

The net interest income of the bank increased from Rs. 20,55 thousand last year by Rs. 71,37 thousand (347 percent) this year amounting to Rs. 91,86 thousand. Compared to the office expenses of Rs. 3,25,02 thousand last year, the office expense this year has reduced by Rs. 24,34 thousand (7.49 percent) totaling to Rs. 3,00,68 thousand. As a result, the operating loss of this year is Rs. 3,93,45 thousand.

2. Profit and Loss Account Appropriation

The net loss of this year has been adjusted in the cumulative loss of last year. The cumulative loss seen in the balance sheet is mainly due to the adequate loss provision for loan & advances and NBA as per Nepal Rastra Bank's directives.

3. Non Banking Assets

Out of the NBA of last year worth Rs. 30,01,10 thousand NBA worth Rs. 18,62,26 thousand has been sold. As a result, the total NBA has reduced by 70.44 percent amounting to Rs 6,37,93 thousand. This is 4.72 percent of the total assets.

b. Effects of National or International circumstances, if any, on the bank

Though some improvements have been seen this year on the world economy compared to last year, no positive signs have been seen on the structure and condition of the country's economy due to political instability.

The gross domestic production of the country is expected to be limited to 2.3 percent increase in the FY 2005/06 (2062/63) like in FY 2004/05 (2061/62). Domestic product in the agriculture and non agriculture sectors is expected to increase by 1.7 percent and 2.8 percent respectively. This overall decline in the economy has reflected its impact in the industrial and commercial sectors also.

Remittance coming to the country from foreign employment has increased. Maximum liquidity in the banking sector has affected the internal loans interest rates. Decline in the economic growth rate, lack of opportunities for new investment, entry of new financial institutions, pressure in interest rates of loans are some reasons which have affected the banking business negatively.

c. Belief of the Board of Directors on the Achievements of the present FY 2063/64 as on date of preparing the report and the steps to be taken in the future:

1. Progress of the First Four Months of the present FY.

In the period of first four months of the present FY 2005/06 (2063/64) the total deposits of the bank has reached Rs.162 crores 55 lacs and 55 thousand and investment has reached Rs. 76 crores 30 lacs 4 thousand. In the process of diversifying the bank's income generating assets, main focus is being given on housing loans.

During the review period, as per underlined program and strategy and the regulation for Banks and Financial institutions, this bank has also been approved as "Kha" grade by the Nepal Rastra Bank and special focus is on extending the area of work. During the period of first four months of the FY, the bank has upgraded technical infrastructure and started operation of VISA debit card. Additionally, for the benefit of the customers, the bank has started operating its own ATMs, one at Kathmandu, near Tindhara Pathshala and the other at Pokhara, Amarsingh Chowk. The bank has established itself today as a bank that gives quality services to its customers by providing services like foreign exchange/traveler's cheque, remittance through Western Union Money Transfer, 365 days banking service, evening counter service till 7:30 PM etc.

By giving the customers more facilities and making new deposit schemes more market oriented and extensive, the bank has increased the total deposits from last year's stock of Rs. 153 crores 76 lacs 39 thousand to Rs. 162 crores 55 lacs 55 thousand, an increase of 5.72 percent. Of the total deposits, the volume of savings deposit has increased from 16.48 percent (Rs. 25 crores 33 lacs 69 thousand) to 19.52 percent (Rs. 31 crores 73 lacs 38 thousand). This will certainly contribute towards the bank's target of deposits diversification and low cost deposits.

The increase in deposits collection, recovery of big and non-performing loans and sales of NBA has increased the liquidity of the bank. In order to satisfactorily maintain credit deposit ratio, the bank has put special focus on increasing earning assets and increasing consumer loans by minimizing loan

risk involving tactics of diversification. The ratio of non-performing loan and total loan is maintained at 10.21 percent as on Asadh end 2063 (mid July 2006), the risk fund maintained as on above date is adequate in proportion of non - performing loan and the sale of NBA worth Rs. 18 crore 62 lacs 26 thousand in the review year has reduced the stock of NBA to Rs.6 crore 37 lacs 93 thousand (4.72 percent of total assets). All these are indicators of the bank's financial improvement. Likewise, in order to improve its capital fund and increase its paid up capital from Rs. 16 crores to 32 crores, the bank has received approval from Nepal Security Board to issue 1:1 right shares and the sales have started from 25 December 2006 (10 Poush, 2063) which has been informed to the shareholders through different media. I am confident of getting invaluable support from the shareholders to make the sale of right shares successful.

2. Bank' Future Programs and Strategy

Considering the policy and directives of Nepal Rastra Bank and the present economic condition of the country, the bank is always thriving and is committed to make its activities contemporary, progressive and customer oriented and prioritizing deposits diversification, minimize financial resource cost, increase loan recovery, sell of remaining NBA at the earliest, increase earning assets and improve its quality, increase interest income and increase activities based on non-funds income generation and improve the financial condition of the bank. Priority will be given to expand the scope of activities as grade "Kha" bank as per the Regulation for Banks and Financial Institutions. The banking software presently being used by the bank will be upgraded and business information system will be made contemporary and efficient. Modern physical infrastructure will be developed for providing electronic banking service and other customer oriented services will be provided.

