SAARC
SAARC Development Fund

Consolidated Annual Report and Annual Accounts of SAARC Development Fund for the years 2008 to 2012

Contents

To the Governing Council

In accordance with Section 27 (2) (iii) of the SDF Bye-Laws, I submit to the Governing Council the Fund's Consolidated Report for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 as endorsed by the Board of Directors. The First Consolidated Report also contains the Fund's audited financial statements.

Chairperson, SDF Board

Governing Council

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Minister, Ministry of Finance

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His Excellency Mr. Abul Maal Abdul Muhith
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His Excellency Dr. Sarath Amaunugama
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Director:	His Excellency Mr. Arjun Bahadur Thapa Secretary General, SAARC Secretariat, Kathmandu, Nepal
Secretary General's Representative:	Mr. Tareque Muhammad Director, ARD, SAARC Secretariat, Kathmandu, Nepal.

SAARC Development Fund (SDF) Secretariat

Director:	Mr. Karma Chief Executive Officer, SAARC Development Fund Secretariat, Thimphu, Bhutan.

Message from the Chairperson

This year, the SAARC Development Fund celebrates its 4th anniversary and it is an honor for me to submit the first Consolidated Annual Report to the Governing Council. This report reflects a momentous journey of the Fund; a development institution established 4 years ago by the Heads of the States of the SAARC Member Countries; to promote the welfare of the people of SAARC Region, to improve the quality of life, and to accelerate economic growth, social progress and poverty alleviation in the SAARC Region through projects implementation.

To assist in the financing of development projects in Social, Economic and Infrastructure sectors, from the financial years 2008 to 2012, the Fund was able to implement 8 projects under the Social Window with a project portfolio ranging from strengthening the livelihood of the home based workers, addressing the needs of small farmers, reaching connectivity and content of e-governance to rural folks, reducing the infant mortality and steps at ending violence against children in South Asia. The Fund has also started to operationalize the Economic and Infrastructure Windows.

I want to acknowledge the Board of Directors, staff and other relevant stakeholders of the SAARC Development Fund who are working towards transforming SDF into a more dynamic, flexible, and innovative institution.

Khadeeja Hussain
Chairperson, SDF Board

Statement by CEO

I am happy to report that the SDF, since its formal inauguration by the Heads of States/ Governments of SAARC Member States in April 2010 has been working on (i) Building a professional SDF Secretariat, (ii) Accelerating the implementation of Social Window projects, and (iv) Operationalizing the Economic and Infrastructure Windows.

The primary objective of SDF is to promote the welfare of the people of SAARC region, improve their quality of life, and accelerate economic growth, social progress and poverty alleviation. To support these objectives, SDF has mandate to identify the projects, finance projects, mobilize funds, provide financing and technical assistance including managing of the Fund.

SDF is currently implementing five projects covering all the eight Member States under the Social Window funding. Our projects are intended to meet important socio-economic needs in our member countries. They range from strengthening the livelihood of home-based workers and addressing the needs of small farmers, enabling connectivity and content of e-governance to rural population, to reducing infant mortality and taking steps at ending violence against children. The SDF Secretariat has already committed USD 70 million for social window projects as of date. SDF is in the process of putting in place a robust Monitoring & Evaluation system. Through this system SDF intends to measure and report the developmental impact of the SDF funded projects.

It is expected that Economic and infrastructure windows would be activated by the end of this year. The Governing Council of SDF has approved the activation of these two windows at its second meeting held at Dhaka.

In closing, I want to thank the Board of Directors for providing the direction and invaluable guidance to the Fund. I would also like to thank our Counterpart Agencies in all SAARC Member States and also the officials of the SAARC Divisions of Ministry of Foreign/External Affairs for their support and goodwill to the SDF. Lastly, I want to thank my colleagues who have worked diligently and professionally in building the Fund.

My special gratitude to Their Excellencies, the members of the Governing Council of SDF, in providing the broader road map and the guidance to the Board of Directors.

Karma
Chief Executive Officer

SAARC

About SAARC

The South Asian Association for Regional Cooperation (SAARC), founded in 1985, is dedicated to improving the welfare of the people of South Asia through economic growth, social progress and cultural development in the region. SAARC's seven founding members are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan joined the organization in 2007. Australia, China, European Union, Iran, Japan, Mauritius, Myanmar, the Republic of Korea and the United States are the Observers to SAARC. Meetings of heads of states are usually scheduled annually; meetings of foreign secretaries, twice annually. It is headquartered in Kathmandu, Nepal.

Areas of Cooperation

The 16 areas of cooperation are

- Agriculture and Rural
- Biotechnology
- Culture
- Economic and Trade
- Education
- Energy
- Environment
- Finance
- Funding Mechanism
- Information, communication and Media
- People-to-People Contact
- Poverty Alleviation
- Science and Technology
- Security Aspects
- Social Development
- Tourism

About SAARC Development Fund

SAARC Development Fund

SAARC Development Fund is a regional institution focused towards the welfare of the people through improving their quality of life, accelerating economic growth & social progress and poverty alleviation in the SAARC Region. SDF is primarily engaged in investment, infrastructure and social sectors such as empowering women, health care services, ending violence against women and children, education programs, funding needs of disadvantaged segments such as poor farmers and rural development. The organization is also committed to help SAARC member countries evolve into thriving, modern economies through regional integration.

History

In 1996, a first funding mechanism was created in SAARC, viz. South Asian Development Fund (SADF), merging the SAARC Fund for Regional Projects (SFRP) and the SAARC Regional Fund. SADF objectives were to support industrial development, poverty alleviation, protection of environment, institutional/human resource development and promotion of social and infrastructure development projects in the SAARC region. SADF started with a resource base of US$5 million (contributed on pro-rata basis by SAARC Member States), and till its closure in June 2008, had funds amounting to approx. US$ 7.0 million. Till its closure, SADF completed techno-economic feasibility studies for sixteen projects.

During 2002-2005, SAARC Member States considered instituting various sectoral funding mechanisms e.g. Poverty Alleviation Fund, Infrastructure Fund, South Asian Development Bank, Media Development Fund, Voluntary Fund for the Differently Able Persons. A primary reason was that the existing South Asian Development Fund (SADF) was found to be inadequate i.e. in terms of required quantum of funds and its limited scope of work. In order to avoid proliferation of funds, the SAARC Financial Experts (September 2005) looked at the entire gamut of issues relating to funding of SAARC projects and programmes, and, amongst others, agreed that in lieu of proliferating sectoral financing mechanisms, the SADF be reconstituted into the SAARC Development Fund (SDF). SDF would have a permanent Secretariat, with three Windows (Social, Economic, and Infrastructure). The Thirteenth SAARC Summit (Dhaka, 12-13 November, 2005) finally decided to reconstitute the SADF into SDF to serve as the "umbrella financial mechanism" for all SAARC projects and programmes.

SAARC Development Fund (SDF) Secretariat was inaugurated by the Heads of States/ Governments of SAARC Member States on the first day of the 16th SAARC Summit held in Thimphu. The SDF Charter was ratified by Parliaments of the eight SAARC Member States and the Instrument of Ratification was issued on April 15, 2010.

Organizational Overview

Objectives

- *to promote the welfare of the people of SAARC Region,*
- *to improve their quality of life, and*
- *to accelerate economic growth, social progress and poverty alleviation in the SAARC Region.*

Activities/Windows

The SDF has three financing windows:

- Social
- Economic
- Infrastructure

Social Window

The Social Window primarily funds projects, inter alia, on poverty alleviation, social development focusing on education; health; human resources development; support to vulnerable/disadvantaged segments of the society; funding needs of communities, micro enterprises and rural infrastructure development. The projects are in line with regional consensus as reflected in the SAARC Social Charter, SAARC Development Goals, SAARC Plan of Action on Poverty Alleviation and other SAARC agreed and endorsed plans, programmes and instruments.

Economic Window

The Economic Window primarily extends funding to non-infrastructural projects related to trade and industrial development, agriculture, service sector, science and technology and other non-infrastructure areas. It can also be utilized for identifying, studying, developing and /or sponsoring commercially viable programmes/projects of regional priority including their pre-feasibility and feasibility studies. The Economic Window is utilized for supporting any other projects which are not covered explicitly under the Social and Infrastructure Windows.

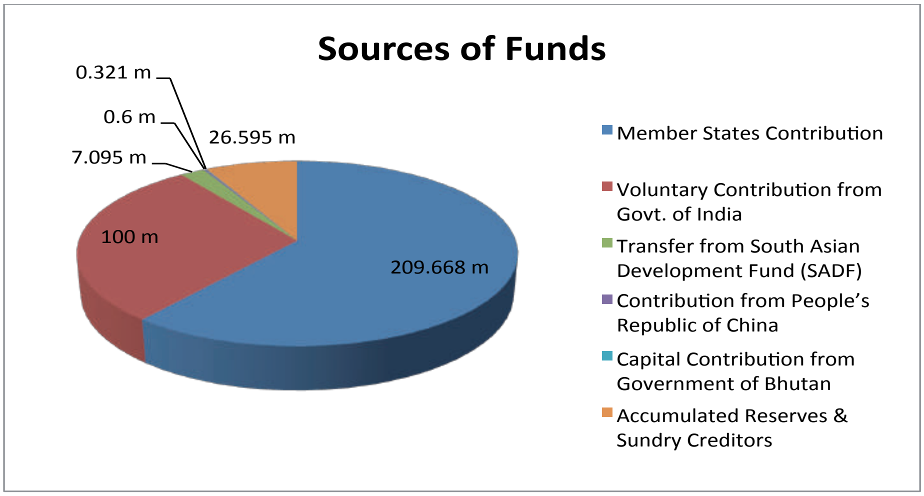
Infrastructure Window

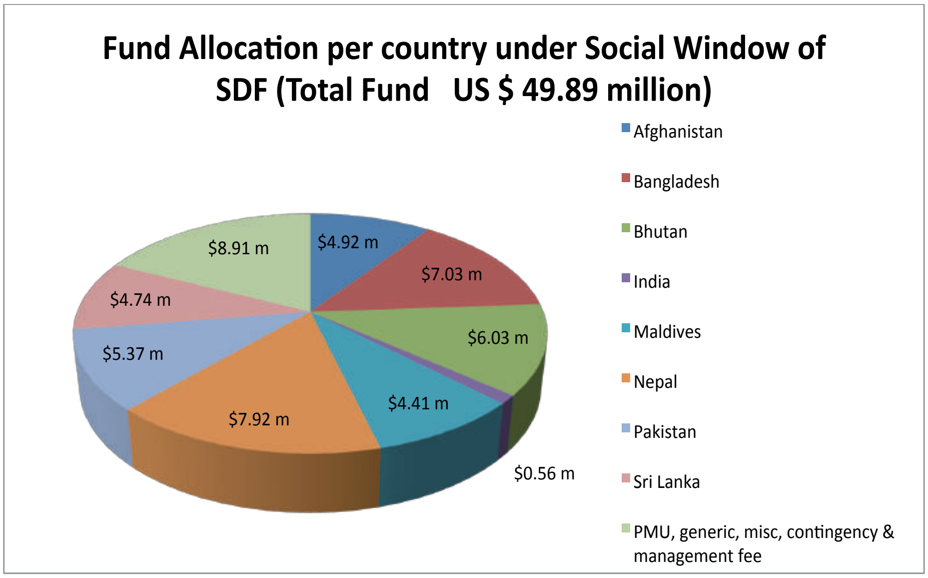
The Infrastructure Windows primarily funds projects in areas such as energy, power, transportation, telecommunications, environment, tourism and other infrastructure areas.

Fund Overview

Sources of Fund (as on December 31st 2012)

1. Member States Contribution of USD 209.668 million
2. Voluntary Contribution from Govt. of India of USD 100.00 million
3. Transfer from South Asian Development Fund (SADF) of USD 7.095 million
4. Contribution from People's Republic of China of USD 0.60 million
5. Capital Contribution from Government of Bhutan to set up SDF Secretariat of USD 0.321 million in kind
6. Accumulated Reserves & Sundry Creditors USD 26.595 million





Highlights of SDF's Activities (till December 2012)

» Formal inauguration by the Heads of State/Governments of SAARC Member States in April 2010 during the 16th SAARC Summit held in Thimphu.

» SDF started the institutional building process with the hiring of CEO in 2010 right after the SDF's inauguration. A full-fledged secretariat was set-up later in the beginning of 2011 upon recruitment of professionals.

» In this period, Social Window has been activated out of SDF's three financing Windows. Under the Social Window, five projects were initiated with budget of approximately USD 49.89 Million.

» SDF organized a regional level monitoring & evaluation workshop in April 2012 in order to formulate monitoring policy and plan for the SDF funded projects.

» Trade Facilitation Centers (TFCs) and Community Facilitation Centers (CFCs) have been established in Bhutan, Nepal, Pakistan and Sri Lanka. With these business structures, a large number of women members were attracted towards entrepreneurship, and they started taking part in the full-scale production.

» As a collective marketing effort through SAARC Business Association of Home-based Workers project, 'SABAH' brand has been introduced under the 'Made in SAARC' label for the products consisting of garments, home furnishing and accessories.

» 52 district hospitals, 242 sub-district hospitals and 1110 health post/PHC are in the process of installing medical equipment and receiving consumables to run the special new born care units in the region. This project would contribute to reduce neonatal deaths and maternal mortality rate.

» Construction of 16 zero energy cold storage and existing cold storages renovation in Afghanistan, Bhutan, India and Nepal are under construction while 2 in Nepal are being renovated. This project would increase the availability of fruits and vegetables during off seasons and improve the income of the participating farmers.

» Establishment of 381 community e-centers with basic computer, internet, and photocopier facility in the remote places of Bangladesh, Bhutan, Nepal and Maldives that would enable people for availing government and business related services electronically is under way.

» A regional level Strategic Planning Workshop was organized in Bhutan in March 2012 to create a common understanding and define the course of action for the implementation of South Asian Initiative to End Violence Against Children project.

SDF Projects at a glance

SAARC DEVELOPMENT FUND SECRETARIAT
MASTER PROJECT BUDGET (ON-GOING & PIPELINE)
SAARC MEMBER STATES
SOCIAL WINDOW

SL. No.	Name of Project	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	PMU + Generic+ Miscell+ Contingency	Management Fee	Total
		US $	US $	US $	US $	US $	US $	US $	US $	US $	US $	US $
On-Going Projects:												
1	SABAH	1.14	1.15	1.02	-	1.18	2.22	2.09	1.29	5.52	0.34	15.95
2	MCH	2.07	3.32	1.17	-	1.14	2.07	2.07	2.43	0.33	0.43	15.04
3	ZECS	0.74	-	0.52	0.56	-	0.68	-	-	0.80	0.09	3.38
4	CeCs	-	1.35	2.53	-	1.89	1.93	-	-	-	0.23	7.94
5	SAIEVAC	0.24	0.35	0.20		0.19	0.29	0.34	0.29	0.63	0.08	2.60
6	Post Harvest Management	0.73	0.87	0.58	-	-	0.73	0.87	0.73	0.35	0.12	4.98
	Sub-Total	**4.92**	**7.03**	**6.03**	**0.56**	**4.41**	**7.92**	**5.37**	**4.74**	**7.62**	**1.29**	**49.89**
	Pipeline Projects:											
7	Access to Water	0.44	0.86	0.52	0.86	0.45	0.86	0.86	0.69			5.59
8	Master's Program in Rehabilitation Science		1.56									1.56
9	Toll Free Help lines for women and children											4.00
	Sub-Total	**0.44**	**2.42**	**0.52**	**0.86**	**0.45**	**0.86**	**0.86**	**0.69**	**-**	**-**	**11.09**
	Grand-Total	**5.36**	**9.45**	**6.54**	**1.42**	**4.86**	**8.79**	**6.23**	**5.43**	**7.62**	**1.29**	**60.98**

Ongoing Projects

Strengthening the livelihood initiative for homebased workers in SAARC Region

Start Date: 1-Aug-2008
End Date: 31-Dec-2014
Project Budget: US $ 15,952,291.00
Total Disbursement: US $ 11,680,639.91
Participating Countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka
Beneficiary: Poor/Marginal home-based women workers from informal sectors in the SAARC Members States, except India.

There are more than 100 million home based workers (HBWs) in the world, of which around 50 percent are in South Asia alone where they form a fast growing part of the workforce. Of these workers, an estimated 80 percent are women.

The SAARC Development Fund (SDF) has been firmly committed to empowering HBWs by supporting them to improve and diversify their skills, train them in Consolidated customized Product and Design Development, and educate them in marketing skills.

The SAARC Development Fund (SDF) - approved project on women's empowerment 'Strengthening the Livelihood Initiative of Homebased Workers in SAARC Region' has been awarded to HomeNet South Asia (HNSA) and Self Employed Women's Association (SEWA) for implementation in all SAARC countries, except India.

The Project Objective is **"To strengthen the livelihoods of poor homebased workers living in the region primarily through awareness and exposure to development, capacity building, intensive training and gaining a fair share of mainstream market"**. In addition; through SAARC Development fund's support, it has brought the women homebased workers together in the region.

"I was very shy and introvert. I was not comfortable being vocal. SABAH has made me confident and my fear of talking to people has gone. I have many food stalls, locally and regionally representing "The Village café" as a cook. I feel very proud when I realize that I am the first one in the entire family to have a bank account and first one to deal with banking transactions."

>> Kavita Moharjan, one of the beneficiaries of SABAH Nepal

"I have been with SABAH for almost a year and my life has improved a lot since I joined SABAH Bhutan. I am a permanent member of SABAH Bhutan and earn Nu. 4500 per month, most of which I spend for my children's education. My income was not consistent earlier and was always weary of how much I will be able to earn."

– Sangay Lhamo

>> SABAH Afghanistan's Stall at a Local Exhibition

>> Sangay Lhamo, Member of SABAH Bhutan

"I became member of Baagay Khazana Sabah Association and now I get enough work to support my ill mother and financially instable family. SABAH has helped through secured work and regular income. I now produce food processing item like chutneys, mix pickles , jams in the group and market the same through SBKSA as well as in my own neighbourhood, with a steady income of Af 2500/- to Af 4000/- per month. I also train other women, so apart from livelihood; this training has increased my self-confidence and also social and family status."

– Sahlab Hussain Sadat

Strengthening Maternal and Child Health Including Immunization

Start Date: 19-Jun-2009
End Date: 31-Dec-2014
Project Budget: US $ 15,039,229.00
Total Disbursement: US$ 3,918,723.34
Participating Countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka
Beneficiary: Mothers and Newborns in 7 countries, doctors and nurses and Infrastructure Development.

SAARC account for 25% of the global population whereas SAARC countries have young population, with nearly 50% in the reproductive group. The number of pregnant women and the number of babies born annually are very high. An estimated 37 million child births take place annually. The region also accounts for more than 0.18 million maternal deaths and over 3 million child deaths annually. Half of the under-5 deaths occur during the first 28 days of life; and most of the deaths are preventable.

In this context, the 2nd Meeting of SAARC Finance Ministers agreed to undertake a Project on Maternal & Child Health Care under the Social Window of the SAARC Development Fund (SDF).

SDF is dedicated to ensuring that every infant and woman of childbearing age in the SAARC region is fully immunized. Working with, regional, national and sub-national partners, the project aims to:

1. Reduce child maternal mortality
2. Access to integrated consolidated primary MCH health care
3. Improve availability and adequacy of infrastructure and equipment at district and sub-district level, and
4. Improve skills towards MCH services for doctors and nurses

The project aims to cover about 10 districts hospitals, 30 FRUs and 120 PHCs facilities in each SAARC member country – for infrastructure development, Supply of Equipment and capacity building.

>> Training of trainers in Bhutan, Maldives, Sri Lanka and Pakistan

Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries.

Start Date: 1-Dec-2010
End Date: 30-Jun-2013
Project Budget: US $ 3,380,931.00
Total Disbursement: US$ 2,065,819.75
Implementing Countries: Afghanistan, Bhutan, India and Nepal
Beneficiary: 12,150 Farmers & 50,000 people

Agriculture is the engine of development for majority of the SAARC countries, often employing the majority of the population. SDF has actively promoted the integration of modern energy services with agriculture and horticulture in the region, to support social and economic development and to address the need for greatly expanded food production and food security. The project aims:

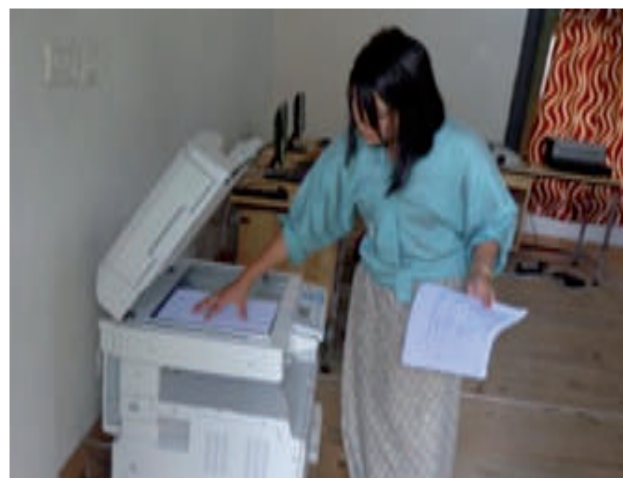
1. To enhance the shelf-life of fruits and vegetables by disseminating ZECS technology in the hills of SAARC countries.
2. To increase the farm income by reducing stress sale and post-harvest glut situation of fruits and vegetables.
3. To increase the availability of the fruits and vegetables during off-season.
4. To train the farmers for the adoption of ZECS technology.

"The farmers of Kartikswami-4, Jumla had stored apple in Zero Energy Cold Store. During harvesting time the price of apple at farm get price was NRs. 16/Kg (for medium and large sized fruit). But after storing for 7 month the farm get price of medium to large sized apples was NRs. 90/Kg and they sold apples and farm get price of small sized apples was NRs. 80 /Kg. The farmers of Jumla took part in International Trade Fair from 8th to 13th March 2013 organized at Bhrikutimandap, Kathmandu. The farmer sold Golden Delicious at the rate of NRs. 60/piece and Red/Royal Delicious at the rate of NRs. 50/piece; the apples fetched excellent price in Kathmandu."

>> *Management of Apple Re-plantation Problem & Quality Production Training in Himachal Pradesh*

Empowering Rural Communities "Reaching the Unreached"

Start Date: 1-Apr-2011
End Date: 31-Dec-2014
Project Budget: US $ 7,938,335.00
Total Disbursement: US $ 4,015,307.17
Implementing Countries: Bangladesh, Bhutan, Maldives and Nepal
Beneficiaries: Rural people of 200 Unions in Bangladesh, 50 Gweogs in 18 Dzonkhags of Bhutan, 20 atolls in Maldives and 81 Village Development Centers in Nepal.



With the shift towards a 'knowledge society', the role of interactive communication technologies (ICTs) such as email and the Internet[1] in sustainable community and economic development is becoming increasingly important. Therefore, SDF aims to empower rural communities in the SAARC region through community mobilization, training, and equipping them with the skills, methods, and knowledge needed to improve their lives and conditions in rural communities. In order to mobilize people at the grassroots level to build self-reliance, the project 'Empowering Rural Communities "Reaching the Unreached"' was approved in the 10th meeting of the SDF Board. The primary objectives of the project are:

1. Employment generation and creation of new economic activities using ICT
2. Ensure govt. services in rural areas
3. Reduce turnaround time
4. Fully functional UISCs, CCs, CeCs and VDCs

More than a thousand people have visited the center after it became operational in April 2013. Photocopy is the frequently used offline service in the center. The gewog has more than 3181 people residing with farming as their main occupation.

