

raising the bar

LAXMI
BANK
LIMITED

Annual Report 2004/2005

Orange is the color of joy and happiness; of spring, blooming in the sun. Orange makes us cheerful. Orange represents enthusiasm, creativity, determination, success and encouragement. Orange symbolizes strength and endurance.

It is the color of sociability, one that loves people and helping out. It stands for warmth and kindness. Orange loves family and friends and solving problems. Orange loves you. Orange is Laxmi Bank.

Come enrich your life with orange.



Laxmi Bank

Passion for Excellence

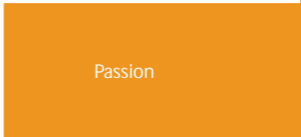
raising the bar

LAXMI
BANK
LIMITED

Annual Report 2004/2005

Content

About Us	p1
Products and Services	p4
Chairman's Statement	p12
Director's Report	p15
Corporate Governance	p23
CEOs Comments	p28
Financial Review	p30
Risk Management	p35
<hr/>	
Auditor's Certificate	p39
Balance Sheet	p40
Profit & Loss Account	p41
Schedules	p43
Significant Accounting Policies	p63
Notes to Account	p65
Comments Raised by NRB	p70
<hr/>	
Corporate Social Responsibility	p71
Merger Story	p75





Governance





Mohan Gopal Khetan
- Chairman

- Chairman, Khetan Group
- Honorary Consul General of Turkey



Gopi Krishna Sikaria
- Director

- Promoter, Mercantile Finance Co. Ltd.
- Director, Nepal Petroleum P. Ltd.
- Director, Everest Insurance Co. Ltd.



Madhu Sudan Agrawal
- Director

- Executive Director Sunrise Group
- Director, Everest Insurance Co. Ltd.
- Executive Member Nepal Chamber of Commerce
- Treasurer, Nepal China Chamber of Commerce & Industry



Chandra Prakash Khetan
- Director

- Managing Director Gorikha Brewery Pvt. Ltd.



Bishwa Nath Sharma
- Director
 (Representing Citizen Investment Trust)

- Senior Executive, Citizen Investment Trust



Board of Directors



Bhola B. Adhikary
- Director

(Representing Public Shareholders)

- Executive Chairman, East Nepal Development Endavor P.Ltd.



Rakesh Adukia
- Director

(Representing Public Shareholders)

- Managing Director Krishi Promaza Hong Kong
- Executive Director, Nepal Mentha Products P.Ltd.
- President, Nepal Herbs and Herbal Products Association
- Joint Secretary, Nepal Remittance Association
- Member National Council, Confederation of Nepalese Industries



Ratan Lal Sanghai
- Advisor

- Vice Chairman, Everest Insurance Co. Ltd.
- Engaged in garment, textile, plastic manufacturing



Narendra K. Basnyat
- Advisor

- Career bureaucrat – retired at a senior level at Ministry of Finance.
- Past President of Nepal USA Chamber of Commerce of Industry
- Vice President, Confederation of Nepalese Industries



Suman Joshi
- Chief Executive Officer

- Professional banker since 1989
- Board Member – Asian Bankers Association



Management

SUMAN JOSHI

Chief Executive Officer

BHUWANESHWAR P. SHAH

Company Secretary & Corporate Affairs Director

AJAYA B. SHAH

Head – Retail Financial Services

BHJIBALRAI

Head – Operation/Risk

JIWAN LIMBU

Head – Information Technology

NIRMAL DAHAL

Head – Credit Risk

MONICA MATHEMA

Head – Human Resources Management

SUMED BHATTARAI

Senior Relationship Manager

SUJIT SHAKYA

Manager Business Development

SANJEEV JOSHI

Manager Branches

RAKSHENDRA M. PATRABANSHI

Manager Finance & Treasury

SANTOSH NIRLAULA

Internal Auditor

BRANCH MANAGERS

AMIT S. KARKI

– Biralnagar

EUDEN KOIRALA

– Hattisar

DIPENDRA B. SINGH

– Pokhara

KSHITIJ KHADKA

– Dighurj

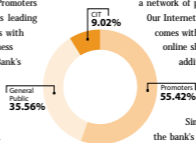
CHANDRA THAPA

– Banepa

About Us.

Bringing modern banking in Nepal to the next level, by "raising the bar" has been an endeavour of Laxmi Bank. Our efforts at setting standards in terms of corporate governance, professionalism, transparency & disclosure, service standards and financial discipline will continue.

Laxmi Bank has been incorporated in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment Trust holding 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal's leading business families with diversified business interests. The Bank's shares are listed and actively traded in the Nepalese Stock Exchange.



Laxmi Bank has grown with branches in Birgunj, Banepa, Pokhara and more recently Biratnagar. Following the merger with Hisef Finance Ltd., a decade old first generation finance company, its office in Hattisar, Kathmandu was converted to that of Laxmi Bank. This office was converted to a full branch and our corporate office in October 2005.

With a view to providing safe, seamless, quick and advance banking services, the bank has been heavily investing in contemporary banking technologies. The Bank uses Flexcube as its main banking platform. Flexcube incidentally has been ranked the number one selling core banking solution globally, and has been

embraced by over 500 financial institutions across over 90 countries. The Bank provides its services through a host of delivery channels including cell phone, Internet, ATM, Point of Sales (PoS) etc., in addition to a network of physical branches. Our Internet banking facility comes with capabilities of online shopping in addition to regular Internet banking features.

Similarly, through the bank's alliance with Smart Choice Technologies, the ATM/ Debit cardholder of Laxmi Bank has access to a network of ATMs and PoS terminals located in all major urban centers of the country. The bank is the first in South Asia to have implemented SWIFTnet, the advanced version of the SWIFT technology, which is used for speedy and secure payment and messaging services.

Under a professional management team, the bank has established itself as an emerging key player. Today the bank is recognized as an innovative and progressive bank geared to providing shareholders and customers with quality earnings and value-added services. Transparency, good governance, and sound business growth are the bank's driving forces.

Passion For Excellence

Our pursuit of excellence has led us to take several bold steps, sometimes to the extent of pursuing strategies or introducing initiatives, which no Nepali Bank has previously attempted. Our pioneering spirit has been received with tremendous encouragement, evident through awards like the "Best Presented Accounts".

Our Mission

We take great pride in the fact that our vision, mission and values are not the sole properties of our leadership. They belong to each and every staff. Our people identify with our business philosophy and have elected overwhelmingly to play their parts to make it a reality. Our mission thus goes as follows:

We are committed to excellence in delivery of entire gamut of financial services in order to achieve sound business growth and maximize stakeholder values by embracing team spirit, progressive technology and good corporate governance.

Our IT capabilities are arguably the best in Nepalese banking industry today. Products and services we offer are comprehensive in context of the markets we operate in, we have been recognized for transparency and good governance, we have built a solid foundation for sound business growth. But we are not done yet, we are only beginning to scratch the surface and we believe we can achieve much more and continue setting standards.



We Aim For Total Stakeholder Satisfaction

The main pillars of support for Laxmi Bank are its customers, shareholders and our employees. It is our mission to deliver quality banking and stakeholder satisfaction in the true meaning of the word. We fully grasp the ultimate importance of engaging more closely in customer relations at every level, ensuring satisfactory, sufficient profits and ploughing back the fruits of our business successes back to customers, the community, and shareholders.

Our values are built around high standards of corporate governance

Transparency, professionalism and high ethical tone at the leadership are pillars on which our actions are based. Laxmi Bank's "Code of Conduct" encapsulates international best practices applicable to Nepali context. The level of commitment of our people to take Laxmi Bank to greater heights has been a huge catalyst. The team spirit within the organization is something we are proud of.

Building a Strong Corporate Identity

Identity is formed by an organization's history, its beliefs and philosophy, the nature of its technology, its people, ethics, culture and strategies. We have made great efforts to build and protect the integrity and value of our brand in the marketplace and ensure that we do our nation proud as its most proficient representative of the financial community. We are gratified to note that our corporate reputation is fast becoming a key source of competitive advantage.



And Finally Our Vision

We have envisioned that we shall be/have:

- Provider of most integrated financial services
- Key player in consumer banking
- The best asset book
- Best IT capability
- Preferred employer in the financial sector

Over a period of time, Laxmi Bank foresees itself to be one of the leading banks in Nepal and eventually a niche player in the South Asian region. The bank expects to achieve its overall vision through the strength of its strong management pillars, which includes professionalism, team spirit,

customer focus, technology support, outward looking culture, good corporate governance, individual challenges and empowerment.

Strategy

At the bank's management conference 2005, we adopted Growth Thru Efficiency as our strategic theme for the year. The strategy is evolutionary, not revolutionary. It builds on the bank's strengths and it addresses the areas where further improvement is considered both desirable and attainable.

To improve profitability in future, the bank shall continue to improve its

customer services and product deliveries, thereby attracting sustainable low cost deposits, and improve fee based revenue streams. The bank also intends to increase its business volume through steady growth in risk assets, while maintaining its quality.

The bank shall continue focusing on quality, and not be too volume driven, given the current business environment in Nepal, which is not conducive for an aggressive growth. Laxmi Bank's activities and results thereof over last couple of years clearly indicate that the bank is not prepared to compromise on quality for short-term growth.

◆ Lady executives of Laxmi Bank

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Laxmi Bank. Statements that are not historical facts, including statements about Laxmi Bank's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible' and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, thus readers are cautioned that a number of factors could cause actual results to differ in some instances materially, from those stated due to changes in basic assumed conditions.

Products & Services.



Laxmi iBank

The Internet is increasingly playing crucial roles in service delivery. We are all witnesses to the emergence of Internet banks, which do not have physical office locations, and yet provide full range of banking services via remote access. At Laxmi Bank, we have built our internet presence which is slowly becoming our most versatile branch in terms of customer interaction and information dissemination. Further, we have created a framework to continually fine tune and upgrade our website to provide excellent service delivery and customer satisfaction.

Laxmi iBank, which is an upgrade of our earlier Internet Banking version - Laxmi Online, allows our customers to initiate transactions from the comfort of their offices and homes. Customers can perform account-to-account fund transfers, account to third party transfers, download account statement etc. SMS alerts, online requests, online account opening and initiation of letters of credit and bank guarantee are some of the features of Laxmi iBank - complete internet banking.

The introduction of Online Shopping has also gained momentum in the current year, with more and more customers purchasing goods online through our online partners. Online Bill Payment is yet another option on payment mechanism through the internet. The bank is also continuously educating the business circle for Online Payments to integrate online payments in their business processes (B2B) thereby improve their supply chain management, and also open up a whole new online customer segment.





sms@laxmibank

Having the bank at the palm of the consumer's hand has been yet another capability of the service delivery channels of Laxmi Bank. Customers of Laxmi Bank can access their real time account details through the SMS service of a mobile phone. Customers can make various enquiries and download statement etc, through the SMS features of the mobile phone services. Customers can also receive SMS alerts for all the financial transactions in their accounts and also for loan reminders. SMS alerts are received whenever the customer makes a transaction through cheques, ATMs, PoS or Internet fund transfers. WAP based mobile phone will further facilitate internet banking in the mobile phone.

Dhana Laxmi

Plastic money is gradually replacing paper based money, as online transactions are replacing cheques. Laxmi Bank's plastic money, also known as Dhana Laxmi Card, is in the form of Debit Cards and Stored Valued Cards. These cards operate under the network of Smart Choice Technologies, which provides network services to majority of banks in Nepal. Currently with a membership of over 13 financial institutions, the SCT network has access to over 50 ATMs and over 1000 PoS terminals within Nepal, and much more in India.

Loans

In order to accommodate diverse and unique individual requirements, Laxmi Bank offers tailor-made credit solutions with the comfort of a world-class technology platform - Flexcube. The bank has segregated loans into three categories: Corporate Loans, SME Loans and Consumer Loans. The bank's Relationship Managers are fully dedicated to assist loan customers on their requirements and provide them with the personalized solution.

The bank is fully committed to be a partner in its customer's growth and believes in creating a long-term mutually beneficial association, by providing a customized credit solution and quality services at the same time maintain its competitiveness of its interest rates.

The broad range of credit-related products available includes short term loans, term loans, bank guarantees, letter of credit, trade credit facilities, invoice discounting, loan syndications, auto loans, home loans and many other consumer loans. The bank also has a dedicated cell to cater to SME segment.

In the current year, Laxmi Bank also introduced few more loan products such as Travel Loans to finance holiday packages of approved tour operators, Margin Loans to purchase equity shares of promising companies, and also introduced financing of leased properties. A hybrid form of auto loan, Smart Auto Loan was also introduced that allows for lower monthly obligations to the borrowers than conventional EMI based loans.



Small Business Loan

The bank has a full-fledged cell to cater to the financing needs of small business enterprises. Laxmi Bank has always viewed the SME segment as a genuine and worthy sector to invest in. The bank has managed to develop a successful SME portfolio that is based on mutual and long term benefits to the bank and the entrepreneur. The bank has developed an in-house Credit Scoring Model that is based on experience and historical data. This scorecard helps in assessing risk of these small businesses in an objective manner that is both scientific and adds in the elements of human judgment.

Signature Loans

Signature series of loans are a pre-approved loan schemes to specific market segments based on a detailed understanding of the segments and its risk mitigants. These are instant loans provided across the table without the bank requiring detailed assessment of the individual. Signature Home Loans were introduced to provide home loan to purchase readymade houses and Signature Personal Loans were introduced to finance legitimate personal expenses.

Deposits

To keep pace with the growing needs of the customers and backed by a cutting edge global technology and superior customer service, Laxmi Bank provides various forms of deposit, with each category providing different interest rates applicable on a daily balance basis to monthly minimum balance basis. Value added services are also linked with various forms of deposit, which includes complementary services and entry to lottery schemes.

The bank accepts both interest bearing deposits such as savings account and fixed account and non-interest bearing accounts such as current account and margin account. Accounts can also be linked with each other through sweep in - sweep out facilities. The bank has endeavored to build its deposit base through the collection of savings account. **Laxmi Savings and Super Savings** are two major deposit products of the bank.

In the current year, the bank introduced "Samrakshan", a Junior Savings account. Samrakshan, has been introduced to cultivate savings habits amongst children and teens and provide a one stop place to deposit, access and grow their money. This simple, no fee account requires a minimal balance and introduces young people to the fundamentals of money management. The account features higher rate of return by way of attractive tier based interest rates, where the rate of interest increases on a daily basis, in proportion to the amount of deposits maintained in the account.

Services to the Armed Forces Personnel

The bank places special importance to the Nepalese Army and the Gurkha Servicemen serving in various countries. The bank strongly recognizes their contribution to world peace and thus has provided them with special incentives to take care of their financing. The bank has made special efforts to provide customized banking products and services to meet their requirements. In this regards, the bank introduced a hybrid savings account, wherein the bank provides interest on their savings, which increases on a daily basis, based on the level of deposits at the end of each day. Similarly, the bank has also introduced instant loan facilities to the soldiers and their families to meet their personal expenses.

Treasury

The bank's Treasury Division offers a full range of Risk Management and Cash Management products and provides effective treasury advisory services through information dissemination through SMS, newsletters and emails.

Remittances

Fund transfers can be made both locally and internationally in all major currencies, under the parameters of the regulations defined by the central bank. Our international network of correspondent banks facilitates the execution of all outward/inward remittances and their fast receipt by their respective beneficiaries. Being a member of Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.), the bank applies the SWIFT Net correspondence system for speedy, accurate, confidential and secure payment system.



Draft

Laxmi Bank has draft drawing arrangements with various banks in India and abroad. The bank currently provides drafts on ICICI Bank in India and Standard Chartered Bank, USA and American Express Bank, USA. Apart from demand drafts, the bank also provides SWIFT transfers, American Express Travelers' Cheques and Manager's Cheques.

Market Maker

Laxmi Bank holds a license to operate as a market maker for the issuance and purchase of government bonds for the fiscal year 2062/63. This approval entitles Laxmi Bank to buy and sell these bonds through the primary and secondary market.

Payroll Management

The bank's Payroll Management entails managing and disbursing salaries of the employees of various organizations. This service requires an organization to send the salary details of its employees to the bank and the bank immediately credits the respective employee's account. The services come with a host of premium benefits to the employees of these organizations.

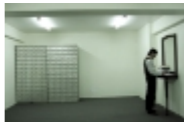
Further, ePayroll, the online version of Payroll Management provides comprehensive web based Salary Management service that allows the companies to manage payroll functions via the Internet. With just a few clicks, the organization can directly deposit funds in their employee's accounts.

CIT Employee Savings Growth Fund

Citizen Investment Trust is one of the major government authorized agencies to accept employee provident/retirement fund from employees of various organizations. Monthly contribution to this fund entitles salary-earning employees with certain tax rebates. CIT has appointed Laxmi Bank to accept these deposits on behalf of their customers. CIT customers can directly deposit their provident/retirement fund in 'CIT Employee's Savings Growth Scheme Retirement Fund' accounts maintained in Laxmi Bank through any of its branches.

NRN Cell

The bank has a dedicated NRN cell to cater to the needs and requirement of the non-resident Nepali (NRN) and has customized its product to suit their needs. NRNs can open an account, transfer funds between accounts and constantly keep track of their funds through the online services of the bank.



Safe Deposit Locker

Laxmi Bank provides lockers of different sizes at few of its branches. Accesses to these safe deposit lockers are controlled and customers are provided high level of privacy and security of their possessions.



← Seminar on Laxmi Bank to management students of Apex College.

Financial Advisory

The bank provides its advices in management of the client's financial affairs and affairs related to foreign exchange. The bank also provides training to the client's staff in the field of banking and finance. The bank regularly conducts seminars to management students to create awareness of financial products and services.

Extended Banking

Customers of the bank can enjoy the flexibility of conducting banking transactions in the late afternoon/ evening hours as well. The bank credits the respective account on the transaction day, thus minimizing any possible interest loss to the customers, unlike other commercial banks. Presently, this service is available in select branches of the bank.

Laxmi Bank

N E W S L E T T E R

MONTHLY ECONOMIC AND BUSINESS UPDATE

Newsletter

Laxmi Bank produces and distributes monthly newsletters covering business and economic issues for the benefit of its patrons, customers and stakeholders. Our newsletter has been a trend-setter as a number of banks have followed suit to produce their own versions of newsletters. E-versions of our newsletters are available on our website.

