

Sundar and Company
Chartered Accountants

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Auditors Report for the Shareholders of
NEPAL DEVELOPMENT BANK LIMITED

1. We have completed the audit of balance sheet as on Asadh end 2062, and the profit and loss accounts and cash flow statement of the FY 2061/62 ending on the above date of Nepal Development Bank Limited. Liability of the financial descriptions remains with the management. Our responsibility is to give our opinion on basis of auditing on those financial statements prepared by the bank.
2. Audit has been done on the basis of the generally accepted principles of auditing and the directions issued by Nepal Rastra Bank. In order to be confident that the financial statements and precisely free of errors, an audit plans has to be prepared and auditing has to be done accordingly. Proof of surprise/cross checking too is included to prove the financial statements and other disclosed description. Principles of accounting followed by the bank, important assumptions of the management and evaluation of the overall conditions of the financial statement presentation are also included in the auditing. We are confident that the audit will give adequate base for our opinion.
3. Thus investigating the financial statements, we report as follows:
 - a. We received reply on information and queries felt necessary to be raised during the process of auditing.
 - b. In our opinion, presented financial statement tallies with the accounts maintained by the bank and they have been prepared complying with popular Acts and practice.
 - c. In our opinion, statements received from the bank's branches are adequate for auditing.
 - d. In our opinion and the information received from the management, under the accounting policy and comments related to explanation and financial statements (index 20 and 21):

It has not

come to our notice that the board of directors, any director of employee has not deliberately worked against the legal provisions of accounting or has caused loss to the bank or done anything fraudulent to the banks funds nor have they breached the directives of the Nepal Rastra Bank and worked against the interest and security of the depositors.
 - e. Since the capital fund of the bank is loan based, the capital fund is not sufficient. (Accounting comment No. 5.2)

- f. In our opinion, the bank has made sufficient loan provision and from the investigation of the accounts we have found that the bank's operation is within its rights.(except under conditions described in accounting comments No. 5.2)
4. In our opinion and from whatever we gather on the basis of information and explanation, after studying the attached financial statement and the comments in it,
- a. The balance sheet depicts the economic state of the bank as on Asadh 31, 2062 (July 15, 2005)
 - b. The profit and loss accounts and the cash flow statement represents the correct and exact picture of the operation result (except under conditions described in accounting comments Nos. 5.2 and 5.4)and cash flow of the year ended on above date

Sundar Man Shrestha F.C.A
Chartered Accountant
For: Sundar and Company

Dated: 2062/08/14

NEPAL DEVELOPMENT BANK LIMITED
Accounts Policy and Notes to Account related to Accounts
Fiscal Year 2061/062

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The main accounts policy followed by the bank are as follows:

Bases of the accounts

- The directive of the Nepal Rastra Bank has been referred as base for preparing the details presented herein.
- Apart from the financial details described otherwise, it is prepared on Historical cost basis.
- Apart from the financial details described otherwise, it is prepared on Accrual basis.

1. Depreciation on Fixed Assets

- Fixed Assets is shown as per the concept of Historical Value
- Depreciation on Fixed assets is deducted in the diminishing rate process as per Income Tax Act, 2058.

2. Income Tax Provision

There is a policy of providing for tax as per the Income Tax Act.

3. Accounting of Investment

- Share investment made on non-indexed organizations and companies has been accounted and shown in real value and share investment made on indexed companies has been accounted and shown in the real value or market value, which ever lower.

- Matured interest on investments made on deposits and share bonds is accounted on Accrual basis.

4. Policy of Accounting Non Banking Assets.

- In the process of recovering loans, if the collaterals are not sold while auctioning the same, there is a provision for the bank to acquire the same under the prevailing rules and regulations. For this, the current market value of the collateral has to be maintained and acquisition has to be done in this value or the value of the equal to the principle and interest on the date prior to acquisition, whichever ever lower. If the market value of the collateral is lower than the principle and interest, the difference has to be accounted in the profit and loss accounts of the same fiscal year. The policy of selling such NBA within 5 years is followed.
- Complying with the direction of the Nepal Rastra Bank, there is a policy of categorizing and making provision for loss in prescribed percentage in the basis of year ending.

5. Accounting Policy of Assets that are not Capitalized

The bank has a policy of directly writing equipments and goods below the value of Rs. 5000/- as expenses without capitalizing them

6. Policy of Loan Loss Provision and Unrecoverable Loan Write Off

As per the direction of the Nepal Rastra Bank, there is a policy of categorizing total loans and advances and accordingly providing for loss provision. Loans are written off with the approval of the management committee.

7. Accounting Policy on Advance Payment received, Calls in Arrears and Forfeited Shares

There is no advance payment received, calls in arrears and forfeited but not re-issued shares in this bank.