For flow of resources, different saving schemes of the bank like premium saving, Dhanlaxmi recurring deposit, retirement saving, GRID will be made more effective and deposit will be increased. In order to extend more facilities to the customers, the bank will install ATMs in new strategic locations and extend VISA debit card facilities from them.

d. Company's Industrial or Business Relation:

The company's industrial and business relation is good.

e. Changes in the Board of Directors and its reasons:

Amendments were made in the bank's Articles of Association in the Seventh AGM. There is provision for 9 directors out of which 3 promoter (Private sector), 1 institutional promoter and 2 from general public shareholders will represent in the board. From the local Financial Institution, Mr. Omkaran Das has been representing since 17 February 2006 (2062/11/5) in place of Director Mr. Navin Pun. As per the regulation for Banks and Financial Institutions, 2063 and the article 8(2)(Ga) of the Articles of Association of the bank, Mr. Lavaraj Joshi has been appointed as Director as a professional specialist. Mr. M Chittaranjan Kumar has replaced Mr. H.S.G. Shetty as representative from IDBI since April 19, 2006.

I wish to express my thanks to Mr. Navin Pun and Mr. H.S.G. Shetty for rendering help as directors in the past.

f. Main Things Affecting the Business

Competition in the banking sector in the country, political instability and limitation in investment areas are showing direct effect in the bank's business.

g. Reaction of the Board of Directors on the Remarks of the Audit report if any:

No remarks from the Auditor.

h. Amount recommended for distribution of Dividends:

None

i. Number of confiscated shares if any shares have been confiscated, listed value of such shares, amount received by the company for the shares before they were confiscated, amount received by the company by selling the shares after confiscating them and amount returned for the confiscated shares if any:

None

- j. Last FY's Progress report of the Company and its Associate Companies and re-evaluation at the end of the FY:
Progress report of the business company has been described above. It has no associate companies.
- k. Major Business operated by the Company of its Associate Companies in the last FY and any major changes in the Company's Business during that period:
As facilities to customers, activities like VISA debit card and foreign exchange, Travelers Cheque purchase and sales have already started. One each ATM has been installed and is under operation in Kathmandu and Pokhara to provide 365 days banking service. Banking hour has been increased and Late Counter Service and 365 days banking services are being provided to customers.
- l. Information provided to the company by the basic shareholders of the company in the last FY:
No information received.
- m. Description of ownership of shares taken in the last FY by the Directors and Officers of the Bank and if they are involved in the share business of the Company, information received by the company from them on the same:
The Directors and Officers of the Bank are not involved in the share business of the bank.
- n. Information provided on any personal benefit of any Director or their close relatives in the agreements regarding the company in the last FY:
None.
- o. If the company has purchased its own share, reason for doing so, number of such shares and listed value and the amount paid by the company for purchasing such shares:
The Bank has not purchased its own share.
- p. Internal Control System exists or not, if yes detailed description of the same:

To make the internal control system effective, there is provision for internal audit system. In order to keep the accounts system of the bank updated and as per the guidelines of the Nepal Rastra Bank and other provisions of the Law, there is system of keeping the accounts and daily business regularized and systematic. This is expected to bring transparency in the accounts system of the bank.

- q. Details of total Management Expenses in the last FY.
In the last FY 2062/63 the expenses for 20 employees in the Management was Rs 99 lacs 46 thousand.
- r. Name list of members of the Audit Committee, their remuneration, allowance and facilities, details of jobs done by the Committee and details of any suggestions given by the Committee:
A director of this bank Mr. Lavaraj Joshi is the Chairman and Directors Mr. Manohar Prasad Sherchan and Mr. Omkar Das Shrestha are the members of the Audit Committee. Members of the Audit committee are given Rs. 3000/- as allowance for each meeting and the committee functions as per the directions of the Nepal Rastra Bank
- s. Any amount payable to the company by the Director, Managing Director, Chief Executive, basic shareholders of the company or their close relatives or Firms, Companies of Organized Institutions related with them.
No amount is payable.
- t. Amount of remuneration, allowance and facilities paid to Director, Managing Director, Chief Executive and Officials

S.No.	Particulars	Remuneration	Meeting Allowance
1	Chairman/Managing Director	Rs.39,00,000/- annual	Rs.3,500/- Per Meeting
2	Directors	(Refreshment, Telephone, Papers & Magazines, Transportation and other expenses) Rs.60,000/- per Director annually	Rs.3,000/- Per Meeting
3	General Manager	Rs.14,95,000/- annual	

- u. Dividend amount to be received by the shareholders:

None

v. Any other things to be disclosed in the Board of Director's report as per popular Acts:
None

w. Other Necessary Things:

1. Special Proposal

As provided by the Act for Bank and Financial Institution, 2063 and Company Act, 2063, I have presented special proposal to change the name of this Development Bank and capital increase amendments and the provisions of the same Acts, necessity of the bank and the directions of Nepal Rastra Bank, proposal on the changes made on the Memorandum of Association and the Articles of Association.

Lastly

I thank all shareholders, customers, Nepal Government, Ministry of Finance, Nepal Rastra Bank, Nepal Security Board, Nepal Stock Exchange Market Ltd, Company Registrar's Office and all related authorities and helping Banks and Financial Institutions who have directly or indirectly given suggestions and helped us in the operations of the bank

I also thank the bank management and employees who have been directly involved in the operation of the bank and hope to receive more active and innovative help from them in the future.

Thank you.

Uttam Pun
Chairman

Prithu Narsingh Rana
Director