Spark

Spark has been a natural progression to the very popular newsletter issued by Laxmi Bank. SPARK endeavors to bring in a touch of relaxed reading on 'business and lifestyle' issues, and also disseminate banking and finance related information to the reader. The magazine has been named SPARK to celebrate the spirit of entrepreneurship of Nepali businessmen and professionals.





Chairman's

Valued Shareholders,

On behalf of the Board of Directors, it is my privilege and honor to welcome you to the Fifth Annual General Meeting of your Bank. In the past one year, your Bank has been successful in pursuing the path of sound business growth. Despite unfavourable economic climate, you will note that the Bank has been able to achieve balanced growth on both sides of the Balance Sheet that has been driven by increase of deposit liabilities and risk assets. The growth in volumes has been guided by prudent risk management systems, which have ensured quality of the profits, which is of paramount importance to investors and stakeholders.

Statement.

I am pleased to confirm that our decision to merge with HISEF Finance Limited, the first merger in the Nepali banking history, is a success story that is evident from the results and the recognition by Nepal Rastra Bank, our primary regulator. Your Bank's initiative on practice of the highest level of corporate governance was recognized by ICAN (apex body of chartered accountants in Nepal) with the Best Presented Accounts for the year 2003-04 A.D. I may add that this was the first instance of a Nepali Bank being awarded with this prestigious honor. This is however only a milestone in our endeavors to set standards of corporate governance culture for others to follow.

During the current fiscal year, your Bank's Hattisar office has been upgraded to the status of our Corporate Office. We were also given permission to conduct full banking operations from our branch in Hattisar. Subsequently, we opened our fifth branch in the industrial city of Biratnagar. We now have points of representation in all major strategic commercial hubs of the country. We will continue on our path of strategic expansion of the branch network. Your Bank is geared to meet the challenges of the economic situation both at home and globally in addition to the growing competition within the banking sector. We believe that the investments we have made in building systems, policies, risk management practices, committed pool of human resources and

strong technological capabilities have created the platform for quantum growth in core banking business going forward provided the business and economic climate is conducive.

In addition to the organic growth, Laxmi Bank shall seek to grow through mergers, acquisitions and strategic alliances should opportunities arise. Possibilities for investment in allied financial services business will also be explored. We believe that it is essential to look beyond traditional banking as is known in Nepal and to continue to expand scope for business in view of prevailing competition and global trends. I would like to express my deepest gratitude to Nepal Rastra Bank for their support and continued guidance and to all of our valued shareholders and investors for your trust and belief in Laxmi Bank. I also thank all our customers for their support and patronage without which we would not be in the position that we are in today. Finally I would like to extend my sincere appreciation to the entire team of Laxmi Bank management and the staff for their untiring efforts and commitment towards achieving the goals that we have set for the Bank.

Thank you.



M. G. Khetan, Chairman



Directors' Report

Directors of Laxmi Bank Limited are pleased to present their report on the business and operation of your Bank for the year ending July 15, 2005.

The report has been prepared in compliance with the provisions of the Companies Act, Banking and Financial Institutions Ordinance and applicable Nepal Rastra Bank directives.

Review of the Economy

The world economy witnessed a growth of 5.1% in 2004, the highest in the past decade, due to strong economic growth in our neighboring countries, other emerging markets and the US. The growth stood unhindered by the unpredictable facets such as geopolitical risks, terrorist attacks and rising price of petroleum, which remained a potent problem in the global prospect. Based on IME, the world growth is estimated to grow by 4.3% in 2005.

During fiscal year (FY) 2004/05, Nepal economy grew by 2.5%. (Based on the preliminary estimate.) GDP reached NPR 530 billion during the year. Growth rate during the previous year was 3.4% (a downward revision by 0.2%). Decline in agriculture production mainly due to unfavorable weather conditions and significant slowdown in non-agriculture production caused such a deceleration. Among the various factors contributing to lower growth rate, the existing uncomfortable law and order situation stands as the principal cause. Inflation

in the FY 2004/05 stood at 4.3%, a rise by about 0.3%. The rise in the petroleum price, increase in the rate of value added tax to 13 percent and an increase in Indian Wholesale Price Index, have all put pressure on general price level.

Exports rose marginally by 3.5% whereas imports declined by 4%. The export import ratio stood at 54.2% against a ratio of 53.1% in the previous year. In the prevalent adverse situation, remittance earnings have been playing a pivotal role in maintaining the external and internal stability of the economy. Nepal is experiencing a steadily growing trade concentration with India in the past few years. The share of Nepal's total trade with India increased from 54.8 percent in FY 2002/03 to 65.0 percent in FY 2004/05.

Commercial Banking Industry Overview

Based on the published figures as on July 15, 2005, deposits held by all

commercial banks aggregated NPR 226.4 billion, total credit NPR 148.2 billion. Paid up capital of 17 commercial banks summed up to NPR 9.3 billion with a total operating profit of NPR 6.4 billion during the year.

Your bank being the 16th commercial bank with an existence of just over 3 years enjoys a market share of 1.5% in terms of deposits and 2% on loans and advances. Market share of 34% of deposits and 29% of credit are accounted for by two state owned banks.

Bank's Review

Nature of business

Your bank is registered as an 'A Category' Financial Institution incorporated in Nepal, with a banking license obtained from Nepal Rastra Bank, the central bank of Nepal. Your bank is involved in a full spectrum of general banking, international banking, trade finance, treasury operation and financial services to the retail, SME and corporate sectors. Your

bank functions under the parameters and directives set by the Banking and Financial Institution Ordinance. There were no significant changes in the nature of the principal activities during the fiscal year under review.

Representation

As of 15th July 2005, your bank had four points of representation i.e., Birgunj, Banepa, Pokhara and Kathmandu. Following approval of our merger with HISEF, we converted its Hattisar, Kathmandu office to that of Laxmi Bank, as directed by Nepal Rastra Bank. We finally received approval to upgrade Hattisar into a full branch in October 2005. Hattisar is now our corporate office as well.

Immediately following upgradation of Hattisar as a full branch, our fifth branch in the industrial city of Biratnagar has been operational. Your bank shall initiate process to open at least 2 more branches within next 12 months.

Review of Bank's Operation

During the year 2004-05, your bank achieved a 126% growth in operating profit - from NPR 24.3 million of the previous year to NPR 55.04 million. Increased customer focus, prudent business practices and proactive risk management, introduction of the market oriented products and strategic expansion of network contributed to these results.

Assets grew by 47.8% financed mainly by deposits that increased by 53.4%, which is a rise by NPR 1.07 billion. The merger of HISEF with your bank and

settlement of some calls-in-arrear equity shares resulted in a growth in paid up capital by almost 11%. As a result of increase in earning assets (net loans and advance) by 51.3%, operating income of your bank increased by 55.4% to NPR 123.19 million. This has contributed to the increase in net profit after taxes, to NPR 26.46 million (NPR 10.45 M last year), a growth by 153.3%.

Deposits & Borrowings volume of the bank stood at NPR 3.07 billion against NPR 2.0 billion the previous year, a growth by 53.4%. Deposit growth has been satisfactory inspite of lack of a full-fledged branch operation in Kathmandu. Now that we have a full access to Kathmandu market, retail deposit base is expected to grow. Increase in Loan Loss Provision is largely on account of provisions carried forward from HISEF. Your directors are satisfied that the level of loan loss provision is more than adequate.

In line with our mission to become a formidable retail finance bank, the focus on retail financing remained throughout the year. Despite intense competition, our experience in retail finance has been extremely satisfactory.

Your bank continues to provide a host of financial services through a range of delivery channels, including branches, Internet, mobile phones, ATMs and Point-of-Sales terminals. Your bank has introduced a number of new and innovative loan products. Innovative

forms of Auto and Home Loans were rolled out, which provide improved flexibility in the repayment. Similarly the Personal Loan horizon has been increased to newer segments. Your bank has introduced instant loan facility to a predetermined segment of customers; the response has been satisfactory in terms of deposits, your bank has ventured into providing special deposit schemes to children and students.

In the days ahead, transparency, good governance, compliance and sound business growth shall continue to be the driving forces behind your bank's business operation, for which the Board and the management team are fully committed.

Financial Highlights Key Figures

Highlights of the key financial figures of the bank are as follows:

Figures in NPR Millions

Particular	15/7/2004	15/7/2005	% Growth
Paidup/Capital	549.79	609.84	10.9%
Net Worth	557.05	643.57	15.5%
Deposits & Borrowings	2,001.16	3,070.45	53.4%
Risk Assets	1,750.93	2,726.14	55.7%
Investments	395.11	478.96	21.2%
Operating Profit	24.34	55.05	126.17%
Net Profit A fter Tax	10.45	26.46	153.3%
Provision for Loan Loss	62.68	68.18	8.77%

As at 15/7/2004, the Loan Loss Provision brought forward from HISEF at the time of merger amounted to NPR 45.17 million, whereas the Loan Loss Provision of Laxmi Bank stood at NPR 17.51 million. It is evident that recovery of doubtful debts has been exemplary.

Your Directors are pleased with the encouraging performance of your bank as evidenced by the above figures.

Appropriation & Dividend Declaration

The profit and loss account shows a net profit of NPR 26.46 million. As your bank has just completed third year of its successful existence, the entire profit for the year has been ploughed back as reserves under statutory requirements and for future capital expansion. Nepal Rastra Bank requires all commercial banks to raise their paid up capital to NPR 1 billion by the year 2009. Hence your directors propose no dividend in the current year.

Capital Adequacy

Your bank has a total Capital Adequacy Ratio of 20.7% as against NRB's requirement of 12% and Core Capital Ratio of 19.8% as against the requirement of 6%. In the present condition your bank's capital adequacy permits us to increase our business much further.

Contribution to Government Exchequer

Your bank paid NPR 18.6 million to the national exchequer in the form of income and other taxes during the year.

Post Balance Sheet Events

No material events have occurred subsequent to July 15, 2005, as at the end of the closure of the books to the time of the signing of this director's report that could impact the financial health of your company. Highlights of the key financial figures of the bank as of first quarter of FY 2062/63:

Particular	Figures in NPR Millions	
		17/10/2005
Paid-up capital		609.84
Provision for Loan Loss		68.93
Deposits & Borrowings		3,404.03
Risk Assets		3,038.17
Investments		601.81
Operating Profit *		2.2

* Operating profit indicated above is based on interest income being recognized on cash basis as opposed to accrual basis as opposed to previous quarters. This is in line with Nepal Rastra Bank's new directive issued after publication of our results for the first quarter of the current year. Your bank's operating profit for this period based on accrued interest income was NPR 19.57 million.

Outlook

Our economy has proved to be resilient over the past few years. Its small size makes it possible for us to turn it around quickly once peace is restored and the political situation improves. Our country also has an opportunity to leverage on the high economic growth achieved by our neighboring countries - India and China.

As far as Nepali banking sector is concerned, we believe the industry is at the cross-roads. The market is beginning to recognize a good bank from bad. We believe that fundamentally sound banks will emerge stronger over next few years on the face of seemingly fierce competition. Laxmi Bank in particular is uniquely poised to consolidate its position given our strong IT capabilities, excellent loan book and a strong commitment to good corporate governance. Unlike many other Nepali banks, your bank has not had the benefit of operating under a buoyant

economy as Nepali businesses have been experiencing difficult times for several years now. This situation fully justifies the conservative approach pursued by the management. Your directors believe that the internal systems that have been built in your bank are fundamentally strong and will help your bank stand in good stead in the long run.

With strong systems and values and a full access to Kathmandu, the principal market, your directors are optimistic about Laxmi Bank's short and medium term future.

Merger with HISEF

Your bank was able to create a corporate history in Nepal, through the merger of two separate financial institutions for the first time in Nepal - HISEF and Laxmi Bank. This pioneering effort was successful primarily because of the co-operation extended by the concerned authorities including Nepal Rastra Bank, the vision of the Board of the respective entities and the untiring efforts of the management. The road towards the merger was steep and bumpy; due to different qualities of asset books, dissimilar banking platforms, and different employee mindsets. However, through grit and determination, the merger concluded successfully and the bank today stands stronger and bigger. The synergies derived from the merger have resulted in substantial reduction in the non-performing assets inherited from HISEF. The merger of HISEF with your bank was a win-win



situation to both the entities, as your bank was a relatively new commercial bank in Nepal, and it could leverage on the customer base of HISEF and expand its market, provide economies of scale and assist in the compliance with the regulatory capital adequacy norm. The net accounting impact of the merger has been positive during the year as amortisation of goodwill has been more than offset by recoveries of written off or fully provided loans. Takeover of HISEF was also an important step for Laxmi Bank to gain presence in Kathmandu. Furthermore, your bank today has become a proud owner of a prime property located Kathmandu, once owned by HISEF.

By daring to venture in an unknown territory, we have gained invaluable knowledge and experience, which will certainly motivate us for bigger achievements in future. The merger has been a key milestone in the short history of your bank.

Board of Directors

At 15th July 2005 the Board comprised of 7 directors and 2 advisors to the board, with wide financial and business knowledge and experience. The Board is led by the Chairman Mr. Mohan Gopal Khetan. The Chairman's knowledge has been a considerable benefit to your bank. Mr. Bhola B. Adhikari and Mr. Rakesh Adukia have been elected to the Board representing the public shareholders during the last AGM. Mr. Adhikari and Mr. Adukia bring in diverse experiences. Mr. Nandan Hari Sharma has been replaced by Mr. Bishwo Nath Sharma to represent Citizen Investment Trust. We take this opportunity to welcome all new board members and place on record our appreciation for contributions made by Mr. Nandan Hari Sharma during his tenure.

During the review period, 12 regular board meetings were held. In addition, 13 Credit Committee meetings, 14 Audit Committee meetings and 2 Remuneration Committee meetings were held to discharge business delegated by the Board.

Corporate Governance

Your bank has adopted rigorous adherence to highly evolved processes, which have been systematically benchmarked against world-class operating models. The Board of your bank places a high priority on internal controls and the manner in which your bank is managed and led. The Board of Directors of your bank is committed to reviewing and updating your bank's corporate governance structures and makes every effort to set the highest standard in Nepal.

During induction of new board members, formal and tailored induction programmes were arranged and opportunities to update and develop skills and knowledge were provided to all your Directors. The Board has adopted a code of conduct in letter and spirit for all board members as stipulated by Nepal Rastra Bank.

Human Resource Management

Employees are your bank's most valuable resources. Your bank has been able to create a favourable working environment. A transparent recruitment and human resource development process has enabled us to attract and retain high-calibre employees. As at 15 July 2005, total number of employees stood at 108.

Training

Your bank conducts training programs on a regular basis to enhance the skills and efficiency of the human resources. A number of middle managers received trainings at internationally recognized programs of Indian Institute of Management, Asia Pacific Economic Council and international banks. Additionally, employees are being sent to various training programs conducted locally by Nepal Rastra Bank and other training institutes. 56 employees at various levels received formal training during the year.

Communication with Staff

Your bank regards communication with its employees as a key to building team spirit and enhancing efficiency. Information is given to employees about employment matters and about the financial and economic factors affecting your bank's performance through a number of channels such as an intranet site accessible by all employees nationwide, in-house newsletters, circulars, bulletins and through internal seminars and training programmes. All employees are given access to the HR Policy documents to bring about transparency in HR management.

Equal Opportunity Organization

Your bank continues to be committed towards providing equal opportunities to all employees. Any form of discrimination and abuses is considered a serious breach of our principles. Appropriate policy on this is in place. More than 40% of our regular staff comprise of female employees.

Health and safety

Maintenance of appropriate health and safety standards throughout your bank remains a key responsibility of all managers; and your bank is committed to actively managing all health and safety risks associated with its business and the workplace. Your bank has made contingent plans for events of emergencies, which have been laid down under its Business Continuity Plan.

Environmental and Ethical Matters

Your bank makes every effort to reduce negative impact on the environment. It has reduced the use of paper by encouraging electronic communication both to and from its clients by the use of the Internet and internally by the widespread use of the intranet - Makuri.

Your bank also considers maintenance of highest standards of ethics by all its employees. All employees are bound by the "Code of Conduct" document of the bank. Each employee is given a copy of the "Code Orange" booklet, which address all issues related to conduct & ethical standards requiring adherence by an employee.

Technology Software

Your Bank seeks to be technology-driven and as such has made large investments towards achieving this goal. Our banking platform - Flexcube - has now been installed completely. Overall, the quality and usability of the software is found to be world-class. This coupled with our Oracle based database gives us the capability to process and store banking transactions many times higher than our current volume. Technical support from i-flex, the software vendor, is available round the clock to ensure smooth operation. All our branches are linked through a network of V-Sats, radio modems and lease lines. Real time domicile-free banking facility is available to all our clients. Centralized functional control is exercised over all computer systems and common systems are employed for all our branches. Post merger with HISEF, most of the accounting data inherited from HISEF have now been migrated to Flexcube.

Internet Banking

Powered by a superior banking software, we continue to offer a robust Internet banking facility. Our online banking facility has been gaining popularity both among domestic and non-resident customers. Your bank is fully capable of processing online payments, for which a number of alliances with service providers and online portals have been signed up. Your bank has installed world-class security features to ensure maximum safety of transactions conducted through online delivery channels like Internet and even ATMs, PoS and SMS.

The security features are constantly upgraded as and when they are available.

S.W.I.F.T.

Your bank is a member of Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) and is the first among the banks in South Asia to implement *SWIFTNet*, the advanced version of the technology. During the year, your bank was also represented at the annual conference of SWIFT, which was useful in building networks and exploring further technological upgradation and to share views with international industry peers.

Intranet

Your bank believes in creating a paperless environment as far as possible. The bank's IT team has developed and rolled out a highly interactive intranet *Makuri* for use by members of the staff. *Makuri* has been taken from Nepali, which means spider, which hypothetically explains the network of information it provides. This forum is being used effectively for information dissemination and improving efficiency of the employees. Any relevant information regarding your bank is made available in *Makuri*. Similarly, your bank has started online staff attendance through *Makuri*. Inter branch communication is also possible through the *Makuri* chat room. *Makuri* thus not only contributes to reduced operating costs but has also become an integral part of each employee's work life at your bank.