Since most people are farmers they do not have the luxury to go to the town to avail basic services like photocopying, printing, lamination and scanning. With the CCs, it has become very convenient for the people. With internet connectivity in the CC, the CC now provides e-Government to citizen services.

An elderly man who had come to apply new born birth registration for his grandson went happily after knowing that the procedures were very simple and effective. The fact that he did not have to go to the census office located in city, which took weeks for verification and approval in earlier days. It has reduced the turnaround time. He praised the government for taking such initiative for the citizens.

Baa Maalhos Community eCentre, first of the 50 Community eCentres (CeC) being established across the small island communities of Maldives, was launched by the Minister of Transport and Communication HE Mr. Amin Ibrahim on 6th July 2013.

Baa Maalhos CeC is equipped with 8 PCs, a multifunction printer, projector and broadband Internet and will initially provide the island community with Internet and PC based services, with at least 1 hour of free Internet per user per day. It will also serve as the main center for building ICT literacy and will conduct the Maldives eCitizen Program, aiming to make all citizens of Baa Maalhos eCitizens. It was established in the Baa Maalhos School and will also serve as the school computing laboratory during normal school hours.

South Asia Initiative to End Violence Against Children (SAIEVAC)

Start Date: 1-Jan-2012
End Date: 31-Dec-2014
Project budget: US $ 2,600,000
Total Disbursement: US$ 531,040.09
Participating Countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka

Protecting children from violence is one of the priorities of SDF. Violence against children has a devastating impact — threatening children's survival, development and participation in society. SDF is working with communities and partners at the national and regional levels to fight violence against children and promise a future worthy of children's potential.

In response to the continued violence meted against children in the region, SDF jointly with SAIEVAC Secretariat have initiated a project 'South Asia Initiative to End Violence Against Children' to curb the problem of violence against children in the SAARC region.

The overall objective of the project is to enhance protection of children in South Asia, especially the most vulnerable, from all forms of violence through enhanced advocacy, awareness and capacity development of the implementing institutions and the target population. The project also provides strategic support to national level SAIEVAC activities dealing with advocacy, training and awareness focused on ground level activities.

"The feeling that I had that I'm going to be a leader and representing all the children in all 8 countries and also, the SRSG and everyone else was so good to us"

– Rashmi

Upcoming Projects

Post Harvest Management and Value Addition of Fruits in Production Catchments in SAARC Countries

Start Date: 1-Jan-2013
End Date: 31-Dec-2015
Project budget: US $ 4,979,075.00
Total Disbursement: US$ 193,270.16
Participating Countries: Phase I- Afghanistan, Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka (other countries to join in phase II)

South Asia is home to half of the world poor, with a combined population of 1.5 billion. Poverty is widespread in rural areas of South Asia. Farmers in this area are largely resource poor and own small pieces of land. It is not possible to earn decent livelihood through agriculture production activities alone. In fact, the spare capacities available in the farm sector could be utilized in post-harvest management practices and some value addition activities to enhance the income of the farm families and also generate additional livelihood opportunities for them. In this context, the promotion of post-harvest management practices and value addition in production catchments is highly relevant and of high importance to SDF.

The overall objective of the project is:

1. To identify and share the knowledge on post-harvest and fruit processing technologies across the SAARC countries.
2. To adapt, evaluate and disseminate post-harvest, processing and value addition technologies for fruits in the SAARC countries.
3. To establish post-harvest infrastructure and value addition in production catchments of fruits in the SAARC countries.
4. To develop effective marketing linkages of processed products in the SAARC countries.
5. To assess the impact of adapted technological packages at project sites.
6. To ensure product quality and safety in the adoption of package of technologies.

Regional Inter-professional Master's Program in Rehabilitation Science

Start Date: 1-Jun-2013
End Date: 31-May-2018
Project budget: US $ 1,500,000.00
Total Disbursement: Yet to disburse
Implementing Country: Bangladesh (with benefits to students from other SAARC Member States)

The purpose of the project at the Academic Institute of CRP - Bangladesh Health Professions Institute (BHPI, CRP) is to build the capacity of health and rehabilitation human resources for services, education, policy and research in the SAARC region through development of its capability to deliver regional, inter-professional, graduate education programmes with support from Queen's University, Canada and York St. John's University, United Kingdom. Ultimately, the project will contribute to the enhancement of the range and quality of basic health, disability, and rehabilitation services for the population of disabled people in Bangladesh and participating SAARC countries, and to facilitate their integration into mainstream society while supporting poverty reduction initiatives. Disability is a significant issue in South Asia and it is of utmost importance that high-quality therapists are trained and retained in the health professions to continue to develop services for disabled people.

Toll Free Help-lines for Women and Children in SAARC Member States

Start Date: 1-Jun-2013
End Date: 31-May-2016
Project budget: US $ 4,000,000.00
Total Disbursement: Yet to disburse
Implementing Country: Phase-I: Bangladesh, Bhutan and Sri Lanka. Afghanistan, India, Maldives, Nepal and Pakistan to join in Phase II.

The Helplines is the direct operationalisation of the SAARC Convention on Preventing and Combating Trafficking in Women and Children. The intra-country mechanisms will bring convergence to the efforts of the 8 Member States to prevent and combat trafficking of women and children. The Project outcomes also contribute to achieving the SDGS (DG 4 related to a robust pro-poor growth process; 6 on Reducing social and institutional vulnerabilities of the poor, women and children; 7 on accesses to affordable justice), the MDGs and the poverty reduction strategies being implemented.

It is also a proven fact that progress for children and women are core factors for preventing state fragility and ensuring long-term sustainable development, social cohesion, stability and security at national and regional levels.

The aim of the project is to:

- Strengthen system to protect the rights of women and children; and
- Help rescue and rehabilitation of victims, apprehend perpetrators of trafficking and deter intra country trafficking in South Asia through strengthening/ establishment of Toll free help lines in the SAARC Member States.

FINANCIAL OVERVIEW

Financial Overview

Management's Attestation and Independent Auditor's Report - 2008

The Members of the Governing Council
SAARC Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of SAARC Development Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2008, the statements of consolidated income, changes in reserves and cash flows for the period 3 August 2008 (dated of signing of Charter) to 31 December 2008, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 control 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 control. 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.

Basis for Qualified Opinion

Attention is invited to Note 14 which explains the position in detail that the fund has not accrued the committed annual contribution due to be received from the member countries during the period 3 August 2008 to 31 December 2008 amounting to SDR 27,872,000. As required under Charter and Bye Laws of the Fund, every member was required to pay its contribution in five equal annual installments but the same to the extent of SDR 27,872,000 has not paid by them. Had the fund accrued these required contributions in these financial statements, non-current liabilities would have been SDR 112,307,473 instead of SDR 84,435,473 and the receivables would have been SDR 27,872,000 instead of SDR Nil.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2008, and of its financial performance and its cash flows for the period 3 August 2008 to 31 December 2008 in accordance with International Financial Reporting Standards.

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Gurgaon, India

Date: 30 August 2013

SAARC Development Fund
Statement of Financial Position as at 31 December 2008
(All amounts in SDR, unless otherwise stated)

	Note	As at 31 December 2008
Assets		
Cash and cash equivalents	7	71,123,653
Investments	8	13,528,747
Current assets		84,652,400
Total assets		84,652,400
Reserves and liabilities		
Reserves		
General reserve		210,861
Foreign currency translation reserve		3,566
Total reserves		214,427
Liabilities		
Unrestricted reserves		
Contribution from member states	9	58,424,458
Voluntary contribution received from Republic of India	9	21,404,657
Funds received on cessation of South Asian Development Fund	9	4,606,358
Total non-current liabilities		84,435,473
Accounts payable	10	2,500
Total current liabilities		2,500
Total reserves and liabilities		84,652,400

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
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SAARC Development Fund
Statement of Consolidated Income for the period 3 August 2008 to 31 December 2008

(All amounts in SDR, unless otherwise stated)

	Note	For the period 3 August 2008 to 31 December 2008
Operating expenditure		
Legal and professional expenses		2,500
Total operating expenditure		2,500
Other expenditure		
Funds disbursed under social window		614,967
Less: allocated from voluntary contribution		(614,967)
Total other expenditure		-
Finance income	11	213,361
Net surplus for the period		210,861
Other consolidated income		
Foreign currency translation reserves		3,566
Total other consolidated income for the period		3,566
Total consolidated income for the period transferred to general reserve		214,427

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows for the period 3 August 2008 to 31 December 2008

(All amounts in SDR, unless otherwise stated)

	For the period 3 August 2008 to 31 December 2008
Surplus for the period	210,861
Adjustments for :	
Interest income	(213,361)
	(2,500)
Increase in accounts payable	2,500
Net cash from operating activities	-
Cash flow from investing activities	
Interest income received	26,496
Investment in deposits	(13,341,882)
Net cash used in investing activities	(13,315,386)
Cash flow from financing activities	
Voluntary contribution received from Republic of India	22,019,624
Funds disbursed under social window	(614,967)
Contribution from member states	58,424,458
Funds received on cessations of South Asian Development fund	4,606,358
Net cash from financing activities	84,435,473
Net increase in cash and cash equivalents	71,120,087
Effect of foreign currency translation reserves	3,566
Cash and cash equivalents as at the end of the period	71,123,653

The accompanying notes are an integral part of these financial statements

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SAARC DEVELOPMENT FUND SECRETARIAT
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Statement of Changes in Reserves for the period 3 August 2008 to 31 December 2008

(All amounts in SDR, unless otherwise stated)

	General reserve	Foreign currency translation reserve	Total
Opening balance	-	-	-
Surplus for the period	210,861	-	210,861
Other consolidated income			
Foreign currency translation reserves	-	3,566	3,566
Balance at 31 December 2008	210,861	3,566	214,427

SAARC Development Fund
Notes to the financial statements for the period ended 31 December 2008

(All amount are in SDR, unless otherwise stated)

1. Reporting entity

SAARC Development Fund ('the Fund') is established by eight member countries i.e. Islamic Republic of Afghanistan, People's Republic of Bangladesh, Kingdom of Bhutan, Republic of India, Republic of Maldives, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan and Democratic Socialist Republic of Sri Lanka ('Member States') and is governed by its charter dated 3 August 2008. Ministers of Finance of the above eight member countries form the Governing Council of the Fund.

The Fund has the international character, possesses full juridical personality and operates under the Rules, Regulations and Bye Laws made for the purpose of the Charter by the Governing Council. As per Bye Laws, the Fund, its property, other assets, income and its operations and transactions shall be exempt from all taxation and duties.

The address of the Fund is SAARC Development Fund Secretariat, 3rd Floor, BDFC Building, Norzin Lam, Post Box 928, Thimphu 11001, Bhutan.

The Fund is established to promote the welfare of the people of its member countries, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region. The Fund will serve as a financial institution for projects and programmes, which are in fulfillment of the objective of the SAARC Charter. It is aimed to contribute to regional cooperation and integration through project collaboration.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and are presented in accordance with the Fund's Statutes.

Accounting policies have been based on the general IFRS principles, as detailed in the IASB's Conceptual Framework for Financial Reporting (formerly known as Framework for the Preparation and Presentation of Financial Statements.)

The financial statements for the period ended 31 December 2008 were authorized by the board of directors on 26 August 2013 for issue to Governing Council on 30 August 2013 for their final approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

- Loans and Receivables / Investments are initially recognized and measured at fair value.

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(c) Functional currency

The Fund's functional currency is U.S. dollar (USD).

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

(d) Presentation currency

As required under Bye Laws of the Fund these financial statements are presented in Special Drawings Rights ('SDR'). All financial information presented in SDR has been rounded to the nearest SDR, except when otherwise indicated.

The value of the SDR is determined by the International Monetary Fund ('IMF') each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The current composition of the SDR valuation basket became effective on January 1, 2006.

The currencies in the basket as at 31 December 2008 and their amounts were as follows:

Currency	Amount
Euro	0.4100
Japanese yen	18.4000
Pound sterling	0.0903
U.S. dollar	0.6320

At 31 December 2008, one SDR was equal to US$ 1.540270.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

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

As the Fund has just opened its Social window of financing and was in the process of starting its operations, no significant estimates and judgment was involved during the period.

3. Significant accounting policies

The accounting policies set out below have been applied in the preparation of these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign

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currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in statement of consolidated income.

Translation from functional currency to presentation currency:
As mentioned above, these financial statements are presented in Special Drawings Rights ('SDR').

- The assets and liabilities are translated to SDR at exchange rate at the date of the balance sheet.
- The income and expenses are translated to SDR at exchange rates at the dates of the transactions.

All resulting exchange differences are recognized in other consolidated income and are presented in the translation reserve within 'Statement of Changes in Reserves'

(b) Financial instruments

Non- derivative financial assets: The classification of financial instruments depends on the substance of the contractual arrangement. The fund's non-derivative financial assets comprise of Loans and receivables.

The Fund initially recognizes loans and receivables on the date that they are originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables comprise cash and cash equivalents and investment in fixed deposits. .

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value. For these short term deposits, the carrying value approximates the fair value due to the short maturity of these instruments.

Investments

Investments comprise of fixed deposits with original maturities of more than three months.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Non derivative financial liabilities

The Fund recognizes financial liabilities initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise 'accounts payable'.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(c) General reserve

These reserves represent accumulation of excess of income over expenditure in statement of consolidated income. Such excess funds carry no specific reservation or restriction and can be applied as per the Fund Charter.

(d) Unrestricted reserves

- **Capital contributions**

This represents the contribution given by the Member States. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter.

- **Voluntary contributions**

Voluntary contributions from member states (unrestricted reserves) or other governments/ institutions are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such income is presented on a systematic basis as a deduction in reporting the related expense in the periods in which the expenses are recognized.

- **Funds received on cessation of South Asian Development fund ('SADF')**

This represents the balance transferred on the closure of the earlier SADF to the Fund. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter in the "Economic window" as decided by the Management.

(e) Finance income

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in Statement of Consolidated Income, using the effective interest method.

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(f) Impairment

Financial assets

The carrying amount of Fund's assets is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Fund considers evidence of impairment for receivables for each specific asset. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of consolidated income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of consolidated income.

(g) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assumptions of the time value of money and the risks specific to the liability. The unwinding of discount is recognized as finance cost.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Fund. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

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(h) New accounting standards and interpretations

Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other consolidated income. No amount recognized in other consolidated income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other consolidated income. The Fund is required to adopt IFRS 9 by accounting year commencing 1 January 2015. The Fund is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after January 1, 2013 with early adoption permitted. The Fund is required to adopt IFRS 13 by accounting year commencing 1 January 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published Presentation of items of other consolidated income (amendments to IAS 1). The amendments to IAS 1, require companies preparing financial statements in accordance with IFRS to group items within other consolidated income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other consolidated income items (without changing the option to present items of other consolidated income either before tax or net of tax). It also changes the title of statement of consolidated income to statement or profit and loss and other consolidated income.

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The amendments also reaffirm existing requirements that items in other consolidated income and profit or loss should be presented as either a single statement or two statements. This amendment is applicable to annual periods beginning on or after 1 July 2012, with early adoption permitted. The Fund is required to adopt IAS 1 (Amended) by accounting year commencing 1 January 2013. The Fund has evaluated the requirements of IAS 1 (Amended) and the Fund does not believe that the adoption of IAS 1 (Amended) will have a material effect on its financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after 1 January 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other consolidated income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other consolidated income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The Fund is required to adopt IAS 19 (Amended) by accounting year commencing 1 January 2013. The Fund is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the financial statements.

In December, 2011, the IASB issued an amendment to IFRS 7 "Disclosures – offsetting financial assets and financial liabilities". The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2013. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

In December, 2011, the IASB issued an amendment to IAS 32 "Offsetting financial assets and financial liabilities". The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the statements of financial position. This includes clarifying the meaning of "currently has a legally enforceable right to set-off" and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2014. Earlier application is

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permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

Annual Improvements 2009-2011 Cycle

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The annual improvements 2009-2011 cycle are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt these standard / amendments early and the extent of impact has not yet been determined.

IAS 1 'Presentation of Financial statements' to clarify that only one comparative period- which is the preceding period – is required for complete set of financial statements. Additional comparative information may be presented provided such information should be accompanied by related notes and should be in accordance with IFRS. Further, IAS 1 clarifies that the presentation of an opening statement of financial position is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification provided such a retrospective application, retrospective restatement or the reclassification has a material effect upon the information in the opening statement of financial position.

Voluntary early adoption of new standard

IAS 1 "Revised Presentation of Financial Statements": The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009 with early adoption permitted. The standard separates owner and non-owner changes in equity will include only details of transactions with owner, the non owner must be presented in Statement of Consolidated Income and the total carried to Statement of Changes in Equity.

The revised Standard requires that all items of income and expense (including those accounted for directly in equity) be presented either:

a) in a single statement (a 'statement of consolidated income'); or
b) in two statements (a separate 'income statement' and 'statement of consolidated income').

The Fund has early adopted this standard

4. Determination of fair values

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of cash equivalents including short term deposits, investments and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

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The fair value of cash and cash equivalents, investments and other receivables are not materially different from the carrying amounts due to short term maturities of these instruments.

The carrying value is reported in Note 12.

5. Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. Risk management is carried out by the top management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's overall risk management program focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to The Board of Directors.

(a) Credit risk

The Fund treasury policy focuses on security of cash and cash equivalents. Investments are allowed only in liquid securities and only with counterparties that have a high credit rating

The Fund held cash and cash equivalents and investments in fixed deposits of 84,652,400 as at 31 December 2008 which represents its maximum credit exposure on these assets. These are held in government authorised banks and there is no significant exposure.
As on 31 December 2008, all the fixed deposits were held in Government authorized banks in Nepal (in USD).

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(b) Liquidity risk

The Fund's objective is to strike a balance between funding continuity and flexibility by maintaining sufficient funds as cash in hand or as on-demand or short-term deposits with maturities of three months or less to meet short-term liabilities. There are no non-derivative financial liabilities at the end of reporting period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

- **Currency risk**
  During the current period, all the transactions entered in functional currency only and fund do not perceive any currency risk.

- **Interest Rate Risk**
  The investment portfolio is exposed to market risk due to interest rate movements. The interest rate risk is reduced by limiting the duration of the portfolio to a weighted average of 0-2 years and investment in fixed rate instruments.

6. Capital management

By its nature, the Fund does not have "capital", rather it views the reserves as a proxy for capital in terms of International Accounting Standard ("IAS") 1. The status of the various reserves is indicated in the Statement of changes in reserves as at 31 December 2008.

The overall objective of investments is to protect and preserve the Fund's ability to fulfill its commitments to ensure availability of cash for the discharge of its mandate. Therefore the primary principles governing investments are security, liquidity and yield, in order of importance.

7. Cash and cash equivalents

	As at 31 December 2008
Cash at bank	68,049,502
Short-term deposits having original maturity of less than three months	3,074,151
	71,123,653

The deposits maintained by the Fund with banks comprise of time deposits, which can be withdrawn by the Fund at any point without prior notice or penalty on the principal and interest.

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8. **Investments**

	As at 31 December 2008
Fixed deposits with original maturity of more than three months but due to mature in twelve months of the reporting date	13,341,882
Interest accrued on deposits	186,865
	13,528,747

9. **Unrestricted reserves**

	Contribution from member states*	Voluntary contribution received from Republic of India **	Funds received on cessation of South Asian Development Fund ("SADF") ***	Total
Opening balance	-	-	-	-
Addition made during the period	-	22,019,624	4,606,358	26,625,982
Contribution received from Republic of India	58,424,458	-	-	58,424,458
Less: Allocated to the other expenditure to the extent of related grant disbursed	-	(614,967)	-	(614,967)
Balance at 31 December 2008	58,424,458	21,404,657	4,606,358	84,435,473
Non-curent	58,424,458	21,404,657	4,606,358	84,435,473
current	-	-	-	-
	58,424,458	21,404,657	4,606,358	84,435,473

***Contributions from member states:**

Authorized capital contribution

The initial authorized capital of the Fund shall be SDR One Thousand Million, to be divided into callable capital and paid up capital.

Initial paid up capital contribution

The initial paid up capital of the Fund shall be SDR Two Hundred Million. The capital will be subscribed by the Member States in accordance with the below table. Future contributions to the capital will be raised as per decision of the Governing Council.

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Name of contributor	Amount
Islamic Republic of Afghanistan	10,000,000
People's Republic of Bangladesh	21,440,000
Kingdom of Bh utan	10,000,000
Republic of India	60,640,000
Republic of Maldives	10,000,000
Federal Democratic Republic of Nepal	21,440,000
Islamic Republic of Pakistan	45,040,000
Democratic Socialist Republic of Sri Lanka	21,440,000
Total	200,000,000

Subscriptions by each Member State to the paid up capital of the Fund shall be made in five equal instalments. The first instalment shall be due within one month of entry into force of the SDF Charter.

The payment of subscriptions to paid up capital shall be made:
(a) Seventy percent in convertible currency; and
(b) Thirty percent in the currency of the contributing Member State.

The liability of the contributors shall be limited to the unpaid portion of their contributions. No contributor shall be liable for obligations of the Fund.

** As informed by the management, in the fourth inter- governmental meeting of South Asian Association for Regional Cooperation, Nepal, held on 6 -7 March 2008 at Lahore, it has been decided that voluntary contribution from India has to be used for the "Social window" as defined in the Fund charter for funding regional/sub-regional projects within the SAARC countries, but outside of India.

*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 Nov 2010 and 1 Dec 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

10. Accounts payable

	As at 31 December 2008
Sundry creditors	2,500
	2,500

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11. Finance income

	For the period 3 August 2008 to 31 December 2008
Interest income on fixed deposits	213,361
	213,361

12. Financial instruments

Credit risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2008
Cash and cash equivalents	71,123,653
Investments	13,528,747
Total	**84,652,400**

Liquidity risk

The following are the contractual maturities of non derivative financial liabilities as of the reporting dates.

As at 31 December 2008	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	2,500	2,500	2,500

Interest rate risk

Profile

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

	As at 31 December 2008
Fixed rate instruments	
Financial assets	
Cash and cash equivalents	71,123,653
Investment	13,528,747
	84,652,400

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Fair values versus carrying amounts

	As at 31 December 2008	
	Carrying Amount	**Fair Value**
Assets carried at amortized cost		
Cash and cash equivalents	71,123,653	71,123,653
Investments	13,528,747	13,528,747
	84,652,400	**84,652,400**

13. Contractual commitments

The fund has approved the following project as at 31 December 2008:

Project Name	Amount approved/ granted#	Amount disbursed/ expensed	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,829,242	614,967	8,214,275

budgeted amount have been calculated in SDR using the closing rate as at 31 December 2008

14. The fund has not received the following annual committed contribution from the following member countries as at 31 December 2008:

Name of contributor	Amount in SDR
Islamic Republic of Afghanistan	2,000,000
People's Republic of Bangladesh	4,288,000
Kingdom of Bhutan	2,000,000
Republic of Maldives	2,000,000
Federal Democratic Republic of Nepal	4,288,000
Islamic Republic of Pakistan	9,008,000
Democratic Socialist Republic of Sri Lanka	4,288,000
Total	**27,872,000**

The fund is making efforts to receive these monies from the member countries in due course.