8. Policy of indicating Income and Expenses in the Profit and Loss Accounts

- While giving interests on deposits accounts and taking interests on loans advances, it is calculated on the basis of 365 days a year.
- The bank has indicated the matured interest on loans and advances on cash basis. The interest recovered within one month of the ending of the fiscal year (Shrawan end) is indicated as income and un-recovered interest is accounted in the interest deferred accounts on the basis of the directive of the Nepal Rastra Bank.
- Interest incomes generated from loan advances and hire purchase loans allowed to the employees is calculated on cash basis.
- Employees leave and subsidy amount payments is accounted on cash basis
- Accounting process of Commission income
Commission received for issuing Bank Guarantee is accounted as income on cash basis in the year of the issuance.

9. Other Policies

- Stationeries Arrear

The amount for all types of stationeries and printed materials purchased by the bank is written as expenses on the basis of consumption in first in first out process and the remaining stock arrear is shown as assets.

- Preliminary, pre-operation and postponed expenses

There is a policy to proportionately write off the preliminary, pre-operation, share issuance and postponed expenses in 5 years. Accordingly, under preliminary, pre-operation and postponed expenses, Rs. 24,52,038/- is written off this year.

- General Reserve Fund

As per the prevailing Act provision, after providing for the employees bonus and income tax, amount equal to 20 percent of the net profit is transferred to general reserve fund.

- Presentation of Accounts description

Accounts description is presented in the format prescribed by Nepal Rastra Bank. Hence forth, the amounts till last year have been re- categorized.

- Conversion to zero

Figures in the accounts description is presented in the nearest rupee.

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Comments regarding the accounts are as follows:

1. There is pending accounts in the bank's branch accounts adjustment and arrear accounts adjustment.
2. Description of the flow, recovery, transfers to NBA and principle of written off loan and advances in this fiscal year.

Figures in thousands

Description	Last year	Total Flow	Total Recovery	Transfer to NBA	This year's write off	This year balance
Loan	1,53,28,01	3,45,03	31,23,17	38,71,95	2,56,08	84,21,84

3. Description of amount changed under each heads according to deposits liabilities throughout the year

Figures in thousands

S.No	Description	This year	Last year	Increase/decrease
1.	Fixed Deposit	1,44,15,82	1,59,73,47	(15,57,65)
2.	Saving Deposit	11,17,22	19,08,43	(7,11,21)
3.	Subsequent Deposit	-	-	-
4.	PF Deposit	67,39	55,08	12,31
5	Others	6,32,21	5,17,93	1,14,28
	Total	1,63,12,64	1,84,54,91	(21,42,27)

4. Description of expenses to be written off

Figures in thousands

S.No	Description	Amount
1.	Deferred expenses	3,77
2.	Computer software	4,62
3	Share issuance expenses	23,47
	Total	31,88

5.

5.1 Business has not exceeded the loan limitation stipulated by directive No. 7 of Nepal Rastra Bank

5.2 The capital fund of the bank is negative; hence the various ratios relating to capital fund specified by Nepal Rastra Bank (like limit of financial resources collection of directive No. 2, limit of loans and facilities per person of directive No. 5, limit of investment of directive Mo. 8) is also negative and looks incomparable with each other. Additional provision for loan loss has not been made in this condition.

5.3 No adjustment fund except for Rs 1 crore invested in one Co-operative Limited has been provided

5.4 As per the directive No. 8 of the Nepal Rastra Bank, a cent percent adjustment fund has to be maintained for the investment of Rs. 7.59 made in The Gorkha Hydro Power Pvt. Ltd. Since the directive provision is subsequent and the case relating to it is under consideration of the respected court, the management has decided not to provide for the investment adjustment fund.

6. Complying with the directions given by Nepal Rastra Bank last year during the approval process of this bank's annual financial report for publication, Rs 85,36,007/- is transferred to interest deferred accounts this year and is shown in the profit and loss distribution accounts.

7. Non - Banking Assets

7.1 In the year-end, there is a NBA worth 30,01,10 thousands acquired from 16 parties. A loss provision of Rs. 8,42,69 thousands is made on the same.

- 7.2 A loss of Rs. 93,08 thousands incurred this year in sale of NBA has been written in the profit and loss accounts.
A case regarding evaluated amount of Rs. 14,57 thousand of one party is under consideration of the respected court and is not accounted in the NBA.
8. Employee advance
Employee loan has been granted as per the bank's employee regulation/articles and is shown under other assets.
9. Under the unrecoverable loan write-off heading, loan and other receivable amount of Rs. 4,65,52 thousand is written off and Rs. 13,28,23 thousand is adjusted through interest deferred accounts, in the process of loan recovery in this fiscal year.
10. Loan loss Provision
The loan loss provision last year was Rs. 31,55,47 thousands whereas this year the amount is Rs. 7,96,67 thousands which has reduced by Rs. 23,58,80 thousands and is adjusted and shown in the others income.
11. The bank has not made any changes in the accounts policy.
12. As directed by the Internal Revenue Office after the Tax Assessment of the fiscal year 057/058, an additional Rs. 3.04 thousand income tax is adjusted and shown in the accumulated profit and loss accounts of last year.
13. There is no advance payment received, calls in arrears and forfeited but not re-issued shares.
14. No shares that may generate any returns other than cash has been distributed.