Other Areas

Branding

Being a relatively new bank, image and brand building has been an important exercise your bank continues to undertake. Various campaigns were launched in the year to promote the bank and its products. Your bank shall continue to work towards building a strong brand both locally and internationally. Further brand building exercise will continue to be practiced by raising the standard of your bank, which could receive due recognition from external agencies. One such example this year is your bank receiving the 'Best Presented Accounts' Award for its annual report of 2003/04. The award has been given by Institute of Chartered Accountants of Nepal. This is the first instance that a 100% Nepali owned bank has won this prestigious award. This qualifies Laxmi Bank's annual report to compete for a similar award at the South Asia level.

Quality

Your bank strongly believes in quality services. Every effort has been made to train the employees of your bank in improving service quality of your bank. A Service Excellence Team has been instituted to constantly monitor and upgrade the skills and quality consciousness amongst all employees. Regular training is provided for such improvements and to create a service oriented work culture.

Donations

During the year, your bank made charitable donations to Sri Lankan Embassy for helping the Tsunami victims of Sri Lanka. No political donations were made during the year.

Shareholder Information

Your bank considers communication with all its shareholders a high priority. In this regard, extensive information about your bank's activities have been provided in the Annual Report, Quarterly Results and other releases through various media and through the bank's website - www.laxmibank.com. Your bank also conducts informal interaction with investors and enquiries from individuals on matters relating to their shareholdings and the business of Laxmi Bank, which is dealt in an informative and timely manner. On this note, all shareholders are encouraged to attend the Annual General Meeting to discuss the progress of your bank.

Laxmi Bank's investor services are managed by the Office of the Company Secretary at Hattisaar, Kathmandu. Transaction-processing activities have been simplified and made reliable with the help of a computerised share management system developed in-house.

You will note that Laxmi bank shares are actively traded in the Stock Exchange. The number of shareholders of your bank as on 25 November, 2005 stood at 12,441.

Auditor

T.R Upadhaya & Co. have expressed its willingness to continue in office. As they are eligible, the Audit Committee and the Board recommend that they be reappointed. A resolution proposing the reappointment of T.R Upadhaya & Co. as auditor of your bank and giving authority to the Board to determine its remuneration will be submitted at the Annual General Meeting.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' report, is made with a view of distinguishing the responsibilities of the directors and of the Auditors in relation to the financial statements.

As required per Companies Act and Nepal Rastra Bank directives, your directors have satisfied themselves that the financial statements presented herein provide a true and fair view of the state of affairs of the

bank. The directors further consider that in their preparation:

- suitable accounting policies have been selected and applied consistently;
- judgments and estimates that are reasonable and prudent have been made; and
- applicable accounting standards have been followed.

The directors are responsible for ensuring proper books of account are kept which disclose with reasonable accuracy at any time the financial position of the bank which enable them to ensure that the financial statements are prepared in accordance with generally accepted accounting standards and comply with the Nepal Rastra Bank directives and all other regulatory requirements.

The directors are also responsible for internal control at your bank and for reviewing its effectiveness and preventing and detecting any fraud and other irregularities. Procedures have been designed for safeguarding

assets against unauthorized use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication.

Acknowledgements

Your directors thank all the clients of Laxmi Bank, vendors, investors and other stakeholders for their continued support during the year. Your directors place on record a special appreciation for the contribution provided by the management and employees of the growth of your bank. Your company's growth was made possible by their hard work, commitment, cooperation and support.

We are grateful to His Majesty's Government of Nepal and Nepal Rastra Bank, Income Tax Department, Company Registrars Office, Nepal Stock Exchange, Security Exchange Board and all other government agencies for their support. We look forward to their continued support in the coming years as well.

For and on behalf of
the boards of directors.

Financial Highlights

Key Figures

Highlights of the key financial figures of the bank are as follows:

Figures
% Good

(%) Particular	15/12/2004	15/12/2003	
Paid up Capital	549.79	608.84	1
Net Worth	537.66	643.57	
Deposits & Borrowings	2,001.36	2,726.54	
Risk Assets	1,750.93	435.90	
Provisions	296.11	24.22	
Assets	24.22		

PowerBook G4

Corporate Governance.

Our Commitment

In recognition of the critical and important role of corporate governance in the success or failure of companies worldwide, there has been increased focus on corporate governance in terms of structures, processes, systems and practices, which drive the conduct of businesses. This is with a view to ensuring credibility, transparency, accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance.

Laxmi Bank stands committed to an open and transparent governance process that gives its shareowners and other stakeholders the assurance that, in adding value to and protecting the bank's financial and human investment, the bank is being managed ethically in compliance with best practices and all applicable legislation and predetermined risk parameters.

The Board of Directors remains steadfast and committed in ensuring that the best practices in Corporate Governance are well applied in Laxmi

Bank. The Board subscribes to the policy of not just complying with, but rather exceeding mandatory requirements in terms of the extent and timeliness of corporate disclosures and financial reporting.

Board of Directors

The Board of Laxmi Bank places a high priority on internal controls and the manner in which the Bank is managed and led. The Board of Directors of Laxmi Bank is committed to reviewing and updating the Bank's corporate governance structures and makes every effort to set the highest standard in Nepal. The Chairman ensures that all directors are able to contribute to a good governance of the Bank in accordance with their respective capabilities. The Chairman also ensures that the Board is in complete control of the Bank's affairs and is fully cognizant to Bank's obligations towards the shareholders, depositors and other stakeholders.

The Board of Directors, led by the Chairman operates with the objective of delivering sustainable value to all

shareholders. The Board delegates the day-to-day management of the bank to the management team, but retains to itself approval of pertinent matters including annual plans, performance targets, large value loans, policy matters, acquisitions and disposals of assets above predetermined thresholds and any substantial change in balance sheet management policy. The directors constantly scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The current Board members bring in a range of skills, experiences, knowledge and independent judgment. The public shareholders are represented in the Board by 2 directors elected during the last Annual General Meeting. Likewise, Citizen Investment Trust has appointed one director to the Board.

Each member of the Board, along with the staff and the CEO has observed in spirit and in word the Central Bank's directives on corporate governance. All directors are registered as taxpayers and none of them has defaulted in

payment of loans to a banking company or a financial institution. Each member of the staff has also signed a comprehensive code of conduct and an oath of secrecy.

Over the past year, the Board held 12 board meetings and one annual general meeting. All directors receive written notice and a comprehensive package of relevant information prior to each board meeting in order to ensure that they are informed in advance of the issues to be considered. All directors have access to the advice and services of independent professionals if deemed necessary.

Currently, all key policy guidelines have been approved by the Board and put into practice for day-to-day functioning of the Bank. These policy guidelines are subjected to regular reviews on an on-going basis to account for changing environment. The Board also reviews and approves Strategic Financial Plans (Budgets) and monitors performance against Budgets. Financial performance of the Bank is reviewed on a monthly basis.

Board Meetings and Directors' Review

Board meetings are held very regularly, at least once every month, whereby reports on the progress of Laxmi Bank's business operations and deliberations of Board Committees are tabled for review by members of the Board. At these Board meetings, the members of the Board also evaluate business propositions and corporate proposals that are to be approved by the Board owing to statutory requirements, or possible significant financial impact on the Bank.

The agenda for every Board meeting, together with management reports, proposal documents are furnished to all Directors for their perusal in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making.

Senior management executives are invited to attend Board meetings as and when required in order that they provide the Board with professional opinion and advice, and clarify issues that may be raised by any Director.

The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors.

including policy guidelines issued by Nepal Rastra Bank.

All members of the Board are in capacity of non-executive directors / advisors. Remunerations of the board and board committee members are approved by the annual general meetings. Remuneration of a board member is currently restricted to meeting fees and fixed monthly reimbursement of telephone bills. Amount paid by the Bank to the Board and Board Committee members during 2004/05 summed up to NPR 480,000. Sitting fees are not paid to Company Secretary and management executives.

The board meeting held during the fiscal year 2004/05 along with the attendance of the directors of your bank at various meetings is as follows:

S.N.	DATE OF MEETING	NUMBER OF BOARD MEMBERS	ATTENDANCE	
			NUMBER	PERCENTAGE
1	30 July 2004	7	6	86%
2	15 September 2004	7	7	100%
3	9 October 2004	7	7	100%
4	7 November 2004	7	6	86%
5	29 November 2004	7	6	86%
6	24 December 2004	7	5	71%
7	28 December 2004	9	7	78%
8	14 February 2005	9	9	100%
9	18 March 2005	9	7	78%
10	12 May 2005	9	8	89%
11	5 June 2005	9	9	100%
12	30 June 2005	9	8	89%

- A total of 12 Board meetings were held during the financial year.
- Board members include directors, advisors & observers.
- The annual AGM of the bank held on 24th December 2004 elected two public directors to the Board. As such, the number of Board members after the AGM increased to 9.

Attendance by each director at the Board Meetings held during the financial year are as follows: -

S.N	NAME	NUMBER OF MEETINGS ATTENDED	% OF ATTENDANCE
1	Mr. M.G. Khetan	11/12	92%
2	Mr. C.P. Khetan	11/12	92%
3	Mr. G.K. Sikaria	9/12	75%
4	Mr. M.S. Agrawal	10/12	83%
5	Mr. N.H. Sharma	12/12	100%
6	Mr. Bhola B. Adhikary	6/6	100%
7	Mr. Rakesh Adukia	6/6	100%
8	Mr. N.K. Basnyat	11/12	92%
9	Mr. R.L. Sanghai	10/12	83%

Mr. Bhola B. Adhikary and Mr. Rakesh Adukia were elected from among the public shareholders by the AGM held on December 24, 2004.

Board Committees

The Board currently consists of nine members – all in non-executive capacity. The directors have access to the advice and services of the Company Secretary.

The oversight functions of the Board of Directors are performed through its various committees. Presently, there are three Board Committees:

- Audit Committee
- Credit Committee
- Remuneration Committee.

Audit Committee

In line with the Bank's quest to maintain the highest standards and to make its Internal Audit independent, the Board has approved a charter (Audit Policy) on the Bank's Internal Audit. The charter isolates and insulates the Internal Audit Department from the control or influence of the Executive Management and also frees staff within the internal audit unit from operational and management

responsibility that could impair their ability to make independent reviews of aspects of the bank's operations thereby making the department independent. Under the charter, the Internal Auditor reports directly to the Audit Committee, which is chaired by a non-executive director. The Audit Committee currently has 4 members. The audit committee meets regularly.

The committee ensures:

- effective internal control and risk management mechanisms are in place across bank's operation
- bank's regulatory compliance obligations are met
- a high standard of corporate governance is observed across the bank
- a comprehensive audit plan appropriate to the size of bank's business is formulated and implemented
- integrity of financial data released to the board and external parties
- appropriateness of accounting policy in relation to bank's activities
- periodic review of bank's audit policy

The Committee has unrestricted access to members of the management, staff

and any records / information etc. that it reasonably may require to carry out its responsibilities. The Committee can liaise with external auditors including a review of audit findings. The Committee is also responsible for recommending appointment, re-appointment, termination and remuneration of external auditor(s).

The internal auditor, who is a qualified chartered accountant, reports to the Audit Committee in order to maintain independence and objectivity. Given the growth in business volumes, the Board has inducted an independent professional, also an experienced chartered accountant, into the Committee in order to reinforce objectivity and effectiveness of the audit mechanism. The Committee uses bank's audit policy, NRB directives, Basel Committee stipulations and other international best practices as the parameters for its own functioning and is fully committed to inculcating a compliance-oriented culture.

Credit Committee

With growth in the Bank's business and appetite for quality lending business, it is imperative that the Board assumes a proactive role in the Bank's credit management process. The Board achieves this goal through a credit committee comprising of 2 non-executive directors, the CEO and upto 2 senior managers. Other members of the board and / or external specialists / consultants are invited as and when appropriate

The committee meets as and when necessary to review, discuss, deliberate and/or decide on strategic

Participants of De Bonis's Thinking Hats Program →



and policy related aspects of the Bank's credit management process. The objective is to assist the management team in creating a high quality credit portfolio and to maximize returns from risk assets. The emphasis is on value addition. The committee operates within and upholds the Credit Policy Guide.

Remuneration Committee

The Remuneration Committee comprises of 2 non-executive directors and has been entrusted with the following responsibilities:

- conduct annual performance review of the CEO, Company Secretary and any senior executive with direct / dotted line reporting to the Board.
- recommend to the Board on specific adjustments in remuneration and/or reward that reflect their respective contributions for the year.
- review and recommend adjustments in meeting fees / reimbursements to the members of the board and board level committees.
- assess and recommend to the Board on appointment / selection / re-appointment of CEO, Company Secretary and any senior executive with direct / dotted line reporting to the Board, upon vacancy or expiry of their respective terms.

The committee's primary objective is to ensure that the right calibre of management leadership is recruited and retained by the bank.

The Committee meets as and when necessary.

Internal control

Responsibility for the systems of internal financial and operational control rests with the Board. The foundations for internal control processes are in the bank's governance principles, which incorporate ethical behavior, legislative compliance and sound accounting practice. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets.

The audit committee reviews the effectiveness of the bank's internal financial controls periodically. This is achieved primarily by a review of the work of internal audit and of the management letters, which include details of any material internal control issues highlighted in the course of their normal audit work, provided by the external auditors.

Compliance

Compliance is a proactive function, focused on raising awareness about relevant issues throughout the bank. Laxmi Bank has set up an independent compliance department, which reports to the Head of Operation Risk and has unrestricted access to the Chief Executive Officer

It is a part of the bank's risk management framework and its purpose is to complement the Internal Auditor in ensuring that the bank continuously manages its regulatory risk, i.e. the risk that the bank does not comply with applicable laws and regulations requirements.

Communication with Shareholders

Laxmi Bank clearly recognizes the importance of transparency and accountability to all its stakeholders, particularly its shareholders and investors. Through extensive disclosure of appropriate and relevant information, using different channels on a timely basis, we aim to effectively provide shareholders and investors with information to fulfill transparency and accountability objectives. A key channel of communication with shareholders and investors is the annual report of Laxmi Bank. The contents of the annual report are well beyond the minimum legal and regulatory requirements. In addition, being a financial institution, Laxmi Bank prepares its financial statements in accordance with Nepal Rastra Bank's guidelines and Nepal Accounting Standard. In respect of the format of financial statements of financial institutions, which require a significantly higher level of financial



information disclosure as compared to a non-financial institution. As such, there is a greater level of disclosure of financial statement information by Laxmi Bank.

An important forum for communication and dialogue with shareholders is the general meeting of the bank, whereby shareholders are accorded both the opportunity and time to raise questions on the agenda items of the general meeting. At the annual general meeting of Laxmi Bank, the Chairman and the board members would present a comprehensive review of the financial performance of Laxmi Bank which are deliberated upon by the shareholders present during the general meeting.

Laxmi Bank also conducts media briefings on a regular basis to keep the market informed about its activities, products and services.

The quarterly financial results of Laxmi Bank are published in national newspapers for review by all stakeholders and interested parties.

Many other corporate information are easily accessible on Laxmi Bank's website: www.laxmibank.com

Human Resource

All appointments to the Bank staff are made in line with a comprehensive HR

Policy Guide that seeks to ensure that well-structured, transparent performance-driven HR practices are in place. Objective periodic performance appraisals are central to Laxmi Bank's HR management system. This HR management system ensures that the management team has the necessary skills and experience to perform their functions effectively in the best interest of the Bank and that there are sufficient parameters to monitor and evaluate their performance.

Development of all employees is a critical component of the bank's broader approach to corporate governance. The bank has an affirmative action programme to achieve and create employment equity in the workplace through training, mentoring and development of all staff.

A management level HR Committee comprising of senior executives is involved in all key decisions on employee HR management.

Ethics

The bank subscribes to its own "Code of Conduct". This code governs the bank's conduct regarding relationships with authorities, clients, competitors, employees, shareholders, suppliers and the community. It also covers workplace standards, and adherence to practices that avoids conflict of

interest of employees at Laxmi Bank towards the bank. The bank has appropriate procedures and mechanisms in place to ensure all elements of this code are met.

The code of conduct commits management and employees to high standards of ethical behaviour in their dealings with each other and the bank's stakeholders. Failure to maintain ethical standards may result in disciplinary action. Employees of outsourced functions are also required to comply with the principles of the code of conduct.





CEO'S Comments

Raising the Bar

Success of our merger with Hisef - the first and the only till date in Nepali financial sector - is now a source of huge satisfaction for Laxmi Bank family. We have completed a full financial year as the merged entity and we are now bigger, better and stronger. Corporate merger is a big challenge - particularly so in Nepal, yet it is possible, and should be the way forward for our seemingly over-banked economy.

Our patience and persistence finally paid off in October 2005 when Nepal Rastra Bank granted us the permission to upgrade our Hattisar office into a full-fledged branch. This gives us direct access to Kathmandu which

accounts for majority of Nepal's economic activities. With 5 branches serving a growing number of customers in major economic centers, and some more in the pipeline, we are geared for all around growth. Our risk asset growth will however continue to be guided by prudent practices and sound credit culture and our approach will be 'controlled aggression'. We have established ourselves as a Bank that does not compromise our standards for short-lived growth. We shall continue to stay focused in our pursuit for sound growth.

Our technological superiority is the spring-board to take retail and more specifically electronic banking to the 'next level' in order to meet the

We are keen to explore possibilities of strategic alliances with like-minded partners in order to achieve the scale and impact necessary to bring small businesses into the banking circuit - again, an attempt at growing the pie.

continuous challenges and expectations of the increasingly tech-savvy Nepali consumers. We already provide the most versatile internet and SMS banking delivery channels in Nepal. We have embarked on an awareness campaign to induce increased usage of internet banking in the country. The pie may not be growing at a fast enough pace but we will continue to contribute in our little ways to enhance the scope of banking in Nepal.

Following the success of our SME business we have in the past 1 year restructured our businesses to Corporate Banking that includes the Middle Market customer segment and Retail Finances that includes Consumer Finances and Small Business Banking. Laxmi Bank's corporate and business banking is relationship driven and we manage our consumer finance on a portfolio basis. Small Businesses are managed with a mixed approach. We are convinced that it is possible to make a 'big business out of small businesses'. We are keen to explore possibilities of strategic alliances with like-minded partners in order to achieve the scale and impact necessary to bring small businesses into the banking circuit - again, an attempt at growing the pie.

All stakeholders have appreciated Laxmi Bank's high standards of corporate governance. We are committed to maintaining the highest possible

disclosure levels and fully realize that transparency calls for self-regulation and the business will to do so.