15. Subsequent events

There were no such events after the balance sheet date which represents unusual changes affecting the existence or substratum of the Fund at the balance sheet date.

KPMG

Management's Attestation and Independent Auditor's Report - 2009

The Members of the Governing Council
SAARC Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of SAARC Development Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2009, the statements of consolidated income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

Management's Responsibility for the Financial Statements
Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 control 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 control. 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.

Basis for Qualified Opinion
Attention is invited to Note 17 which explains the position in detail that the fund has not accrued the committed annual contribution due to be received from the member countries during the year ended

31 December 2009 amounting to SDR 27,872,000 (till 31 December 2008 SDR 27,872,000). As required under Charter and Bye Laws of the Fund, every member was required to pay its contribution in five equal annual installments but the same to the extent of SDR 55,744,000 (including SDR 27,872,000 as at 31 December 2008) has not paid by them. Had the fund accrued these required contributions in these financial statements, non-current liabilities would have been SDR 178,755,642 instead of SDR 123,011,642 and the receivables would have been SDR 55,744,000 instead of SDR Nil.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2009, and of its financial performance and its cash flows for the year ended 31 December 2009 in accordance with International Financial Reporting Standards.

KPMG

Gurgaon, India
Date: 30 August 2013

SAARC Development Fund
Statement of Financial Position as at 31 December 2009

(All amounts in SDR, unless otherwise stated)

	Note	As at 31 December 2009	As at 31 December 2008
Assets			
Property, plant and equipment	7	3,637	-
Non-current assets		3,637	-
Cash and cash equivalents	8	7,335,790	71,123,653
Investments	9	118,686,797	13,528,747
Current assets		126,022,587	84,652,400
Total assets		126,026,224	84,652,400
Reserves and liabilities			
Reserves			
General Reserve		3,060,524	210,861
Foreign currency translation reserves		(51,525)	3,566
Total reserves		3,008,999	214,427
Liabilities			
Unrestricted reserves			
Paid-up capital contribution	11	57,402,273	58,424,458
Voluntary contribution received from Republic of India	11	61,080,550	21,404,657
Funds received on cessation of South Asian Development Fund	11	4,525,766	4,606,358
Restricted reserve			
Contribution in kind for fixed assets	11	3,053	-
Total non-current liabilities		123,011,642	84,435,473
Accounts payable	10	5,000	2,500
Contribution in kind for fixed assets	11	583	-
Total current liabilities		5,583	2,500
Total reserves and liabilities		126,026,224	84,652,400

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of Consolidated Income for the year ended 31 December 2009

(All amounts in SDR, unless otherwise stated)

	Notes	For the year ended 31 December 2009	For the period 3 August 2008 to 31 December 2008
Operating expenditure			
Other expenses	14	16,228	2,500
Less: Contribution in kind received from Kingdom of Bhutan		(13,728)	-
Depreciation	7	86	-
Total operating expenditure		2,586	2,500
Other Income	12	86	-
		86	-
Other expenditure			
Funds disbursed for welfare of projects		2,143,222	614,967
Less: allocated from voluntary contribution		(2,143,222)	(614,967)
Other expenditure		-	-
Total other expenditure		-	-
Finance income	13	2,852,163	213,361
Net surplus for the year		2,849,663	210,861
Other consolidated income			
Foreign currency translation reserves		(55,091)	3,566
Other consolidated (loss)/income for the year		(55,091)	3,566
Total consolidated (loss)/income for the year		2,794,572	214,427

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT SAARC THIMPHU BHUTAN

SAARC Development Fund
Statement of Cash Flows for the year ended 31 December 2009
(All amounts in SDR, unless otherwise stated)

	For the year ended 31 December 2009	For the period 3 August 2008 to 31 December 2008
consolidated income for the period	2,849,663	210,861
Adjustments for :		
Finance income	(2,852,163)	(213,361)
Transferred from restrictive reserve against property, plant and equipments	(86)	-
Depreciation	86	-
Rent expense from contribution in kind	13,728	-
Contribution in kind received from Kingdom of Bhutan	(13,728)	-
Operating profit before working capital changes	(2,500)	(2,500)
Adjustment for		
Increase in accounts payable	2,500	2,500
Net cash flow from operating activities	-	-
Cash flow from investing activities:		
Interest income received	1,985,780	26,496
Investment in deposits (net)	(104,291,667)	(13,341,882)
Net cash used in investing activities	(102,305,887)	(13,315,386)
Cash flow from financing activities:		
Voluntary grant received	44,201,142	22,019,624
Funds disbursed for welfare of projects	(2,143,222)	(614,967)
Capital contribution	-	58,424,458
Funds received on cessesation of South Asian Development fund	-	4,606,358
Net cash from financing activities	42,057,920	84,435,473
Net (decrease)/increase in cash and cash equivalents	(60,247,967)	71,120,087
Effect of foreign currency translation	(3,539,896)	3,566
Cash and cash equivalents as at the beginning of the period	71,123,653	-
Cash and cash equivalents as at the end of the period	7,335,790	71,123,653

The accompanying notes are an integral part of these financia

SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

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SAARC Development Fund
Statement of Changes in Reserve for the year ended 31 December 2009

(All amounts in SDR, unless otherwise stated)

	General reserve	Foreign currency translation reserves	Total
Opening balance	-	-	-
Surplus for the period	210,861	-	210,861
Other consolidated income			
Foreign currency translation reserves	-	3,566	3,566
Balance at 31 December 2008	210,861	3,566	214,427

	General reserve	Foreign currency translation reserves	Total
Opening balance	210,861	3,566	214,427
Surplus for the period	2,849,663	-	2,849,663
Other consolidated income			
Foreign currency translation reserves	-	(55,091)	(55,091)
Balance at 31 December 2009	3,060,524	(51,525)	3,008,999

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC

SAARC Development Fund
Notes to the financial statements for the year ended 31 December 2009
(All amount are in SDR, unless otherwise stated)

1. Reporting entity

SAARC Development Fund ('the Fund') is established by eight member countries i.e. Islamic Republic of Afghanistan, People's Republic of Bangladesh, Kingdom of Bhutan, Republic of India, Republic of Maldives, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan and Democratic Socialist Republic of Sri Lanka ('Member States') and is governed by its charter dated 3 August 2008. Ministers of Finance of the above eight member countries form the Governing Council of the Fund.

The Fund has the international character, possesses full juridical personality and operates under the Rules, Regulations and Bye Laws made for the purpose of the Charter by the Governing Council. As per Bye Laws, the Fund, its property, other assets, income and its operations and transactions shall be exempt from all taxation and duties.

The address of the Fund is SAARC Development Fund Secretariat, 3rd Floor, BDFC Building, Norzin Lam, Post Box 928, Thimphu 11001, Bhutan.

The Fund is established to promote the welfare of the people of its member countries, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region. The Fund will serve as a financial institution for projects and programmes, which are in fulfillment of the objective of the SAARC Charter. It is aimed to contribute to regional cooperation and integration through project collaboration.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and are presented in accordance with the Fund's Statutes.

Accounting policies have been based on the general IFRS principles, as detailed in the IASB's Conceptual Framework for Financial Reporting (formerly known as IASB Framework for the Preparation and Presentation of Financial Statements.

The financial statements for the year ended 31 December 2009 were authorized by the board of directors on 26 August 2013 for issue to Governing Council on 30 August 2013 for their final approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

Loans and receivables / investments are initially recognized and measured at fair value.

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(c) Functional currency

The Fund's functional currency is U.S. dollar (USD).

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

(d) Presentation currency

As required under Bye Laws of the Fund these financial statements are presented in Special Drawings Rights ('SDR'). All financial information presented in SDR has been rounded to the nearest SDR, except when otherwise indicated.

The value of the SDR is determined by the International Monetary Fund ('IMF') each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The current composition of the SDR valuation basket became effective on January 1, 2006.

The currencies in the basket as at 31 December 2009 and 31 December 2008 and their amounts were as follows:

(Amount)

Currency	2009	2008
Euro	0.4100	0.4100
Japanese yen	18.4000	18.4000
Pound sterling	0.0903	0.0903
U.S. dollar	0.6320	0.6320

At 31 December 2009, one SDR was equal to US $ 1.56769 (one SDR was equal to US $1.540270 as at 31 December 2008).

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

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

Information about significant areas of estimation/uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Refer note 3(f) Property, plant and equipment

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in statement of consolidated income.

Translation from functional currency to presentation currency:

As mentioned above, these financial statements are presented in Special Drawings Rights ('SDR').

- The assets and liabilities are translated to SDR at exchange rate at the date of the balance sheet.
- The income and expenses are translated to SDR at exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in other consolidated income and are presented in the translation reserve within 'Statement of Changes in Reserves'.

(b) Financial instruments

Non- derivative financial assets: The classification of financial instruments depends on the substance of the contractual arrangement. The fund's non-derivative financial assets comprise of Loans and receivables.

The Fund initially recognises loans and receivables on the date that they are originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables comprise cash and cash equivalents and investment in fixed deposits.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value. For these short term deposits, the carrying value approximates the fair value due to the short maturity of these instruments.

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Investments

Investments comprise of fixed deposits with original maturities of more than three months.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Non derivative financial liabilities

The Fund recognizes financial liabilities initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise 'accounts payables'.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(c) General reserve

These reserves represent accumulation of excess of income over expenditure in statement of consolidated income. Such excess funds carry no specific reservation or restriction and can be applied as per the Fund Charter.

(d) Unrestricted and restricted reserves

- **Capital contribution**

This represents the contribution given by the Member States. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter.

- **Voluntary contributions and contributions in kind**

Voluntary contributions from member states (unrestricted reserves) or other governments/ institutions are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such income is presented on a systematic basis as a deduction in reporting the related expense in the periods in which the expenses are recognised.

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Contribution in kind for assets are recognised initially as restricted reserves (deferred income) at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in Statement of consolidated Income as income on a systematic basis over the useful life of the asset.

The value of contributions in kind is determined by the donor's indication of the value of the goods, including the cost of transport to the final destination.

Contribution in services such as in the form of rent or other expenses is recognized in Statement of consolidated Income when such services are received and are presented in Statement of Consolidated Income as a deduction from the related expense.

- **Funds received on cessation of South Asian Development fund ('SADF')**

This represents the balance transferred on the closure of the earlier SADF to the Fund. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter in the "Economic window" as decided by the Management.

(e) Finance income

Finance income comprises interest income on funds invested and idle funds (pending to be utilized) lying with projects detailed in paragraph 15 below. Interest income is recognized as it accrues in Statement of Consolidated Income, using the effective interest method.

(f) Property, plant and equipments

a. *Recognition and Measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of ithe item, and are recognized net under the head 'Other income or other expenses (as the case may be)' in Statement of Consolidated Income.

b. *Subsequent costs*

Subsequent expenditure is recognized as an increase in the carrying amount of the asset when it is probable that future economic benefits deriving from the cost incurred will flow to the enterprise and the cost of the item can be reliably determined. The costs of the day-to-day servicing of property, plant and equipment are recognized in Statement of Consolidated Income as incurred.

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c. Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognized in statement of consolidated income unless the amount is included in the carrying amount of another asset.

The estimated useful lives are as follows:

• Furniture	10 years
• Office equipment	6 years
• Computers and peripherals	6 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted as appropriate.

(g) Impairment

a. Financial assets

The carrying amount of Fund's assets is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Fund considers evidence of impairment for receivables for each specific asset. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of consolidated income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of consolidated income.

b. Non-Financial Assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

Impairment losses are recognized in statement of consolidated income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assumptions of the time value of money and the risks specific to the liability. The unwinding of discount is recognized as finance cost.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Fund. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(i) Leasing arrangements as a lessee

Accounting for Operating Leases

Assets held under other leases are classified as operating leases and are not recognized in the Fund's statement of financial position. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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(j) New accounting standards and interpretations not yet adopted

Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other consolidated income. No amount recognized in other consolidated income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other consolidated income. The Fund is required to adopt IFRS 9 by accounting year commencing 1 January 2015. The Fund is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after 1 January 2013 with early adoption permitted. The Fund is required to adopt IFRS 13 by accounting year commencing 1 January 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published Presentation of items of other consolidated income (amendments to IAS 1). The amendments to IAS 1, require companies preparing financial statements in accordance with IFRS to group items within other consolidated income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other consolidated income items (without changing the option to present items of other consolidated income either before tax or net of tax). It also changes the title of statement of consolidated income to statement or profit and loss and other consolidated income.

The amendments also reaffirm existing requirements that items in other consolidated income and profit or loss should be presented as either a single statement or two statements. This amendment is applicable to annual periods beginning on or after 1 July 2012, with early adoption permitted. The Fund is required to adopt IAS 1 (Amended) by accounting year commencing 1 January 2013. The Fund has evaluated the requirements of IAS 1 (Amended) and the Fund does not believe that the adoption of IAS 1 (Amended) will have a material effect on its financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after 1 January 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other consolidated income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other consolidated income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The Fund is required to adopt IAS 19 (Amended) by accounting year commencing 1 January 2013. The Fund is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the financial statements.

In December, 2011, the IASB issued an amendment to IFRS 7 “Disclosures – offsetting financial assets and financial liabilities”. The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity’s financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2013. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund’s financial statements.

In December, 2011, the IASB issued an amendment to IAS 32 “Offsetting financial assets and financial liabilities”. The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the statements of financial position. This includes clarifying the meaning of “currently has a legally enforceable right to set-off” and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2014. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund’s financial statements.

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Annual Improvements 2009-2011 Cycle

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The annual improvements 2009-2011 cycle are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt these standard / amendments early and the extent of impact has not yet been determined.

IAS 1 'Presentation of Financial statements' to clarify that only one comparative period- which is the preceding period – is required for complete set of financial statements. Additional comparative information may be presented provided such information should be accompanied by related notes and should be in accordance with IFRS. Further, IAS 1 clarifies that the presentation of an opening statement of financial position is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification provided such a retrospective application, retrospective restatement or the reclassification has a material effect upon the information in the opening statement of financial position.

4. Determination of fair values

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of cash equivalents including short term deposits, investments and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

The fair value of cash and cash equivalents, investments and other receivables are not materially different from the carrying amounts due to short term maturities of these instruments.

The carrying value of investments is reported in Note 14.

5. Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

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Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. Risk management is carried out by the top management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's overall risk management program focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to The Board of Directors.

(a) Credit risk

The Fund treasury policy focuses on security of cash and cash equivalents. Investments are allowed only in liquid securities and only with counterparties that have a high credit rating.

The Fund held cash and cash equivalents and investments in fixed deposits of 126,022,587 at 31 December 2009 (2008: 84,652,400) which represents its maximum credit exposure on these assets. These are held in government authorised banks and there is no significant exposure.

As on 31 March 2009 and 31 December 2008, all the fixed deposits were held in Government authorised banks in Nepal (in USD).

(b) Liquidity risk

The Fund's objective is to strike a balance between funding continuity and flexibility by maintaining sufficient funds as cash in hand or as on-demand or short-term deposits with maturities of three months or less to meet short-term liabilities. There are no non-derivative financial liabilities at the end of reporting period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

During the current period, all the transactions entered in functional currency only and fund do not perceive any currency risk.

(ii) Interest Rate Risk

The investment portfolio is exposed to market risk due to interest rate movements. The interest rate risk is reduced by limiting the duration of the portfolio to a weighted average of 0-2 years and investment in fixed rate instruments.

6. Capital management

By its nature, the Fund does not have "capital", rather it views the reserves as a proxy for capital in terms of International Accounting Standard ("IAS") 1. The status of various reserve are indicated in the Statement of changes in reserves as at 31 December 2009.

The overall objective of investments is to protect and preserve the Fund's ability to fulfill its commitments to ensure availability of cash for the discharge of its mandate. Therefore the primary principles governing investments are security, liquidity and yield, in order of importance.

7. Property, plant and equipments

	Furnitures	Office equipments	Computers and peripherals	Total
Historical cost				
1 January 2009	-	-	-	-
Additions during the year	569	1,892	1,321	3,782
Foreign currency translation reserve	(9)	(30)	(21)	(61)
31 December 2009	560	1,862	1,300	3,722
Accumulated depreciation				
1 January 2009	-	-	-	-
Depreciation charge for the year	22	16	48	86
Foreign currency translation reserve	-	-	1	1
31 December 2009	22	16	47	85
Carrying amounts				
1 January 2009	-	-	-	-
Foreign currency translation reserve	-	-	-	-
31 December 2009	538	1,846	1,253	3,637

*All the above assets were acquired by the Fund by way of contribution in kind for fixed assets from Royal Government of Bhutan

8. Cash and cash equivalents

	As at 31 December 2009	As at 31 December 2008
Cash at bank	6,984,955	68,049,502
Short-term deposits with original maturity of less than three months	350,835	3,074,151
	7,335,790	71,123,653

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The deposits maintained by the Fund with banks comprise of time deposits, which can be withdrawn by the Fund at any point without prior notice or penalty on the principal.

9. Investments

	As at 31 December 2009	As at 31 December 2008
Fixed deposits with original maturity of more than three months but due to mature in twelve months of the reporting date	117,633,549	13,341,882
Interest accrued on deposits	1,053,248	186,865
	118,686,797	13,528,747

10. Accounts payable

	As at 31 December 2009	As at 31 December 2008
Sundry creditors	5,000	2,500
	5,000	2,500

11. Unrestricted and restricted reserves

	Unrestricted reserves			Restricted reserves	
	Paid up capital contribution *	Voluntary contribution received from Republic of India **	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for property, plant and equipments	Total
Opening balance	-	-	-	-	-
Addition made during the year	-	22,019,624	4,606,358	-	26,625,982
Capital contribution received from Republic of India	58,424,458	-	-	-	58,424,458
Less: Allocated to the other exependiture	-	(614,967)	-	-	(614,967)
Balance at 31 December 2008	58,424,458	21,404,657	4,606,358	-	84,435,473
Non-curent	58,424,458	21,404,657	4,606,358	-	84,435,473
current	-	-	-	-	-
	58,424,458	21,404,657	4,606,358	-	84,435,473

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		Unrestricted reserves		Restricted reserves	
	Paid up capital contribution *	Voluntary contribution received from Republic of India **	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for property, plant and equipments	Total
Opening balance	58,424,458	21,404,657	4,606,358	-	84,435,473
Addition made during the year	-	44,201,142	-	3,782	44,204,925
Less: Allocated to the other exependiture	-	(2,143,222)	-	-	(2,143,222)
Less: Depreciation on such assets charged to statement of comprensive income	-	-	-	(86)	(86)
Add: Foreign exchange adjustment	(1,022,185)	(2,382,027)	(80,592)	(60)	(3,484,864)
Balance at 31 December 2009	57,402,273	61,080,550	4,525,766	3,636	123,012,227
Non-curent	57,402,273	61,080,550	4,525,766	3,052	123,011,643
current	-	-	-	584	584
	57,402,273	61,080,550	4,525,766	3,636	123,012,226

***Paid up Capital Contribution:**

Authorized capital contribution

The initial authorized capital of the Fund shall be SDR One Thousand Million, to be divided into callable capital and paid up capital.

Initial paid up capital contribution

The initial paid up capital of the Fund shall be SDR Two Hundred Million. The capital will be subscribed by the Member States in accordance with the below table. Future contributions to the capital will be raised as per decision of the Governing Council.

Name of contributor	Amount
lslamic Republic of Afghanistan	10,000,000
People's Republic of Bangladesh	21,440,000
Kingdom of Bhutan	10,000,000
Republic of India	60,640,000
Republic of Maldives	10,000,000
Federal Democratic Republic of Nepal	21,440,000

Islamic Republic of Pakistan	45,040,000
Democratic Socialist Republic of Sri Lanka	21,440,000
Total	200,000,000

Subscriptions by each Member State to the paid up capital of the Fund shall be made in five equal instalments. The first instalment shall be due within one month of entry into force of the SDF Charter.

The payment of subscriptions to paid up capital shall be made:
(a) Seventy percent in convertible currency; and
(b) Thirty percent in the currency of the contributing Member State.

The liability of the contributors shall be limited to the unpaid portion of their contributions. No contributor shall be liable for obligations of the Fund.

** As informed by the management, in the fourth inter- governmental meeting of South Asian Association for Regional Cooperation, Nepal, held on 6 -7 March 2008 at Lahore, it has been decided that voluntary contribution from India has to be used for the "Social window" as defined in the Fund charter for funding regional/sub-regional projects within the SAARC countries, but outside of India.

*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 November 2010 and 1 December 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

12. Other income

	For the year ended 31 December 2009	For the period 3 August 2008 to 31 December 2008
Transferred from restrictive reserve against property, plant and equipment	86	-
	86	-

13. Finance income

	For the year ended 31 December 2009	For the period 3 August 2008 to 31 December 2008
Interest income on fixed deposits	2,849,212	213,361
Interest income on idle funds with implementing agencies	2,951	-
	2,852,163	213,361

14. Other expenses

	For the year ended 31 December 2009	For the period 3 August 2008 to 31 December 2008
Rent *	13,728	-
Legal and professional expenses	2,500	2,500
	16,228	2,500

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15. **Operating leases**

The Fund incurred operating lease charges of 13,728 (previous year nil). There are no non-cancellable leases entered into by the Fund and accordingly no disclosure in respect of future lease rental payable has been made.

16. **Financial instruments**

Credit risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2009	As at 31 December 2008
Cash and cash equivalents	7,335,790	71,123,653
Investments	118,686,797	13,528,747
Total	**126,022,587**	**84,652,400**

Liquidity risk

The following are the contractual maturities of non derivative financial liabilities as of the reporting dates.

As at 31 December 2009	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	5,000	5,000	5,000

As at 31 December 2008	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	2,500	2,500	2,500

Interest rate risk

Profile

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

	As at 31 December 2009	As at 31 December 2008
Fixed rate instruments		
Financial assets		
Cash and cash equivalents	7,335,790	71,123,653
Investment	118,686,797	13,528,747
	126,022,587	**84,652,400**

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Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Fair values versus carrying amounts

	As at 31 December 2009		As at 31 December 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at amortized cost				
Cash and cash equivalents	7,335,790	7,335,790	71,123,653	71,123,653
Investments	118,686,797	118,686,797	13,528,747	13,528,747
	126,022,587	**126,022,587**	**84,652,400**	**84,652,400**

17. **Contractual commitments**

The fund has approved the following projects as at 31 December 2009:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2008	Amount disbursed/ expensed in the year ended 31 December 2009	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,674,767	614,967	2,079,831	5,979,969
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,593,238	-	63,391	9,529,847
Total	**18,268,005**	**614,967**	**2,143,222**	**15,509,816**

budgeted have been computed in SDR using the closing rate as at 31 December 2009

The fund has approved the following project charter as at 31 December 2008:

Project Name	Amount approved/ granted#	Amount disbursed/ expensed	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,829,242	614,967	8,214,275

budgeted amount have been calculated in SDR using the closing rate as at 31 December 2008

18. The fund has not received the following annual committed contribution from the following member countries as at 31 December 2009:

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Name of contributor	As at 31 December 2008	For the year ended 31 December 2009	Total
Islamic Republic of Afghanistan	2,000,000	2,000,000	4,000,000
People's Republic of Bangladesh	4,288,000	4,288,000	8,576,000
Kingdom of Bhutan	2,000,000	2,000,000	4,000,000
Republic of Maldives	2,000,000	2,000,000	4,000,000
Federal Democratic Republic of Nepal	4,288,000	4,288,000	8,576,000
Islamic Republic of Pakistan	9,008,000	9,008,000	18,016,000
Democratic Socialist Republic of Sri Lanka	4,288,000	4,288,000	8,576,000
Total	**27,872,000**	**27,872,000**	**55,744,000**

The fund is making efforts to receive these monies from the member countries in due course.

