u>99,576</u>	<u>104,585</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 Dhul Hijjah 1433H (14 November 2012)

(In Thousands of United States Dollars)

11. RELATED PARTY TRANSACTIONS

In the ordinary course of its business activities, the Program transacts with Islamic Development Bank – Ordinary Capital Resources (IDB – OCR) and International Islamic Trade Finance Corporation (ITFC) relating to investments and realization of investments made through the inter-fund accounts between the Program, IDB - OCR and ITFC. The net balances due from / (to) IDB group entities at the end of the year are as follows:

	<u>1433H</u>		<u>1432H</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Islamic Development Bank – Ordinary Capital Resources (IDB – OCR)	-	(26,407)	--	(37,406)
Special Assistance Fund	3,608	-	2,108	--
WAQF Fund	-	(4,917)	10,048	--
Islamic Solidarity Fund	67	-	25,016	-
	<u>3,675</u>	<u>(31,324)</u>	<u>37,172</u>	<u>(37,406)</u>

12. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>1433H</u>	<u>1432H</u>
Salaries and employees' benefits	493	221
Impairment	(83)	100
Administrative cost	796	517
Operating expenses - NGOs	476	271
Others	81	125
	<u>1,763</u>	<u>1,234</u>

13. ZAKAT AND TAX TREATMENT

Per IDB, the Program is considered a part of Baitul Maal, and accordingly it shall not be subject to Zakat or tax.

14. FAIR VALUE

The management of the Program believes that fair value of assets and liabilities of the Program approximate their book values.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Management Committee of the Fael Khair Program on Jumada Al Tani 21, 1434H Corresponding to May 1, 2013.