Laxmi Bank's stakeholders are central to our plans and strategies. We are happy to have created a 'spark' here and a partnership there to generate positive energy. Our commitment to giving back to the community is strong and is reflected in a number of activities under our corporate social responsibility initiatives: "Laxmi Cares". I must also express my appreciation and gratitude to our employees for their unmatched commitment and desire to excel, our investors who have put tremendous faith in our organization, and a Board of Directors that appreciates professionalism and provides sound guidance - thank you all.

3 years in existence and with a number of milestones behind us, we are just beginning to scratch the surface. We shall go the distance to give you a bank with passion for excellence.

Keep the faith!



Suman Joshi, Chief Executive Officer

Financial Review.

Profit for the Year

Laxmi Bank achieved an operating profit of NPR 55.05 million in FY 04/05. Profit after Tax was NPR 26.46 million. The profit was in line with management's expectations and represents the bank's continuing steady growth.

The principal growth area in the operating income has been through the increase in Net Interest Income (NII). Despite intense competition, the bank has been able to maintain its yield on risk asset compared to previous year, at around 8.8% range. The yield in the market has witnessed a decline with larger banks offering

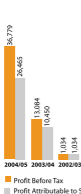
loans below 6.5% range. Maintaining the bank's yield rate at a time of intense competition and slackness in the economy has been challenging, which the bank has been able to achieve through its edge in technological capability and efficient relationship management. The bank has been nurturing a pool of Relationship Managers to manage clients groups and stand as a representation to the bank.

Operating Results

NPR: 000

OPERATING RESULTS	FY 2004/05	FY 2003/04	FY 2002/03
Interest Income	214,132	124,046	49,787
Interest Expenditure	118,439	63,177	20,096
Net Interest Income	95,694	60,869	29,692
Non Interest Income			
Fee Income	14,136	11,299	4,262
Exchange Earning	5,770	6,076	4,534
Other Income	7,597	1,026	896
Operating Income	123,197	79,271	39,383
Operating Expense			
Employee Expenses	29,934	19,198	14,394
Overhead Expenses	37,122	35,730	17,322
Bad Debt Written Off	1,092		
Operating Profit	55,049	24,343	7,667
Non Operating Expenses	9,089	55	
Loan Loss Provision	5,503	9,750	6,518
Profit Before Tax	36,779	13,084	1,034
Profit After Tax	26,465	10,450	1,034

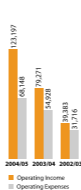
NII continues to acquire a major share of the income portfolio of the bank at 78%, almost on par with previous year. However, the growth in NII has been lower than the growth in business, as the spread has marginally declined by 0.1%, and also due to maintaining a more robust CD Ratio of 89%, down from 104%. The other sources of income to the bank have been Commission & Discount occupying about 11.5% share of the total income. It witnessed an increase due to increase in commission on Guarantee, Remittance Fee and Loan Processing Fee. The major component of Commission Earning came from Purchase/ Negotiation of Export Bills, which however witnessed a decline due to unfavorable export business. Export has been hampered post Multi



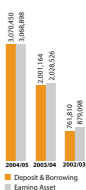
Net Profit Before/After Tax



Operating Profit



Operating Income/Expense



Growth of Earning Assets & Deposits

Above graphs in NPR '000

Fiber Agreement, adversely impacting garment business – a major exportable item from Nepal. However, new sources of Commission like fees from card transactions have come on stream. The bank shall look into expanding other such revenue sources in the coming year. As of Exchange Earning, it occupied 4.7% share of the total income, which witnessed a marginal decline. The lower earning from exchange earning has been due to the decline in trade finance business. Shortfalls in regular revenues have been covered through Other Income, which grew sharply due to the increase in write-back of Non Banking Asset provision of NPR 3.8 million, recoveries from written off loans of NPR 2 million and profit from sale of NBAs. Over the last 3 years, non-interest income to total income has hovered around 22 to 24%. In the coming years, the bank shall strive to increase this ratio, by tapping the remittance business, improving trade finance business and earnings made through technological based services.

Operating Expenses include employee expense, overhead costs, computer

costs, occupancy costs and bad debts written off. Operating Expense to Operating Income has improved from 69% to 55% in the current year. The major factor behind the lower cost was the TSA fee, which was not required to be paid for the year under review. The Expense to Income ratio has also been improving due to heavy investments made in technology and operational infrastructural in the initial years of establishment, employee efficiency and efforts of cost rationalization in the bank. Expenses in absolute terms have increased against the previous year, mainly on account of increment in the salaries and allowances - a result mainly of additional recruitments of 33 employees. The additional recruitment was required to meet the needs of full-fledged branch in Kathmandu and a new branch in Biratnagar and in light of the bank's need for future expansion. Cost to Income ratio is expected to move favourably in the coming years with the Bank achieving more economical scale of business volumes.

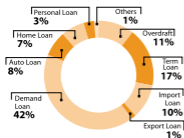
As of Non-Operating Expenses, it primarily comprises of amortization of Goodwill of NPR 9.1 million. The

Goodwill of NPR 45 million was created following merger of Laxmi Bank with Hisef. The charge for bad and doubtful debts was NPR 5.50 million, which was NPR 4.25 million lower than in the previous year. Loan Loss Provision brought forward from Hisef at the time of merger amounts to NPR 45.17 million. Loans of NPR 1.09 million were written off in the current fiscal year – all related to the loan portfolio inherited from Hisef. Further, there were losses in sale of NBAs and other minor losses due to sale of asset. These were however offset by a reverse loan loss charges of NPR 2.32 million. The net result of the merger in terms of profitability has been positive during the year.

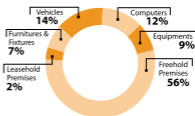
Shareholder Ratios

Profit after Tax in the review period has been NPR 26.4 million. As the bank is relatively new, there is a huge capital base which has not been fully utilized. The bank's total capital adequacy ratio also stands at 20.7 per cent in the FY 2004/05. This signifies that the bank is having significantly higher capital than needed and will help the Bank to grow further.

Loans & Advances



Fixed Assets



The number of shares of the bank has increased in the current year, due to the absorption of Hisef shares with Laxmi Bank. Although the earnings reflect a moderate rate of return, it shows an increasing trend of return on equity compared to previous years. The market has also been receptive to the healthy growth pattern of the bank, which has been reflected through the rise in market value of shares by 82.7 per cent compared to the previous year.

Deposits

The growth in deposit has witnessed an improvement in non-interest based deposit from 14% to 16%. The bank is also striving to rely less on Fixed Deposits, which generally bears higher cost. To enhance the Savings Deposit base, the bank's Retail Financial Services division has taken a number of initiatives. Laxmi Bank provides various forms of Savings Account, which includes normal savings, Laxmi Savings and the premium savings account – Super Savings. Super Savings occupy about 38% of the savings and Laxmi Savings occupy 33% of the savings. In the previous year Super Savings

accounted for over 46% of savings, however in the current year, efforts were made to attract low deposit base savings deposit such as payroll savings, student savings, junior savings etc. This effort has yielded a growth in normal savings from 23% to 28% in the current year. A deposit concentrated to a single unit is up to a maximum of 16.29% as on 15 July 2005. In the review period, foreign currency deposit was 3% of the total deposit.

Assets

The asset base of the bank has increased by 47.8%. Contribution to the increase in asset is due to the increase in interest earning assets by 51.3 per cent and a net increase in Fixed Assets by 281.2 per cent. The increment in Fixed Asset is largely due to the ownership transfer of land and building, situated in Hattisar, Kathmandu, which was taken over from Hisef and also through acquiring of a land at Birgung Dry Port area for future branch prospect. Other Assets primarily consists of Goodwill of Hisef absorbed in the Balance Sheet at the time of the merger, Deferred Expenses related to Software Cost and other IT related costs and Accrued Interest on Loans.

Loan & Advances

Laxmi Bank follows a strategy of building a diversified and derisked asset portfolio and limiting or correcting concentrations in particular sectors. Currently, loan exposure concentrated to a single unit is 4.91% maximum. Retail loans comprise about 18% of our risk asset portfolio with the rest flowing into trade, SMEs and corporate entities.

All credit exposures are classified as per Nepal Rastra Bank's guidelines into performing and non-performing assets. Non-performing assets are further classified into sub standard, doubtful and bad loans. Laxmi Bank made additional provisions (i.e., more than required per Nepal Rastra Bank) against specific non-performing assets where it was considered necessary by the management. Performing loan is 98.4 percent of the total loan outstanding and 1.6% is non-performing. Under non-performing loans, 0.50% is sub-standard, 0.1% is doubtful and 1% classified as bad loans. Non-performing loans (NPR 44.5 million) have all been taken over from Hisef post its merger with the Bank and are sufficiently provisioned against.

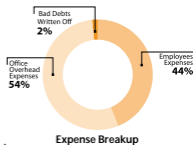
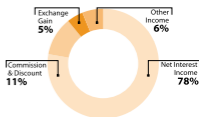
Performing loans increased by 53.15% over last year. Loans of NPR 1.09 million have been written off during the year – also related to Hisef portfolio.

Investment increased by 39.3 per cent against the previous year. 95% of the current investments are made in government securities and remaining as equity investments and interbank lending. Development bond of NPR 12.5 million and equity papers worth NPR 13.38 million are carried forward investments made by Hisef.

Contingent Liabilities

Total contingent liabilities of the bank stand at NPR 225.16 million, which has declined in the current year. The decline in contingent liabilities was due to a decline in LC outstanding. Bills under Collection and Acceptance - a direct impact of a result of slower economy in the review period and a decline in export businesses. However, this was offset by an increase in Guarantees. The other contingent liabilities are the unpaid shares in investments and contingent claims carried forwards from Hisef.

Income Breakup



Key Financial Indicators

The following key ratios compared with the previous year (s) are indicatives of financial status of the Bank (Extracted from Long Form Audit Report 2004/05 by TR Upadhyay & Co):

S.No.	Particulars	FY 2004-05	Comments
1	Earning Per Share	Rs 4.34	This indicates that the Bank is paying Rs 4.34 for each share of Rs 100 invested by the shareholders. This ratio has increased by 128.4% compared to the previous years ratio as a result of increase in net profit of the Bank. Although the ratio does not reflect a sound rate of return it definitely shows an increasing trend of return on equity compared to previous years.
2	Interest Income/Loan & Advances	8.86%	Rate of return at 8.86% is considered very good in the current market. The return decreased by 0.01% over previous year.
3	Interest Expenses on Total Deposit and Borrowings	4.67%	Interest expense on total deposit and borrowings is 4.67%, which gives a spread of 4.19% which is considered reasonable in the current scenario of the country.
4	Adequacy of Capital Fund on Risk Weighted Assets		The ratio judges adequacy of capital fund with the risk assets of the Bank, are in compliance with NRB requirements & also signifies that Bank is having significantly higher capital than needed and will help the Bank to grow further.
	Core Capital	19.6%	Decreased from 28.26% in the previous year.
	Supplementary capital	1.1%	Increased from 0.93% in the previous year.
	Total capital Fund	20.7%	Decreased from 29.19% in the previous year mainly due to increase risk weighted assets.
5	Liquidity (CRR)	8.95%	This is in line with the norms of NRB & indicates growth in the requirement by NRB.
6	Non-performing Credit/Total credit	1.63	Increased from 0% in the previous year with all the NPA's taken over from HISEF.
7	Return on Shareholders' Equity	4.2%	Increased from 1.87% in the previous year.
8	Price Earning Ratio	65.69	Decreased from 82 in the previous year indicating higher return on share.



Risk Management

Risk management forms an integral part of our business. During the year, we further strengthened the control and monitoring of the various types of risks to which our business is exposed. Our internal and external auditors performed regular audits during the year to assess the adequacy and effectiveness of controls for major risk areas and to ensure compliance with the Bank's policies and procedures.

In the course of business, all financial institutions are exposed to a number of risks, including credit risk, market risk, operational risk, and system risk. Against the background of financial liberalization, increasing globalization, and the growing sophistication of financial engineering, customers' transaction needs are becoming increasingly diverse and sophisticated. These factors mean that the various forms of risk are emerging.

Following is a brief outline as to how we manage and mitigate key risks in our day-to-day functions.

Credit Risk Management

Credit risk is the risk that counter party fails to meet its commitments to the bank, thereby causing a loss. This includes losses arising through both on - and off -balance sheet lending decisions. Laxmi Bank is well geared to identify, assess and manage any probability of default by borrowing clients. A well-documented,

comprehensive Credit Policy Guide is in place, which reflects long-term expectations and represents a key element of uniform, constructive and risk-aware culture throughout Laxmi Bank. This credit policy defines risk parameters and is periodically reviewed to account for changing operating environment and industry behaviour. Numerous credit bulletins and credit risk management guidelines have been issued during the year to complement the Credit Policy Guide. This will be an ongoing exercise.

Understanding our customers and proactive relationship management are fundamental aspects of our credit practices. Comprehensive credit evaluation mechanism is in place to ensure that sound understanding of the customer is acquired to take informed lending decisions. Background research and detailed risk analysis as well as assessment of future cash flows are carried out to ensure that the lending is need based

and cash flow driven. Each lending relationship is appropriately risk graded to reflect the degree of the risk being assumed. The credit risk grades are reviewed on ongoing basis and are used as the basis for formulating relationships and business strategies. Post-disbursal credit management entails strict compliance with internal and external directives, regular review of exposure, both at account and portfolio levels. Timely detection of early warning signals is the primary objective of tools such as credit risk rating, periodic analysis of the client performance, industry analysis etc. Credit portfolio monitoring in terms of business segment, exposure to single client or group, type of credit exposure etc, is carried out on a monthly basis. A credit sub committee comprising of senior managers meets every fortnight to review and discuss the Bank's credit aspects. The credit committee comprising of non-executive board members and senior management further reviews credit portfolio and industry concentration aspects regularly.

A significant portion of the Bank's credit exposure is either backed by tangible securities or is short-term trade related. The Bank's exposure on business and consumer credit currently stand at approximately 82% and 18% respectively. A dual approval mechanism is in place for all credit proposals and all credits in SME and Corporate segments need to be additionally approved by senior credit officer independent of business targets.

The Bank has standard procedures for Credit Approval, which is documented in Credit Policy Guide in order to mitigate possible risk to the bank. The credit approving procedure is as follows:

- Proposal for loans are originated from the branches and the case presented in the standard Credit Application document. These proposals are escalated to the officer with discretions to approve credit through the credit chain that usually comprises of the sales and relationship point, independent credit risk manager and the approvers.
- Credit Approval Discretions (CAD) is delegated to selected officers and loans are approved in accordance to the discretions. CADs are delegated to individuals with adequate professional experience and integrity.
- The Bank has established product papers for each type of loans, which contains the procedures, to be followed for loan processing, which is mandatory.
- A comprehensive scoring model for small business credits has now been developed and rolled out.
- The Bank has standard procedures for credit review and monitoring systems, which is documented in

Credit Policy Guide. The policy stipulates the frequency and procedures for credit review and monitoring. The Bank reviews credit through irregularity reports with respect to the management of excesses, overdue payments of principal or interest and past due bills and deficiencies identified therein reported to credit chain.

The bank boasts of one of the lowest NPA levels. All NPAs are attributable to the risk asset portfolio taken over from HISEF. Sufficient loan loss provisions – in fact in excess of the levels prescribed by the central bank – are held against the NPAs.

Assets and Liabilities Committee (ALCO)

Due to increased financial liberalization and deregulation, market risk has escalated and become more complex for the banking industry. To ensure stable earnings, it is essential to ensure a management structure that allows for accurate analysis of market risk and adequate control over market risk.

Laxmi Bank's Assets and Liability Management (ALM) guide covers policies and procedures to manage liquidity risks and pricing risks. The Bank manages its liquidity so as to ensure that it meets all regulatory requirements and complies with the statutory liquidity ratio. More importantly, the Bank must ensure that all customer commitments can be met in both normal and emergency circumstances.

ALCO, chaired by the Chief Executive Officer and comprising of senior

executives, meets at least every month to review our balance sheet structure and to ensure availability of sufficient cash flows to meet all of the bank's financial commitments and to facilitate expansion of business. Our policy on maintenance of liquidity is more conservative than currently prevailing central bank guidelines on the subject. Gaps in maturity of funds and pricing are constantly monitored. Limits are allocated to banks and financial institutions, depending on the strength of their operation. Such limits are reviewed on a periodic basis. Inter-bank deals or trade transactions are carried out within the allocated limits. During the year, the bank has rolled out a credit-scoring model to set bank limits.

The ALCO also reviews the current and prospective funding requirements for all operations through daily monitoring of the liquidity ratio and the maturity mismatch profile. The liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. Current, fixed, savings and other customer deposits form a significant part of the bank's overall funding. Its composition has remained relatively diversified and stable. Short-term funds are also borrowed from the inter-bank market to maximize liquidity management.

Foreign Exchange Risk

The bank's foreign exchange risk stems from foreign exchange position taking and commercial dealing. All foreign exchange positions are managed by the Treasury. Fluctuation in foreign exchange

rates can have a significant impact on a Bank's financial position. Laxmi Bank has adopted measures to appropriately hedge the risks that arise while carrying out international trade transactions. Code of ethics for treasury dealers is in place to ensure that professionalism and confidentiality are maintained and ethical dealing practices observed. Our treasury dealers have gained exposure to international markets as well in addition to having undergone appropriate trainings. The Bank has followed the structure of a Treasury back office independent of Treasury dealing room functions. The Bank subscribes to "Teletele" to monitor movements in currency and debt markets worldwide.

Operational Risk

Operational risk is attributed to unexpected losses due to human error, flawed business practices, natural or other disasters, technological failures and unanticipated changes in external factors. Operational risk is inherent in all business activities. Whilst operational risks can never be eliminated, they can be managed, mitigated and in some cases insured against to preserve and create value.

Laxmi Bank manages operating risks through standardization of internal processes and monitoring mechanisms. Data security, dual control, periodic departmental reviews are some of the tools that have been implemented. Periodic staff trainings and continuous business process re-engineering/re-structuring are conducted.