19. As required under project financing agreement interest income on idle funds lying with projects (mentioned in note 17 above) is accounted in these financial statements on the basis of amount calculated by the respective project Lead Implementing Agency/Implementing agency.

20. **Subsequent events**

    There were no such events after the balance sheet date which represents unusual changes affecting the existence or substratum of the Fund at the balance sheet date.

Management's Attestation and Independent Auditor's Report - 2010

Independent Auditors' Report

The Members of the Governing Council
SAARC Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of SAARC Development Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2010, the statements of consolidated income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 control 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 control. 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.

Basis for Qualified Opinion

Attention is invited to Note 24 which explains the position in detail that the fund has not accrued the committed annual contribution due to be received from the member countries during the year ended 31 December 2010 amounting to SDR 4,895,860 (till 31 December 2009 SDR 55,744,000). As required under Charter and Bye Laws of the Fund, every member was required to pay its contribution in five equal annual installments but the same to the extent of SDR 58,510,028 (including SDR 55,744,000 as at 31 December 2009) has not paid by them. Had the fund accrued these required contributions in these financial statements, non-current liabilities would have been SDR 203,993,110 instead of SDR 145,483,082 and the receivables would have been SDR 58,514,523 instead of SDR 4,495.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2010, and of its financial performance and its cash flows for the year ended 31 December 2010 in accordance with International Financial Reporting Standards.

KPMG

Gurgaon, India
Date: 30 August 2013

SAARC Development Fund
Statement of Financial Position as at 31 December 2010

(All amounts in SDR, unless otherwise stated)

	Note	As at 31 December 2010	As at 31 December 2009
Assets			
Property, plant and equipment	7	76,033	3,637
Intangible assets			
Other non-current assets	8	24,953	-
Non-current assets		100,986	3,637
Cash and cash equivalents	9	3,372,131	7,335,790
Investments	10	147,657,648	118,686,797
Other receivables	11	4,495	-
Current assets		151,034,274	126,022,587
Total assets		151,135,260	126,026,224
Reserves and liabilities			
Reserves			
General reserve		5,647,974	3,060,524
Foreign currency translation reserves		(20,952)	(51,525)
Total reserves		5,627,022	3,008,999
Liabilities			
Unrestricted reserves			
Contribution from member states	12	82,962,750	57,402,273
Voluntary contribution received from Republic of India	12	57,659,626	61,080,550
Voluntary contribution received from Republic of China	12	194,801	-
Funds received on cessation of South Asian Development Fund	12	4,607,039	4,525,766
Restricted reserve			
Contribution in kind for fixed assets	12	58,827	3,052
Provisions	14	39	-
Total non-current liabilities		145,483,082	123,011,641
Accounts payable	13	12,743	5,000
Contribution in kind for fixed assets	12	12,413	584
Total current liabilities		25,156	5,584
Total reserves and liabilities		151,135,260	126,026,224

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of Consolidated Income for the year ended 31 December 2010

(All amounts in SDR, unless otherwise stated)

	Notes	For the year ended 31 December 2010	For the year ended 31 December 2009
Operating expenditure			
Employee benefit expenses	17	43,290	-
General expenditure	18	208,061	16,228
Depreciation	7	8,522	86
Less: Contribution in kind from Kingdom of Bhutan	18		
-Rent		(34,594)	(13,728)
-Miscellaneous expenses		(1,327)	-
Total operating expenditure		223,952	2,586
Other income	15	39,892	86
		39,892	86
Other expenditure			
Funds disbursed under social window		4,562,282	2,143,222
Less: allocated from voluntary contribution		(4,562,282)	(2,143,222)
Foreign exchange loss		-	-
Total other expenditure		-	-
Finance income	16	2,771,510	2,852,163
Net surplus for the year		2,587,450	2,849,663
Other consolidated income			
Foreign currency translation reserves		30,573	(55,091)
Other consolidated income/(loss) for the year		30,573	(55,091)
Total consolidated income for the year		2,618,023	2,794,572

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT SAARC THIMPHU BHUTAN

SAARC Development Fund
Statement of Cash Flows for the year ended 31 December 2010
(All amounts in SDR, unless otherwise stated)

	For the year ended 31 December 2010	For the year ended 31 December 2009
Net surplus for the year	2,587,450	2,849,663
Adjustments for :		
Finance income	(2,771,510)	(2,852,163)
Transferred from restrictive reserve against property, plant and equipment	(8,292)	(86)
Depreciation	8,522	86
Expenses from contribution in kind	35,921	13,728
Contribution in kind received from Kingdom of Bhutan	(35,921)	(13,728)
Operating profit before working capital changes	(183,830)	(2,500)
Adjustments for :		
(Decrease)/ Increase in other receivables	(4,495)	
Increase in accounts payables	7,743	2,500
Increase in provision	39	-
Net Cash used in operating activities	(180,543)	-
Cash flow from investing activities:		
Interest income received	2,898,322	1,985,780
Investment in deposits (net)	(29,097,663)	(104,291,667)
Purchase of fixed assets	(17,472)	-
Net cash used in investing activities	(26,216,812)	(102,305,887)
Cash flow from financing activities:		
Voluntary contribution received from Republic of China	194,801	-
Voluntary contribution received from Republic of India	-	44,201,142
Funds disbursed under social window	(4,562,282)	(2,143,222)
Capital contribution received	25,105,972	-
Net cash from financing activities	20,738,491	42,057,920
Net (decrease)/increase in cash and cash equivalents	(5,658,865)	(60,247,967)
Effect of foreign currency translation adjustment	1,695,206	(3,539,896)
Cash and cash equivalents as at the beginning of the period	7,335,790	71,123,653
Cash and cash equivalents as at the end of the period	3,372,131	7,335,790

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of changes in reserves for the year ended 31 December 2010

(All amounts in SDR, unless otherwise stated)

	General reserve	Foreign currency translation reserves	Total
Opening balance	210,861	3,566	214,427
Surplus for the year	2,849,663	-	2,849,663
Other consolidated income			
Foreign currency translation reserves	-	(55,091)	(55,091)
As at 31 December 2009	3,060,524	(51,525)	3,008,999

	General reserve	Foreign currency translation reserves	Total
Opening balance	3,060,524	(51,525)	3,008,999
Surplus for the year	2,587,450		2,587,450
Other consolidated income			
Foreign currency translation reserves	-	30,573	30,573
As at 31 December 2010	5,647,974	(20,952)	5,627,022

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU - BHUTAN

SAARC Development Fund
Notes to the financial statements for the year ended 31 December 2010
(All amount are in SDR, unless otherwise stated)

1. Reporting entity

SAARC Development Fund ('the Fund') is established by eight member countries i.e. Islamic Republic of Afghanistan, People's Republic of Bangladesh, Kingdom of Bhutan, Republic of India, Republic of Maldives, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan and Democratic Socialist Republic of Sri Lanka ('Member States') and is governed by its charter dated 3 August 2008. Ministers of Finance of the above eight member countries form the Governing Council of the Fund.

The Fund has the international character, possesses full juridical personality and operates under the Rules, Regulations and Bye Laws made for the purpose of the Charter by the Governing Council. As per Bye Laws, the Fund, its property, other assets, income and its operations and transactions shall be exempt from all taxation and duties.

The address of the Fund is SAARC Development Fund Secretariat, 3rd Floor, BDFC Building, Norzin Lam, Post Box 928, Thimphu 11001, Bhutan.

The Fund is established to promote the welfare of the people of its member countries, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region. The Fund will serve as a financial institution for projects and programmes, which are in fulfillment of the objective of the SAARC Charter. It is aimed to contribute to regional cooperation and integration through project collaboration.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and are presented in accordance with the Fund's Statutes.

Accounting policies have been based on the general IFRS principles, as detailed in the IASB's Conceptual Framework for Financial Reporting (formerly known as IASB's Framework for the Preparation and Presentation of Financial Statements.

The financial statements for the year ended 31 December 2010 were authorized by the board of directors on 26 August 2013 for issue to Governing Council on 30 August 2013 for their final approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

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Loans and receivables / investments are initially recognized and measured at fair value.

(c) Functional currency

The Fund's functional currency is U.S. dollar (USD).

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

(d) Presentation currency

As required under Bye Laws of the Fund these financial statements are presented in Special Drawings Rights ('SDR'). All financial information presented in SDR has been rounded to the nearest SDR, except when otherwise indicated.

The value of the SDR is determined by the International Monetary Fund ('IMF') each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The current composition of the SDR valuation basket became effective on January 1, 2006.

The currencies in the basket as at 31 December 2010 and 31 December 2009 and their amounts were as follows:

(Amount)

Currency	31 December 2010	31 December 2009
Euro	0.4100	0.4100
Japanese yen	18.4000	18.4000
Pound sterling	0.0903	0.0903
U.S. dollar	0.6320	0.6320

At 31 December 2010, one SDR was equal to US $ 1.54003 (one SDR was equal to US $ 1.56769 as at 31 December 2009).

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from 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 any future periods affected.

Information about significant areas of estimation/uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

- Refer note 3(f) Property, plant and equipment
- Refer note 3(h) Employee benefit

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3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in statement of consolidated income.

Translation from functional currency to presentation currency:

As mentioned above, these financial statements are presented in Special Drawings Rights ('SDR').

- The assets and liabilities are translated to SDR at exchange rate at the date of the balance sheet.
- The income and expenses are translated to SDR at exchange rates at the dates of the transactions.

All resulting exchange differences are recognized in other consolidated income and are presented in the translation reserve within 'Statement of Changes in Reserves'.

(b) Financial instruments

Non- derivative financial assets: The classification of financial instruments depends on the substance of the contractual arrangement. The fund's non-derivative financial assets comprise of Loans and receivables.

The Fund initially recognizes loans and receivables on the date that they are originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables comprise cash and cash equivalents, investment in fixed deposits and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value. For these short term deposits, the carrying value approximates the fair value due to the short maturity of these instruments.

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Investments

Investments comprise of fixed deposits with original maturities of more than three months.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Non derivative financial liabilities

The Fund recognizes financial liabilities initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise 'account payable'.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(c) General reserve

These reserves represent accumulation of excess of income over expenditure in statement of consolidated income. Such excess funds carry no specific reservation or restriction and can be applied as per the Fund Charter.

(d) Unrestricted and restricted reserves

- **Capital contribution**

This represents the contribution given by the Member States. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter.

- **Voluntary contributions and contributions in kind**

Voluntary contributions from member states (unrestricted reserves) or other governments/ institutions are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such income is presented on a systematic basis as a deduction in reporting the related expense in the periods in which the expenses are recognized.

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Contribution in kind for assets are recognized initially as restricted reserves (deferred income) at fair value when there is reasonable assurance that they will be received and the Fund will comply with the conditions associated with the grant, and are then recognized in Statement of consolidated Income as income on a systematic basis over the useful life of the asset.

The value of contributions in kind is determined by the donor's indication of the value of the goods, including the cost of transport to the final destination.

Contribution in services such as in the form of rent or other expenses is recognized in Statement of consolidated Income when such services are received and are presented in Statement of consolidated Income as a deduction from the related expense.

- **Funds received on cessation of South Asian Development fund ('SADF')**

This represents the balance transferred on the closure of the earlier SADF to the Fund. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter in the "Economic window" as decided by the Management.

(e) Finance income

Finance income comprises interest income on funds invested and idle funds (pending to be utilized) lying with projects detailed in paragraph 20 below. Interest income is recognized as it accrues in Statement of consolidated Income, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(f) Property, plant and equipments

a. *Recognition and Measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of item, and are recognized net under the head 'Other income or other expenses (as the case may be)' in Statement of consolidated Income.

b. *Subsequent costs*

Subsequent expenditure is recognized as an increase in the carrying amount of the asset when it is probable that future economic benefits deriving from the cost incurred will flow to the enterprise and the cost of the item can be reliably determined. The costs of the day-to-day servicing of property, plant and equipment are recognized in Statement of consolidated Income as incurred.

c. *Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognized in Statement of consolidated Income unless the amount is included in the carrying amount of another asset.

The estimated useful lives are as follows:

• Vehicles	6 years
• Furniture	10 years
• Office equipment	6 years
• Computers and peripherals	6 years
• Leasehold improvements	Useful life of asset or lease term whichever is shorter

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted as appropriate.

(g) Impairment

a. *Financial assets*

The carrying amount of Fund's assets is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Fund considers evidence of impairment for receivables for each specific asset. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of consolidated income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Statement of consolidated Income.

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b. Non-Financial Assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

Impairment losses are recognized in statement of consolidated income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefit plans

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

a) **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in Statement of consolidated Income in the periods during which related services are rendered by employees.

b) **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In accordance with the SAARC Development Fund's Financial and Administration Provisions, SDF provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) to its eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

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The Fund's net obligation in respect of defined benefit plans is calculated for the gratuity plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is based on the Government securities yield, that have maturity dates approximating the terms of the Fund's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to net surplus in the Statement of consolidated Income in the period in which they arise.

(i) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assumptions of the time value of money and the risks specific to the liability. The unwinding of discount is recognized as finance cost.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Fund. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(j) Leasing arrangements as a lessee

Accounting for Operating Leases

Assets held under other leases are classified as operating leases and are not recognized in the Fund's statement of financial position. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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(k) New accounting standards and interpretations not yet adopted

Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other consolidated income. No amount recognized in other consolidated income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other consolidated income. The Fund is required to adopt IFRS 9 by accounting year commencing 1 April 2015. The Fund is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after 1 January 2013 with early adoption permitted. The Fund is required to adopt IFRS 13 by accounting year commencing 1 January 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published Presentation of items of other consolidated income (amendments to IAS 1). The amendments to IAS 1, require companies preparing financial statements in accordance with IFRS to group items within other consolidated income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other consolidated income items (without changing the option to present items of other consolidated income either before tax or net of tax). It also changes the title of statement of consolidated income to statement or profit and loss and other consolidated income.

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The amendments also reaffirm existing requirements that items in other consolidated income and profit or loss should be presented as either a single statement or two statements. This amendment is applicable to annual periods beginning on or after 1 July 2012, with early adoption permitted. The Fund is required to adopt IAS 1 (Amended) by accounting year commencing 1 January 2013. The Fund has evaluated the requirements of IAS 1 (Amended) and the Fund does not believe that the adoption of IAS 1 (Amended) will have a material effect on its financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after 1 January 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other consolidated income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other consolidated income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The Fund is required to adopt IAS 19 (Amended) by accounting year commencing 1 January 2013. The Fund is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the financial statements.

In December, 2011, the IASB issued an amendment to IFRS 7 "Disclosures – offsetting financial assets and financial liabilities". The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2013. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

In December, 2011, the IASB issued an amendment to IAS 32 "Offsetting financial assets and financial liabilities". The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the statements of financial position. This includes clarifying the meaning of "currently has a legally enforceable right to set-off" and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after 1 January 2014. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

Annual Improvements 2009-2011 Cycle

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The annual improvements 2009-2011 cycle are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt these standard / amendments early and the extent of impact has not yet been determined.

IAS 1 'Presentation of Financial statements' to clarify that only one comparative period- which is the preceding period – is required for complete set of financial statements. Additional comparative information may be presented provided such information should be accompanied by related notes and should be in accordance with IFRS. Further, IAS 1 clarifies that the presentation of an opening statement of financial position is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification provided such a retrospective application, retrospective restatement or the reclassification has a material effect upon the information in the opening statement of financial position.

4. Determination of fair values

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of cash equivalents including short term deposits, investments and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

The fair value of cash and cash equivalents, investments and other receivables are not materially different from the carrying amounts due to short term maturities of these instruments.

The carrying value of investments is reported in Note 22.

5. Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. Risk management is carried out by the top management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fund's overall risk management program focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(a) Credit risk

The Fund treasury policy focuses on security of cash and cash equivalents. Investments are allowed only in liquid securities and only with counterparties that have a high credit rating.

The Fund held cash and cash equivalents and investments in fixed deposits of 151,029,779 at 31 December 2010 (2009: 126,022,587) which represents its maximum credit exposure on these assets. These are held in government authorized banks and there is no significant exposure.

Details of cash and cash equivalents and investments in different countries:

Name of country	As at 31 December 2010	As at 31 December 2009
Nepal	147,731,608	126,022,587
Bhutan	3,298,171	-

(b) Liquidity risk

The Fund's objective is to strike a balance between funding continuity and flexibility by maintaining sufficient funds as cash in hand or as on-demand or short-term deposits with maturities of three months or less to meet short-term liabilities. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund uses activity-based costing, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Fund regularly monitors its liquidity to keep it at adequate levels, with periodic reports to the chief operating decision maker.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

Exposure to fluctuations in foreign currency exchange rates arises from transactions denominated in currencies other than the Fund's functional currency, which is the USD.

The Fund has cash and cash equivalents and investments in fixed deposits of SDR 151,029,779 at 31 December 2010 (2009: SDR 126,022,587).

(ii) Interest Rate Risk

The investment portfolio is exposed to market risk due to interest rate movements. The interest rate risk is reduced by limiting the duration of the portfolio to a weighted average of 0-2 years and investment in fixed rate instruments.

6. Capital management

By its nature, the Fund does not have "capital", rather it views the reserves as a proxy for capital in terms of International Accounting Standard ("IAS") 1. The target and position of the various reserves are indicated in the Statement of changes in reserves for the year ended 31 December 2010.

The overall objective of investments is to protect and preserve the Fund's ability to fulfil its commitments to ensure availability of cash for the discharge of its mandate. Therefore the primary principles governing investments are security, liquidity and yield, in order of importance.

7. Property, plant and equipment *

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Total
Historical cost						
1 January 2010	-	560	1,862	1,300	-	3,722
Additions	47,731	13,293	8,738	3,677	8,189	81,628
Currency translation adjustments	(507)	(131)	(60)	(16)	(87)	(801)
31 December 2010	47,224	13,722	10,540	4,961	8,102	84,549
Accumulated depreciation						
1 January 2010	-	22	16	47	-	85

Depreciation charge for the year	4,892	928	1,152	558	992	8,522
Currency translation adjustments	(52)	(10)	(12)	(5)	(11)	(89)
31 December 2010	4,840	940	1,156	600	981	8,517
Carrying amounts						
1 January 2010	-	538	1,846	1,253	-	3,637
31 December 2010	42,384	12,782	9,383	4,361	7,121	76,033
Historical cost						
1 January 2009	-	-	-	-	-	-
Additions	-	569	1,892	1,321	-	3,782
Currency translation adjustments	-	(9)	(30)	(21)	-	(60)
31 December 2009	-	560	1,862	1,300	-	3,722
Accumulated depreciation						
1 January 2009	-	-	-	-	-	-
Depreciation charge for the year	-	22	16	48	-	86
Currency translation adjustments		-	-	1	-	1
31 December 2009	-	22	16	47	-	85
Carrying amounts						
1 January 2009	-	-	-	-	-	-
Foreign currency translation reserve	-	-	-	-	-	-
31 December 2009	-	538	1,846	1,253	-	3,637

The Fund during the year ended 31 December 2009 and 31 December 2010 received certain fixed assets by way of contribution in kind from Royal Government of Bhutan, the details of which are as under:

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Total
Historical cost						
1 January 2010	-	560	1,861	1,300	-	3,722
Additions	47,731	12,223	5,651	2,761	8,189	76,555
Currency translation adjustments	(507)	(120)	(27)	(6)	(87)	(746)
31 December 2010	47,225	12,663	7,486	4,055	8,102	79,531
Accumulated depreciation						
1 January 2010	-	22	16	47	-	85

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Total
Depreciation charge for the year	4,892	874	1,006	528	992	8,292
Currency translation adjustments	(52)	(9)	(11)	(5)	(11)	(87)
31 December 2010	4,840	887	1,011	570	982	8,290
Carrying amounts						
1 January 2010	-	538	1,845	1,253	-	3,637
31 December 2010	42,385	11,776	6,476	3,485	7,120	71,241
Historical cost						
1 January 2009	-	-	-	-	-	-
Additions	-	569	1,892	1,321	-	3,783
Currency translation adjustments	-	(9)	(30)	(21)	-	(61)
31 December 2009	-	560	1,861	1,300	-	3,722
Accumulated depreciation						
1 January 2009	-	-	-	-	-	-
Depreciation charge for the year	-	22	16	48	-	86
Currency translation adjustments	-	-	-	-	-	1
31 December 2009	-	22	16	47	-	85
Carrying amounts						
1 January 2009	-	-	-	-	-	-
31 December 2009	-	538	1,845	1,253	-	3,637

During the year ended 31 December 2010, supply and installation of servers and networking equipments, accessories and related services was under construciton for which an advance of SDR 12,686 was given upto 31 December 2010 .

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8. Other non-current assets

	As at 31 December 2010	As at 31 December 2009
Capital advances	24,953	-
	24,953	-

9. Cash and cash equivalents

	As at 31 December 2010	As at 31 December 2009
Cash at bank	3,372,131	6,984,955
Short-term deposits having original maturity of less than three months	-	350,835
	3,372,131	7,335,790

The deposits maintained by the Fund with banks comprise of time deposits, which can be withdrawn by the Fund at any point without prior notice or penalty on the principal.