An internal audit team, headed by a chartered accountant conducts review

and audit of the branches and departments to ensure that laid down procedures are followed and relevant directives complied with. The internal auditor has an independent reporting line to the head of the Audit Committee, who is a non-executive director. A comprehensive Audit Policy Guide is in place, which aims to develop a high standard audit function that successfully combines the ability to detect all major control weaknesses and minimize operational risks. A busy audit plan is in place to cover all areas of the Bank. Operations Risk team under the leadership of Head of Operations has been put together with a view to complementing the efforts of the internal auditor. This team not only ensures compliance to all regulatory legal requirements but also enhances various operations and process manuals on a regular basis and conducts in-house trainings on an ongoing basis.

Business Continuity Risk

It may not be always possible to run the business as usual. There could be circumstances beyond the bank's control, which compel the bank to suspend or temporarily close down the operation in order to avoid untoward incidents and to protect Bank's interests and safety of all. Such circumstances include strikes, riots, natural disaster, civil unrest, forced closures, imposition of curfew, security threats etc, which disrupt the Bank's business.

Failure to recover business operations in a timely manner could result in our inability to process transactions for a period of time. This could have a serious adverse impact on the business, through

compensation claims against the Bank, inability to manage the Bank's market position, loss of customers or damage to the Bank's reputation.

In keeping with this, a detailed document encompassing entire gamut of issues related to resumption of the bank's operations with a minimum interruption in the aftermath of such emergency situations has been put in place. Based on this 'Business Continuity Plan' each department in the bank has been given specific instructions to ensure uninterrupted operations or resume operation with a minimum disruption. Under the BCP a Crisis Management Team, headed by the CEO, has been formed to oversee the aspect of these continuity plans.

System Risk

Laxmi Bank is constantly following up to protect its information resources and computer systems. Various security measures are being undertaken by the bank to safeguard the computer system of the bank. Multiple layers of security, as per available international best practice, have been applied to the Bank's online banking system to ensure secure transactions. Computer systems are supported by high-end world-class database. The main banking platform (flexcube) is rated as one of the best in the world today. A comprehensive IT Policy is in place, which covers data centre operation, hardware, network security and computer system related issues. A robust and interactive intranet is operational which is used for information and knowledge dissemination and management.

The Bank has established a 'Disaster Recovery Plan' specifically to the recovery or replacement of hardware, critical systems applications with data restoration, on any computer platform together with connectivity between the various system components. Back up of the Bank's data is taken at regular intervals and is maintained off site. The Bank also carries out mock drills to test the back up systems. Combined with the DRP and regular back up procedures including protection against unauthorised access through the use of passwords, the risk associated with the information systems is mitigated.

Solvency Risk – Capital Adequacy

It is essential that the bank is adequately capitalized to absorb potential losses in its activities, to maintain the confidence of those with whom it does business and to fund the growth of its operations. The bank's capital adequacy ratio - based on

Nepal Rastra Bank norms - at the year-end was 20.7%.

Basel II

The Basel Capital Accord's objective is to more closely align capital adequacy assessment with the key elements of banking risks. This provides incentives for banks to enhance their risk measurement and management capabilities. This will ensure a more resilient, more stable and a better source for credit, risk intermediation and growth. In today's complex environment, combining effective bank level management with market discipline and regulatory supervision best attains systemic safety and soundness.

Building on these principles, the new accord has far reaching implications for banks in terms of minimum capital standards linked to risks, risk measurement systems and methods, risk management practices and public disclosure of risk profile information.

Laxmi Bank is monitoring the developments regarding Basel II and is committed to complying with the provisions therein to the extent applicable to Nepali markets. We are closely following the risk management models being developed by leading global financial institutions with respect to Basel II. We have been partaking in international programs on prudential regulations and fully appreciate underlying issues.

Reputation Risk

We are taking active steps to address reputation risk, which refers to the potential of our image being negatively affected by the words and deeds of employees of the Bank or related parties. Specifically, we have compiled a set of behaviour guidelines and conducts for our employees - the Code of Conduct - adherence to which is monitored by the HR Department and the senior management.

Anti-Money Laundering Policy

Laxmi Bank has written and implemented an anti-money laundering policy for use within the Bank. The policy is in line with international practices. We are committed to examining our anti-money laundering strategies and procedures on an ongoing basis and maintaining an effective anti-money laundering system that reflects the best practices for a financial services company. We are committed to high standards of anti-money laundering compliance and require our employees to adhere to these standards.

Following are the minimum standards we observe while conducting banking business:

- Customer identity is ascertained before opening an account and/or making an account operational.
- New accounts are generally subjected to a detailed interview to ascertain purpose of opening an account, sources of funds etc.
- All suspicious transactions are escalated to senior management.
- Records are kept for all data obtained for the purpose of identification.
- Employees are trained on a regular basis on anti-money laundering measures.

We expect all concerned to co-operate in our efforts to prevent money-laundering activities.

T R Upadhy & Co.

Chartered Accountants

104 Tanka Prasad Marg
Baneshwor Height
Post Box 4414
Kathmandu, Nepal

Telephone: 977 (1) 4495000, 4472658
Fax: 977 (1) 4474178
Email: trunco@ntc.net.np

The Shareholders of
Laxmi Bank Limited

Independent Auditor's Report

We have audited the accompanying Balance Sheet of Laxmi Bank Limited, as of 15 July 2005 (Corresponding to 31 Ashad 2062), the related Profit and Loss Account and the Cash Flow Statement for the year then ended. These financial statements are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Nepal Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As per the requirement of the Companies Act 2053 and Bank and Financial Institution Ordinance 2061 we also report that:

- we have obtained information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of such books;
- in our opinion, the returns received from branches of the Bank were adequate for the purpose of the audit;
- in our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report have been prepared in the format prescribed by Nepal Rastra Bank and are in agreement with the books of account maintained by the Bank;
- in our opinion, so far as appeared from our examination of the books, the Bank has maintained adequate capital funds and adequate provisions for possible impairment of assets in accordance with the directives of Nepal Rastra Bank;
- in our opinion, so far as appeared from our examination of the books, the business of the Bank has been conducted satisfactorily;
- to the best of our information and according to explanations given to us and from our examination of the books of account of the Bank necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the Bank have acted contrary to the provisions of law, or committed any misappropriation or caused loss or damage to the Bank and violated any directives of Nepal Rastra Bank or acted in a manner to jeopardise the interest and security of the Bank, its depositors and investors.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 15 July 2005 (Corresponding to 31 Ashad 2062), the results of operations and its cash flows for the year then ended in accordance with Nepal Accounting Standards, generally accepted accounting principles and comply with the provisions of the Companies Act 2053 and Bank and Financial Institution Ordinance 2061.

T R Upadhy
Senior Partner
For and on behalf of T R Upadhy & Co.
Chartered Accountants

*T R Upadhy & Co., is a Correspondent
firm of KPMG International*

21 September 2005 (5 Ashwin 2062),
Kathmandu

Balance Sheet

Balance Sheet as at Ashad 31, 2062 (July 15, 2005)
Figures in NPR

PREVIOUS YEAR	PARTICULARS	SCHEDULE	CURRENT YEAR	PREVIOUS YEAR	PARTICULARS	SCHEDULE	CURRENT YEAR
549,789,000	1. Share Capital	1	609,839,000	36,976,923	1. Cash Balance	7	109,851,609
7,265,957	2. Reserve Funds	2	33,730,741	342,490,293	2. Balance with Banks	8	359,691,976
317,005,000	3. Borrowings	3	18,691,219	100,000,000	3. Money at Call & Short Notice	9	57,505,376
1,684,158,652	4. Deposit Accounts	4	3,051,758,905	295,106,298	4. Investments	10	410,939,324
283,027	5. Bills Payable	5	31,442,547	1,733,419,666	5. Loan Advances & Bills Purchased	11	2,657,958,436
26,988,168	6. Other Liabilities	6	75,306,518	32,633,396	6. Fixed Assets	12	124,384,625
				44,863,228	7. Other Assets	13	100,437,584
2,585,489,804	Total Liabilities		3,820,768,930	2,585,489,804	Total Assets		3,820,768,930

Schedules 1 to 14 are integral part of this Balance Sheet.

Contingent Liabilities	Schedule	14
Director's Declaration	Schedule	23
Capital Adequacy	Schedule	24
Principal Indicators	Schedule	25
Cash Flow Statement	Schedule	26
Principal Accounting Policies	Schedule	27
Notes to Accounts	Schedule	28

Bhubal Rai
Head of Operations

Suman Joshi
Chief Executive Officer

M. S. Agrawal

As per our Report
of even date

Chandra Prakash Khetan

T.R. Upadhyay

Mohan Gopal Khetan
Chairman

for & on behalf of TR Upadhyay & Co.
Chartered Accountants

Gopi K. Sikaria

Bishwa Nath Sharma

Rakesh Adukia

Directors

Profit and Loss Account

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	EXPENSES	SCHEDULE	CURRENT YEAR	PREVIOUS YEAR	INCOME	SCHEDULE	CURRENT YEAR
63,176,634	1. Interest Expenses	15	118,438,529	124,045,956	1. Interest Income	18	214,132,108
19,198,174	2. Employees Expenses	16	29,933,955	11,299,424	2. Commission & Discount	19	14,136,407
35,729,976	3. Office Overhead Expenses	17	37,122,991	6,076,125	3. Exchange Gain	20	5,770,043
-	4. Exchange Loss	20	-	-	4. Non-Operating Income	21	-
55,247	5. Non-Operating Expenses	21	9,088,866	1,026,245	5. Other Income	22	7,597,365
-	6. Bad Debts Written Off		1,092,094	-	6. Net Loss Carried Down		-
9,749,860	7. Provision for Loan Loss		5,502,776				
1,453,786	8. Provision for Staff Bonus		3,677,938				
2,634,408	9. Provision for Income Tax		10,314,589				
10,449,665	10. Net Profit Carried Down		26,464,785				
142,447,750	Total		241,635,923	142,447,750	Total		241,635,923

Schedules 15 to 22 are integral part of this Profit and Loss Account.

Bhubal Rai
Head of Operations

Suman Joshi
Chief Executive Officer

M. S. Agrawal

As per our Report
of even date

Chandra Prakash Khetan

T.R. Upadhyay

for & on behalf of TR Upadhyay & Co.
Chartered Accountants

Mohan Gopal Khetan
Chairman

Gopi K. Sikaria

Bishwa Nath Sharma

Bhola B. Adhikary

Rakesh Adukia

Directors

Profit and Loss Appropriation Account

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR	PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
3,953,435	1. Accumulated loss up to last year	-	-	1. Accumulated profit up to Last Year	4,261,658
-	2. This year's loss	-	10,449,665	2. This year's profit	26,464,785
2,089,933	3. General Reserve Fund	5,292,957	-	3. Accumulated Loss	-
-	4. Contingent Reserve	-	-		
-	5. Bank Development Fund	-	-		
-	6. Dividend Equalization Fund	-	-		
-	7. Employees Related Funds	-	-		
-	8. Interim and Proposed Dividend	-	-		
-	9. Issue on Bonus Share	-	-		
-	10. Special Reserve Fund	-	-		
144,639	11. Exchange Equalization Fund	29,459	-		
4,261,658	12. Accumulated profit	25,404,027	-		
10,449,665	Total	30,726,443	10,449,665	Total	30,726,443

Bhubal Rai
Head of Operations

Suman Joshi
Chief Executive Officer

M. S. Agrawal

Chandra Prakash Khetan

Gopi K. Sikaria

Bishwa Nath Sharma

Bhoja B. Adhikary

Rakesh Adukia

Directors

Mohan Gopal Khetan
Chairman

As per our Report
of even date

T.R. Upadhyay
for & on behalf of TR Upadhyay & Co.
Chartered Accountants

SCHEDULE 1 Share Capital and Ownership

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
549,789,000	1. Share Capital	609,839,000
1,000,000,000	1.1 Authorized Capital	1,000,000,000
1,000,000,000	A) 10,000,000 Ordinary Shares of NPR 100 each	1,000,000,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-
550,000,000	1.2 Issued Capital	610,000,000
550,000,000	A) 6,100,000 Ordinary Shares of NPR 100 each	610,000,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-
549,789,000	1.3 Paid Up Capital	609,839,000
549,789,000	A) 6,100,000 Ordinary Shares of NPR 100 each	609,839,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-

The difference between the Issued Share Capital and Paid-up Share Capital pertains to calls in arrears from the General Public shareholders amounting to NPR 161,000.

Share Ownership

PREVIOUS YEAR	PARTICULARS	%	CURRENT YEAR
549,789,000	1. Local Ownership	100.00%	609,839,000
-	1.1 His Majesty's Government	0	-
-	1.2 Commercial Banks	0	-
-	1.3 Financial Institutions	0	-
203,250,000	1.4 Organized Institutions (Including Group Ka and Kha)	37.35	227,760,000
192,289,000	1.5 General Public	35.54	216,739,000
154,250,000	1.6 Others	27.11	165,340,000
-	2. Foreign Ownership	-	-
549,789,000	Total	100.00	609,839,000

General Public Shareholders holding more than 0.5% of the shares of the Bank individually

S.N.	NAME OF SHAREHOLDERS	NO. OF SHARES	PERCENTAGE (%)
1	Poonam Khetan	185,440	3.040
2	Nepal Mentha Products Pvt. Ltd.	146,930	2.409
3	Nepal Remittance Pvt. Ltd.	131,740	2.160
4	Ruchi Jajodiya	127,480	2.090
5	Prabeen Naulakha	65,040	1.066
6	Gauri Shrestha	56,650	0.929
7	Surendra Silwal	50,800	0.833
8	Sabita Devi Rungta	50,000	0.820
9	Sharana Shrestha	30,850	0.506

SCHEDULE 2 Reserve Funds

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
2,296,658	1. General Reserve Fund	7,589,614
-	2. Capital Reserve Fund	-
-	3. Share Premium	-
707,641	4. Other Reserve Fund	737,100
-	a. Contingent Reserve	-
-	b. Bank Development Fund	-
-	c. Dividend Equalization Fund	-
707,641	d. Exchange Fluctuation Reserve	737,100
-	e. Special Reserve Fund	-
-	f. Assets Revolutization Reserve	-
-	g. Other Free Reserves	-
4,261,658	5. Accumulated Profit/Loss	25,404,027
7,265,957	Total	3,370,741

SCHEDULE 3 Borrowings

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
-	A. Local	-
-	1. His Majesty's Government	-
-	1.1 Earthquake affected sector reconstruction	-
-	1.2	-
-	1.3	-
-	2. Nepal Rastra Bank	-
-	2.1 Loan	-
-	2.2 Refinance	-
-	2.3	-
279,780,000	3. Interbank	-
-	3.1 Overdraft	-
279,780,000	3.2 Loan	-
-	3.3	-
-	4. Other Financial Institutions	-
-	4.1	-
-	4.2	-
-	5. Others	-
279,780,000	Total (1+2+3+4+5)	-
-	B. Foreign	-
37,225,000	1. Banks	18,691,219
-	1.1 Overdraft	-
37,225,000	1.2 Others	18,691,219
37,225,000	Total	18,691,219
317,005,000	Total (A + B)	18,691,219

SCHEDULE 4 Deposits

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
	1. Non-Interest Bearing Accounts	
211,103,825	A. Current Deposits	452,612,808
200,270,578	1. Local Currency	427,621,185
-	1.1 His Majesty's Government	-
-	1.2 Commercial Banks	-
50,461,895	1.3 Financial Institutions	101,806,322
141,792,700	1.4 Other Organized Institutions	312,375,199
8,015,983	1.5 Individuals	13,439,664
-	1.6 Others	-
10,833,247	2. Foreign Currency	24,991,623
-	2.1 His Majesty's Government	-
-	2.2 Commercial Banks	-
-	2.3 Financial Institutions	95,654
-	2.4 Other Organized Institutions	23,794,647
10,833,247	2.5 Individuals	1,101,322
-	2.6 Others	-
16,842,759	B. Margin Deposits	26,502,363
-	1 Employees Guarantee	-
5,661,090	2 Guarantee Margin	12,488,914
6,612,819	3 Letters of Credit Margin	7,602,993
4,568,850	4 Margin Others	6,410,456
-	C. Others	-
-	1. Local Currency	-
-	1.1 Financial Institutions	-
-	1.2 Other Organized Institutions	-
-	1.3 Individual	-
-	2. Foreign Currency	-
-	2.1 Financial Institutions	-
-	2.2 Other Organized Institutions	-
-	2.3 Individual	-
227,946,584	Total of Non Interest Bearing Accounts	479,115,171

Continued...

SCHEDULE 4 Deposits ...Continued

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
	2. Interest Bearing Accounts	
185,467,960	A. Savings Deposits	446,705,520
182,997,426	1. Local Currency	442,124,572
14,854,035	1.1 Organized Institutions	23,859,669
168,143,391	1.2 Individuals	418,264,903
-	1.3 Others	-
2,470,534	2. Foreign Currency	4,580,948
-	2.1 Organized Institutions	-
2,470,534	2.2 Individuals	4,580,948
-	2.3 Others	-
1,082,924,872	B. Fixed Deposits	1,786,380,933
1,082,924,872	1. Local Currency	1,736,925,933
1,028,994,876	1.1 Organized Institutions	1,530,006,371
53,929,996	1.2 Individuals	206,919,562
-	1.3 Others	-
-	2. Foreign Currency	49,455,000
-	2.1 Organized Institutions	49,455,000
-	2.2 Individuals	-
-	2.3 Others	-
187,819,236	C. Call Deposits	339,557,281
187,819,236	1. Local Currency	335,525,578
-	1.1 Commercial Banks	-
186,711,234	1.2 Financial Institutions	98,441,210
1,108,002	1.3 Other Organized Institutions	226,276,518
-	1.4 Individual	10,807,850
-	1.5 Others	-
-	2. Foreign Currency	4,031,703
-	2.1 Commercial Banks	-
-	2.2 Financial Institutions	-
-	2.3 Other Organized Institutions	4,031,703
-	2.4 Individual	-
-	2.5 Others	-
-	D. Certificate of Deposit	-
-	1. Organized Institutions	-
-	2. Individual	-
-	3. Others	-
1,456,212,068	Total Interest Bearing Accounts	2,572,643,734
1,684,158,652	TOTAL DEPOSITS	3,051,758,905

SCHEDULE 5 Bills Payable

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
283,027	1. Local Currency	31,442,547
-	2. Foreign Currency	-
283,027	Total	31,442,547

SCHEDULE 6 Other Liabilities

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
-	1. Pension/Gratuity Fund	-
-	2. Employees Provident Fund	-
-	3. Employees Welfare Fund	-
1,453,786	4. Provision for Staff Bonus	3,677,938
-	5. Unpaid Dividend	308,880
(347,591)	6. Provision for Income Tax (less advance tax paid)	1,449,858
18,110,600	7. Interest Payable on Deposits	49,846,527
1,612,127	8. Interest Payable on Borrowings	6,770
-	9. Unearned Discount and Commission	202,500
-	10. Proposed Dividend	-
1,543,943	11. Interest Suspense	8,218,190
-	12. Sundry Creditors	4,988,257
-	13. Branch Adjustment Account	-
-	14. Others	-
-	a) Provision for Non - Banking Assets	2,774,747
4,615,303	b) Others	3,832,851
26,988,168	Total	75,306,518

SCHEDULE 7 Cash Balance

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
33,913,418	1. Local Currency (including coin)	105,675,955
3,063,505	2. Foreign Currency	4,175,654
36,976,923	Total	109,851,609

SCHEDULE 8 Balance with Banks

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY			CURRENT YEAR
			INR	COVERTIBLEFC	TOTAL	
222,596,254	1. Nepal Rastra Bank	251,958,845	-	2,945,305	2,945,305	254,904,149
222,596,254	a. Current Account	251,958,845	-	2,945,305	2,945,305	254,904,149
-	b. Other Account	-	-	-	-	-
68,780,457	2. Other Local Banks	31,484,994	-	1,139,881	1,139,881	32,624,875
68,780,457	a. Current Account	31,484,994	-	1,139,881	1,139,881	32,624,875
-	b. Other Account	-	-	-	-	-
51,113,582	3. Foreign Banks	-	49,833,882	22,329,070	72,162,952	72,162,952
51,113,582	a. Current Account	-	49,833,882	22,329,070	72,162,952	72,162,952
-	b. Other Account	-	-	-	-	-
342,490,293	Total	49,833,582	49,833,582	26,414,255	76,248,137	359,691,976

Note: The balance as per the confirmation received from the respective banks is NPR 345,350,483 and the difference amount have been identified and are reconciled.

SCHEDULE 9 Money at Call and Short Notice

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
100,000,000	1. Local Currency	985,376
-	2. Foreign Currency	56,520,000
100,000,000	Total	57,505,376

SCHEDULE 10 Investments

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	PURPOSE		CURRENT YEAR
		TRADING	OTHERS	
283,938,798	1. HMG Securities	-	401,017,274	401,017,274
279,388,798	a. Treasury Bills	-	383,967,274	383,967,274
4,550,000	b. Development Bonds	-	17,050,000	17,050,000
-	c. National Saving Bond	-	-	-
-	2. Foreign Govt. Securities	-	-	-
-				
-	3. Nepal Rastra Bank Bonds		-	-
-	4. Shares, Debentures and Bonds	-	13,375,340	13,375,340
11,167,500	5. Other Investments	-	7,065,000	7,065,000
-	a. Certificate of Deposits	-	-	-
-	b. Mutual Fund	-	-	-
-	c. Local Banks	-	-	-
11,167,500	d. Foreign Banks	-	7,065,000	7,065,000
-	e. Others - -			
295,106,298	Total Investment	-	421,457,614	421,457,614
-	Provision	-	10,518,290	10,518,290
295,106,298	Net Investment	-	410,939,324	410,939,324

SCHEDULE 10 (A) Investment in Shares, Debentures & Bonds

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR	
		COST PRICE	MARKET PRICE
-	1. Investment in Shares		
	1.1 Nepal Bank Limited		
	29,000 Ordinary Shares of NPR 100 each paid	9,740,031	N/L
	1.2 Everest Insurance Company Limited		
	6,940 Ordinary Shares of NPR 100 each paid	2,082,000	2,255,500
	1.3 Nepal Housing and Merchant Finance Limited		
	150 Ordinary Shares of NPR 100 each paid	12,500	32,100
	1.4 Soaltee Hotel Limited	740,809	422,050
	8,441 Ordinary Shares of NPR 100 each paid		
	1.5 Himalayan Distillery Limited		
	8,940 Ordinary Shares of NPR 50 each paid	447,000	-
	1.6 Credit Information Bureau (CIB) Ltd.		
	3,530 Ordinary Shares of NPR 100 each paid	353,000	N/L
-	2. Investments in Debentures and Bonds		-
	2.1 Company Limited		
 Debentures/Bonds of NPR each		
-	Total Investment	13,375,340	2,709,650
-	3. Provision for Loss		-
	3.1 Up to previous year		10,679,586
	3.2 Additions This Year		(161,296)
-	Total Provision		10,518,290

Note: The provision includes NPR 10,679,586 brought from HSEF as a result of merger

- N/L stands for Not Listed in Nepal Stock Exchange Limited (NEPSE).
- Shares of Nepal Bank Limited has been delisted from Nepal Stock Exchange Ltd. Notworth of NBL is negative.
- None of the above companies have declared dividend in last three years.

SCHEDULE 11 Classification Of Loan And Bills Purchased And Provisioning

As on March 31, 2002 (July 15, 2003)

Figures in INR

PREVIOUS YEAR	PARTICULARS	ADVANCES				BILLS PURCHASED/DISCOUNTED				CURRENT YEAR
		DOMESTIC		FOREIGN		DOMESTIC		FOREIGN		
		INSURED	PRIORITY SECTOR UNINSURED	OTHER	TOTAL	INSURED	PRIORITY SECTOR UNINSURED	OTHER	TOTAL	
1,750,928,956	1. Performing loan	-	114,142,640	2,532,296,129	-	2,646,438,769	-	-	35,213,566	2,681,652,335
-	1.1 Standard	-	-	-	-	-	-	-	-	-
-	2.1 Substandard	-	539,989	11,037,971	-	11,577,960	-	-	-	11,577,960
-	2.2 Doubtful	-	-	1,852,291	-	1,852,291	-	-	-	1,852,291
-	2.3 Loss	-	710,487	28,350,221	-	29,061,208	-	-	-	29,061,208
1,750,928,956	(A) Total loan	-	115,593,116	2,576,537,112	-	2,690,930,228	-	-	35,213,566	2,726,143,794
-	3. Loan Loss Provision	-	-	-	-	-	-	-	-	-
17,509,290	3.1 Pass	-	1,141,428	32,864,704	-	34,006,130	-	-	352,136	34,358,266
-	3.2 Substandard	-	134,997	3,704,742	-	3,839,739	-	-	-	3,839,739
-	3.3 Doubtful	-	-	926,146	-	926,146	-	-	-	926,146
-	3.4 Loss	-	710,487	28,350,221	-	29,061,208	-	-	-	29,061,208
17,509,290	(B) Total Provisioning	-	1,986,911	66,846,313	-	67,833,223	-	-	352,136	68,185,359
7,759,110	4. Provision up to earlier year	-	1,034,110	15,977,215	-	17,011,325	-	-	497,965	17,509,290
-	4.1 Pass	-	-	-	-	-	-	-	-	-
-	4.2 Substandard	-	-	-	-	-	-	-	-	-
-	4.3 Doubtful	-	-	-	-	-	-	-	-	-
-	4.4 Loss	-	-	-	-	-	-	-	-	-
7,759,110	(C) Total previous year provision	-	1,034,110	15,977,215	-	17,011,325	-	-	497,965	17,509,290
9,749,860	(D) Adjustment this year	-	952,801	49,869,098	-	50,821,898	-	-	(146,829)	50,675,068
1,733,419,666	Net Loan (A-B)	-	113,406,205	2,509,690,800	-	2,623,097,005	-	-	34,861,430	2,657,958,436

Continued.

..Continued

Note:

1 - Loan Loss Provision brought from HISEF at the time of merger amounts to NPR 45,173,292

2 - Details of Pass & Sub-Standard Loan shown above is as under:

(Figures in NPR)

PARTICULARS OF PASS LOAN	LOAN	PROVISION
Pass Loan with 1% Provision	2,641,281,095	26,412,811
Pass Loan with 21% provision	34,106,468	7,162,358
Restructured/rescheduled Loan (12.5% provision)	6,264,772	783,096
Total	2,681,652,335	34,358,266
Particulars of Substandard Loan	Loan	Provision
Loan with 25 % Provision	11,351,711	2,837,928
Substandard Loan with 45% provision	2,226,248	10,011,811
Total	13,577,960	3,839,739

SCHEDULE 12 Fixed Assets

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	ASSETS						CURRENT YEAR
		BUILDING	VEHICLES	EQUIPMENTS	FURNITURE	COMPUTERS	LAND	
	1. At Cost							
35,669,573	a. Previous Year Balance	-	17,113,107	4,450,780	7,160,006	16,604,572	-	45,328,465
10,774,842	b. Addition during the Year	49,243,421	3,671,000	8,200,370	3,411,543	1,631,283	32,065,255	98,222,872
-	c. Revaluation/Written back during the year	-	-	-	-	-	-	-
(1,115,950)	d. Sale during the Year	-	-	-	-	-	-	-
-	e. Written off during the Year	-	-	(55,889)	(1,008)	-	-	(56,897)
45,328,465	Total Cost (a+b+c+d+e)	49,243,421	20,784,107	12,595,261	10,570,541	18,235,855	32,065,255	143,494,440
	2. Depreciation							
7,676,079	a. Up to Previous Year	-	4,878,281	1,756,050	2,351,349	5,700,569	-	14,686,249
7,375,413	b. For this Year	1,231,086	1,036,939	1,637,871	1,475,728	3,001,444	-	8,383,068
(365,243)	c. Depreciation on revaluation/written back	-	17,100	(29,981)	(1,008)	-	-	(13,889)
14,686,249	Total Depreciation	1,231,086	5,932,320	3,363,940	3,826,069	8,702,013	-	23,055,428
30,642,215	3. Written Down Value (1-2)	48,012,335	14,851,787	9,231,321	6,744,472	9,533,842	32,065,255	120,439,012
	4. C-W-I-P (Pending Capitalization)	337,000	-	-	-	-	-	337,000
1,991,180	5. Leasehold Assets*	3,608,613	-	-	-	-	-	3,608,613
32,633,396	TOTAL (3+4+5)	51,957,948	14,851,787	9,231,321	6,744,472	9,533,842	32,065,255	124,384,625

* Lease hold assets are net of amortisation

SCHEDULE 12 (A) Securities against Loan, Advances and Bills Purchased

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
1,750,928,956	(A) Secured	2,726,143,794
1,587,331,682	1. Collateral of Movable/Immovable Assets	2,597,176,155
-	2. Local Banks and Financial Institutions Guarantee	-
-	3. HMG Guarantee	-
-	4. Foreign Bank Guarantee	-
49,796,532	5. Export Documents	-
2,874,566	6. Fixed Deposit Receipts	-
-	a) Own FDR	63,000
2,874,566	b) FDR of other Banks	-
800,190	7. Government Bonds	-
-	8. Counter Guarantee	-
-	9. Personal Guarantee	36,332,716
110,125,986	10. Other Securities	92,571,923
-	(B) Unsecured	-
1,750,928,956	TOTAL	2,726,143,794

SCHEDULE 13 Other Assets

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
239,370	1. Stationery Stock	718,684
6,984,523	2. Income Receivable on Investments	6,078,268
7,872,640	3. Accrued Interest on Loan	17,865,071
595,524	4. Commission Receivable	-
1,453,468	5. Sundry Debtors	213,675
-	6. Staff Loan and Advances	9,876,355
74,456	7. Prepayments	1,799,900
-	8. Cash in Transits	-
-	9. Other Transits Items (including cheques)	-
-	10. Drafts paid without Notice	-
6,352,079	11. Expenses Not Written Off	4,070,843
-	12. Non-Banking Assets	2,774,747
-	13. Branch Adjustment Account	-
-	14. Others:	-
-	a. Goodwill	36,407,823
18,800,302	b. Deferred Software Expenses (to the extent not written off)	12,964,760
2,490,866	c. Others	7,667,458
44,863,228	TOTAL	100,437,584

Note: 100% provision has been made against Non-Banking Assets of NPR 2,774,747. Provisions are grouped under other liabilities.

SCHEDULE 13 (A) Other Assets (Additional Statement)

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR			
		UP TO 1 YEAR	1 TO 3 YRS	ABOVE 3 YRS	TOTAL
7,872,640	1. Accrued Interest on Loan	17,865,071	-	-	17,865,071
-	2. Drafts paid without Notice	-	-	-	-
-	3. Branch Adjustment Account	-	-	-	-
7,872,640	TOTAL	17,865,071	-	-	17,865,071

SCHEDULE 14 Contingent Liabilities

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
-	1 Claims on bank but not accepted by Bank	-
198,329,492	2 Letter of Credit (Full amount)	93,485,578
198,329,492	a) Less than 6 months maturity	93,485,578
-	b) More than 6 months maturity	-
-	3 Rediscounted Bills	-
74,413,975	4 Unmatured Guarantees/Bonds	113,454,125
-	a) Bid Bonds	5,171,007
74,413,975	b) Performance Bonds	108,283,118
-	5 Unpaid Shares in Investment	447,000
-	6 Forward Exchange Contract Liabilities	-
53,926,019	7 Bills Under Collection	6,153,680
21,596,764	8 Acceptance and Endorsement	10,476,850
-	9 Underwriting Commitments	-
-	10 Irrevocable Loan Commitments	-
429,209	11 Counter Guarantee of Internationally Rated Banks	184,086
-	12 Advance Payment Guarantee	-
-	13 Financial Guarantee	-
-	14 Contingent Liabilities on Income Tax	-
-	15 Others (Capital Commitment)	963,000
348,695,459	TOTAL	225,164,319

SCHEDULE 15 Interest Expenses

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
61,154,638	A. ON DEPOSIT LIABILITIES	110,807,507
43,936,504	1. Fixed Deposits	84,775,075
43,903,024	1.1 Local Currency	84,641,786
33,480	1.2 Foreign Currency	133,289
4,797,762	2. Saving Deposits	12,728,399
4,781,015	2.1 Local Currency	12,703,750
16,747	2.2 Foreign Currency	24,649
12,420,372	3. Call Deposits	13,304,033
12,420,372	3.1 Local Currency	12,748,286
-	3.2 Foreign Currency	555,747
-	4. Certificate of Deposits	-
2,021,996	B. ON BORROWINGS	7,631,022
-	1. Overdraft	-
-	2. Loan from Nepal Rastra Bank	8,460
1,827,401	3. Inter Bank Borrowing	7,622,562
194,595	4. Other Loan and Refinances	-
-	C. ON OTHERS	-
63,176,634	TOTAL	118,438,529

SCHEDULE 16 Expenses Relating to Employees

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
8,711,609	1. Salary	13,697,862
6,204,644	2. Allowances	9,882,521
656,371	3. Contribution to Provident Fund	1,113,355
1,461,784	4. Training Expenses	1,571,915
-	5. Uniform	-
549,656	6. Medical	889,000
41,751	7. Insurance	57,638
-	8. Pension and Gratuity Provision	-
1,572,359	9. Others	2,721,664
19,198,174	TOTAL	29,933,955

SCHEDULE 17 Office Overhead Expenses

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
1,679,682	1. House Rent	1,352,817
1,379,170	2. Electricity and Water	1,844,084
261,513	3. Repair and Maintenance	58,608
214,891	(a) Building	-
46,622	(b) Vehicles	57,308
-	(c) Others	1,300
937,653	4. Insurance	1,254,018
1,077,514	5. Postage, Telex, Telephone, Fax	2,007,052
140,095	6. Repair on Office Equipment and Furniture	122,338
522,367	7. Traveling Allowances and Expenses	862,075
902,677	8. Stationery and Printing	1,239,611
983	9. Periodicals and Books	298
2,341,755	10. Advertisements	2,618,083
27,500	11. Legal Expenses	146,580
2,501	12. Donations	100,501
171,758	13. Expenses Relating to Board of Directors	498,880
164,000	(a) Meeting Fees	480,000
7,758	(b) Other Expenses	18,880
992,042	14. Annual General Meeting Expenses	667,581
223,837	15. Expenses Relating to Audit	468,504
100,000	(a) Audit Fees	270,000
123,837	(b) Other Expenses	198,504
221,542	16. Commission on Remittances	244,766
7,375,413	17. Depreciation on Fixed Assets	8,383,068
652,366	18. Amortization of Preliminary Expenses	627,916
213,242	19. Share Issue Expenses	762,742
6,104,157	20. Technical Service Fee	-
374,693	21. Entertainment	307,839
12,267	22. Written off Expenses	-
1,087,281	23. Security Expenses	2,017,805
-	24. Credit Guarantee Premium	-
-	25. Commission and Discount	183,256
-	26. Others	-
3,366,476	(a) Subscription & Membership	4,161,057
3,861,572	(b) Computer Software Expenses	5,835,542
976,707	(c) Lease hold assets amortisation	774,179
823,213	(d) Others	583,191
35,729,976	TOTAL	37,122,391

SCHEDULE 18 Interest Income

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
112,090,635	A ON LOANS, ADVANCES AND OVERDRAFT	198,409,065
100,754,717	1. Loan and Advances	178,653,189
11,335,918	2. Overdraft - Local Currency	19,755,876
10,453,978	B ON INVESTMENT	11,402,466
10,453,978	1 HMG Securities	11,402,466
10,448,922	a. Treasury Bills	10,327,261
5,056	b. Development Bonds	1,075,205
-	c. National Saving Certificates	-
-	2 Foreign Securities	-
-	3 Nepal Rastra Bank Bond	-
-	4 Debenture and Bonds	-
-	a. Financial Institutions	-
-	b. Other Organizations	-
-	C ON AGENCY BALANCE	-
-	1. Local Banks	-
-	2. Foreign Banks	-
446,174	D ON MONEY AT CALL AND SHORT NOTICE	3,700,138
446,174	1. Local Banks	3,621,485
-	2. Foreign Banks	78,653
1,055,169	E ON OTHERS	620,439
-	1. Certificate of Deposits	-
1,055,169	2. Inter-Bank Loan	620,439
-	3. Others	-
124,045,956	Total	214,132,108