10. Investments

	As at 31 December 2010	As at 31 December 2009
Fixed deposits with original maturity of more than three months but due to mature in twelve months of the reporting date	146,731,212	117,633,549
Interest accrued on deposits	926,436	1,053,248
	147,657,648	118,686,797

11. Other receivables

	As at 31 December 2010	As at 31 December 2009
Advance to vendors	4,495	-
	4,495	-

12. Unrestricted and restricted reserves

	Unrestricted Reserves				Restricted reserve	
	Contribution from member states*	Voluntary contribution received from Republic of India **	Voluntary contribution received from Republic of China	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for fixed assets	Total
Opening balance	58,424,458	21,404,657	-	4,606,358	-	84,435,473
Addition made during the year	-	44,201,142	-	-	3,782	44,204,924
Less: Allocated to the other expenditure	-	(2,143,222)	-	-	-	(2,143,222)
Less: Depreciation on such assets charged in Statement of Compressive Income	-	-	-	-	(86)	(86)
Add: Currency translation adjustments	(1,022,185)	(2,382,027)	-	(80,592)	(60)	(3,484,864)
As at 31 December 2009	57,402,273	61,080,550	-	4,525,766	3,636	123,012,225
Non-current	57,402,273	61,080,550	-	4,525,766	3,052	123,011,642
current	-	-	-	-	584	584
	57,402,273	61,080,550	-	4,525,766	3,636	123,012,226
Opening balance	57,402,273	61,080,550	-	4,525,766	3,636	123,012,225
Addition made during the year	-	-	194,801	-	76,555	271,356
People's Republic of Bangladesh	4,475,946	-	-	-	-	4,475,946
Kingdom of Bhutan	3,933,294	-	-	-	-	3,933,294
Republic of Maldives	2,008,592	-	-	-	-	2,008,592
Federal Democratic Republic of Nepal	4,199,089	-	-	-	-	4,199,089
Islamic Republic of Pakistan	6,287,527	-	-	-	-	6,287,527
Democratic Socialist Republic of Sri Lanka	4,201,524	-	-	-	-	4,201,524
Less: Allocated to the other expenditure	-	(4,562,282)	-	-	-	(4,562,282)
Less: Depreciation on such assets charged to statement of compressive income	-	-	-	-	(8,292)	(8,292)
Add: Foreign exchange adjustment	454,505	1,141,358	-	81,273	(659)	1,676,477
As at 31 December 2010	82,962,750	57,659,626	194,801	4,607,039	71,240	145,495,456

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Non-current	82,962,750	57,659,626	194,801	4,607,039	58,827	145,483,043
current	-	-	-	-	12,413	12,413
	82,962,750	57,659,626	194,801	4,607,039	71,240	145,495,456

***Paid-up capital contribution:**

Authorized capital contribution

The initial authorized capital of the Fund shall be SDR one thousand million, to be divided into callable capital and paid up capital.

Initial paid up capital contribution

The initial paid up capital of the Fund shall be SDR two hundred million. The capital will be subscribed by the Member States in accordance with the below table. Future contributions to the capital will be raised as per decision of the Governing Council.

Member state	Amount
Islamic Republic of Afghanistan	10,000,000
People's Republic of Bangladesh	21,440,000
Kingdom of Bhutan	10,000,000
Republic of India	60,640,000
Republic of Maldives	10,000,000
Federal Democratic Republic of Nepal	21,440,000
Islamic Republic of Pakistan	45,040,000
Democratic Socialist Republic of Sri Lanka	21,440,000
Total	200,000,000

Subscriptions by each member state to the paid up capital of the Fund shall be made in five equal installments. The first installment shall be due within one month of entry into force of the SAARC Development Fund ("SDF") Charter.

The payment of subscriptions to paid up capital shall be made:
(a) Seventy percent in convertible currency; and
(b) Thirty percent in the currency of the contributing Member State.

The liability of the contributors shall be limited to the unpaid portion of their contributions. No contributor shall be liable for obligations of the Fund.

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*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 November 2010 and 1 December 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 November 2010 and 1 December 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

13. Accounts payable

	As at 31 December 2010	As at 31 December 2009
Sundry creditors	9,817	5,000
Salary payable	2,926	-
	12,743	5,000

14. Provisions

	As at 31 December 2010	As at 31 December 2009
Opening balance	-	-
Provision made during the year	39	-
Provision used during the year	-	-
Provision reversed during the year	-	-
Closing balance	39	-

15. Other income

	For the year ended 31 December 2010	For the year ended 31 December 2009
Transferred from restrictive reserve against property, plant and equipment	8,292	86
Foreign exchange gain	31,600	-
	39,892	86

16. Finance income

	For the year ended 31 December 2010	For the year ended 31 December 2009
Interest income on fixed deposits	2,743,081	2,849,212
Interest income on idle funds with implementing agencies	28,429	2,951
	2,771,510	2,852,163

17. Employee benefit expenses

	For the year ended 31 December 2010	For the year ended 31 December 2009
Salaries and other benefits	43,290	-
Contribution to provident and other funds	-	-
Staff-welfare expenses	-	-
	43,290	-

18. General expenditure

	For the year ended 31 December 2010	For the year ended 31 December 2009
Staff recruitment expenses	118,317	-
Rent *	34,594	13,728
Travelling and conveyance	23,348	-
Advertisement expenses	11,673	-
Meeting expenses	3,770	-
Printing and stationary	3,883	-
Communication expenses	3,266	-
Vehicle running and maintenance expenses	2,006	-
Legal and professional expenses	3,672	2,500
Electricity charges	522	-
Repair and maintenance	429	-
Books and periodicals	192	-
Miscellaneous expenses *	2,389	-
	208,061	16,228

Royal Government of Bhutan has given certain supplies and office premises to SDF without any charge and the same is considered as contribution in kind from the Royal Government of Bhutan

	For the year ended 31 December 2010	For the year ended 31 December 2009
Rent	34,594	13,728
Miscellaneous expenses	1,327	-
	35,921	13,728

19. *Defined benefit plan*

The Fund's gratuity scheme is a defined benefit plan. Gratuity is paid as a lump sum amount to employees at retirement or termination of employment at an amount based on the respective employee's eligible salaries and the years of employment with the Fund. The following table sets out the disclosure in respect of the defined benefit plan:

	As at 31 December 2010
Present value of unfunded obligations	39
Total	**39**

Movement in the present value of the defined benefit obligation

	As at 31 December 2010
Present value of obligation as at the beginning of the period	-
Interest cost	-
Current service cost	39
Benefits paid	-
Actuarial (gain)/loss on obligation	-
Present value of obligation as at the end of period	39

Expense recognized in Statement of Consolidated Income

	For the year ended 31 December 2010
Current service cost	39
Interest cost	-
Net actuarial (gain)/ loss recognized in the period	-
Total	**39**

The expense is recognized in employee benefit expenses in the statements of consolidated income.

Actuarial assumptions

Principal actuarial assumptions are given below:

a) Economic Assumptions

	As at 31 December 2010
Discounting Rate	8 %
Future salary Increase	5.50 %

b) Demographic Assumption

Retirement Age (Years)	60
	Withdrawal Rate (%)
Up to 30 Years	3.00
From 31 to 44 years	2.00
Above 44 years	1.00

Assumptions regarding future mortality rates are based on IALM (2006 - 08).

The actuarial valuation is carried out yearly by an independent actuary. The discount rate used for determining the present value of obligation under the defined benefit plan is determined by reference to market yields at the end of the reporting period on Government Bonds. The currency and the term of the government bonds is consistent with the currency and term of the defined benefit obligation.

The salary growth rate takes into account inflation, seniority, promotion and other relevant factors on long-term basis.

20. Related parties

For the purpose of financial statements, parties are considered to related to the Fund, if the Fund has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

a. Name and relationship of related parties:

Related parties and nature of related party relationships:

Nature of relationship	Name of related parties	Relationship
Key management personnel	Mr. Karma	Chief Executing Officer (CEO)
Relative of Key management personnel	Mrs. Pemzam	Wife of CEO

b. Details of transactions during the year:

(i) **Key managerial person**

Particulars		For the year ended 31 December 2010	For the year ended 31 December 2009
Salaries and other benefits	*	30,384	-

* excluding the amount of house rent allowance detailed below, which is paid directly to the relative of key managerial person.

(ii) **Relative of Key managerial person**

Particulars	For the year ended 31 December 2010	For the year ended 31 December 2009
Other benefits	3,682	-

c. Balance outstanding at the end of the reporting period:

(i) **Key managerial person**

Particulars		As at 31 December 2010	As at 31 December 2009
Salaries and other benefits	*	2,790	-

21. Operating leases

The Fund incurred operating lease charges of 34,594 (previous year 13,728). There are no non-cancellable leases entered into by the Fund and accordingly no disclosure in respect of future lease rental payable has been made.

22. Financial instruments

Credit risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2010	As at 31 December 2009
Cash and cash equivalents	3,372,131	7,335,790
Investments	147,657,648	118,686,797
Other receivables	4,495	-
Total	**151,034,274**	**126,022,587**

Liquidity risk

The following are the contractual maturities of non derivative financial liabilities as of the reporting dates.

As at 31 December 2010	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	12,743	12,743	12,743

As at 31 December 2009	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	5,000	5,000	5,000

Interest rate risk

Profile

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

	As at 31 December 2010	As at 31 December 2009
Fixed rate instruments		
Financial assets		
Cash and cash equivalents	3,372,131	7,335,790
Investment	147,657,648	118,686,797
	151,029,779	**126,022,587**

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Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Fair values versus carrying amounts

	As at 31 December 2010		As at 31 December 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at amortized cost				
Cash and cash equivalents	3,372,131	3,372,131	7,335,790	7,335,790
Investments	147,657,648	147,657,648	118,686,797	118,686,797
Other receivables	4,495	4,495	-	-
	151,034,274	**151,034,274**	**126,022,587**	**126,022,587**

23. Contractual commitments

The fund has approved the following project as per its charter as at 31 December 2010:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2009	Amount disbursed/ expensed in the year ended 31 December 2010	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,830,548	2,694,798	4,308,388	1,827,362
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,765,513	63,391	246,248	9,455,874
Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries	2,791,977*	-	7646	2,784,331
Total	**21,388,038**	**2,758,189**	**4,562,282**	**14,067,567**

budgeted have been computed in SDR using the closing rate as at 31 December 2010

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* subsequent to the year end, the Board of directors in their 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan vide their decision number 16 instructed the CEO to restructure the project budget by making modifications to the rate of certain supplies. The fund on such instructions re-formulated the approved budget to SDR 2,195,360.

The fund has approved the following projects as at 31 December 2009:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2008	Amount disbursed/ expensed in the year ended 31 December 2009	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,674,767	614,967	2,079,831	5,979,969
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,593,238	-	63,391	9,529,847
Total	**18,268,005**	**614,967**	**2,143,222**	**15,509,816**

budgeted have been computed in SDR using the closing rate as at 31 December 2009

24. The fund has not received the following annual committed contribution from the following member countries as at 31 December 2010:

Name of contributor	Short contribution as at 31 December 2009	Short contribution for the year ended 31 December 2010	Excess contribution received during the year ended 31 December 2010	Total
Islamic Republic of Afghanistan	4,000,000	2,000,000	-	6,000,000
People's Republic of Bangladesh	8,576,000	-	(187,946)	8,388,054
Kingdom of Bhutan	4,000,000	-	(1,933,294)	2,066,706
Republic of Maldives	4,000,000	-	(8,592)	3,991,408
Federal Democratic Republic of Nepal	8,576,000	88,911	-	8,664,911
Islamic Republic of Pakistan	18,016,000	2,720,473	-	20,736,473
Democratic Socialist Republic of Sri Lanka	8,576,000	86,476	-	8,662,476
Total	55,744,000	4,895,860	2,129,832	58,510,028

The fund is making efforts to receive these monies from the member countries in due course.

25. As required under project financing agreement interest income on idle funds lying with projects (mentioned in note 23 above) is accounted in these financial statements on the basis of amount calculated by the respective project Lead Implementing Agency/Implementing agency.

26. Subsequent events

There were no such events after the balance sheet date which represents unusual changes affecting the existence or substratum of the Fund at the balance sheet date.

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Management's Attestation and Independent Auditor's Report - 2011

Independent Auditors' Report

The Members of the Governing Council
SAARC Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of SAARC Development Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2011, the statements of consolidated income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 control 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 control. 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.

Basis for Qualified Opinion

Attention is invited to Note 25 which explains the position in detail that the fund has not accrued the committed annual contribution due to be received from the member countries during the year ended 31 December 2011 amounting to SDR 11,891,325 (till 31 December 2010 SDR 58,510,028). As required under Charter and Bye Laws of the Fund, every member was required to pay its contribution in five equal annual installments but the same to the extent of SDR 64,787,537 (including SDR 58,510,028 as at 31 December 2010) has not paid by them. Had the fund accrued these required contributions in these financial statements, non-current liabilities would have been SDR 230,152,994 instead of SDR 165,365,458 and the receivables would have been SDR 64,793,134 instead of SDR 5,597.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2011, and of its financial performance and its cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards.

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Gurgaon, India
Date: 30 August 2013

SAARC Development Fund
Statement of Financial Position as at 31 December 2011
(All amounts in SDR, unless otherwise stated)

	Note	As at 31 December 2011	As at 31 December 2010
Assets			
Property, plant and equipments	7	142,769	76,033
Intangible Assets	8	35,061	-
Investments	9	52,023,304	-
Other non-current assets		-	24,953
Non-current assets		52,201,134	100,986
Cash and cash equivalents	10	934,894	3,372,131
Investments	11	120,412,674	147,657,648
Other receivables	12	5,597	4,495
Current assets		121,353,164	151,034,274
Total assets		173,554,298	151,135,260
Reserves and liabilities			
Reserves			
General reserve		8,064,346	5,647,974
Foreign currency translation reserves		65,814	(20,952)
Total reserves		8,130,159	5,627,022
Liabilities			
Unrestricted reserves			
Paid-up capital contribution	13	105,642,403	82,962,750
Voluntary contribution received from Republic of India	13	54,835,747	57,659,626
Voluntary contribution received from Republic of China	13	195,406	194,801
Funds received on cessation of South Asian Development Fund	13	4,644,829	4,607,039
Restricted reserves			
Contribution in kind for fixed assets	13	46,558	58,827
Provision	15	515	39
Total non-current liabilities		165,365,458	145,483,082
Accounts payable	14	46,229	12,743
Contribution in kind for fixed assets	13	12,452	12,413
Total current liabilities		58,681	25,156
Total reserves and liabilities		173,554,298	151,135,260

The accompanying notes are an integral part of these financial statements.

SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of Consolidated Income for the year ended 31 December 2011

(All amounts in SDR, unless otherwise stated)

	Notes	For the year ended 31 December 2011	For the year ended 31 December 2010
Operating expenditure			
Employee benefit expenses	18	177,612	43,290
General expenditure	19	143,910	208,061
Depreciation and amortization	7 and 8	17,776	8,522
Less: Contribution in kind from Royal Government of Bhutan			
-Rent		(32,476)	(34,594)
-Miscellaneous expenses		-	(1,327)
Total operating expenditure		306,822	223,952
Other income	16	12,086	39,892
		12,086	39,892
Other expenditure			
Funds disbursed under social window		2,918,605	4,562,282
Less: allocated from voluntary contribution		(2,918,605)	(4,562,282)
Foreign exchange loss		625,533	-
Other expenditure		625,533	-
Finance income	17	3,336,639	2,771,510
Net surplus for the year		2,416,371	2,587,450
Other consolidated income			
Foreign currency translation reserves		86,766	30,573
Other consolidated income for the year		86,766	30,573
Total consolidated income for the year		2,503,137	2,618,023

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of Cash Flows for the year ended 31 December 2011
(All amounts in SDR, unless otherwise stated)

	For the year ended 31 December 2011	For the year ended 31 December 2010
Net surplus for the year	2,416,371	2,587,450
Adjustments for non-cash items:		
Interest income	(3,336,639)	(2,771,510)
Contribution in kind for goods and services from Government of Bhutan	(12,086)	(8,292)
Depreciation and amortization	17,776	8,522
Expenses from contribution in kind	32,476	35,921
Voluntary contribution received from Kingdom of Bhutan	(32,476)	(35,921)
Operating profit before working capital changes	(914,578)	(183,830)
Adjustments for :		
(Increase) in other receivables	(1,102)	(4,495)
Increase in other payables	1,258	7,743
Increase in provision	476	39
Net Cash used in operating activities	(913,946)	(180,543)
Cash flow from investing activities:		
Interest income received	2,402,069	2,898,322
Investment in deposits (net)	(23,843,759)	(29,097,663)
Purchase of fixed assets	(62,694)	(17,472)
Net cash used in investing activities	(21,504,384)	(26,216,812)
Cash flow from financing activities:		
Voluntary grant received	-	194,801
Funds disbursed under social window	(2,918,605)	(4,562,282)
Capital contribution	21,594,492	25,105,972
Funds received on cessesation of South Asian Development fund	22,523	-
Net cash from financing activities	18,698,410	20,738,491
Net (decrease)/increase in cash and cash equivalents	(3,719,920)	(5,658,865)
Effect of foreign currency translation adjustment	1,282,683	1,695,206
Cash and cash equivalents as at the beginning of the period	3,372,131	7,335,790
Cash and cash equivalents as at the end of the period	934,894	3,372,131

The accompanying notes are an integral part of these financial statements.

SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU : BHUTAN

SAARC Development Fund
Statement of changes in reserves for the year ended 31 December 2011

(All amounts in SDR, unless otherwise stated)

	General reserve	Foreign currency translation reserves	Total contribution
Note			
Opening balance	3,060,524	(51,525)	3,008,999
Surplus for the year	2,587,450	-	2,587,450
Other consolidated income			
Foreign currency translation reserves	-	30,573	30,573
As at 31 December 2010	5,647,974	(20,952)	5,627,022

	General reserve	Foreign currency translation reserves	Total contribution
Note			
Opening balance	5,647,974	(20,952)	5,627,022
Surplus for the year	2,416,371	-	2,416,371
Other consolidated income			
Foreign currency translation reserves	-	86,766	86,766
As at 31 December 2011	8,064,345	65,814	8,130,159

SAARC Development Fund
Notes to the financial statements for the year ended 31 December 2011

(All amount are in SDR, unless otherwise stated)

1. Reporting entity

SAARC Development Fund ('the Fund') is established by eight member countries i.e. Islamic Republic of Afghanistan, People's Republic of Bangladesh, Kingdom of Bhutan, Republic of India, Republic of Maldives, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan and Democratic Socialist Republic of Sri Lanka ('Member States') and is governed by its charter dated 3 August 2008. Ministers of Finance of the above eight member countries form the Governing Council of the Fund.

The Fund has the international character, possesses full juridical personality and operates under the Rules, Regulations and Bye Laws made for the purpose of the Charter by the Governing Council. As per Bye Laws, the Fund, its property, other assets, income and its operations and transactions shall be exempt from all taxation and duties.

The address of the Fund is SAARC Development Fund Secretariat, 3rd Floor, BDFC Building, Norzin Lam, Post Box 928, Thimphu 11001, Bhutan.

The Fund is established to promote the welfare of the people of its member countries, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region. The Fund will serve as a financial institution for projects and programmes, which are in fulfillment of the objective of the SAARC Charter. It is aimed to contribute to regional cooperation and integration through project collaboration.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and are presented in accordance with the Fund's Statutes.

Accounting policies have been based on the general IFRS principles, as detailed in the IASB's Conceptual Framework for Financial Reporting (formerly known as IASB's Framework for the Preparation and Presentation of Financial Statements.)

The financial statements for the year ended 31 December 2011 were authorized by the board of directors on 26 August 2013 for issue to Governing Council on 30 August 2013 for their final approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

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Loans and Receivables / Investments are initially recognized and measured at fair value.

(c) Functional currency

The Fund's functional currency is U.S. dollar (USD).

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

(d) Presentation currency

As required under Bye Laws of the Fund these financial statements are presented in Special Drawings Rights ('SDR'). All financial information presented in SDR has been rounded to the nearest SDR, except when otherwise indicated.

The value of the SDR is determined by the International Monetary Fund ('IMF') each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The current composition of the SDR valuation basket became effective on 1 January 2011.

The currencies in the basket at 31 December 2011 and 31 December 2010 and their amounts were as follows:

Currency	2011	2010
Euro	0.423	0.4100
Japanese yen	12.1	18.4000
Pound sterling	0.111	0.0903
U.S. dollar	0.660	0.6320

At 31 December 2011, one SDR was equal to US$1.53527 (one SDR was equal to US$1.54003 as at 31 December 2010).

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

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

Information about significant areas of estimation/uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

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- Refer note 3(f) Property, plant and equipment
- Refer note 3(g) Intangible assets
- Refer note 3(i) Employee benefit

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in statement of consolidated income.

Translation from functional currency to presentation currency:

As mentioned above, these financial statements are presented in Special Drawings Rights ('SDR').

- The assets and liabilities are translated to SDR at exchange rate at the date of the balance sheet.
- The income and expenses are translated to SDR at exchange rates at the dates of the transactions.

All resulting exchange differences are recognized in other consolidated income and are presented in the translation reserve within 'Statement of Changes in Reserves'.

(b) Financial instruments

Non- derivative financial assets: The classification of financial instruments depends on the substance of the contractual arrangement. The fund's non-derivative financial assets comprise of Loans and receivables.

The Fund initially recognizes loans and receivables on the date that they are originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables comprise cash and cash equivalents, investment in fixed deposits and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value. For these short term deposits, the carrying value approximates the fair value due to the short maturity of these instruments.

Investments
Investments comprise of fixed deposits with original maturities of more than three months.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Other receivables
Other receivables comprise of advances paid to vendors.

Non derivative financial liabilities
The Fund recognizes financial liabilities initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise 'trade and other payables'.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(c) General reserve
These reserves represent accumulation of excess of income over expenditure in statement of consolidated income. Such excess funds carry no specific reservation or restriction and can be applied as per the Fund Charter.

(d) Unrestricted and restricted reserves
- **Capital contribution**

This represents the contribution given by the Member States. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter.

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- **Voluntary contributions and contributions in kind**

Voluntary contributions from member states (unrestricted reserves) or other governments/ institutions are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such income is presented on a systematic basis as a deduction in reporting the related expense in the periods in which the expenses are recognized.

Contribution in kind for assets are recognized initially as restricted reserves (deferred income) at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognized in profit or loss as income on a systematic basis over the useful life of the asset.

The value of contributions in kind is determined by the donor's indication of the value of the goods, including the cost of transport to the final destination.

Contribution in services such as in the form of rent or other expenses is recognized in profit and loss when such services are received and are presented in statement of consolidated income as a deduction from the related expense.

- **Funds received on cessation of South Asian Development fund ('SADF')**

This represents the balance transferred on the closure of the earlier SADF to the Fund. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter in the "Economic window" as decided by the Management.

(e) Finance income

Finance income comprises interest income on funds invested and idle funds lying with projects detailed in paragraph 22 below. Interest income is recognized as it accrues in statement of consolidated income, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(f) Property, plant and equipments

a. Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of item, and are recognized net under the head 'Other income or other expenses (as the case may be)' in statement of consolidated income.

b. *Subsequent Costs*

Subsequent expenditure is recognized as an increase in the carrying amount of the asset when it is probable that future economic benefits deriving from the cost incurred will flow to the enterprise and the cost of the item can be reliably determined. The costs of the day-to-day servicing of property, plant and equipment are recognized in statement of consolidated income as incurred.

c. *Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognized in statement of consolidated income unless the amount is included in the carrying amount of another asset.

The estimated useful lives are as follows:

• Vehicles	6 years
• Furniture	10 years
• Office equipment	6 years
• Computers and peripherals	6 years
• Leasehold improvements	Useful life of asset or lease term whichever is shorter
• Servers and networking equipments	6 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted as appropriate.

(g) Intangible assets

a. *Acquired intangibles.*

Acquired rights and licenses are measured at cost less accumulated amortization and any accumulated impairment losses. . These costs are amortized over their estimated useful lives of six years.

b. *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognized in profit or loss as incurred.

c. *Amortization*

Amortization is recognized in statement of consolidated income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this

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most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and are as follows: please mention that there were no intangible assets in previous year

- Software 6 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

(h) Impairment

a. *Financial assets*

The carrying amount of Fund's assets is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Fund considers evidence of impairment for receivables for each specific asset. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of consolidated income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of consolidated income.

b. *Non-Financial Assets*

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

Impairment losses are recognized in statement of consolidated income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefit plans

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

a) **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

b) **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In accordance with the SAARC Development Fund's Financial and Administration Provisions, SDF provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) to its eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

The Fund's net obligation in respect of defined benefit plans is calculated for the gratuity plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is based on the Government securities yield. that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to net profit in the statement of consolidated income in the period in which they arise.

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(j) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assumptions of the time value of money and the risks specific to the liability. The unwinding of discount is recognized as finance cost.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Fund. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(k) Leasing arrangements as a lessee

Accounting for Operating Leases

Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term.

(l) New accounting standards and interpretations not yet adopted

Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after January 1, 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other consolidated income. No amount recognized in other consolidated income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own

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credit risk in the other consolidated income. The Fund is required to adopt IFRS 9 by accounting year commencing January 1, 2015. The Fund is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after January 1, 2013 with early adoption permitted. The Fund is required to adopt IFRS 13 by accounting year commencing January 1, 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published Presentation of items of other consolidated income (amendments to IAS 1). The amendments to IAS 1, require companies preparing financial statements in accordance with IFRS to group items within other consolidated income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other consolidated income items (without changing the option to present items of other consolidated income either before tax or net of tax). It also changes the title of statement of consolidated income to statement or profit and loss and other consolidated income.

The amendments also reaffirm existing requirements that items in other consolidated income and profit or loss should be presented as either a single statement or two statements. This amendment is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The Fund is required to adopt IAS 1 (Amended) by accounting year commencing January 1, 2013. The Fund has evaluated the requirements of IAS 1 (Amended) and the Fund does not believe that the adoption of IAS 1 (Amended) will have a material effect on its financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after January 1, 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other consolidated income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other consolidated income.

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These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The Fund is required to adopt IAS 19 (Amended) by accounting year commencing January 1, 2013. The Fund is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the financial statements.

In December, 2011, the IASB issued an amendment to IFRS 7 "Disclosures – offsetting financial assets and financial liabilities". The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

In December, 2011, the IASB issued an amendment to IAS 32 "Offsetting financial assets and financial liabilities". The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the statements of financial position. This includes clarifying the meaning of "currently has a legally enforceable right to set-off" and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2014. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

Annual Improvements 2009-2011 Cycle
The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The annual improvements 2009-2011 cycle are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt these standard / amendments early and the extent of impact has not yet been determined.

IAS 1 'Presentation of Financial statements' to clarify that only one comparative period- which is the preceding period – is required for complete set of financial statements. Additional comparative information may be presented provided such information should be accompanied by related notes and should be in accordance with IFRS. Further, IAS 1 clarifies that the presentation of an opening statement of financial position is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification provided such a retrospective application, retrospective restatement or the reclassification has a material effect upon the information in the opening statement of financial position.

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4. Determination of fair values

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of cash equivalents including short term deposits, investments and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

The fair value of cash and cash equivalents, investments and other receivables are not materially different from the carrying amounts due to short term maturities of these instruments.

The carrying value of investments is reported in Note 23.

5. Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. Risk management is carried out by the top management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fund's overall risk management program focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. Internal Audit

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undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to The Board of Directors.

(a) Credit risk

The Fund treasury policy focuses on security of cash and cash equivalents. Investments are allowed only in liquid securities and only with counterparties that have a high credit rating.

The Fund held cash and cash equivalents and investments in fixed deposits of 173,370,872 at 31 December 2011 (2010: 151,029,779) which represents its maximum credit exposure on these assets. These are held in government authorized banks and there is no significant exposure

Details of cash and cash equivalents and investments in different countries:

Name of country	As at 31 December 2011	As at 31 December 2010
Nepal	147,401,283	147,731,608
India	25,969,184	-
Bhutan	405	3,298,171

(b) Liquidity risk

The Fund's objective is to strike a balance between funding continuity and flexibility by maintaining sufficient funds as cash in hand or as on-demand or short-term deposits with maturities of three months or less to meet short-term liabilities. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund uses activity-based costing, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Fund regularly monitors its liquidity to keep it at adequate levels, with periodic reports to the chief operating decision maker.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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(i) Currency risk

Exposure to fluctuations in foreign currency exchange rates arises from transactions denominated in currencies other than the Fund's functional currency, which is the USD.

The Fund held cash and cash equivalents and investment in fixed deposits amounting to SDR 173,370,872 (2010: SDR 151,029,779)

(ii) Interest Rate Risk

The investment portfolio is exposed to market risk due to interest rate movements. The interest rate risk is reduced by limiting the duration of the portfolio to a weighted average of 0-2 years and investment in fixed rate instruments.

6. Capital management

By its nature, the Fund does not have "capital", rather it views the reserves as a proxy for capital in terms of International Accounting Standard ("IAS") 1. The target and position of the various reserves are indicated in the Statement of changes in reserves for the year ended 31 December 2011.

The overall objective of investments is to protect and preserve the Fund's ability to fulfil its commitments to ensure availability of cash for the discharge of its mandate. Therefore the primary principles governing investments are security, liquidity and yield, in order of importance.

7. Property, plant and equipments *

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Total
Historical cost							
1 January 2011	47,224	13,722	10,540	4,961	8,102	-	84,549
Additions during the year	-	9,778	2,897	5,459	4,827	59,087	82,049
Adjustments	-	-	-	-	-	-	-
Currency translation adjustments	148	339	120	182	171	1,788	2,748
31 December 2011	47,372	23,839	13,557	10,602	13,100	60,875	169,345
Accumulated depreciation							
1 January 2011	4,840	940	1,156	600	981	-	8,517
Depreciation charge for the year	7,665	1,740	1,928	1,350	1,702	3,117	17,502
Currency translation adjustments	247	56	61	43	56	94	557
31 December 2011	12,752	2,736	3,145	1,993	2,739	3,211	26,576
Carrying amounts							
1 January 2011	42,384	12,782	9,384	4,361	7,121	-	76,032
31 December 2011	34,620	21,103	10,412	8,609	10,361	57,664	142,769

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Total
Historical cost							
1 January 2010	-	560	1,862	1,300	-	-	3,722
Additions	47,731	13,293	8,738	3,677	8,189	-	81,628
Currency translation adjustments	(507)	(131)	(60)	(16)	(87)	-	(801)
31 December 2010	47,224	13,722	10,540	4,961	8,102	-	84,549

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Accumulated depreciation							
1 January 2010	-	22	16	47	-	-	85
Depreciation charge for the year	4,892	928	1,152	558	992	-	8,522
Currency translation adjustments	(52)	(10)	(12)	(5)	(11)	-	(90)
31 December 2010	4,840	940	1,156	600	981	-	8,517
Carrying amounts							
1 January 2010	-	538	1,846	1,253	-	-	3,637
31 December 2010	42,384	12,782	9,384	4,361	7,121	-	76,033

* The Fund during the year ended 31 December 2009 and 31 December 2010 received certain fixed assets by way of contribution in kind from Royal Government of Bhutan, the details of which are as under:

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Total
Historical cost							
1 January 2011	47,225	12,663	7,486	4,055	8,102	-	79,531
Additions during the year	-	-	-	-	-	-	-
Currency translation adjustments	147	39	23	13	25	-	247
31 December 2011	47,372	12,702	7,509	4,068	8,127	-	79,778
Accumulated depreciation							
1 January 2011	4,840	887	1,011	570	982	-	8,290
Depreciation charge for the year	7,665	1,233	1,215	658	1,315	-	12,086
Currency translation adjustments	247	40	40	22	43	-	392
31 December 2011	12,752	2,160	2,266	1,250	2,340	-	20,768

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Carrying amounts							
1 January 2011	42,385	11,776	6,475	3,485	7,120	-	71,241
31 December 2011	34,620	10,541	5,244	2,818	5,787	-	59,011

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Total
Historical cost							
1 January 2010	-	560	1,861	1,300	-	-	3,722
Additions	47,731	12,223	5,651	2,761	8,189	-	76,555
Currency translation adjustments	(507)	(120)	(27)	(6)	(87)	-	(746)
31 December 2010	47,225	12,663	7,486	4,055	8,102	-	79,531
Accumulated depreciation							
1 January 2010	-	22	16	47	-	-	85
Depreciation charge for the year	4,892	874	1,006	528	992	-	8,292
Currency translation adjustments	(52)	(9)	(11)	(5)	(11)	-	(87)
31 December 2010	4,840	887	1,011	570	982	-	8,290
Carrying amounts							
1 January 2010	-	538	1,845	1,253	-	-	3,637
31 December 2010	42,385	11,776	6,476	3,485	7,120	-	71,241

During the year ended 31 December 2010, supply and installation of servers and networking equipments, accessories and related services was under construction for which an advance of SDR 12,686 was given upto 31 December 2010.

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8. Intangible assets#

	Acquired software	Total
Historical cost		
1 January 2011	-	-
Additions during the year	34,305	34,305
Capitalized during the year	-	-
Currency translation adjustments	1,038	1,038
31 December 2011	35,343	35,343
Accumulated depreciation		
1 January 2011	-	-
Depreciation charge for the year	274	274
Currency translation adjustments	8	8
31 December 2011	282	282
Carrying amounts		
1 January 2011	-	-
31 December 2011	35,061	35,061

* As at 31 December 2010, there was no intangible assets

9. Other non-current assets

	As at 31 December 2010	As at 31 December 2009
Capital advances	-	24,953
	-	24,953

10. Investments

	As at 31 December 2011	As at 31 December 2010
Fixed deposits with maturity after twelve months of the reporting date	52,023,304	-
	52,023,304	-

11. Cash and cash equivalents

	As at 31 December 2011	As at 31 December 2010
Cash at bank	934,855	3,372,131
Cash in hand	39	-
	934,894	3,372,131

The deposits maintained by the Fund with banks comprise of time deposits, which can be withdrawn by the Fund at any point without prior notice or penalty on the principal.

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12. Investments

	As at 31 December 2011	As at 31 December 2010
Fixed deposits with original maturity of more than three months but due to mature in twelve months of the reporting date	118,551,667	146,731,212
Interest accrued on deposits	1,861,007	926,436
	120,412,674	147,657,648

13. Other receivables

	As at 31 December 2011	As at 31 December 2010
Advance to vendors	5,022	4,495
Staff advance	575	-
	5,597	4,495

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14. Unrestricted and restricted reserves

	Unrestricted Reserves				Restricted reserve	
	Paid up capital contribution *	Voluntary contribution received from Republic of India **	Voluntary contribution received from Republic of China	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for fixed assets	Total
Opening balance	57,402,273	61,080,550	-	4,525,766	3,637	123,012,225
Addition made during the year	-	-	194,801	-	76,555	271,356
People's Republic of Bangladesh	4,475,946	-	-	-	-	4,475,946
Kingdom of Bhutan	3,933,294	-	-	-	-	3,933,294
Republic of Maldives	2,008,592	-	-	-	-	2,008,592
Federal Democratic Republic of Nepal	4,199,089	-	-	-	-	4,199,089
Islamic Republic of Pakistan	6,287,527	-	-	-	-	6,287,527
Democratic Socialist Republic of Sri Lanka	4,201,524	-	-	-	-	4,201,524
Less: Allocated to the other expenditure to the extent of related grant disbursed	-	(4,562,282)	-	-	-	(4,562,282)
Less: Depreciation on such assets charged to statement of compressive income	-	-	-	-	(8,292)	(8,292)
Add: Currency translation adjustments	454,505	1,141,358	-	81,273	(659)	1,676,477
As at 31 December 2010	82,962,750	57,659,626	194,801	4,607,039	71,241	145,495,456
Non-current	82,962,750	57,659,626	194,801	4,607,039	58,827	145,483,043
current	-	-	-	-	12,413	12,413
	82,962,750	57,659,626	194,801	4,607,039	71,241	145,495,456

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		Unrestricted Reserves			Restricted reserve	
	Paid up capital contribution *	Voluntary contribution received from Republic of India **	Voluntary contribution received from Republic of China	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for fixed assets	Total contribution
Opening balance	82,962,750	57,659,626	194,801	4,607,039	71,241	145,495,456
Addition made during the year	-	-	-	22,523	-	22,523
Islamic Republic of Afghanistan	3,812,835	-	-	-	-	3,812,835
People's Republic of Bangladesh	3,762,672	-	-	-	-	3,762,672
Republic of Maldives	1,907,488	-	-	-	-	1,907,488
Federal Democratic Republic of Nepal	8,088,982	-	-	-	-	8,088,982
Democratic Socialist Republic of Sri Lanka	4,022,515	-	-	-	-	4,022,515
Less: Allocated to the other expenditure to the extent of related grant disbursed	-	(2,918,605)	-	-	-	(2,918,605)
Less: Depreciation on such assets charged to statement of compressive income	-	-	-	-	(12,086)	(12,086)
Add: Currency translation adjustments	1,085,162	94,725	605	15,267	(144)	1,195,614
As at 31 December 2011	105,642,403	54,835,747	195,406	4,644,829	59,010	165,377,394
Non-current	105,642,403	54,835,747	195,406	4,644,829	46,558	165,364,943
current	-	-	-	-	12,452	12,452
	105,642,403	54,835,747	195,406	4,644,829	59,010	165,377,395

***Paid-up capital contribution:**

Authorized capital contribution

The initial authorized capital of the Fund shall be SDR One Thousand Million, to be divided into callable capital and subscribed capital.

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Initial subscribed capital contribution

The initial subscribed capital of the Fund shall be SDR Two Hundred Million. The capital will be subscribed by the Member States in accordance with the below table. Future contributions to the capital will be raised as per decision of the Governing Council.

Member state	Amount
Islamic Republic of Afghanistan	10,000,000
People's Republic of Bangladesh	21,440,000
Kingdom of Bhutan	10,000,000
Republic of India	60,640,000
Republic of Maldives	10,000,000
Federal Democratic Republic of Nepal	21,440,000
Islamic Republic of Pakistan	45,040,000
Democratic Socialist Republic of Sri Lanka	21,440,000
Total	200,000,000

Subscriptions by each member state to the subscribed capital of the Fund shall be made in five equal installments. The first installment shall be due within one month of entry into force of the SAARC Development Fund ("SDF") Charter.

The payment of subscriptions to subscribed capital shall be made:
(a) Seventy percent in convertible currency; and
(b) Thirty percent in the currency of the contributing Member State.

The liability of the contributors shall be limited to the unpaid portion of their contributions. No contributor shall be liable for obligations of the Fund.

** As informed by the management, in the fourth inter- governmental meeting of South Asian Association for Regional Cooperation, Nepal, held on 6 -7 March 2008 at Lahore, it has been decided that voluntary contribution from India has to be used for the "Social window" as defined in the Fund charter for funding regional/sub-regional projects within the SAARC countries, but outside of India.

*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 November 2010 and 1 December 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

15. Accounts payable

	As at 31 December 2011	As at 31 December 2010
Creditors for fixed assets	32,228	-
Sundry creditors	13,143	9,817
Salary payable	858	2,926
	46,229	12,743

16. Provisions

	As at 31 December 2011	As at 31 December 2010
Provision for gratuity		
Opening balance	39	-
Provision made during the year	476	39
Provision used during the year	-	-
Provision reversed during the year	-	-
Closing balance	515	39

17. Other income

	For the year ended 31 December 2011	For the year ended 31 December 2010
Transferred from restrictive reserve against property, plant and equipment	12,086	8,292
Foreign exchange gain	-	31,600
	12,086	39,892

18. Finance income

	For the year ended 31 December 2011	For the year ended 31 December 2010
Interest income on fixed deposits	3,110,536	2,743,081
Interest income on idle funds with implementing agencies	226,103	28,429
	3,336,639	2,771,510

19. Employee benefit expenses

	For the year ended 31 December 2011	For the year ended 31 December 2010
Salaries	176,402	43,290
Contribution to provident fund	164	-
Staff-welfare expenses	1,046	-
	177,612	43,290

20. General expenditure

	For the year ended 31 December 2011	For the year ended 31 December 2010
Staff recruitment expenses	38,685	118,317
Rent *	32,476	34,594
Travelling and conveyance	31,394	23,348

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Advertisement expenses	3,087	11,673
Meeting expenses	9,797	3,770
Printing and stationary	8,275	3,883
Communication expenses	5,822	3,266
Vehicle running and maintenance expenses	3,239	2,006
Electricity charges	805	522
Repair and maintenance expenses	1,566	429
Books and periodicals	445	192
Legal and professional expenses	3,384	3,672
Training expenses	2,894	-
Miscellaneous expenses *	2,041	2,389
	143,910	208,061

Royal Government of Bhutan has given certain supplies and office premises to SDF without any charge and the same is considered as contribution in kind from the Royal Government of Bhutan

	For the year ended 31 December 2011	For the year ended 31 December 2010
Rent	32,476	34,594
Miscellaneous expenses	-	1,327
	32,476	35,921

21. Defined contribution plans

An amount of USD 164 (Previous year USD Nil) for the year has been recognized as an expense in respect of the Fund's contributions towards Provident Fund, which is deposited with the government authorities and has been included under employee benefits expense in the Statement of Consolidated Income.

Defined benefit plan

The Fund's gratuity scheme is a defined benefit plan. Gratuity is paid as a lump sum amount to employees at retirement or termination of employment at an amount based on the respective employee's eligible salaries and the years of employment with the Fund. The following table sets out the disclosure in respect of the defined benefit plan:

	As at 31 December	
	2011	2010
Present value of unfunded obligations	515	39
Total	**515**	**39**

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Movement in the present value of the defined benefit obligation

	As at 31 December	
	2011	2010
Present value of obligation as at the beginning of the period	39	-
Interest cost	3	-
Current service cost	473	39
Benefits paid	-	-
Actuarial (gain)/loss on obligation	-	-
Present value of obligation as at the end of period	**515**	**39**

Expense recognized in profit or loss

	For the year ended	
	2011	**2010**
Current service cost	473	39
Interest cost	3	-
Net actuarial (gain)/ loss recognized in the period	-	-
Total	**476**	**39**

The expense is recognized in employee benefit expenses in the statements of consolidated income.

Actuarial assumptions

Principal actuarial assumptions are given below:

a) Economic Assumptions

	As at 31 December	
	2011	**2011**
Discounting Rate	8.00	8.00
Future salary Increase	5.50	5.50

b) Demographic Assumption

i) Retirement Age (Years)	60	60
ii)	**Withdrawal Rate (%)**	**Withdrawal Rate (%)**
Up to 30 Years	3.00	3.00
From 31 to 44 years	2.00	2.00
Above 44 years	1.00	1.00

Assumptions regarding future mortality rates are based on IALM (2006 - 08).

The actuarial valuation is carried out half yearly by an independent actuary. The discount rate used for determining the present value of obligation under the defined benefit plan is determined by reference to market yields at the end of the reporting period on Government Bonds. The currency and the term of the government bonds is consistent with the currency and term of the defined benefit obligation.

The salary growth rate takes into account inflation, seniority, promotion and other relevant factors on long-term basis.

22. Related parties

For the purpose of financial statements, parties are considered to related to the Fund, if the Fund has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

a. Name and relationship of related parties:

Related parties and nature of related party relationships:

Nature of relationship	Name of related parties	Relationship
Key management personnel	Mr. Karma	CEO
Relative of Key management personnel	Mrs. Pemzam	Wife of CEO

b. Details of transactions during the year:

(i) **Key managerial person**

Particulars	For the year ended 31 December 2011	For the year ended 31 December 2010
Salaries and other short term benefits *	56,453	30,384

* excluding the amount of house rent allowance as mentioned below, which is paid directly to the relative of key managerial person.

(ii) **Relative of Key managerial person**

Particulars	For the year ended 31 December 2011	For the year ended 31 December 2010
Other short term benefits	6,810	3,682

c. Balance outstanding at the end of the reporting period :

(i) **Key managerial person**

Particulars	As at 31 December 2011	As at 31 December 2010
Salaries and other short term benefits *	383	2,790

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23. Operating leases

The Fund incurred operating lease charges of 32,476 (previous year 34,594). There are no non-cancellable leases entered into by the Fund and accordingly no disclosure in respect of future lease rental payable has been made.

24. Financial instruments

Credit risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2011	As at 31 December 2010
Cash and cash equivalents	934,894	3,372,131
Investments (current)	120,412,674	147,657,648
Investments (non-current)	52,023,304	-
Other receivables	5,597	4,495
Total	**173,376,469**	**151,034,274**

Liquidity risk

The following are the contractual maturities of non derivative financial liabilities as of the reporting dates.

As at 31 December 2011	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	46,229	46,229	46,229

As at 31 December 2010	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	12,743	12,743	12,743

Interest rate risk

Profile

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

	As at 31 December 2011	As at 31 December 2010
Fixed rate instruments		
Financial assets		
Cash and cash equivalents	934,894	3,372,131
Investments (current)	120,412,674	147,657,648
Investments (non-current)	52,023,304	-
	173,370,872	**151,029,779**

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Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss

Fair values

Fair values versus carrying amounts

	As at 31 December 2011		As at 31 December 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at amortized cost				
Cash and cash equivalents	934,894	934,894	3,372,131	3,372,131
Investments (current)	120,412,674	120,412,674	147,657,648	147,657,648
Investments (non-current)	52,023,304	52,023,304	-	-
Other receivables	5,597	5,597	4,495	4,495
	173,376,469	**173,376,469**	**151,034,274**	**151,034,274**

25. Contractual commitments

The fund has approved the following project as per its charter as at 31 December 2011:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2010	Amount disbursed/ expensed in the year ended 31 December 2011	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,857,977	7,003,186	176	1,854,615
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,795,847	309,639	1,284,179	8,202,029
Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries	2,800,650*	7646	1,093,379	1,699,625
Empowering Rural Communities “Reaching the Unreached” (CeCs)	5,170,658	-	526,522	4,644,136
Post Harvest Management and Value Addition of fruits in Production Catchments in SAARC Countries	3,243,135	-	5,150	3,237,985
Uniform Toll Free Helpline for Children and Women	**	-	9,199	**
Total	**29,868,267**	**7,320,471**	**2,918,605**	**19,638,390**

budgeted have been computed in SDR using the closing rate as at 31 December 2011

* subsequent to the year end, the Board of directors in their 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan vide their decision number 16 instructed the CEO to restructure the project budget by making modifications to the rate of certain supplies. The fund on such instructions re-formulated the approved budget to SDR 2,202180.

** The "Uniform Toll Free Helpline for Children and Women" project was approved in principal by the Board in 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan. However, the Budget was not approved and the expenditure incurred in initial meetings of the project was not charged to the Statement of Consolidated Income and was shown as a utilization of Voluntary grant from India.

The fund has approved the following project as per its charter as at 31 December 2010:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2009	Amount disbursed/ expensed in the year ended 31 December 2010	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,830,548	2,694,798	4,308,388	1,827,362
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,765,513	63,391	246,248	9,455,874
Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries	2,791,977*	-	7646	2,784,331
Total	**21,388,038**	**2,758,189**	**4,562,282**	**14,067,567**

budgeted have been computed in SDR using the closing rate as at 31 December 2010

* subsequent to the year end, the Board of directors in their 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan vide their decision number 16 instructed the CEO to restructure the project budget by making modifications to the rate of certain supplies. The fund on such instructions re-formulated the approved budget to SDR 2,195,360.