SCHEDULE 19 Commission and Discount

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
4,086,853	A BILLS PURCHASED AND DISCOUNT	3,390,122
-	1. Local	-
4,086,853	2. Foreign	3,390,122
3,448,413	B COMMISSION	6,082,721
1,479,929	1. Letter of Credit	2,662,437
843,023	2. Guarantee	1,641,843
31,807	3. Collection Fee	110,327
997,979	4. Remittance Fee	1,668,114
-	5. Credit Cards	-
-	6. Share Underwriting/Issues	-
-	7. Government Transaction	-
95,675	8. Agency Commission	-
-	9. Exchange Fee	-
3,764,158	C OTHERS	4,663,564
11,299,424	Total	14,136,407

SCHEDULE 20 Exchange Gain/Loss

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
578,555	A. Revaluation Gain	117,835
5,497,570	B. Trading Gain (except Exchange Fee)	5,652,208
6,076,125	Total Income/(Loss)	5,770,043

SCHEDULE 21 Non-Operating Income/(Expense)

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
-	1. Profit/(Loss) on Sale of Investment	-
62,790	2. Profit/(Loss) on Sale of Assets	(26,041)
-	3. Dividend	93,176
	a. Commercial Banks	
	b. Rural Development Banks	
	c. Financial Institutions	
-	d. Other Organized Institutions	93,176
	(1) Subsidiary Companies	
	(2) Others	93,176
-	4. Subsidies Received from Nepal Rastra Bank	-
	a. Reimbursement of losses of specified branches	
	b. Interest Subsidy	
	c. Exchange Counter	
(118,037)	5. Others	(9,156,001)
-	a. Amortisation of Goodwill	(9,101,956)
	b. Lease hold assets written off	(263,200)
(118,037)	c. Other non operating income	209,155
(55,247)	Total Non-Operating Income/(Expense)	(9,088,866)

SCHEDULE 22 Other Income

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
27,000	1. Rental on Safe Deposit Lockers	84,250
-	2. Issue and Renewals of Credit Cards	-
676	3. Issue and Renewals of ATM Cards	304,259
998,569	4. Telex/T.I.	1,126,872
-	5. Service Charges	-
-	6. Renewal Fees	-
-	7. Loss Provision Written Back	161,296
-	8. Others	5,920,688
-	(a) Recoveries from written off loans	2,003,850
-	(b) NBA provision written back	3,887,291
-	(c) others	29,547
1,026,245	Total	7,597,365

SCHEDULE 23 Statement of Loan and Advances Extended to Director / Chief Executive/ Promoter / Employees and Shareholders Holding More than 1 Percent Shares

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

The Statement of amount, included under total amount of Bills Purchased and Discounted, Loans, Advances and Overdraft, provided to the Directors, Chief Executive, Promoters, Employees, shareholders holding more than 1 percent shares and to the individual members of their undivided family OR against the guarantee of such persons OR to the organizations or companies in which such individuals are 'managing agent, are as follows:

NAME OF PROMOTER/ DIRECTOR/CHIEF EXECUTIVE	LAST YEAR'S BALANCE		THIS YEAR RECOVERY		THIS YEAR ADDITION	BALANCE AS OF ASHAD END	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST		PRINCIPAL	INTEREST
(A) Directors							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(B) Chief Executive							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(C) Promoters							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(D) Employees					9,876,355	9,876,355	20,169
(E) Shareholders holding more than 1%							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
Total	-	-	-	-	9,876,355	9,876,355	20,169

Note: As per Clause 6 of the Nepal Rastra Bank (The Central Bank of Nepal) Directive No.6, loans given to employees are as per the Human Resource Policy of the Bank.

SCHEDULE 24 Capital Adequacy

As on Ashad 31, 2062 (July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
552,393,881	A) CORE CAPITAL	604,342,818
549,789,000	1) Paid Up Capital	609,839,000
-	2) Share Premium	-
-	3) Non-Redeemable Preference Share	-
2,296,658	4) General Reserve Fund	7,589,614
(3,953,435)	5) Cumulative Profit/Loss (up to previous FY)	4,261,658
4,261,658	6) Current Year Profit & Loss (as per Balance Sheet)	21,142,369
	7) Goodwill	(36,407,823)
	8) Investment in Associates where the Bank has financial interest (Directive No.8.3.b)	(2,082,000)
18,216,931	B) SUPPLEMENTARY CAPITAL	34,312,269
17,509,290	1) General Loan Loss Provision	33,575,169
707,641	2) Exchange Equalization Reserve	737,100
-	3) Assets Revaluation Reserve	-
-	4) Hybrid Capital Instruments	-
-	5) Unsecured Subordinate Term Debt	-
-	6) Interest Rate Fluctuation Fund	-
-	7) Other Free Reserves	-
570,610,812	C) TOTAL CAPITAL FUND (A+B)	638,655,087
1,954,883,899	D) Risk Weighted Assets	3,085,497,828
	E) Minimum Capital fund required to be maintained on the basis of Risk Weighted Assets	
215,037,229	Capital Fund (@ 11 Percent)	339,404,761
107,518,614	Core Capital (@ 5.5 Percent)	169,702,381
29.19%	Capital Fund Ratio	20.70%
355,573,583	Capital Fund Excess / (Short)	299,250,325
444,875,267	Core Capital Excess / (Short)	434,640,437

Continued..

SCHEDULE 25 Principal Indicators

Figures in NPR

PARTICULARS	INDICATORS	FY 2058/59**	FY 2059/60	FY 2060/61	FY 2061/62
1. Percent of Net Profit/Gross Income	Percent	-155.99%	1.74%	7.34%	10.95%
2. Earnings Per Share	Rs.	-	0.31	1.90	4.34
3. Market Value Per Share	Rs.	NA	NA	156.00	285.00
4. Price Earning Ratio	Ratio	NA	NA	82	65.69
5. Dividend (including bonus) on Share Capital	Percent	-	-	-	-
6. Cash Dividend on Share Capital	Percent	-	-	-	-
7. Interest Income/ Loan and Advances	Percent	3.01%	9.75%	8.87%	8.86%
8. Staff Expenses/ Total Operating Expenses	Percent	41.58%	27.78%	16.26%	16.14%
9. Interest Expenses/ Total Deposit & Borrowing	Percent	0.63%	4.60%	4.57%	4.67%
10. Exchange Gain/ Total Income	Percent	19.30%	7.62%	4.27%	2.39%
11. Staff Bonus/ Total Staff Expenses	Percent	-	0.80%	7.57%	10.94%
12. Net Profit/ Loan and Advances	Percent	-3.40%	0.13%	0.60%	1.18%
13. Net Profit/ Total Assets	Ratio	-1.10%	0.09%	0.40%	0.83%
14. Total Credit/ Deposit	Percent	109.13%	111.04%	103.96%	89.33%
15. Total Operating Expenses/ Total Assets	Percent	1.39%	4.73%	4.57%	5.79%
16. Adequacy of Capital Fund on Risk Weighted Assets					
(a) Core Capital	Percent	133.19%	37.73%	28.26%	19.6%
(b) Supplementary Capital	Percent	0.61%	0.96%	0.93%	1.1%
(c) Total Capital Fund	Percent	133.80%	38.69%	29.19%	20.7%
17. Liquidity (CRR)	Percent	11.24%	13.29%	17.13%	8.95%
18. Non-performing credit/ Total Credit	Ratio	0.00%	0.00%	0.00%	1.63%
19. Interest Rate Spread	Percent	2.38%	5.16%	4.30%	4.19%
20. Book Net-worth	Rs.	270,782,666	326,816,292	557,054,957	603,091,075
21. Total Shares	No.	2,750,000	3,300,000	5,500,000	6,100,000
22. Total Staff	No.	22	47	75	108

** During FY 2058/59, the bank was in operation only for 3.5 months

Key Indicators (Definitions)

ITEMS	DEFINITIONS
Net Profit	Net Profit After Tax
Gross Income	Total of Income side of the Profit and Loss Account
Earnings Per Share (EPS)	Net Profit/No. of Shares at the year end
Interest Income	Interest Income on Loans and Advances as per Schedule 18
Loans and Advances	Average Gross Loans & Advances as per Schedule 11
Staff Expenses	Employee expenses as per Schedule 16
Total Staff Expenses	Staff Expenses + Staff Bonus
Total Operating Expenses	Interest Expenses + Employee Expenses + Office Operating Expenses + Exchange Loss
Interest Expenses	Interest Expenses as per Schedule 15
Total Deposit & Borrowings	Loans + Borrowings + Deposits as per Schedule 3 & 4 (Average)
Total Assets	Total of Asset side of the Balance Sheet (Average)
Total Credit	Gross Loans and Advances + Bills as per Schedule 11 (year end)
Total Deposits	Deposits as per Schedule 4 (Year end)
Cash Reserve Ratio	Ratio as per NRB Directives, calculated and submitted to NRB as on 15.7. 2005
Interest Rate Spread	Average rate of Interest Income on Loans and Advances less Average rate of Interest Expenses on Deposits & Borrowings

SCHEDULE 26 Cash Flow Statement

For the year Shrawan 1, 2061 to Ashad 31, 2062 (July 16, 2004 to July 15, 2005)

Figures in NPR

PREVIOUS YEAR	PARTICULARS	CURRENT YEAR
46,373,638	(A) CASH FLOW FROM OPERATION (1-2)	71,251,875
133,103,988	1. CASH RECEIPTS	229,460,480
114,623,715	1.1 Interest Income	205,045,932
11,299,424	1.2 Commission and Discount Income	14,934,431
6,076,125	1.3 Exchange Gain	5,770,043
78,479	1.4 Non-Operating Income	-
1,026,245	1.5 Other Income	3,710,074
86,730,349	2. CASH PAYMENTS	158,108,605
45,798,333	2.1 Interest Expenses	88,307,959
18,298,794	2.2 Staff Expenses	31,387,741
22,518,376	2.3 Office Overhead Expenses	38,425,995
-	2.4 Exchange Loss	-
-	2.5 Non-Operating Expenses	(13,090)
114,847	2.6 Other Expenses	-
(1,480,409,052)	(B) CASH FLOW FROM INVESTING ACTIVITIES	(1,076,740,440)
(204,934,580)	1. Changes in Balance with Banks	(17,201,683)
(100,000,000)	2. Changes in Money at Call and Short Notice	42,494,624
(184,192,258)	3. Changes in Investments	(115,833,025)
(974,985,964)	4. Changes in Loans, Advances and Bills Purchased	(976,306,932)
(10,041,306)	5. Changes in Fixed Assets	(34,056,175)
(6,254,944)	6. Changes in Other Assets	24,162,751
1,454,957,972	(C) CASH FLOW FROM FINANCING ACTIVITIES	1,078,263,251
247,005,000	1. Changes in Borrowings	(298,313,781)
992,348,952	2. Changes in Deposits	1,367,600,253
(1,866,973)	3. Changes in Bills Payable	31,159,520
(2,318,008)	4. Changes in Other Liabilities	(22,361,941)
219,789,000	5. Changes in Capital	179,200
20,922,559	(D) NET CASH FLOW OF THE YEAR (A+B+C)	72,874,686
16,054,364	(E) OPENING CASH BALANCE	36,976,923
36,976,923	(F) CLOSING CASH BALANCE (D+E)	109,851,609

SCHEDULE 27**Significant Accounting Policies****General Information**

Laxmi Bank Limited ("the Bank") is a limited liability company domiciled in Nepal. The address of its registered office is in Birgunj, Nepal. The Bank has a primary listing on the Nepal Stock Exchange Limited.

The Bank is running a commercial banking business in Nepal. The financial statements were authorised for issue by the Board of Directors.

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of Compliance

The financial statements have been prepared in accordance with Nepal Accounting Standards ("NAS") issued by the Nepal Accounting Standard Board except otherwise stated. Generally Accepted Accounting Principles ("GAAP"), Bank & Financial Institutions Ordinance ("BFI"), presentation requirement of NRB Directives and in conformity with the Companies Act.

Basis of Preparation

The financial statements are presented in NPR, rounded to the nearest Rupees. They are prepared on the historical cost basis. The preparation of financial statements in conformity with NAS and GAAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in process of applying the Bank's accounting policies.

Interest Income

Interest income on loans and advances are recognised on cash basis as per the Nepal Rastra Bank Directive except for the interest accrued as on the year end (July 15, 2005) and collected within 1 month of the Balance Sheet date as permitted by NRB, although this practice is not in accordance with NAS 7 (Revenue Accounting), which prescribes that the revenue should be recognised on accrual basis. The practice followed by the Bank (as per NRB Directives) is more conservative.

Interest income on Investments is accounted for on accrual basis.

Commission Income

All the commission incomes are accounted for on accrual basis. However, it is the policy of the Bank to

recognise income during the current financial year if the income is generated out of a transaction with tenor less than 12 months.

Dividend Income

Dividend on equity shares are recognised when the right to receive dividend is established.

Foreign Exchange Transactions

Foreign currency assets and liabilities are translated into Nepalese Rupees at the prevailing mid exchange rate ruling on the Balance Sheet date.

Income realised from the difference between buying and selling rates of Foreign Exchange is accounted for on a daily basis and shown as "Trading Gain" under "Exchange Gain" in Schedule 20.

Gains/losses arising due to fluctuation in exchange rate of different foreign currencies is accounted for on a daily basis and shown as "Revaluation Gain". 25% of such revaluation gain is transferred to Exchange Fluctuation Reserve through Profit and Loss Appropriation Account as per Nepal Rastra Bank Directives.

Interest Expense

Interest on deposit liabilities and borrowings from other banks are accounted for on accrual basis.

Loans and Advances including Bills Purchased

Loans and advances, overdrafts and bills purchased include direct finance provided to customers. These include overdrafts, term loans, consumer loans, supply finance and loans given to priority and deprived sectors. All credit exposures are classified as per NRB Directives. Loans and advances, overdrafts and bills purchased are shown net of provisions.

Staff Loans

Loans and advances granted to staff are in accordance with the rules of the Bank and are shown under Other Assets.

Loan Loss Provision

The provision for possible losses from loans and advances and bills purchased are provided at the

rates ranging from 1% to 100% according to the classification of such risk assets as per Nepal Rastra Bank Directives.

Write Off

Loan accounts graded 'Bad' in compliance with Nepal Rastra Bank Directives are written off in the books as per criteria/policy approved by the Credit Committee/Board, without prejudice to Bank's right to recovery. All written off loans pertain to loans brought over from then HISEF, for which 100% loss provision was made prior to the merger.

Investments

Long term investments are valued at cost and provision for diminution in the value of long term investments is made only if such a decline is other than temporary. All current investments are valued at lower of cost or market value, which is in line with the Investment Policy of the Bank. Investments in Treasury Bills & HMG Development Bonds are those, which the Bank purchased with the positive intent and ability to hold until maturity. Such securities are recorded at cost or at cost adjusted for amortisation of premiums or discounts.

Premiums and discounts are capitalised and amortised from the date of purchase to maturity.

All Investments are subject to regular review as required by Nepal Rastra Bank Directives.

Fixed Assets and Depreciation

- Fixed assets are stated at cost less accumulated depreciation.
- Assets with a value less than NPR 5,000 are charged off as a revenue expense irrespective of its useful life in the year of purchase.
- Depreciation is charged to Profit & Loss Account on a Straight Line Basis over the estimated useful lives of items of fixed assets. Land is not depreciated. The useful lives of the assets are as follows:

NATURE OF ASSETS	USEFUL LIFE (YEARS)
Furniture	5
Equipments	5
Vehicles	5 - 7
Computers	5
Free hold premises	40

- Fixed assets under construction, advances paid towards acquisition of fixed assets and cost of assets not put to use before year-end, are shown as capital work in progress.

Non-Banking Assets

Non-Banking Assets are valued at lower of loan amount (Principal & Interest) or fair market value of the assets acquired. Provisions for NBA are made in accordance with the Nepal Rastra Bank Directives.

Software Expenses

Acquired computer software licences are capitalised on the basis of cost incurred to acquire and bring to use the specific software. The costs are amortised over their estimated useful lives.

Goodwill

Goodwill represents the excess of the cost of acquisition over the book value of the net identifiable assets acquired at the date of acquisition. Goodwill is stated at cost less accumulated amortisation.

Amortisation

Amortisation is charged to profit and loss account on a straight-line basis over the estimated useful lives of the intangible assets. Goodwill is amortised from the date of initial recognition, other intangible assets are recognised from the date they are available for use. The estimated useful lives are as follows:

-Goodwill	5 years
-Computer Software	5 years

Expenses incurred on leasehold property are amortised over the period of 5 years or initial lease period whichever is earlier on straight-line basis.

Employee Benefits

- Provident fund
Provident fund is recognised at the time of contribution to the fund
- Accumulated Leave
Accumulated leave payable to staff is recognised on accrual basis as per the HR Policy Guide of the Bank.

Stationery Stock

Stationery purchased are stated at cost and charged to revenue at the time of consumption. Certain stationeries are specific to Laxmi Bank Ltd.

Provision for Taxation

Provision for taxation has been made on the basis of the Income Tax Act 2058 and amendments thereto.

Cash & Cash Equivalents

Cash & cash equivalents comprise cash balances.

Previous Year's Figures

Previous year's figures are grouped or regrouped wherever necessary in order to facilitate comparison.

SCHEDULE 28

Notes to Accounts

Interest Income and Interest Suspense

Interest amounting to NPR 9,646,881 collected within 1 month of the Balance Sheet date as allowed by the NRB Directives has been included in the interest income in the current year.

Provision for Staff Bonus

Provision for staff bonus has been computed and provided for at 10% of net profit after making loan loss provision, goodwill amortisation & provision for bonus.

Staff Housing Fund

As the term of service of the staff has a provision for extending housing loans to the eligible staff, a separate housing fund has not been created as prescribed by the Labour Act, 2048.

General Reserve

As per the requirement of Nepal Rastra Bank, 20% of the current years profit amounting to NPR 5,292,957 has been transferred to General Reserve.

Exchange Fluctuation Reserve

Revaluation gain as at the year-end amounting to NPR 117,835, out of which 25% has been transferred to Exchange Fluctuation Reserve by debiting Profit and Loss Appropriation Account as per Nepal Rastra Bank Directives.

Change in Accounting Policy

1. Depreciation

To comply with the Nepal Accounting Standard on Property, Plant & Equipment (NAS 6), the Bank with effect from 16 July 2004 (1 Shrawan 2061), has changed the method of charging depreciation to Straight Line Basis from the Written Down Value Method used in previous years. The Bank has also changed the rates of depreciation charged on assets which is based on the management's estimate of useful lives of the assets against the rates prescribed by the Income Tax Act 2058, used in earlier years.