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26. The fund has not received the following annual committed contribution from the following member countries as at 31 December 2011:

Name of contributor	Short contribution as at 31 December 2010	Short contribution for the year ended 31 December 2011	Excess contribution received during the year ended 31 December 2011	Total
Islamic Republic of Afghanistan	6,000,000	-	(1,812,835)	4,187,165
People's Republic of Bangladesh	8,388,054	525,328	-	8,913,381
Kingdom of Bhutan	2,066,706	2,000,000	-	4,066,706
Republic of Maldives	3,991,408	-	-	4,083,921
Federal Democratic Republic of Nepal	8,664,911	92,512	-	4,863,930
Islamic Republic of Pakistan	20,736,473	-	(3,800,982)	29,744,473
Democratic Socialist Republic of Sri Lanka	8,662,476	9,008,000	-	8,927,961
Total	**58,510,028**	**11,891,325**	**(5,613,817)**	**64,787,537**

The fund is making efforts to receive these monies from the member countries in due course.

27. As required under project financing agreement interest income on idle funds lying with projects (mentioned in note 24 above) is accounted in these financial statements on the basis of amount calculated by the respective project Lead Implementing Agency/Implementing agency.

28. Subsequent events

There were no such events after the balance sheet date which represents unusual changes affecting the existence or substratum of the Fund at the balance sheet date.

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Management's Attestation and Independent Auditor's Report - 2012

Independent Auditors' Report

The Members of the Governing Council
SAARC Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of SAARC Development Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2012, the statements of consolidated income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 control 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 control. 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.

Basis for Qualified Opinion

Attention is invited to Note 25 which explains the position in detail that the fund has not accrued the committed annual contribution due to be received from the member countries during the year ended 31 December 2012 amounting to SDR 22,328,676 (till 31 December 2011 SDR 64,787,537). As required under Charter and Bye Laws of the Fund, every member was required to pay its contribution in five equal annual installments but the same to the extent of SDR 87,116,212 (including SDR 64,787,537 as at 31 December 2011) has not paid by them. Had the fund accrued these required contributions in these financial statements, non-current liabilities would have been SDR 258,583,620 instead of SDR 171,467,408 and the receivables would have been SDR 87,120,452 instead of SDR 4,240.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2012, and of its financial performance and its cash flows for the year ended 31 December 2012 in accordance with International Financial Reporting Standards.

KPMG

Gurgaon, India

Date: 30 August 2013

SAARC Development Fund
Statement of Financial Position as at 31 December 2012

(All amounts in SDR, unless otherwise stated)

	Note	As at 31 December 2012	As at 31 December 2011
Assets			
Property, plant and equipments	7	135,877	142,768
Intangible Assets	8	29,137	35,061
Investments	9	88,026,904	52,023,304
Non-current assets		88,191,918	52,201,133
Cash and cash equivalents	10	786,676	934,894
Investments	11	95,661,088	120,412,675
Other receivables	12	4,241	5,597
Total current assets		96,452,005	121,353,166
Total assets		184,643,923	173,554,299
Reserves and liabilities			
Reserves			
General reserve		13,045,132	8,064,344
Foreign currency translation reserves		73,570	65,818
Total reserves		13,118,702	8,130,162
Liabilities			
Unrestricted reserves			
Contribution by member states	13	113,228,620	105,642,404
Voluntary contribution received from Republic of India	13	53,196,539	54,835,746
Voluntary contribution received from Republic of China	13	390,392	195,406
Funds received on cessation of South Asian Development Fund	13	4,616,376	4,644,829
Restricted reserve			
Contribution in kind for fixed assets	13	34,069	46,556
Provision	14	1,411	515
Total non-current liabilities		171,467,406	165,365,456
Account payables	15	45,375	46,229
Contribution in kind for fixed assets	13	12,439	12,452
Total current liabilities		57,814	58,681
Total reserves and liabilities		184,643,923	173,554,299

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT
SAARC
THIMPHU · BHUTAN

SAARC Development Fund
Statement of Consolidated Income for the year ended 31 December 2012

(All amounts in SDR, unless otherwise stated)

	Notes	For the year ended 31 December 2012	For the year ended 31 December 2011
Operating expenditure			
Employee benefit expenses	18	230,328	177,612
General expenditure	19	162,216	143,910
Depreciation and amortization	7 and 8	33,506	17,776
Less: Contribution in kind from RGoB			
-Rent		(29,406)	(32,476)
Total operating expenditure		396,644	306,822
Other income	16	12,456	12,086
		12,456	12,086
Other expenditure			
Funds disbursed under social window		1,582,391	2,918,605
Less: allocated from voluntary contribution		(1,582,391)	(2,918,605)
Foreign exchange loss		110,257	625,533
Total other expenditure		110,257	625,533
Finance income	17	5,475,233	3,336,639
Net surplus for the year		4,980,788	2,416,370
Other consolidated income			
Foreign currency translation reserves		7,752	86,770
Other consolidated (loss)/income for the year		7,752	86,770
Total consolidated income for the year		4,988,540	2,503,140

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT SAARC THIMPHU : BHUTAN

SAARC Development Fund
Statement of Cash Flows for the year ended 31 December 2012
(All amounts in SDR, unless otherwise stated)

	For the year ended 31 December 2012	For the year ended 31 December 2011
Consolidated income for the period	4,980,788	2,416,370
Adjustments:		
Finance income	(5,475,233)	(3,336,639)
Contribution in kind received from Kingdom of Bhutan	(12,456)	(12,086)
Depreciation and amortization	33,506	17,776
Expenses from contribution in kind	29,406	32,476
Voluntary contribution received from Kingdom of Bhutan	(29,406)	(32,476)
Operating profit before working capital changes	(473,395)	(914,579)
Adjustments for :		
Decrease/(increase) in other receivables	1,357	(1,102)
Increase/(decrease) in other payables	28,640	1,258
Increase in provisions	896	476
Net Cash used in operating activities	(442,502)	(913,947)
Cash flow from investing activities:		
Interest income received	2,141,118	2,402,069
Investment in deposits (net)	(7,917,900)	(23,843,760)
Purchase of fixed assets	(50,360)	(59,172)
Net cash used in investing activities	(5,827,142)	(21,500,862)
Cash flow from financing activities:		
Voluntary grant received	195,464	-
Funds disbursed under social window	(1,582,391)	(2,918,605)
Capital contribution	7,758,866	21,594,492
Funds received on cessations of South Asian Development fund	-	22,523
Net cash from financing activities	6,371,939	18,698,410
Net (decrease)/increase in cash and cash equivalents	102,295	(3,716,399)
Effect of foreign currency translation reserves	(250,513)	1,279,162
Cash and cash equivalents as at the beginning of the period	934,894	3,372,131
Cash and cash equivalents as at the end of the period	786,676	934,894

The accompanying notes are an integral part of these financial statements.

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SAARC DEVELOPMENT FUND SECRETARIAT SAARC THIMPHU: BHUTAN

SAARC Development Fund
Notes to the financial statements for the year ended 31 December 2012
(All amount are in SDR, unless otherwise stated)

1. Reporting entity

SAARC Development Fund ('the Fund') is established by eight member countries i.e. Islamic Republic of Afghanistan, People's Republic of Bangladesh, Kingdom of Bhutan, Republic of India, Republic of Maldives, Federal Democratic Republic of Nepal, Islamic Republic of Pakistan and Democratic Socialist Republic of Sri Lanka ('Member States') and is governed by its charter dated 3 August 2008. Ministers of Finance of the above eight member countries form the Governing Council of the Fund.

The Fund has the international character, possesses full juridical personality and operates under the Rules, Regulations and Bye Laws made for the purpose of the Charter by the Governing Council. As per Bye Laws, the Fund, its property, other assets, income and its operations and transactions shall be exempt from all taxation and duties.

The address of the Fund is SAARC Development Fund Secretariat, 3rd Floor, BDFC Building, Norzin Lam, Post Box 928, Thimphu 11001, Bhutan.

The Fund is established to promote the welfare of the people of its member countries, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region. The Fund will serve as a financial institution for projects and programmes, which are in fulfillment of the objective of the SAARC Charter. It is aimed to contribute to regional cooperation and integration through project collaboration.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and are presented in accordance with the Fund's Statutes.

Accounting policies have been based on the general IFRS principles, as detailed in the IASB's Conceptual Framework for Financial Reporting (formerly known as IASB's Framework for the Preparation and Presentation of Financial Statements.)

The financial statements for the year ended 31 December 2012 were authorized by the board of directors on 26 August 2013 for issue to Governing Council on 30 August 2013 for their final approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

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Loans and receivables / investments are initially recognized and measured at fair value.

(c) Functional currency

The Fund's functional currency is U.S. dollar (USD).

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

(d) Presentation currency

As required under Bye Laws of the Fund these financial statements are presented in Special Drawings Rights ('SDR'). All financial information presented in SDR has been rounded to the nearest SDR, except when otherwise indicated.

The value of the SDR is determined by the International Monetary Fund ('IMF') each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The current composition of the SDR valuation basket became effective on 1 January 2011.

The currencies in the basket at 31 December 2012 and 31 December 2011 and their amounts were as follows:

(Amount)

Currency	As at 31 December 2012	As at 31 December 2011
Euro	0.423	0.423
Japanese yen	12.1	12.1
Pound sterling	0.111	0.111
U.S. dollar	0.660	0.660

At 31 December 2012, one SDR was equal to US$1.53692 (one SDR was equal to US$1.53527 as at 31 December 2011).

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from 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 any future periods affected.

Information about significant areas of estimation/uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

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- Refer note 3(f) Property, plant and equipment
- Refer note 3(g) Intangible assets
- Refer note 3(i) Employee benefit

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in statement of consolidated income.

Translation from functional currency to presentation currency:

As mentioned above, these financial statements are presented in Special Drawings Rights ('SDR').

- The assets and liabilities are translated to SDR at exchange rate at the date of the balance sheet.
- The income and expenses are translated to SDR at exchange rates at the dates of the transactions.

All resulting exchange differences are recognized in other consolidated income and are presented in the translation reserve within 'Statement of Changes in Reserves'

(b) Financial instruments

Non- derivative financial assets: The classification of financial instruments depends on the substance of the contractual arrangement. The fund's non-derivative financial assets comprise of Loans and receivables.

The Fund initially recognizes loans and receivables on the date that they are originated.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Loans and receivables comprise cash and cash equivalents, investment in fixed deposits and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which

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are subject to an insignificant risk of changes in their fair value. For these short term deposits, the carrying value approximates the fair value due to the short maturity of these instruments.

Investments

Investments comprise of fixed deposits with original maturities of more than three months.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Other receivables

Other receivables comprise of advances paid to vendors.

Non derivative financial liabilities

The Fund recognizes financial liabilities initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise ‘accounts payable’.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(c) General reserve

These reserves represent accumulation of excess of income over expenditure in Statement of Consolidated Income. Such excess funds carry no specific reservation or restriction and can be applied as per the Fund Charter.

(d) Unrestricted and restricted reserves

- **Capital contribution**

This represents the contribution given by the Member States. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter.

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- **Voluntary contributions and contributions in kind**

Voluntary contributions from member states (unrestricted reserves) or other governments/ institutions are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such income is presented on a systematic basis as a deduction in reporting the related expense in the periods in which the expenses are recognized.

Contribution in kind for assets are recognized initially as restricted reserves (deferred income) at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognized in Statement of Consolidated Income as income on a systematic basis over the useful life of the asset.

The value of contributions in kind is determined by the donor's indication of the value of the goods, including the cost of transport to the final destination.

Contribution in services such as in the form of rent or other expenses is recognized in the Statement of Consolidated income when such services are received and are presented in statement of consolidated income as a deduction from the related expense.

- **Funds received on cessation of South Asian Development fund ('SADF')**

This represents the balance transferred on the closure of the earlier SADF to the Fund. These are not subject to any legal or third-party restriction and can be applied as per the Fund Charter in the "Economic window" as decided by the Management.

(e) Finance income

Finance income comprises interest income on funds invested and idle funds lying with projects detailed in paragraph 15 below. Interest income is recognized as it accrues in statement of consolidated income, using the effective interest method.

Foreign currency gains and losses are reported on a net basis

(f) Property, plant and equipments

a. *Recognition and Measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of item, and are recognized net under the head 'Other income or other expenses (as the case may be)' in statement of consolidated income.

b. *Subsequent Costs*

Subsequent expenditure is recognized as an increase in the carrying amount of the asset when it is probable that future economic benefits deriving from the cost incurred will flow to the enterprise and the cost of the item can be reliably determined. The costs of the day-to-day servicing of property, plant and equipment are recognized in statement of consolidated income as incurred.

c. *Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognized in statement of consolidated income unless the amount is included in the carrying amount of another asset.

The estimated useful lives are as follows:

• Vehicles	6 years
• Furniture	10 years
• Office equipment	6 years
• Computers and peripherals	6 years
• Leasehold improvements	Useful life of asset or lease term whichever is shorter
• Servers and networking equipments	6 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted as appropriate.

(g) Intangible assets

a. *Acquired intangibles.*

Acquired rights and licenses are measured at cost less accumulated amortization and any accumulated impairment losses. These costs are amortized over their estimated useful lives of six years.

b. *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognized in profit or loss as incurred.

c. *Amortization*

Amortization is recognized in statement of consolidated income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this

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most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and are as follows: please mention that there were no intangible assets in previous year

- Software 6 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

(h) Impairment

a. *Financial assets*

The carrying amount of Fund's assets is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Fund considers evidence of impairment for receivables for each specific asset. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of consolidated income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of consolidated income.

b. *Non-Financial Assets*

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

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Impairment losses are recognized in statement of consolidated income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefit plans

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

a) **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the Statement of Consolidated income in the periods during which related services are rendered by employees.

b) **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In accordance with the SAARC Development Fund's Financial and Administration Provisions, SDF provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) to its eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

The Fund's net obligation in respect of defined benefit plans is calculated for the gratuity plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is based on the Government securities yield. that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to surplus in the Statement of Consolidated Income in the period in which they arise.

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(j) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assumptions of the time value of money and the risks specific to the liability. The unwinding of discount is recognized as finance cost.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Fund. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(k) Leasing arrangements as a lessee

Accounting for Operating Leases

Assets held under other leases are classified as operating leases and are not recognized in the Fund's statement of financial position. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(l) New accounting standards and interpretations not yet adopted

Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, the International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after January 1, 2015 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other consolidated income. No amount recognized in other consolidated income would ever be reclassified to profit or loss. IFRS 9, was further amended in October 2010, and such amendment introduced requirements on accounting for financial liabilities. This amendment addresses the issue of volatility in the profit or loss due to

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changes in the fair value of an entity's own debt. It requires the entity, which chooses to measure a liability at fair value, to present the portion of the fair value change attributable to the entity's own credit risk in the other consolidated income. The Fund is required to adopt IFRS 9 by accounting year commencing 1 January 2015. The Fund is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

IFRS 13 Fair Value Measurement: In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement to provide specific guidance on fair value measurement and requires enhanced disclosures for all assets and liabilities measured at fair value, and not restricted to financial assets and liabilities. The standard introduces a precise definition of fair value and a consistent measure for fair valuation across assets and liabilities, with a few specified exceptions. The effective date for IFRS 13 is annual periods beginning on or after January 1, 2013 with early adoption permitted. The Fund is required to adopt IFRS 13 by accounting year commencing 1 January 2013 and is currently evaluating the requirements of IFRS 13, and has not yet determined the impact on the financial statements.

IAS 1 (Amended) Presentation of Financial Statements: In June 2011, the International Accounting Standard Board published Presentation of items of other consolidated income (amendments to IAS 1). The amendments to IAS 1, require companies preparing financial statements in accordance with IFRS to group items within other consolidated income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the income statement. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other consolidated income items (without changing the option to present items of other consolidated income either before tax or net of tax). It also changes the title of statement of consolidated income to statement or profit and loss and other consolidated income.

The amendments also reaffirm existing requirements that items in other consolidated income and profit or loss should be presented as either a single statement or two statements. This amendment is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The Fund is required to adopt IAS 1 (Amended) by accounting year commencing 1 January 2013. The Fund has evaluated the requirements of IAS 1 (Amended) and the Fund does not believe that the adoption of IAS 1 (Amended) will have a material effect on its financial statements.

IAS 19 (Amended) Employee Benefits: In June 2011, International Accounting Standards Board issued IAS 19 (Amended), Employee Benefits. The effective date for adoption of IAS 19 (Amended) is annual periods beginning on or after January 1, 2013, though early adoption is permitted.

IAS 19 (Amended) has eliminated an option to defer the recognition of gains and losses through re-measurements and requires such gain or loss to be recognized through other consolidated income in the year of occurrence to reduce volatility. The amended standard requires immediate recognition of effects of any plan amendments. Further it also requires assets in profit or loss to be restricted to government bond yields or corporate bond yields, considered for valuation of Projected Benefit

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Obligation, irrespective of actual portfolio allocations. The actual return from the portfolio in excess of or less than such yields is recognized through other consolidated income.

These amendments enhance the disclosure requirements for defined benefit plans by requiring information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

The amendments need to be adopted retrospectively. The Fund is required to adopt IAS 19 (Amended) by accounting year commencing 1 January 2013. The Fund is currently evaluating the requirements of IAS 19 (Amended) and has not yet determined the impact on the financial statements.

In December, 2011, the IASB issued an amendment to IFRS 7 "Disclosures – offsetting financial assets and financial liabilities". The amended standard requires additional disclosures where financial assets and financial liabilities are offset in the balance sheet. These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRSs and U.S. GAAP. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

In December, 2011, the IASB issued an amendment to IAS 32 "Offsetting financial assets and financial liabilities". The purpose of the amendment is to clarify some of the requirements for offsetting financial assets and financial liabilities on the statements of financial position. This includes clarifying the meaning of "currently has a legally enforceable right to set-off" and also the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective retrospectively for fiscal years beginning on or after January 1, 2014. Earlier application is permitted. The Fund is evaluating the impact these amendments will have on the Fund's financial statements.

Annual Improvements 2009-2011 Cycle

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The annual improvements 2009-2011 cycle are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt these standard / amendments early and the extent of impact has not yet been determined.

IAS 1 'Presentation of Financial statements' to clarify that only one comparative period- which is the preceding period – is required for complete set of financial statements. Additional comparative information may be presented provided such information should be accompanied by related notes and should be in accordance with IFRS. Further, IAS 1 clarifies that the presentation of an opening statement of financial position is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification provided such a retrospective application, retrospective restatement or the reclassification has a material effect upon the information in the opening statement of financial position.

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4. Determination of fair values

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The fair values of cash equivalents including short term deposits, investments and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

The fair value of cash and cash equivalents, investments and other receivables are not materially different from the carrying amounts due to short term maturities of these instruments.

The carrying value of investments is reported in Note 23.

5. Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. Risk management is carried out by the top management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fund's overall risk management program focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to The Board of Directors.

(a) Credit risk
The Fund treasury policy focuses on security of cash and cash equivalents. Investments are allowed only in liquid securities and only with counterparties that have a high credit rating.

The Fund held cash and cash equivalents and investments in fixed deposits of 184,474,668 (2011:173,370,873), which represents its maximum credit exposure on these assets. These are held in government authorized banks and there is no significant exposure

Details of investments in different countries:

Name of country	As at 31 December 2012	As at 31 December 2011
Nepal	154,726,967	147,401,283
India	29,441,743	25,969,184
Bhutan	305,958	405

(b) Liquidity risk
The Fund's objective is to strike a balance between funding continuity and flexibility by maintaining sufficient funds as cash in hand or as on-demand or short-term deposits with maturities of three months or less to meet short-term liabilities. There are no non-derivative financial liabilities at the end of reporting period. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund uses activity-based costing, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Fund regularly monitors its liquidity to keep it at adequate levels, with periodic reports to the chief operating decision maker.

(c) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk
Exposure to fluctuations in foreign currency exchange rates arises from transactions denominated in currencies other than the Fund's functional currency, which is the USD.

The Fund held cash and cash equivalents and investment in fixed deposits amounting to SDR 184,474,668 (2011:173,370,873)

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(ii) Interest Rate Risk

The investment portfolio is exposed to market risk due to interest rate movements. The interest rate risk is reduced by limiting the duration of the portfolio to a weighted average of 0-2 years and investment in fixed rate instruments.

6. Capital management

By its nature, the Fund does not have "capital", rather it views the reserves as a proxy for capital in terms of International Accounting Standard ("IAS") 1. The target and position of the various reserves are indicated in the Statement of changes in capital contribution and reserves for the year ended 31 December 2012.

The overall objective of investments is to protect and preserve the Fund's ability to fulfil its commitments to ensure availability of cash for the discharge of its mandate. Therefore the primary principles governing investments are security, liquidity and yield, in order of importance.

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7. Property, plant and equipments *

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Under construction	Total
Historical cost								
1 January 2012	47,371	23,839	13,558	10,601	13,100	60,875	-	169,344
Additions during the year	-	7,312	694	8,308	3,623	928	-	20,865
Currency translation adjustments	(51)	(36)	(16)	(23)	(19)	(67)	-	(212)
31 December 2012	47,320	31,115	14,236	18,886	16,704	61,736	-	189,997
Accumulated depreciation								
1 January 2012	12,752	2,736	3,146	1,993	2,738	3,211	-	26,575
Depreciation charge for the year	7,899	2,669	2,334	2,283	2,228	10,199	-	27,612
Currency translation adjustments	(25)	(7)	(7)	(5)	(6)	(17)	-	(67)
31 December 2012	20,626	5,397	5,473	4,271	4,960	13,393	-	54,120
Carrying amounts								
1 January 2012	34,619	21,103	10,412	8,608	10,362	57,664	-	142,768
31 December 2012	26,694	25,718	8,763	14,615	11,744	48,343	-	135,877

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Under construction **	Total
Historical cost								
1 January 2011	47,224	13,722	10,541	4,961	8,102	-	-	84,550
Additions during the year	-	9,778	2,897	5,459	4,827	59,087	-	82,048
Adjustments	-	-	-	-	-	-	-	-
Currency translation adjustments	147	339	120	181	171	1,788	-	2,746
31 December 2011	47,371	23,839	13,558	10,601	13,100	60,875	-	169,344

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Accumulated depreciation								
1 January 2011	4,840	940	1,156	600	981	-	-	8,517
Depreciation charge for the year	7,665	1,740	1,928	1,350	1,702	3,117	-	17,502
Currency translation adjustments	247	56	62	43	55	94	-	557
31 December 2011	12,752	2,736	3,146	1,993	2,738	3,211	-	26,576
Carrying amounts								
1 January 2011	42,384	12,782	9,385	4,361	7,121	-	-	76,033
31 December 2011	34,619	21,103	10,412	8,608	10,362	57,665	-	142,768

The Fund during the year ended 31 December 2009 and 31 December 2010 received certain fixed assets by way of contribution in kind from Royal Government of Bhutan, the details of which are as under:

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Under construction	Total
Historical cost								
1 January 2012	47,371	12,702	7,509	4,068	8,127	-	-	79,777
Additions during the year	-	-	-	-	-	-	-	-
Currency translation adjustments	(51)	(13)	(8)	(4)	(9)	-	-	(85)
31 December 2012	47,320	12,689	7,501	4,064	8,118	-	-	79,692
Accumulated depreciation								
1 January 2012	12,752	2,160	2,266	1,250	2,340	-	-	20,768
Depreciation charge for the year	7,899	1,271	1,252	678	1,355	-	-	12,455
Currency translation adjustments	(25)	(4)	(5)	(2)	(5)	-	-	(41)
31 December 2012	20,626	3,427	3,513	1,926	3,690	-	-	33,182

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Carrying amounts								
1 January 2012	34,619	10,542	5,243	2,818	5,787	-	-	59,009
31 December 2012	26,694	9,262	3,988	2,138	4,428	-	-	46,510

	Vehicles	Furnitures	Office equipments	Computers and peripherals	Leasehold improvements	Servers and networking equipments	Under construction	Total
Historical cost								
1 January 2011	47,224	12,663	7,486	4,055	8,102	-	-	79,530
Additions during the year	-	-	-	-	-	-	-	-
Currency translation adjustments	147	39	23	13	25	-	-	247
31 December 2011	47,371	12,702	7,509	4,068	8,127	-	-	79,777
Accumulated depreciation								
1 January 2011	4,840	887	1,011	570	982	-	-	8,290
Depreciation charge for the year	7,665	1,233	1,215	658	1,315	-	-	12,086
Currency translation adjustments	247	40	40	22	43	-	-	392
31 December 2011	12,752	2,160	2,266	1,250	2,340	-	-	20,768
Carrying amounts								
1 January 2010	42,384	11,776	6,475	3,485	7,120	-	-	71,240
31 December 2010	34,619	10,542	5,243	2,818	5,787	-	-	59,009

During the year ended 31 December 2010, supply and installation of servers and networking equipments, accessories and related services was under construction for which an advance of SDR 12,686 was given upto 31 December 2010 . The same was capitalized in the year 2011.

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8. Intangible assets

	Acquired software	Total
Historical cost		
1 January 2012	35,343	35,343
Additions during the year	-	-
Currency translation adjustments	(38)	(38)
31 December 2012	35,305	35,305
Accumulated depreciation		
1 January 2012	282	282
Depreciation charge for the year	5,894	5,894
Currency translation adjustments	(8)	(8)
31 December 2012	6,168	6,168
Carrying amounts		
1 January 2012	35,061	35,061
31 December 2012	29,137	29,137

	Acquired software	Total
Historical cost		
1 January 2011	-	-
Additions during the year	34,305	34,305
Capitalised during the year	-	-
Currency translation adjustments	1,038	1,038
31 December 2011	35,343	35,343
Accumulated depreciation		
1 January 2011	-	-
Depreciation charge for the year	274	274
Currency translation adjustments	8	8
31 December 2011	282	282
Carrying amounts		
1 January 2011	-	-
31 December 2011	35,061	35,061

During the year ended 31 December 2010, development of office information technology solutions for office automation was under construction for which an advance of SDR 12,267 was given upto 31 December 2010. The same was capitalized in the year 2011

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9. Investments

	As at 31 December 2012	As at 31 December 2011
Fixed deposits with maturity after twelve months of the reporting date	88,026,904	52,023,304
	88,026,904	52,023,304

10. Cash and cash equivalents

	As at 31 December 2012	As at 31 December 2011
Cash at bank	786,162	934,855
Cash in hand	514	39
	786,676	934,894

The deposits maintained by the Fund with banks comprise of time deposits, which can be withdrawn by the Fund at any point without prior notice or penalty on the principal.

11. Investments

	As at 31 December 2012	As at 31 December 2011
Fixed deposits with original maturity of more than three months but due to mature in twelve months of the reporting date	90,465,967	118,551,668
Interest accrued on deposits	5,195,121	1,861,007
	95,661,088	120,412,675

12. Other receivables

	As at 31 December 2012	As at 31 December 2011
Advance to vendors	3,751	5,022
Staff advance	490	575
	4,241	5,597

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13. Unrestricted and restricted reserves

	Unrestricted Reserves				Restricted reserve	
	Contribution from member states *	Voluntary contribution received from Republic of India **	Voluntary contribution received from Republic of China	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for fixed assets	Total contribution
Opening balance	82,962,750	57,659,626	194,801	4,607,039	71,240	145,495,456
Addition made during the year	-	-	-	22,523	-	22,523
Islamic Republic of Afghanistan	3,812,835	-	-	-	-	3,812,835
People's Republic of Bangladesh	3,762,672	-	-	-	-	3,762,672
Republic of Maldives	1,907,488	-	-	-	-	1,907,488
Federal Democratic Republic of Nepal	8,088,982	-	-	-	-	8,088,982
Democratic Socialist Republic of Sri Lanka	4,022,515	-	-	-	-	4,022,515
Less: Allocated to the other expenditure to the extent of related grant disbursed	-	(2,918,605)	-	-	-	(2,918,605)
Less: Depreciation on such assets charged to statement of compressive income	-	-	-	-	(12,086)	(12,086)
Add: Currency translation adjustments	1,085,162	94,725	605	15,267	(146)	1,195,613
As at 31 December 2011	105,642,404	54,835,746	195,406	4,644,829	59,008	165,377,393
Non-current	105,642,404	54,835,746	195,406	4,644,829	46,556	165,364,941
current	-	-	-	-	12,452	12,452
	105,642,404	54,835,746	195,406	4,644,829	59,008	165,377,393

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				Unrestricted Reserves	Restricted reserve	
	Paid up capital contribution *	Voluntary contribution received from Republic of India **	Voluntary contribution received from Republic of China	Funds received on cessation of South Asian Development Fund ("SADF") ***	Contribution in kind for fixed assets	Total contribution
Opening balance	105,642,404	54,835,746	195,406	4,644,829	59,008	165,377,393
Addition made during the year	-	-	195,464	-	-	195,464
Islamic Republic of Afghanistan	1,927,992	-	-	-	-	1,927,992
People's Republic of Bangladesh	3,844,457	-	-	-	-	3,844,457
Kingdom of Bhutan	1,986,417	-	-	-	-	1,986,417
Less: Allocated to the other expenditure to the extent of related grant disbursed	-	(1,582,391)	-	-	-	(1,582,391)
Less: Depreciation on such assets charged to statement of compressive income	-	-	-	-	(12,455)	(12,455)
Add: Currency translation adjustments	(172,650)	(56,816)	(478)	(28,453)	(44)	(258,441)
As at 31 December 2012	113,228,620	53,196,539	390,392	4,616,376	46,508	171,478,435
Non-current	113,228,620	53,196,539	390,392	4,616,376	34,069	171,465,995
current	-	-	-	-	12,439	12,439
	113,228,620	53,196,539	390,392	4,616,376	46,508	171,478,435

***Contribution from member states:**

Authorized capital contribution

The initial authorized capital of the Fund shall be SDR One Thousand Million, to be divided into callable capital and paid up capital.

Initial paid up capital contribution

The initial paid up capital of the Fund shall be SDR Two Hundred Million. The capital will be subscribed by the Member States in accordance with the below table. Future contributions to the capital will be raised as per decision of the Governing Council.

Member state	Amount
Islamic Republic of Afghanistan	10,000,000
People's Republic of Bangladesh	21,440,000
Kingdom of Bhutan	10,000,000
Republic of India	60,640,000
Republic of Maldives	10,000,000
Federal Democratic Republic of Nepal	21,440,000
Islamic Republic of Pakistan	45,040,000
Democratic Socialist Republic of Sri Lanka	21,440,000
Total	200,000,000

Subscriptions by each member state to the paid up capital of the Fund shall be made in five equal incitements. The first installment shall be due within one month of entry into force of the SAARC Development Fund ("SDF") Charter.

The payment of subscriptions to paid up capital shall be made:
(a) Seventy percent in convertible currency; and
(b) Thirty percent in the currency of the contributing Member State.

The liability of the contributors shall be limited to the unpaid portion of their contributions. No contributor shall be liable for obligations of the Fund.

** As informed by the management, in the fourth inter- governmental meeting of South Asian Association for Regional Cooperation, Nepal, held on 6 -7 March 2008 at Lahore, it has been decided that voluntary contribution from India has to be used for the "Social window" as defined in the Fund charter for funding regional/sub-regional projects within the SAARC countries, but outside of India.

*** As informed by the management and adopted by the Board of Directors in their meeting held on 30 November 2010 and 1 December 2010, funds received on cessation of SADF has to be used for the "Economic window" as defined in the Fund charter.

14. Provisions

	As at 31 December 2012	As at 31 December 2011
Provision for gratuity		
Opening balance	515	39
Provision made during the year	896	476
Provision used during the year	-	-
Provision reversed during the year	-	-
Closing balance	1,411	515

15. Accounts payable

	As at 31 December 2012	As at 31 December 2011

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Creditors for fixed assets	2,734	32,228
Sundry creditors	40,405	13,143
Salary payable	2,103	858
Statutory dues	133	-
	45,375	46,229

16. Other income

	For the year ended 31 December 2012	For the year ended 31 December 2011
Transferred from restrictive reserve against property, plant and equipment	12,456	12,086
	12,456	12,086

17. Finance income

	For the year ended 31 December 2012	For the year ended 31 December 2011
Interest income on fixed deposits	5,305,990	3,110,536
Interest income on idle funds with implementing agencies	169,243	226,103
	5,475,233	3,336,639

18. Employee benefit expenses

	For the year ended 31 December 2012	For the year ended 31 December 2011
Salaries and other benefits	227,757	176,402
Contribution to provident fund	1,891	164
Staff-welfare expenses	680	1,046
	230,328	177,612

19. General expenditure

	For the year ended 31 December 2012	For the year ended 31 December 2011
Staff recruitment expenses	491	38,685
Rent *	29,406	32,476
Travelling and conveyance	47,977	31,394
Advertisement expenses	1,177	3,087
Meeting expenses	14,698	9,797
Printing and stationary	8,346	8,275
Communication expenses	7,734	5,822
Vehicle running and maintenance expenses	3,198	3,239
Electricity charges	1,540	805
Repair and maintenance expenses	1,520	1,566

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Books and periodicals	1,459	445
Security expenses	1,796	-
Legal and professional expenses	10,000	3,384
Training expenses	27,803	2,894
Miscellaneous expenses	5,071	2,041
	162,216	143,910

Royal Government of Bhutan has given office premises to SDF without any charge and the same is considered as contribution in kind from the Royal Government of Bhutan

	For the year ended 31 December 2012	For the year ended 31 December 2011
Rent	29,406	32,476
	29,406	32,476

20. *Defined contribution plans*

An amount of SDR 1,891 (Previous year SDR 164) for the year has been recognized as an expense in respect of the Fund's contributions towards Provident Fund, which is deposited with the government authorities and has been included under employee benefits expense in the Statement of Consolidated Income.

Defined benefit plan

The Fund's gratuity scheme is a defined benefit plan. Gratuity is paid as a lump sum amount to employees at retirement or termination of employment at an amount based on the respective employee's eligible salaries and the years of employment with the Fund. The following table sets out the disclosure in respect of the defined benefit plan:

	As at 31 December	
	2012	2011
Present value of unfunded obligations	1,411	515
Total	**1,411**	**515**

Movement in the present value of the defined benefit obligation

	As at 31 December	
	2012	2011
Present value of obligation as at the beginning of the period	515	39
Interest cost	41	3
Current service cost	855	473
Benefits paid	-	-
Actuarial (gain)/loss on obligation	-	-
Present value of obligation as at the end of period	**1,411**	**515**

Expense recognized in profit or loss

For the year ended 31 December

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	2012	2011
Current service cost	855	473
Interest cost	41	3
Net actuarial (gain)/ loss recognized in the period	-	-
Total	**896**	**476**

The expense is recognized in employee benefit expenses in the statements of consolidated income.

Actuarial assumptions

Principal actuarial assumptions are given below:

a) Economic Assumptions

	As at 31 December	
	2011	**2011**
Discounting Rate	8.00	8.00
Future salary Increase	5.50	5.50

b) Demographic Assumption

Retirement Age (Years)	60	60
	Withdrawal Rate (%)	**Withdrawal Rate (%)**
Up to 30 Years	3.00	3.00
From 31 to 44 years	2.00	2.00
Above 44 years	1.00	1.00

Assumptions regarding future mortality rates are based on IALM (2006 - 08).

The actuarial valuation is carried out yearly by an independent actuary. The discount rate used for determining the present value of obligation under the defined benefit plan is determined by reference to market yields at the end of the reporting period on Government Bonds. The currency and the term of the government bonds is consistent with the currency and term of the defined benefit obligation.

The salary growth rate takes into account inflation, seniority, promotion and other relevant factors on long-term basis

21. Related parties

For the purpose of financial statements, parties are considered to related to the Fund, if the Fund has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

a. Name and relationship of related parties:

Related parties and nature of related party relationships:

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Nature of relationship	Name of related parties	Relationship
Key management personnel	Mr. Karma	CEO
Relative of Key management personnel	Mrs. Pemzam	Wife of CEO

b. Details of transactions during the year:

(i) **Key managerial person**

Particulars		For the year ended 31 December 2012	For the year ended 31 December 2011
Salaries and other benefits	*	61,721	56,453

* excluding the amount of house rent allowance as mentioned below, which is paid directly to the relative of key managerial person.

(ii) **Relative of Key managerial person**

Particulars	For the year ended 31 December 2012	For the year ended 31 December 2011
Other benefits	7,037	6,810

c. Balance outstanding at the end of the reporting Period:

(i) **Key managerial person**

Particulars	As at 31 December 2012	As at 31 December 2011
Salaries and other benefits *	459	383

22. Operating leases

The Fund incurred operating lease charges of 29,406 (previous year 32,476). There are no non-cancellable leases entered into by the Fund and accordingly no disclosure in respect of future lease rental payable has been made.

23. Financial instruments

Credit risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As at 31 December 2012	As at 31 December 2011
Cash and cash equivalents	786,676	934,894
Investments (current)	95,661,088	120,412,675

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Investments (non-current)	88,026,904	52,023,304
Other receivables	4,241	5,597
Total	**184,478,909**	**173,376,470**

Liquidity risk

The following are the contractual maturities of non derivative financial liabilities as of the reporting dates.

As at 31 December 2012	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	45,375	45,375	45,375

As at 31 December 2011	Carrying amount	Less than 1 year	Total
Current			
Accounts payable and others	46,229	46,229	46,229

Interest rate risk

Profile

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

	As at 31 December 2012	As at 31 December 2011
Fixed rate instruments		
Financial assets		
Cash and cash equivalents	786,676	934,894
Investments (current)	95,661,088	120,412,675
Investments (non-current)	88,026,904	52,023,304
	184,474,668	**173,370,873**

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Fair values versus carrying amounts

	As at 31 December 2012		As at 31 December 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at amortized cost				
Cash and cash equivalents	786,676	786,676	934,894	934,894
Investments (current)	95,661,088	95,661,088	120,412,675	120,412,675
Investments (non-current)	88,026,904	88,026,904	52,023,304	52,023,304
Other receivables	4,241	4,241	5,597	5,597
	184,478,909	**184,478,909**	**173,376,470**	**173,376,470**

24. Contractual commitments

The fund has approved the following project as per its charter as at 31 December 2012:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2011	Amount disbursed/ expensed in the year ended 31 December 2012	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,848,444	7,003,362	-	1,845,082
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,785,304	1,593,818	38,198	8,153,288
Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries	2,199,809*	1,101,025	211,587	887,197
Empowering Rural Communities "Reaching the Unreached" (CeCs)	5,165,093	526,522	1,077,776	3,560,795
South Asia Initiative to End Violence Against Children (SAIEVAC)	1,691,695	-	238,991	1,452,704
Post Harvest Management and Value Addition of fruits in Production Catchments in SAARC Countries	3,239,645	5,150	15,839	3,218,656
Uniform Toll Free Helpline for Children and Women	**	9,199	-	**
Total	**30,929,990**	**10,239,076**	**1,582,391**	**19,117,722**

budgeted have been computed in SDR using the closing rate as at 31 December 2012

* the Board of directors in their 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan vide their decision number 16 instructed the CEO to restructure the project budget by

making modifications to the rate of certain supplies. The fund on such instructions re-formulated the approved budget to 2,199,809 from 2,797,636.

** the "Uniform Toll Free Helpline for Children and Women" project was approved in principal by the Board in 13th board meeting held from July 25-27, 2012 at Thimphu, Bhutan. However, the Budget was not approved and the expenditure incurred in initial meetings of the project was not charged to the Statement of consolidated Income and was shown as a utilization of voluntary grant from India.

The fund has approved the following project as per its charter as at 31 December 2011:

Project Name	Amount approved/ granted #	Amount disbursed/ expensed till 31 December 2010	Amount disbursed/ expensed in the year ended 31 December 2011	Balance committed amount
Strengthening the livelihood initiative for home based workers in SAARC Region (SABAH Project)	8,857,977	7,003,186	176	1,854,615
Maternal & Child Health Project (MCH) for strengthening Maternal and Child Health Including Immunization	9,795,847	309,639	1,284,179	8,202,029
Scaling up of Zero Energy Cold Storage (ZECS) technology for the horticultural commodities in the high hills of SAARC countries	2,800,650*	7646	1,093,379	1,699,625
Empowering Rural Communities "Reaching the Unreached" (CeCs)	5,170,658	-	526,522	4,644,136
Post Harvest Management and Value Addition of fruits in Production Catchments in SAARC Countries	3,243,135	-	5,150	3,237,985
Uniform Toll Free Helpline for Children and Women	**	-	9,199	**
Total	**29,868,267**	**7,320,471**	**2,918,605**	**19,638,390**

budgeted have been computed in SDR using the closing rate as at 31 December 2011

* subsequent to the year end, the Board of directors in their 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan vide their decision number 16 instructed the CEO to restructure the project budget by making modifications to the rate of certain supplies. The fund on such instructions

re-formulated the approved budget to SDR 2,202180.

** The "Uniform Toll Free Helpline for Children and Women" project was approved in principal by the Board in 13th board meeting held from 25 July 2012 to 27 July 2012 at Thimphu, Bhutan. However, the Budget was not approved and the expenditure incurred in initial meetings of the project was not charged to the Statement of Consolidated Income and was shown as a utilization of Voluntary grant from India.

25. The fund has not received the following annual committed contribution from the following member countries as at 31 December 2012:

Name of contributor	Short contribution as at 31 December 2011	Short contribution for the year ended 31 December 2012	Total
Islamic Republic of Afghanistan	4,187,165	72,008	4,259,173
People's Republic of Bangladesh	8,913,381	443,542	9,356,923
Kingdom of Bhutan	4,066,706	13,583	4,080,289
Republic of India	-	2,215,542	2,215,542
Republic of Maldives	4,083,921	2,000,000	6,083,921
Federal Democratic Republic of Nepal	4,863,930	4,288,000	9,151,930
Islamic Republic of Pakistan	29,744,473	9,008,000	38,752,473
Democratic Socialist Republic of Sri Lanka	8,927,961	4,288,000	13,215,961
Total	**64,787,537**	**22,328,675**	**87,116,212**

The fund is making efforts to receive these monies from the member countries in due course.

26. As required under project financing agreement interest income on idle funds lying with projects (mentioned in note 24 above) is accounted in these financial statements on the basis of amount calculated by the respective project Lead Implementing Agency/Implementing agency.

27. Subsequent events

There were no such events after the balance sheet date which represents unusual changes affecting the existence or substratum of the Fund at the balance sheet date.

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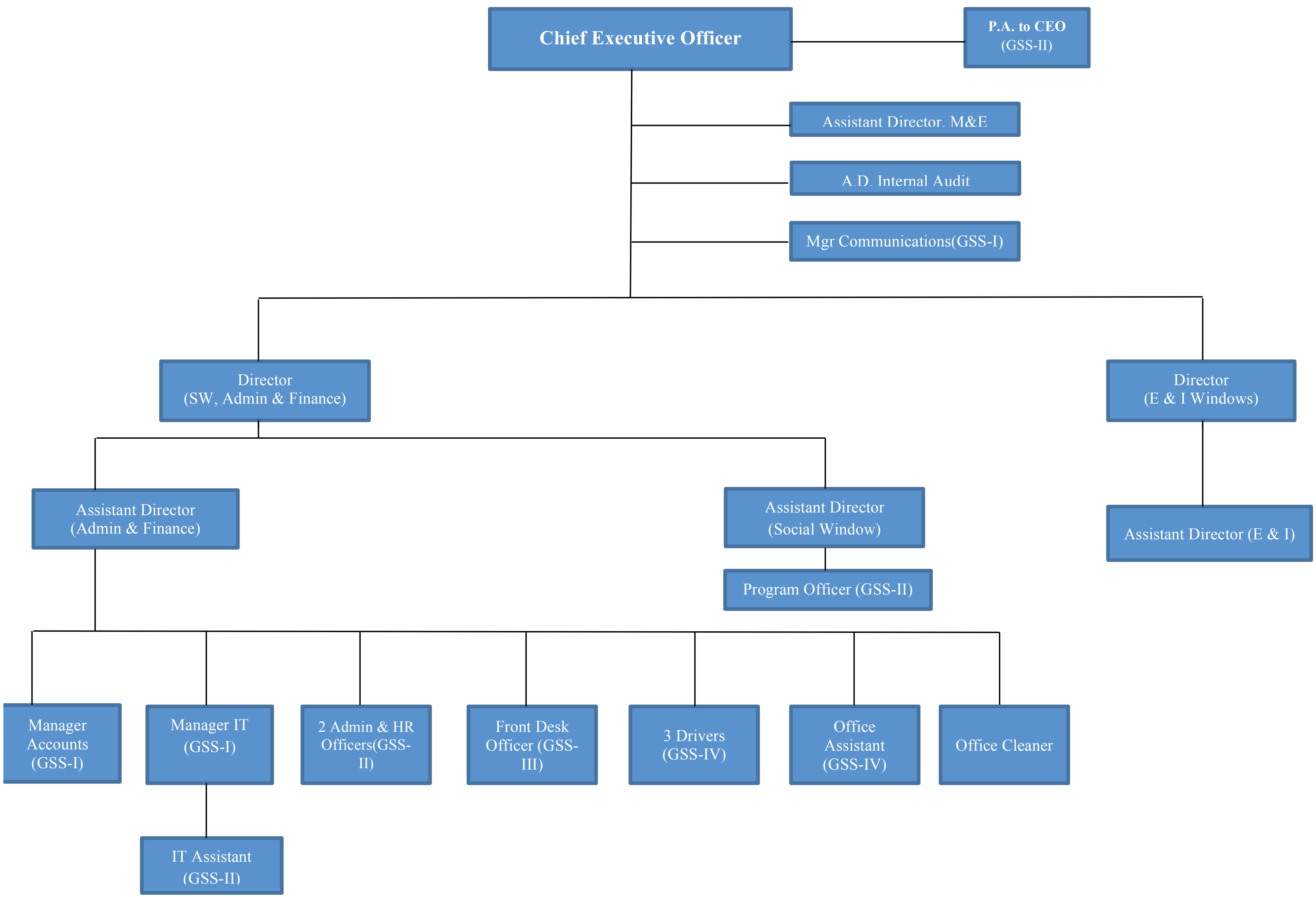
ANNEXURES

Annexure A: SDF ORGANOGRAM



Annexure B: CONTACT SDF

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