The change in method of depreciation and the applicable rate has resulted in an increase of the current year's profit by NPR 3,349,642.

ii. Employee Benefits

With effect from 16 July 2004 (1 Shrawan 2061), the Bank has changed its accounting policy to recognise liabilities against accumulated leave on an accrual basis against an earlier policy of recognising leave on cash basis.

The change in the above accounting policy has resulted in the decrease of current year's profits by NPR 519,979.

Merger of Hisef Finance Ltd ("Hisef") with Laxmi Bank Limited

Hisef was merged with Laxmi Bank Ltd on 26 July 2004 (11 Shrawan 2061) with prior approval of the shareholders from both the Companies and after obtaining approvals from Nepal Rastra Bank on 2 April 2004 (20 Chaitra 2060) and from Company Registrar's Office on 26 July 2004 (11 Shrawan 2061). The merger was based on the audited financial statements of Hisef as of 15 July 2004 (31 Ashad 2061).

The merger was carried out following the purchase accounting method wherein the shareholders of Hisef were paid a purchase consideration (in the form of ordinary shares of Laxmi Bank) of NPR 59,870,000 for their shares. The excess of purchase consideration over the Laxmi Bank Ltd's interest in the book value of the identifiable assets and liabilities acquired on 26 July 2004 (11 Shrawan 2061) was the resultant goodwill and recognised as an asset.

The goodwill was derived as follows:

PARTICULARS	AMOUNT IN NPR
A. Assets	
Bank Balance	62,492,775
Investments	27,171,553
Loans & Advances	99,867,909
Fixed Assets	64,965,298
Other Assets	35,466,547
Total (A)	289,964,082
B. Liabilities	
Deposit Accounts	183,730,343
Other Liabilities	36,019,840
Provision for Loan Loss	45,173,292
Provision for Investment Loss	10,679,586
Total (B)	275,603,061
C. Net Assets Acquired (A-B)	14,361,021
D. Purchase consideration	59,870,800
E. Goodwill (D-C)	45,509,779

Out of the loans and advances of NPR 99,867,909 taken over after the merger, the Bank has recovered NPR 53,899,091 and written off NPR 1,092,093 (which was fully provided for before the merger). Recovery includes NPR 2,003,850 (which Hisef had written off in its books and was not considered during the merger).

Income Tax Issues

Final assessment of income tax return filed by Hisef (now merged with the Bank) for the financial years 2057/058 to 2060/61 is yet to be completed by the Inland Revenue Office.

The tax authorities have raised an additional demand of NPR 1,204,804 on tax returns filed under self-assessment by HISEF for the financial year 2056/57. The Company had disputed the demand of tax authorities and filed an appeal with the Revenue Tribunal. Pending decision, the Bank has made a provision of NPR 1,500,000 for

additional tax liability, if any that may arise on final decision of the Tribunal.

The Bank has filed tax returns to the Inland Revenue Office, Birgunj up to the financial years 2060/61 under self-assessment procedures, for which final assessment by Inland Revenue Office is yet to be carried out.

Capital Commitment

Capital commitment outstanding as on Balance sheet date is NPR 963,000 on account of upcoming Biratnagar Branch which is under construction.

Reconciliation Status

NPR				
RECONCILIATION STATUS	TOTAL AMOUNT	<3 MONTHS	>3 <9 MONTHS	>9 MONTHS
Branch Reconciliation	NIL	NIL	NIL	NIL
Agency Accounts	403,688,817	403,543,738	145,078	0.00

The debit and credit differences have been cumulated irrespective of their signs. Differences stated in the above table are identified and will be adjusted in due course of business.

Summary of Loans and Advances disbursed, recovered and Principal & Interest Written-off

NPR '000	
PARTICULARS	AMOUNT
Loans Disbursed	7,606,623
Loans Recovered	6,630,316
Loans Written off	1,092
Interest written off	-

Summary of Changes in Deposit Liabilities

NPR '000			
	CURRENT YEAR 31/3/2062 (15/07/2005)	PREVIOUS YEAR 31/3/2061 (15/07/2004)	CHANGES
Call Deposits	339,557	187,819	151,738
Current Deposits	452,613	211,104	241,509
Fixed Deposits	1,786,381	1,082,925	703,456
Inter-bank Deposits	17,662	317,005	(299,343)
Margin Deposits	26,502	16,843	9,659
Saving Deposits	446,705	185,468	261,237

Weighted Average Interest Spread

	RATE %
Average Rate of return from loans and advances	8.86
Average Rate on deposits & borrowings	4.67
Net Spread	4.19

Particulars of Expenses yet to be Expensed-off

NPR: 000

PARTICULAR	AMOUNT	FINAL AMORTISATION DATE
1. Pre operating expenses	1,244	June 2007
2. Share issue expense	2,826	April 2009
3. Others	-	-

These expenses are being amortised over five-year period.

Summary of Concentration of Exposure

NPR: 000

PARTICULARS	LOANS AND ADVANCES AND BILLS	DEPOSITS AND BORROWING	CONTINGENTS
Total amount as on 15/07/2005	2,726,143	3,069,421	224,201
Highest exposure to a single unit	133,854	500,000	22,000
Percentage of exposure to single unit/total (in %)	4.91	16.29	9.81

Classification of Assets and Liabilities based on Maturity

NPR in million

ASSETS	1-90 DAYS	91-180 DAYS	181-270 DAYS	271-365 DAYS	ABOVE ONE YEAR	TOTAL AMOUNT
Cash Balance	1,059					1,059
Bank Balance	3,596					3,596
Investment in Foreign Banks						-
HMG Bonds						-
NRB Bonds	973	310	959	1,598	171	4,010
Inter Bank Loans	636					636
Loans and Advances/ Bills Purchase	9,904	5,741	1,082	460	10,173	27,360
Total Assets	16,168	6,051	2,041	2,058	10,344	36,661
Liabilities						
Borrowings	177					177
Call Account	1,458				2,010	3,468
Current Deposits	4,716				74	4,790
Savings Deposits	4,293				174	4,467
Fixed Deposits	3,830	3,549	3,239	3,588	3,585	17,971
Debentures	-					-
Total Liabilities	14,474	3,549	3,239	3,588	5,843	30,693
Net Financial Assets	1,694	2,502	(1,198)	(1,530)	4,501	5,969
Cumulative Net Financial Assets	1,694	4,196	2,998	1,468	5,969	-

Note: The format is as per NRB Directive No. 5, form no 4.

None of the bank's borrowings are against the collateral of its own assets.

Credit Concentration

(Rs. In Lacs)

SLNO	SECTOR	BALANCE AS ON ASHAD END 2062		
		NO. OF LOANS	PRINCIPAL OUTSTANDING	INTEREST OUTSTANDING
1	Agriculture	2	13	0
2	Mines	0	0	0
3	Manufacturing	49	10,489	76
4	Construction - Residential	45	1,071	6
5	Construction - Others	6	973	2
5	Metal Productions, Machinery & Electrical Tools & fitting	1	45	0
6	Transportation Equipment Production & Fitting	4	809	7
7	Transportation, Communications & Public Services	4	1,001	4
8	Wholesaler & Retailer	74	6,194	41
9	Finance, Insurance & Fixed Assets	10	1,472	14
10	Service Industries	37	1,690	3
11	Consumable Loan	0	0	0
12	Local Government	0	0	0
13	Others			
13.a	Auto Loan	172	1,914	13
13.b	Personal Loan	137	682	7
13.c	Others	27	909	5
	Total	568	27,262	178

Statement Of Change In Equity

For the year Straven 1, 2001 to Ahd 31, 2002 (July 16, 2004 to July 15, 2005)

Particulars	Share Capital	Accumulated Profit(Loss)	General Reserve	Capital Reserve	Share Premium	Exchange Fluctuation Fund	Other Reserves	Total
Opening Balance (as at 16 July 2004)	609,677,000	4,261,658	2,296,658	-	-	707,641	-	616,942,957
Change in accounting policy	-	-	-	-	-	-	-	-
Restated Balance	609,677,000	4,261,658	2,296,658	-	-	707,641	-	616,942,957
Surplus on revaluation of properties	-	-	-	-	-	-	-	-
Deficit on revaluation of investment	-	-	-	-	-	-	-	-
Currency Transition Differences	-	-	-	-	-	-	-	-
Net Gains & Losses Not recognized in the income statement	-	-	-	-	-	-	-	-
Net Profit for the period	-	26,464,785	-	-	-	-	-	26,464,785
Transfer to General Reserve	-	(5,292,957)	5,292,957	-	-	-	-	-
Declaration of Dividend	-	-	-	-	-	-	-	-
Issue of Share Capital	162,000	-	-	-	-	-	-	162,000
Deficit on revaluation of properties	-	-	-	-	-	-	-	-
Surplus on Revaluation of Investment	-	-	-	-	-	-	-	-
Currency Transition Differences	-	(29,489)	-	-	-	29,489	-	-
Capital Adjustment Fund	-	-	-	-	-	-	-	-
Closing Balance (as at 15 July 2005)	609,839,000	25,404,027	7,589,615	-	-	737,100	-	643,569,742

Note: Opening Share capital includes the capital amounting to INR 59,880,000 issued as consideration for the takeover as acquired in the course of merger.

Share issued during the year represents the call amount received to partly paid up shares.

Comments Raised By NRB While Approving Financial Report 2004/2005

1. **Title Deeds of the land and building in the name of Hisef Finance should be transferred in the name of Laxmi Bank.**
Response: Title Deeds have been transferred in the name of Laxmi Bank.

2. **Under schedule No.24 of Financial Results for the calculation of the Capital Adequacy, the calculation of the Core Capital should be made such that there is no double calculation of the Accumulated Profit of the previous year.**
Similarly, under Risk free Assets the figures published as "Investment in NRB Bonds" amounting to NPR 17,050 thousand should be placed under "Investment in Government Securities"
Response: Amendments have been made under Schedule No. 24, as instructed.

3. **While calculating Net worth, Expenses to be written off and Goodwill (Fictitious Assets) should be deducted.**
Response: Amendments have been made under Schedule No. 25, as instructed.

4. **The bank shall correct all the queries related to credit and other conditions as stated by the Auditors.**
Response: The bank shall continue to improve and correct all issues raised by the Auditors.

Corporate Social Responsibility

Development of a more formal approach to Corporate Social Responsibility builds on a tradition in the Bank of recognizing that being a good corporate citizen goes beyond stating our business principles. Corporate Social Responsibility is an integral part of how we operate and the below illustrates some examples of our activity in this area. We look forward to building on these initiatives during 2005/06 and beyond.

LaxmiCares

Laxmi Bank is fully committed towards being a responsible corporate citizen by giving back to the society, with a spirit of caring and sharing; and has also been encouraging corporate volunteering through its people to volunteer and support local charities and community groups.

With the encouragement from the bank, the employees of Laxmi Bank at their own initiative have pooled in their resources and time towards fulfillment of social responsibilities. Employees at Laxmi Bank oversee the social responsibility activities of the bank, with a commitment towards the upliftment of the Nepalese society and the creation of healthier economic and social environments, through social welfare activities and through collaboration with social welfare organizations and local community.

Employees also regularly collect clothes and other items which are placed in a special box at the bank, named "Orange Box". The collectibles in the boxes are then distributed to various social organizations, like the old age homes and orphanages.





Gurkha Medical Facility

The bank provided a financial assistance for the creation of a Heath Post in Man Bhawan, Kathmandu, which was created under the Initiative of Brigade Boys Club of the British Gurkhas. The Heath Post shall serve the local community who are in need of medical care at affordable cost or even for free.

Women Entrepreneurship

With its objective of recognizing contribution made by women entrepreneurs and to support the cause of women empowerment, Laxmi Bank has been promoting the annual event, "Celebrating Womanhood" which is the forum for the "Woman Entrepreneur of the Year" award.

In the year 2004, the recipient of the Laxmi Woman Entrepreneur Award was Ms. Binita Pradhan, the Executive Director of AVCO International Pvt. Ltd., while in the year 2003; the recipient was Ms. Hajuri Bista. Ms. Bista is the Head of H.K. Foods Product Industry, which produces various pickles and candies under the brand name, Navaras. Laxmi Woman Entrepreneur for 2005 is Sristi Joshi Malla, proprietor of Moni's Creations. Sristi is a skilled entrepreneur engaged in producing primarily handcrafted glass works that have been widely acclaimed for intricate designs and artwork. She has held exhibitions in various parts of the world thus promoting Nepali craft.



Hisef Scholarship

Laxmi Bank seeks to continue with the scholarship program initiated by Hisef – which involves supporting aspirants pursuing Chartered Accountant course.

Environment Protection

We believe that there is no better place to start behaving in an environmentally responsible manner than in our own workplace. We have implemented a waste management and recycling initiative across the bank. The Bank encourages staff to reduce the use of paper and maximize the use of electronic communications, where possible. We have reduced energy consumption through a range of measures introduced throughout the Bank. We also recycle all computer consumables in line with our environmental policy.



Tsunami Aid to Sri Lanka

Laxmi Bank handed over a contribution to the Sri Lankan embassy, to aid the victims of the disaster in Sri Lanka that was affected by the Tsunami that hit across South Asia on December 26, 2004.

Everest Clean Up Climb

The year 2003 marked the golden jubilee of the ascent of Mount Everest. Many climbers have scaled this peak and many visited the base camp to view this magnificent mountain, and what remained behind is the pile of garbage on its trail. Laxmi Bank celebrated the golden jubilee by supporting the group involved in the Everest base camp clean up project.

Orphanage

Laxmi Bank believes the future is in the hands of the children. With this belief, the bank has actively participated and supported the initiative taken by Ms. Bajjinder S. Toor for the renovation of the Toddler's home at Bal Mandir, the orphanage.



Sport Sponsorship

Laxmi Bank has been sponsoring upcoming sports personnel and sporting events in the country. A recent sport sponsorship has been the Martyrs' Memorial National League Football Tournament 2005-06. This is the premier league championship participated in by all first class football clubs in the Nepal.

Documentary on Nepali cultures facing extinction

Lt. Col. L.B. Pun (OBE) has been kind enough to provide an opportunity to Laxmi Bank to be a part of a mission to research and salvage some of Nepali cultures facing extinction. This documentary is currently under production and is slated for release in 2006.



Management Development Programs

Laxmi Bank has conducted a number of management development programs for its own people as well as for executives of partner organizations and customers. Faculty from internationally well known institutions like Indian Institute of Management and XLRI were flown into Kathmandu for training and talk programs. We believe in imparting knowledge on international best practices to our customers and patrons with a view to raising the quality of management know-how. Our own executives have been engaged in sharing knowledge and expertise for the benefit of management and banking students of universities and institutions.

Participants of Management Development Program in association with IIM Ahmedabad





Laxmi Bank - Hisef Merger: Creating History

26 July, 2004 (11 Shrawan, 2061) was a red-letter day in the history of Laxmi Bank. It was the day the Company Registrar Office put its stamp of approval on the merger of HISEF Finance Limited with Laxmi Bank, thereby creating corporate history by making possible the merger of two separate business entities for the first time in Nepal. It still remains the only merger within financial services industry in Nepal.

This pioneering effort was successful primarily because of the enactment of Bank and Financial Institution Ordinance, the co-operation extended by the concerned authorities including Nepal Rastra Bank, the vision and courage of the Boards of the respective entities and the untiring efforts of the management of both the entities.

When the respective Boards of the companies took the decision to merge the companies as early as in July 2003, little had they realized that the road leading to merger was steep, bumpy and full of uncertainties. However with grit and determination the destination was reached.

The key rationale behind the merger was the fact that both the entities were in similar line of business and had common promoters. Once the Board decisions were in place, the same had to be approved by the respective Annual General Meeting of both the companies. Such approvals also implied that amendments in the Memorandum & Articles of Association of both the companies were required as well as a due diligence audit to ascertain the merger price.

A merger committee was formed under the chairmanship of an independent Chartered Accountant and based on its report, the AGMs of both the entities approved the merger on 1:1 basis. Some shareholders however had apprehensions regarding the merger as they felt that it would be an undesired burden on a new and upcoming bank. The Bank took this as a challenge and resolved to make the merger into a win-win case.

A merger task force was constituted to resolve all operational matters pertaining to the assets and liabilities of the entity to be merged and ensured that service to the customers would not suffer. Consequently, the bank had to operate two different computer systems; employees of the merged entity had to be absorbed and all compliance/ legal formalities had to be resolved.

The bank today is the proud owner of a prime property located in the heart of the commercial area of the city – the property belonged to HSEF. The merger also enabled the Bank to gain a presence in Kathmandu although only as a limited activity branch.

A year and a half on, the merged entity today is definitely bigger, better, stronger.

The dates

In principle approval of NRB: December 24, 2003
Approved by HISEF AGM: January 29, 2004
Approved by Laxmi Bank AGM: February 8, 2004
Approved by NRB: April 2, 2004
Approved by Company Registrar's Office: July 26, 2004

Employees of the two companies had different cultural orientations. HISEF portfolio had a large proportion of non-performing assets. These challenges have been overcome successfully. Employees of both the entities are now fully orientated to the same high standard of organisational culture. Recovery of NPAs has been outstanding and whatever remains has been adequately provided for. The HISEF portfolio has become manageable both in terms of value and quantity. We now expect that the Bank will not take a significant loss on account of the portfolio inherited from HISEF.

Hisef portfolio of loans and advances:
July 2003: NPR 269 million
July 2004: NPR 100 million
July 2005: NPR 45 million

By daring to venture into an unknown territory, we have gained invaluable knowledge and experience, which will certainly motivate us for bigger achievements in future. We proudly take cognisance of the merger as yet another

milestone in the short history of the bank.

The FI industry in Nepal has agreed for several years that companies will need to merge and amalgamate to achieve scale and efficiency. Many have contemplated mergers but haven't quite dared. But we know through experience that a merger takes a big heart, plenty of courage and foresight to see the light of the day.

This merger stands as a huge testimony of Laxmi Bank's mission to become a leading financial institution driven by passion for excellence. We are grateful to the regulators and shareholders of both entities for their support, the promoters for having the vision and the management for steering this merger into a huge success.



www.laxmibank.com